

MICROVISION, INC.
Form 10-Q
November 02, 2016

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 ACT
OF 1934

For the quarterly period ended September 30, 2016

OR

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

For the transition period from _____ to _____

Commission file number 001-34170

MicroVision, Inc.

(Exact name of Registrant as Specified in its Charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

91-1600822

(I.R.S. Employer Identification Number)

6244 185th Avenue NE, Suite 100
Redmond, Washington 98052

(Address of Principal Executive Offices, including Zip Code)

(425) 936-6847

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(Registrant's Telephone Number, including Area Code)

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 reports), and (2) has been subject to such 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 or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). YES NO

The number of shares of the registrant's common stock outstanding as of October 28, 2016 was 53,944,000.

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PART I

ITEM 1. FINANCIAL STATEMENTS

MicroVision, Inc.
Condensed Consolidated Balance Sheets

(In thousands, except per share data)
(Unaudited)

| | September 30, 2016 | December 31, 2015 |
|---|-----------------------|----------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 5,803 | \$ 7,888 |
| Accounts receivable, net of allowances of \$39 and \$38, respectively | 1,821 | 1,687 |
| Inventory | 1,252 | 862 |
| Other current assets | 461 | 638 |
| Total current assets | 9,337 | 11,075 |
| Property and equipment, net | 1,367 | 1,669 |
| Restricted cash | 435 | 435 |
| Intangible assets, net | 750 | 845 |
| Other assets | 18 | 18 |
| Total assets | \$ 11,907 | \$ 14,042 |
| Liabilities and Shareholders' Deficit | | |
| Current liabilities | | |
| Accounts payable | \$ 2,149 | \$ 2,183 |
| Accrued liabilities | 3,242 | 3,399 |
| Deferred revenue | 2,184 | 2,122 |
| Total current liabilities | 7,575 | 7,704 |
| Deferred revenue, net of current portion | 5,402 | 6,149 |
| Deferred rent, net of current portion | 226 | 342 |
| Total liabilities | 13,203 | 14,195 |
| Commitments and contingencies (Note 7) | | |
| Shareholders' deficit | | |
| Preferred stock, par value \$0.001; 25,000 shares authorized; zero and zero shares issued and outstanding | - | - |
| Common stock, par value \$0.001; 100,000 shares authorized; 53,944 and 47,423 shares issued and outstanding | 54 | 47 |
| Additional paid-in capital | 493,123 | 483,171 |
| Accumulated deficit | (494,473) | (483,371) |
| Total shareholders' deficit | (1,296) | (153) |
| Total liabilities and shareholders' deficit | \$ 11,907 | \$ 14,042 |

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

MicroVision, Inc.
Condensed Consolidated Statements of Operations
(In thousands, except per share data)
(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|------------|------------------------------------|-------------|
| | 2016 | 2015 | 2016 | 2015 |
| Product revenue | \$ 3,617 | \$ 2,078 | \$ 10,302 | \$ 5,001 |
| Royalty revenue | 331 | 309 | 1,482 | 777 |
| Contract revenue | 52 | 11 | 72 | 1,564 |
| Total revenue | 4,000 | 2,398 | 11,856 | 7,342 |
| Cost of product revenue | 2,767 | 1,810 | 7,942 | 4,921 |
| Cost of contract revenue | 26 | 3 | 32 | 792 |
| Total cost of revenue | 2,793 | 1,813 | 7,974 | 5,713 |
| Gross profit | 1,207 | 585 | 3,882 | 1,629 |
| Research and development expense | 3,053 | 2,231 | 8,529 | 6,140 |
| Sales, marketing, general and administrative expense | 2,231 | 1,873 | 6,470 | 5,740 |
| Total operating expenses | 5,284 | 4,104 | 14,999 | 11,880 |
| Loss from operations | (4,077) | (3,519) | (11,117) | (10,251) |
| Other income, net | 7 | 6 | 15 | 7 |
| Net loss | \$ (4,070) | \$ (3,513) | \$ (11,102) | \$ (10,244) |
| Net loss per share - basic and diluted | \$ (0.08) | \$ (0.07) | \$ (0.22) | \$ (0.22) |
| Weighted-average shares outstanding - basic and diluted | 52,111 | 47,216 | 50,421 | 46,292 |

