

Vuzix Corp
Form 10-Q
May 10, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
X ACT OF 1934**

For the Quarterly Period Ended March 31, 2018

OR

**..TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934**

Commission file number 001-35955

VUZIX CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	04-3392453
State or other jurisdiction of incorporation or organization	(I.R.S. Employer Identification No.)

25 Hendrix Road, Suite A
West Henrietta, New York
(Address of principal executive offices) (Zip Code)

14583

Registrant's telephone number, including area code: (585) 359-5900

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
Emerging growth company <input type="checkbox"/>		(Do not check if a smaller reporting company)	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in rule 12b-2 of the Exchange Act). Yes No

As of May 10, 2018, there were 27,429,614 shares of the registrant's common stock outstanding.

Vuzix Corporation

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Part 1: FINANCIAL INFORMATION**Item 1: Condensed Consolidated Financial Statements****VUZIX CORPORATION****CONSOLIDATED BALANCE SHEETS**

	(Unaudited)	December 31,
	March 31,	2017
	2018	2017
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$36,067,880	\$14,889,636
Accounts Receivable, Net	1,051,337	974,172
Accrued Project Revenue	—	497,784
Inventories, Net	4,276,330	3,852,317
Manufacturing Vendor Prepayments	126,059	154,717
Prepaid Expenses and Other Assets	512,581	873,947
Total Current Assets	42,034,187	21,242,573
Long-Term Assets		
Fixed Assets, Net	4,178,799	4,124,466
Patents and Trademarks, Net	854,451	813,774
Software Development Costs, Net	452,473	408,723
Licenses, Net	246,488	243,717
Total Assets	\$47,766,398	\$26,833,253
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts Payable	\$1,747,419	\$3,726,056
Customer Deposits	210,640	73,462
Unearned Revenue	—	107,824
Accrued Expenses	1,075,932	1,389,771
Derivative Liability	124,794	152,927
Income and Other Taxes Payable	22,751	3,500

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Total Current Liabilities	3,181,536	5,453,540
Total Liabilities	3,181,536	5,453,540
Stockholders' Equity		
Preferred Stock — \$.001 Par Value, 5,000,000 Shares Authorized; 49,626 and 49,626 Shares Issued and Outstanding as of March 31, 2018 and December 31, 2017.	50	50
Common Stock — \$.001 Par Value, 100,000,000 Shares Authorized; 27,307,455 Shares Issued and Outstanding as of March 31, 2018 and 24,276,275 as of December 31, 2017.	27,307	24,276
Additional Paid-in Capital	146,313,883	117,827,839
Accumulated Deficit	(101,756,378)	(96,472,452)
Total Stockholders' Equity	44,584,862	21,379,713
Total Liabilities and Stockholders' Equity	\$47,766,398	\$26,833,253

The accompanying notes are an integral part of these condensed consolidated financial statements.

VUZIX CORPORATION

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(Unaudited for the three months ended March 31, 2018)

	Preferred Stock		Common Stock		Additional	Accumulated	Total
	Shares	Amount	Shares	Amount	Paid-In Capital	Deficit	
Balance — December 31, 2017	49,626	\$ 50	24,276,275	\$24,276	\$ 117,827,839	\$(96,472,452)	\$21,379,713
Cumulative Revenue Adjustment – ASC 606 Adoption	—	—	—	—	—	81,724	81,724
Exercise of Warrants Stock-Based Compensation Expense	—	—	24,930	25	39,350	—	39,375
Proceeds from Common Stock Offerings	—	—	6,250	6	424,694	—	424,700
Direct Costs of Common Stock Offerings	—	—	3,000,000	3,000	29,997,000	—	30,000,000
Net Loss for the Three months ended March 31, 2018	—	—	—	—	(1,975,000)	—	(1,975,000)
Balance — March 31, 2018	49,626	\$ 50	27,307,455	\$27,307	\$146,313,883	\$(101,756,378)	\$44,584,862

The accompanying notes are an integral part of these condensed consolidated financial statements.

