



**SHAREHOLDER
LETTER**
SUMMER 2020

VUZIX®

JUNE 2020

Dear Vuzix Shareholders:

The impact of the coronavirus has affected us all in so many ways and we wish security and health for all of you as we collectively face this unprecedented challenge.

The level of personal and business disruption that has been caused by COVID-19 has been extreme. Worldwide lockdowns began during the first quarter and business continuity plans have been constantly adjusted as companies monitor the latest developments. At Vuzix, we instituted immediate actions in order to minimize face-to-face interactions between employees and to provide effective social distancing practices within the office and on the manufacturing floor, where we've split our production employees into two shifts to minimize the number of employees at the office at a given time. They have done a great job under stressful conditions, which has allowed us to continue to meet ongoing customer demand for both our M-Series and Vuzix Blade products.

Most organizations have implemented strict travel restrictions on domestic and international travel, as well as work-from-home programs to reduce in-office exposure risk. Hospitals and other health care organizations have implemented measures to limit interactions between infected patients and health professionals, and are seeking new, innovative and safe ways to perform training, mentoring and patient care. These trends and others are driving an acceleration of interest in smart glasses usage that spans remote support, business continuity, tele-education, and, in particular, telemedicine. Within this last sector, our technology is becoming a critical tool in frontline efforts to fight the coronavirus as well as for business in general on a go-forward basis.

I recently participated in a news interview with a reporter from WMAR-2 News in Maryland, in which I discussed our M400 Smart Glasses and some telemedicine use cases. The interview also includes some illustrative videos of how our smart glasses are already being used by medical professionals. A video replay can be found at: <https://www.youtube.com/watch?v=--Ap2I-zca8>.



Vuzix CEO, Paul Travers, with ABC Midday Maryland Host, Elsa M.

As a result of this acceleration in customer interest, April was a strong month for Vuzix in terms of smart glasses sales, driven by broad demand from new customers, existing customers, and Vuzix resellers. These increases in customer order frequency and average order size have been occurring globally within our expanding customer base. I'm pleased to report that total revenue realized just midway through our second quarter, when combined with engineering services revenues expected to be completed before the end of June, have already surpassed our first quarter 2020 revenue total. As this growth further takes hold with new product interest and new customers, we currently expect this revenue growth to continue its momentum in this quarter.

Vuzix is emerging to become a critical go-to supplier of smart glasses during a period when the world is turning to them as a needed solution. This fact is evidenced through our growth in orders, new partnerships, use cases, and the overall breadth of customer interest. While many other suppliers in our space struggle, our solutions continue to experience higher demand and our market position is strengthening. We're more excited than ever about what the future holds for our industry and more importantly our place in it and we intend to keep pushing the envelope in terms of our industry-leading products and technology.

Emerging Telemedicine Opportunities

The telemedicine-related use cases where we've experienced accelerating demand since the pandemic began include not only remote healthcare support, but also training and technical support for medical equipment. We have announced numerous developments in this market vertical and have a growing number of unannounced partners that are just ramping up their business relationships with Vuzix. Many are being driven by the COVID-19 pandemic, though others are seeing the value of expanding offerings with our products on a go forward basis. There are five recent telemedicine customer developments I would like to share.

- » 1 Minuut, an exclusive reseller of Vuzix Smart Glasses, has seen strong interest in Europe for their health-care and telemedicine solutions and have placed multiple volume orders for Vuzix M400s
- » The University of Louisville School of Medicine is currently testing the M400 across six different facilities and has plans to deploy our glasses across their network and expand the program in educational training in addition to patient care
- » GemVision, another Vuzix reseller, has seen growth in healthcare and telemedicine demand and recently placed a replenishment order for M400s to support remote healthcare needs in the Netherlands
- » In Thailand, Vuzix Blade Smart Glasses are now being used for COVID-19 patient care via our partner, Tely360 Ambulance 3rd Eye, at one of the country's main hospital sites used for quarantined COVID-19 patients
- » Johns Hopkins Hospital, which is affiliated with Johns Hopkins Medicine, one of the leading healthcare systems in the U.S., is now a customer that utilizes the Vuzix M400 to help with patient intubation and to host virtual patient round



Vuzix' AR Smart Glasses Used in Healthcare Facilities Worldwide

Vuzix Smart Glasses

With an expanding list of enterprise customers, our M400 Smart Glasses has clearly become the workhorse the industry has been waiting for. The M400 was built to broadcast HD streaming video for field service workers with its 13-megapixel image stabilized camera. The OLED display delivers crisp vivid color to the technicians and with advanced voice control coming to the base OS, it will become a completely hands-free device for many applications. Many users have done extensive testing to compare the M400 to the competition and hands-down the M400 continues to emerge as the best smart glasses device for enterprise usage. In fact, resellers of competitive smart glasses products have reached out to Vuzix and expressed interest reselling the Vuzix M400.