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

MicroVision, Inc.
 Condensed Consolidated Statements of Cash Flows
 (In thousands)
 (Unaudited)

| | Nine Months Ended September 30, | |
|---|------------------------------------|-------------|
| | 2016 | 2015 |
| Cash flows from operating activities | | |
| Net loss | \$ (11,102) | \$ (10,244) |
| Adjustments to reconcile net loss to net cash provided by (used in) operations: | | |
| Depreciation | 602 | 297 |
| Amortization of intangible assets | 95 | 96 |
| Share-based compensation expense | 980 | 718 |
| Inventory write-downs | 187 | 287 |
| Other non-cash adjustments | 47 | (46) |
| Change in: | | |
| Accounts receivable, net | (134) | 95 |
| Inventory | (577) | (440) |
| Other current and non-current assets | 177 | (43) |
| Accounts payable | (145) | (53) |
| Accrued liabilities | (303) | (6) |
| Deferred revenue | (685) | 7,403 |
| Billings on uncompleted contracts in excess of related costs | - | (225) |

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

MicroVision, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. MANAGEMENT'S STATEMENT

The Condensed Consolidated Balance Sheets as of September 30, 2016, the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2016 and 2015, and Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2016 and 2015, have been prepared by MicroVision, Inc. ("we" or "our") and have not been audited. In the opinion of management, all adjustments necessary to state fairly the financial position at September 30, 2016 and the results of operations and cash flows for all periods presented have been made and consist of normal recurring adjustments. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules of the Securities and Exchange Commission (SEC). The year-end condensed balance sheet data was derived from audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America. You should read these condensed consolidated financial statements in conjunction with the financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015. The results of operations for the three and nine months ended September 30, 2016 are not necessarily indicative of the operating results that may be attained for the entire fiscal year.

We have incurred significant losses since inception. We have funded our operations to date primarily through the sale of common stock, convertible preferred stock, warrants, the issuance of convertible debt and, to a lesser extent, from development contract revenues, licensing activities and product and component sales. At September 30, 2016, we had \$5.8 million in cash and cash equivalents. The consolidated financial statements are prepared assuming we will continue as a going concern.

Based on our current operating plan, and without additional proceeds from the sale of shares under our existing Common Stock Purchase Agreement or At-The-Market (ATM) facility discussed in Note 8, we anticipate that we have sufficient cash and cash equivalents to fund our operations into January 2017. We will require additional capital to fund our operating plan past that time. We plan to obtain additional capital through the issuance of equity or debt securities and/or licensing activities. There can be no assurance that additional capital will be available to us or, if available, will be available on terms acceptable to us or on a timely basis. If adequate capital resources are not available on a timely basis, we intend to consider limiting our operations substantially. This limitation of operations could include reducing investments in our production capacities, research and development projects, staff, operating costs, and capital expenditures. Our ability to raise proceeds from the sale of shares under our Common Stock Purchase Agreement is subject to limitations and conditions, including a \$1.00 minimum stock price.

We are introducing new technology into an emerging market which creates significant uncertainty about our ability to accurately project revenue, costs and cash flows. Our capital requirements will depend on many factors, including, but not limited to, the rate at which original design manufacturers (ODMs) or original equipment manufacturers (OEMs) introduce products incorporating our PicoP® scanning technology and the market acceptance and competitive position of such products. If revenues are less than we anticipate, if the mix of revenues and the associated margins vary from anticipated amounts or if expenses exceed the amounts budgeted, we may require additional capital earlier than expected to fund our operations. In addition, our operating plan provides for the development of strategic relationships with suppliers of components and systems and equipment manufacturers that may require additional investments by us.

2. NET LOSS PER SHARE

Basic net loss per share is calculated using the weighted-average number of common shares outstanding during the period. Diluted net loss per share is calculated using the weighted-average number of common shares outstanding and the dilutive effect of all potentially dilutive securities, including common stock equivalents and convertible securities. Diluted net loss per share is equal to basic net loss per share because the effect of dilutive securities outstanding during the period, including options and warrants computed using the treasury stock method, is anti-dilutive.