VUZIX CORPORATION**CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)**

	For Three Months Ended March, 31	
	2018	2017
Sales:		
Sales of Products	\$ 1,363,379	\$ 959,383
Sales of Engineering Services	180,516	251,280
Total Sales	1,543,895	1,210,663
Cost of Sales:		
Cost of Sales — Products	1,182,215	953,903
Cost of Sales — Engineering Services	184,555	108,000
Total Cost of Sales	1,366,770	1,061,903
Gross Profit (exclusive of depreciation shown separately below)	177,125	148,760
Operating Expenses:		
Research and Development	2,055,787	1,668,956
Selling and Marketing	1,534,097	1,030,999
General and Administrative	1,665,229	1,235,183
Depreciation and Amortization	273,622	239,830
Total Operating Expenses:	5,528,735	4,174,968
Loss from Operations	(5,351,610)	(4,026,208)
Other Income (Expense)		
Investment Income	—	17,900
Other Taxes	(28,542)	(10,550)
Foreign Exchange (Loss) Gain	(4,418)	1,097
Gain on Derivative Valuation	28,133	22,560
Amortization of Term Debt Discounts and Deferred Issuance Costs	—	(145,645)
Interest Expense	(9,213)	(40,966)
Total Other Income (Expense)	(14,040)	(155,604)
Loss Before Provision for Income Taxes	(5,365,650)	(4,181,812)

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Provision for Income Taxes	—		—	
Net Loss	(5,365,650)	(4,181,812)
Preferred Stock Dividends	(438,836)	(413,464)
Loss Attributable to Common Stockholders	\$ (5,804,486)	\$ (4,595,276)
Basic and Diluted Loss per Share	\$ (0.22)	\$ (0.23)
Weighted-average Shares Outstanding – Basic and Diluted	26,296,188		19,714,396	

The accompanying notes are an integral part of these condensed consolidated financial statements.

VUZIX CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the Three Months Ended	
	March 31,	
	2018	2017
Cash Flows from Operating Activities		
Net Loss	\$ (5,365,650)	\$ (4,181,812)
Non-Cash Adjustments		
Depreciation and Amortization	273,622	239,830
Amortization of Software Development Costs in Cost of Sales - Products	—	71,613
Stock-Based Option Compensation Expense	424,700	210,074
Common Stock Issued for Services	83,751	—
Amortization of Term Debt Discount and Deferred Issuance Costs	—	145,645
Gain on Derivative Valuation	(28,133)	(22,560)
(Increase) Decrease in Operating Assets		
Accounts Receivable	(77,165)	(217,261)
Accrued Project Revenue	497,784	—
Inventories	(424,013)	(69,614)
Vendor Prepayments	28,658	(68,111)
Prepaid Expenses and Other Assets	277,615	246,687
Increase (Decrease) in Operating Liabilities		
Accounts Payable	(1,978,637)	(82,323)
Accrued Expense	(211,052)	49,262
Customer Deposits	137,178	42,123
Unearned Revenue	(26,100)	(211,399)
Income and Other Taxes Payable	19,251	(1,169)
Accrued Compensation	(92,000)	(25,110)
Accrued Interest	(10,787)	40,926
Net Cash Flows Used in Operating Activities	(6,470,978)	(3,833,199)
Cash Flows from Investing Activities		
Purchases of Fixed Assets	(306,739)	(262,774)
Investments in Licenses, Patents and Trademarks	(64,664)	(42,315)
Investments in Software Development	(43,750)	—
Net Cash Used in Investing Activities	(415,153)	(305,089)

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Cash Flows from Financing Activities		
Proceeds from Exercise of Warrants	39,375	—
Proceeds from Common Stock Offerings	30,000,000	—
Issuance Costs from Common Stock Offerings	(1,975,000)	—
Net Cash Flows Provided by Financing Activities	28,064,375	—
Net Increase (Decrease) in Cash and Cash Equivalents	21,178,244	(4,138,288)
Cash and Cash Equivalents — Beginning of Period	14,889,636	14,533,944
Cash and Cash Equivalents — End of Period	\$ 36,067,880	\$ 10,395,656
Supplemental Disclosures		
Interest Paid in Cash	\$ 19,999	\$ 10,690
Conversion of Term Debt and Accrued Interest into Common Stock	\$ —	\$ 1,197,341
Receivable from Stock Option Exercise	\$ —	\$ 14,820
Cumulative Revenue Adjustment – ASC 606 Adoption	\$ 81,724	\$ —

The accompanying notes are an integral part of these condensed consolidated financial statements.