M400 Smart Glasses

a series of downloadable white papers to help educate potential customers across specific market verticals including telemedicine, remote support and field service, manufacturing and worker training, and warehousing and logistics to provide further education on the usage, benefits and implementation of our smart glasses products.

Since mid-March, we've been conducting a series of live webinars and product demos around our M400 Smart Glasses with numerous resellers and software partners, including 1 Minuut, Bitnamic, Brochesia, Help Lightning, Librestream, Ubimax and Zerentia, as well as several topical ones using Zoom. The level of engagement and feedback has been great thus far and the video assets that we've created have proved to be meaningful sales reference tools for our customers. Recordings of our solution webinars can be accessed via a new webinars [page](#) on our website. We've also released

The M400 as a scalable platform continues to mature, further differentiating it versus other solutions. During the first quarter of 2020, we added support for several popular video conferencing platforms such as Zoom and Skype for Business. More recently, we announced support for Cisco Webex Teams and Zoom for Healthcare. These popular applications each come with some specific advantages which have made it very easy for large enterprise companies to get started with the Vuzix M400 and Blade Smart Glasses for video conferencing. Vuzix has also been successful in directly upselling solutions such as Vuzix Remote Assist and Ubimax Frontline or working through our partner channels with established companies like Bitnamic, Brochesia, Help Lightning, Librestream, PTC, SightCall, TeamViewer, and others. In most cases, these upsells are helping to generate new revenue opportunities for Vuzix that can recur on an annual basis.

We are also working with a number of partners to deliver solutions that incorporate our Smart Glasses to assist with screening crowds of people with elevated temperatures. One such firm is Librestream, with whom we've announced a hands-free thermal imaging solution focused around our M400 Smart Glasses and have also partnered, along with Verizon, to support healthcare in first responders. Finally, we recently announced a partnership with Pixee Medical, which just received CE Marking certification for Knee+ its unique patented technology that combines proprietary computer vision and deep learning algorithms, along with the use of our M400 glasses, to precisely track instruments and implants during surgeries.

Looking ahead, product development and tooling for our new optically see-through M4000 smart glasses continues and we still expect to ship production units this summer. Smart Swim, our first smart glasses product born out of Vuzix Labs, will commence volume shipments this quarter. As for the Vuzix Blade, a product refresh is being introduced later this quarter, which we expect will allow it to gain additional traction across enterprise due to an improved autofocus camera that will replace the current fixed focus version as well as built-in stereo audio in the temples.



M4000 AR Enterprise Smart Glasses

Engineering Services Programs Around Custom Waveguides Solutions and Original Manufacturer (OEM) Opportunities

Our technology leadership, production capabilities in the U.S. and the roadmap we have laid out are making Vuzix a solution provider of choice for next-generation waveguide-based solutions. In March, we announced the launch of our second engineering services project, this one with a new major U.S. defense contractor to build a customized waveguide-based optics engine. The first phase of this program is expected to be completed by the end of June, generating non-recurring engineering (NRE) revenues for us. Then we expect subsequent NRE phases that will lead to an accepted final product design and potentially on to volume production orders. This spring, we received yet another follow-on development order from a previously announced global Tier-1 aerospace partner. This one is for the fourth stage of this program. We hope to see this move to a production opportunity as early as the fall of this calendar year.



AR Technology for OEM Partners

In terms of dollar amounts, the potential revenue pipeline of requests for quotes for further NRE and OEM programs is both promising and significant, with over 8 new programs quoted thus far in 2020. The programs are in broad market segments including the defense sector, aviation sector, industrial sector, and the consumer and automotive sectors. These OEM/NRE programs not only further the state of Vuzix technology with their external R&D funding and are primarily pointed at eventual volume production opportunities.

IP and Next-Generation Technology

Our intellectual property portfolio now consists of 157 patents and patents pending. Our leadership and in-depth knowledge of near-eye display technologies also includes the design, development and manufacturing of AR smart glasses. These ground up capabilities uniquely position Vuzix to rapidly deliver new optical components and systems as well as innovative waveguide-based smart products for our customers, both direct end-users and OEMs.