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The components of basic and diluted net loss per share were as follows (in thousands, except loss per share data):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|---|-------------|--|-------------|
| | 2016 | 2015 | 2016 | 2015 |
| Numerator: | | | | |
| Net loss available for common shareholders - basic and diluted | \$ (4,070) | \$ (3,513) | \$ (11,102) | \$ (10,244) |
| Denominator: | | | | |
| Weighted-average common shares outstanding - basic and diluted | 52,111 | 47,216 | 50,421 | 46,292 |
| Net loss per share - basic and diluted | \$ (0.08) | \$ (0.07) | \$ (0.22) | \$ (0.22) |

For the three and nine months ended September 30, 2016 and 2015, we excluded the following securities from diluted net loss per share, as the effect of including them would have been anti-dilutive: options and warrants exercisable into a total of 9,126,000 and 8,218,000 shares of common stock, respectively, and 60,000 and 60,000 nonvested equity shares, respectively.

3. KEY ACCOUNTING POLICY - REVENUE RECOGNITION

We recognize revenue when: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred and there are no uncertainties regarding customer acceptance, (iii) fees are fixed or determinable and (iv) collection is reasonably assured.

We generate revenue from many sources and activities. We enter into arrangements that can include various combinations of product sales, services, and licensing activities. For multiple-element arrangements, we use a hierarchy to determine the contract consideration to be used for allocating revenue to deliverables: (i) vendor-specific objective evidence of fair value (VSOE), (ii) third party evidence of selling price (TPE), and (iii) best estimate of selling price. To date, our revenue sources can be classified as: product revenue, royalty revenue, or contract revenue.

Product revenue

Our product sales generally include acceptance provisions. We recognize product revenue upon acceptance of the product by the customer or expiration of the contractual acceptance period, after which there are no rights of return. No estimates are made for product returns because revenue is recognized upon expiration of the contractual acceptance period.

Royalty revenue

Royalty revenue is revenue under license agreements to our PicoP® scanning technology. We recognize revenue on upfront license fees over the expected time frame that we provide services or have ongoing obligations under the agreement. Ongoing per unit royalties are reported by our customer to us on a quarterly basis. Currently, we recognize revenue for ongoing per unit royalties one quarter in arrears when reported by our customer, representing when such amounts are fixed and determinable, and all other revenue recognition criteria are met.

Contract revenue

We recognize contract revenue on long-term, cost plus fixed fee, and fixed price contracts using the percentage-of-completion method. Under the percentage-of-completion method, revenue is recognized as work progresses on the contract. The percentage-of-completion method relies on estimates of total expected contract revenue and costs. At the end of each period, we estimate the labor, material and other costs required to complete the contract using data provided by our technical team, project managers, vendors, outside consultants and others and compare these to costs incurred to date.

Recognized revenues are subject to amendments for actual costs incurred. Amendments to revenue and costs-to-complete estimates are recognized in the period in which the facts become known. In the future, amendments to estimates could significantly impact recognized revenue in any one reporting period. If we are unable to estimate costs on a contract, revenue is recognized using the completed-contract method. Under the completed-contract method, revenue and contract costs are deferred and both are recognized when all deliverables are completed.

License agreement

In March 2015, we signed a license agreement as part of a multiple-element arrangement with Sony Corporation (Sony) for our PicoP® scanning technology. The license agreement granted Sony a non-exclusive license to manufacture and sell display modules that use our PicoP® scanning technology.

Under the terms of this multiple-element arrangement, we received an \$8.0 million upfront payment in March 2015 and we will receive a per unit royalty for each display module sold by Sony containing our PicoP® scanning technology. We recognize revenue on the initial \$8.0 million payment on a straight-line basis within Royalty Revenues, over a period of eight years which is the expected time frame that we will provide services under the agreement. Ongoing per unit royalties are reported by Sony to us on a quarterly basis. Currently, we recognize revenue for ongoing per unit royalties one quarter in arrears when reported by Sony, representing when such amounts are fixed and determinable, and all other revenue recognition criteria are met. Products delivered under multiple-element arrangements will be recognized upon acceptance of the deliverables by the customer or the expiration of the contractual acceptance period, after which there are no rights of return.