VUZIX CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements of Vuzix Corporation and Subsidiaries (“the Company”) have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Regulation S-X of the Securities and Exchange Commission. Accordingly, the unaudited Condensed Consolidated Financial Statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. The condensed consolidated balance sheet as of December 31, 2017 was derived from the audited Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017 (the “Annual Report”).

The accompanying Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements of the Company as of December 31, 2017, as reported in the Company’s Annual Report.

The results of the Company’s operations for any interim period are not necessarily indicative of the results of the Company’s operations for any other interim period or for a full fiscal year.

For the three months ended March 31, 2018, Toshiba Japan represented 94% of engineering revenues and 18% of total revenues as compared to 96% and 20%, respectively, in the comparable 2017 period. As of March 31, 2018 and 2017, Toshiba Japan accounted for 25% and 75% of accounts receivables and accrued project revenue, respectively.

Note 2 – Revenue Recognition and Contracts with Customers

Adoption

On January 1, 2018, the Company adopted the new guidance on Revenue from Contracts with Customers under Topic 606 using the modified retrospective transition method. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting treatment under Topic 605. We recorded a net decrease to opening accumulated deficit of \$81,724, as of January 1, 2018 due to the cumulative impact of adopting Topic 606, with the impact primarily related to our post contract support (PCS deferred revenue). Refer to the following table for the detailed effect to our consolidated balance sheet upon adoption:

	Balance at December 31, 2017	New Revenue Standard Adjustment	Balance at January 1, 2018
Liabilities			
Unearned Revenue	\$ 81,724	\$ (81,724) \$ —
Shareholders' Equity			
Accumulated Deficit	\$ (96,472,452) \$ 81,724	\$ (96,390,728)

Under the modified retrospective method of adoption, we are required to disclose the impact to revenues had we continued to follow our accounting policies under the previous revenue recognition guidance. We estimate that the impact to revenues for the quarter ended March 31, 2018, primarily due to deferrals of PCS amounts for product shipped offset by the amortization of the unearned revenue related to our prior PCS deferred revenue under Topic 605, would have been immaterial.

Disaggregated Revenue

During the quarter ended March 31, 2018, the Company's total revenue was comprised of four major product lines: Smart Glasses and Video Eyewear sales, OEM product sales, Waveguide sales, and Engineering services. The following table summarizes the revenue recognized by major product line for the quarter ended March 31, 2018:

	Three Months Ended	
	March 31,	
	2018	2017
Revenues		
Smart Glasses and Video Eyewear Sales	\$ 1,212,771	\$ 959,383
OEM Product Sales	114,170	—
Waveguide Sales	36,438	—
Engineering Services	180,516	251,280
Total Revenue	\$ 1,543,895	\$ 1,210,663

Significant Judgments

In applying the new guidance under Topic 606, we performed an assessment of judgments used that could potentially impact both the timing of our satisfaction of performance obligations and our determination of transaction prices used in determining revenue recognized by major product line. Judgments made include variable consideration in determining our transaction prices for our standard product sales that include a 30-day right to return and payment terms are Net 30 - 60 days. For our Engineering Services performance obligations recognized over time using the input method, the estimated costs to complete each project is considered a significant judgment. For the three months ended March 31, 2018 and the year ended December 31, 2017, the significant judgments previously mentioned did not have a material effect on the timing or the amount of revenue recognized under the new guidance.

Performance Obligations

Revenues from our performance obligations satisfied at a point in time are typically for standard goods (Smart Glasses, Video Eyewear and Waveguides) and are recognized when the customer obtains control, which is generally upon delivery and acceptance. The Company also records revenue for performance obl