We also continue to make solid progress toward our next-generation optical display solutions using our new waveguides with MicroLED displays. Vuzix is working with several MicroLED suppliers on its new designs, the first of which should be unveiled in early 2021. These new solutions should allow the creation of not only new enhanced enterprise AR glasses, but also consumer-focused “Kingsman-styled” smart glasses for Vuzix and other OEMs. And finally, we are looking at integrating LTE and 5G cellular radios into our AR smart glasses solutions, a common request from many existing and potential customers.

Financial Comments and May 2020 Capital Raise

The expense control initiatives we implemented in 2019 were generally successful as we realized year-over-year declines in all three of our major operating expense categories. We intend to continue to further manage our expenses and capital expenditures in 2020.



Next Generation AR Smart Glasses

Our expected revenue growth, in combination with the expense management measures discussed, will reduce our cash burn as we grow and execute upon these opportunities to ultimately achieve profitability. That being said, with the current uncertainty in both the financial markets and the global business environment as many companies continue to reduce scale or shut down operations due to the pandemic, resulting in unemployment soaring to record levels, we decided to strengthen our balance sheet. In early May, we sold five million shares of common stock of Vuzix at a price of \$2.25 per share. This sale was a common stock only offering placed with six existing or previous institutional shareholders of Vuzix. This is a de-risking move that better positions Vuzix for greater growth and provides additional financial security in uncertain times. Our business is currently accelerating and we want to be able to expand and deliver to it to meet expected customer demand.

Looking Ahead in 2020

Notwithstanding the challenging business environment created by COVID-19, we have been making solid progress thus far in 2020 in terms of product, technology, manufacturing and business development, including:

- » Since mid-March of this year, we are seeing inbound interest converting directly into increases in our enterprise and medical sales and experiencing increases in customer order flow, average order size, and the number of customers placing reorders
- » We feel reasonably confident that many of our previously identified enterprise opportunities could begin to be deployed in volume over the next 12 months
- » We are currently on track to commence shipments of our M4000 smart glasses in volume this summer
- » We have continued to improve our waveguide manufacturing yields and capacity, and with the introduction of our upgraded Blade, we are prepared to further ramp production to support expected sales and the rollout of programs in the security in the enterprise markets
- » We have expanded the number of contracted engineering services program engagements and are actively pursuing additional new ones, as well as OEM component and product programs
- » We are making great strides to develop our next-generation waveguide optics in creating very small, but high performing display technologies built around MicroLEDs

Speaking for our entire team at Vuzix, we remain committed to achieving great success for our shareholders, employees, and customers. Our vision, perseverance and hard work have brought us to the brink of greatness. We have established Vuzix as a leader in the growing field of wearable computing technology and AR, and our work to-date will enable us to reap the benefits of this leadership position as we move forward.

On a closing and more personal note, I would just like to say that while we welcome the business opportunities that are arising because of the current pandemic situation, I hope you all will join me in also feeling a sense of pride, importance and accomplishment as our products and technologies are addressing real market needs that can help make us a safer, healthier and more productive society.

As always, I would like to thank you all for your continued commitment to the company and I hope to demonstrate over the course of this year and beyond that this commitment has been well-founded. And again, everyone at Vuzix extends their best to all during this most challenging of times.

Best regards,

Paul J. Travers
President and CEO
Vuzix Corporation

Forward-Looking Statements Disclaimer

Certain statements included in this document may be considered forward-looking. All statements in this document that are not historical facts are forward-looking statements. Such statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from those implied by such statements, and therefore these statements should not be taken as guarantees of future performance or results. We may use words such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “could,” “seeks,” “estimates,” and variations of such words and similar expressions in identifying forward-looking statements. The forward-looking statements include statements concerning our possible or assumed future results of operations; our business strategies; our ability to attract and retain customers; our ability to sell additional products and services to customers; our cash needs and financing plans; our competitive position; our industry environment; our potential growth opportunities; expected technological advances by us or by third parties and our ability to leverage them; the effects of future regulation; and the effects of competition. These statements are based on our management’s beliefs and assumptions and on information currently available to our management. It is important to note that forward-looking statements are not guarantees of future performance, and that our actual results could differ materially from those set forth in any forward-looking statements. Due to risks and uncertainties, actual events may differ materially from current expectations. For a more in-depth discussion of these and other factors that could cause actual results to differ from those contemplated by forward-looking statements, see the discussions under the heading “Risk Factors” in the company’s annual report on Form 10-K filed by Vuzix Corporation and other documents the company files from time to time with the SEC. Vuzix disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.