During the three and nine months ended September 30, 2016, we recognized \$79,000 and \$732,000, respectively, from ongoing per unit royalties, and \$252,000 and \$750,000, respectively, from a prorated portion of the \$8.0 million upfront payment. During the three and nine months ended September 30, 2015, we recognized \$57,000 and \$180,000, respectively, from ongoing per unit royalties, and \$252,000 and \$597,000, respectively, from a prorated portion of the \$8.0 million upfront payment. At September 30, 2016, remaining unrecognized upfront license fees are included in current and long-term deferred revenues, amounting to \$999,000 and \$5.4 million, respectively. At December 31, 2015, unrecognized upfront license fees are included in current and long-term deferred revenues, amounting to \$1.0 million and \$6.1 million, respectively.

4. CONCENTRATION OF CREDIT RISK AND MAJOR CUSTOMERS AND SUPPLIERS

Concentration of credit risk

Financial instruments that potentially subject us to a concentration of credit risk are primarily cash equivalents and accounts receivable. We typically do not require collateral from our customers. As of

September 30, 2016, our cash and cash equivalents are comprised of operating checking accounts and short-term, highly rated money market savings accounts.

Concentration of major customers and suppliers

For the three and nine months ended September 30, 2016, one commercial customer accounted for \$3.9 million and \$10.8 million of our total revenue, representing 99% and 91% of total revenue, respectively. For the three and nine months ended September 30, 2015, the same commercial customer accounted for \$2.3 million and \$7.2 million of our total revenue, representing 96% and 98% of total revenue, respectively. One commercial customer accounted for \$1.7 million of our net accounts receivable balance at September 30, 2016 and the same commercial customer accounted for \$567,000 of our net accounts receivable balance at September 30, 2015, representing 92% and 99%, respectively.

A significant concentration of our components and the products we sell are currently manufactured and obtained from single or limited-source suppliers. The loss of any single or limited-source supplier, the failure of any of these suppliers to perform as expected, or the disruption in the supply chain of components from these suppliers could subject us to risks and uncertainties including, but not limited to, increased cost of sales, possible loss of revenues, or significant delays in product deliveries, any of which could adversely affect our financial condition and operating results.

5. INVENTORY

Inventory consists of the following:

| <i>(in thousands)</i> | September 30, 2016 | December 31, 2015 |
|-----------------------|-----------------------|----------------------|
| Raw materials | \$ 528 | \$ 232 |
| Finished goods | 724 | 630 |
| | \$ 1,252 | \$ 862 |

Our inventory consists of raw materials and finished goods assemblies. Inventory is computed using the first-in, first-out (FIFO) method and is stated at the lower of cost and net realizable value. Management periodically assesses the need to account for obsolescence of inventory and adjusts the carrying value of inventory to its net realizable value when required.

In addition, we reduce the value of our inventory to its estimated scrap value when management determines that it is not probable that the inventory will be consumed through the normal course of business during the next twelve months. As of September 30, 2016 and December 31, 2015, there were aggregate write-downs of \$6.7 million and \$6.9 million, respectively, offsetting the value of inventory deemed to be obsolete or scrap inventory. We may enter into arrangements to sell the obsolete or scrap inventory resulting in a gain in the period such transactions are realized.

6. SHARE-BASED COMPENSATION

We issue share-based compensation to employees in the form of stock options and restricted stock units (RSUs). We account for the share-based awards by recognizing the fair value of share-based compensation expense on a straight-line basis over the service period of the award, net of estimated forfeitures. The fair value of stock options is estimated on the grant date using the Black-Scholes option pricing model. The fair value of RSUs is determined by the closing price of our common stock on the grant date. Changes in estimated inputs or using other option valuation methods may result in materially different option values and share-based compensation expense.

The following table summarizes the amount of share-based compensation expense by line item in the statements of operations:

| Share-based compensation expense | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|--------|------------------------------------|--------|
| <i>(in thousands)</i> | 2016 | 2015 | 2016 | 2015 |
| Cost of product revenue | \$ 9 | \$ 7 | \$ 29 | \$ 15 |
| Research and development expense | 98 | 82 | 283 | 198 |
| Sales, marketing, general and administrative expense | 199 | 205 | 668 | 505 |
| | \$ 306 | \$ 294 | \$ 980 | \$ 718 |

Options activity and positions

The following table summarizes shares, weighted-average exercise price, weighted-average remaining contractual term and aggregate intrinsic value of options outstanding and options exercisable as of September 30, 2016:

| Options | Shares | Weighted- Average Exercise Price | Weighted- Average Remaining Contractual Term (years) | Aggregate Intrinsic Value |
|--------------------------------------|-----------|---|--|---------------------------------|
| Outstanding as of September 30, 2016 | 4,087,000 | \$ 3.92 | 7.6 | \$ 5,000 |
| Exercisable as of September 30, 2016 | 2,040,000 | \$ 5.60 | 6.1 | \$ 4,000 |

As of September 30, 2016, our unamortized share-based employee compensation related to stock options was \$2.7 million which we plan to amortize over the next three years, and our unamortized share-based compensation related to RSUs was \$78,000 which we plan to amortize over the next eight months.

7. COMMITMENTS AND CONTINGENCIES

Litigation

On March 31, 2014, Asia Optical Co., Inc., a supplier pursuant to an agreement entered into in 2008, filed a complaint for arbitration with the American Arbitration Association claiming that we ordered products from them and failed to take delivery of and pay for such products. The relief sought in the complaint is \$3.6 million plus attorneys' fees, interest and arbitration costs. We contest the claim and are defending against it. An adverse outcome of these proceedings could materially and adversely affect our financial condition. At this stage, we cannot predict the likelihood of an unfavorable outcome or the range of potential loss.

We are also subject to various claims and pending or threatened lawsuits in the normal course of business. We are not currently party to any other legal proceedings that we believe are reasonably possible to have a material adverse effect on our financial position, results of operations or cash flows.

Adverse purchase commitments

As of September 30, 2016, we had \$500,000 accrued for commitments to purchase materials for the SHOWWX™ pico projector that were in excess of estimated future proceeds from the sale of that product.

8. COMMON STOCK AND WARRANTS

In September 2016, we entered into a Common Stock Purchase Agreement with Lincoln Park Capital Fund, LLC (Lincoln Park) granting us the right to sell shares of our common stock having an aggregate value of up to \$17.0 million. Under the terms of the agreement, Lincoln Park made an initial purchase of \$2.0 million in shares of common stock at a purchase price of \$1.50 per share. Subject to various limitations and conditions set forth in the agreement, including a \$1.00 minimum stock price, we may sell up to an additional \$15.0 million in shares of common stock, from time to time, at our sole discretion to Lincoln Park over a twenty-four month period beginning September 2016. In consideration for entering into the agreement, we issued 522,556 shares of common stock, having a value of \$721,000 based on the closing stock price on the date of grant, to Lincoln Park as a commitment fee. We incurred an additional \$133,000 in issuance costs.

During the nine months ended September 30, 2016, we received gross proceeds of \$845,000 as part of an ATM agreement we entered into with Meyers Associates, L.P. in May 2015. Under the terms of the agreement, we may, from time to time, at our discretion, offer and sell shares of our common stock having an aggregate value of up to \$6.0 million. As of September 30, 2016, we have received aggregate gross proceeds of approximately \$3.1 million before issuance costs of approximately \$109,000 from the sale of 1.2 million shares of common stock.

In March 2016, we raised \$6.9 million before issuance costs of approximately \$650,000 from the sale of 4.1 million shares of common stock in an underwritten public offering.

During the six months ended June 30, 2015, we received \$3.3 million from the exercise of warrants to purchase 1.5 million shares of common stock, which warrants were issued in connection with earlier financing transactions.

During the three months ended March 31, 2015, we received gross proceeds of \$1.0 million as part of an ATM agreement we entered into with Meyers Associates, L.P. in June 2014. We completed sales under this agreement, having received total proceeds of \$4.5 million before issuance costs of approximately \$206,000 from the sale of 2.0

million shares of common stock.

9. RECENT ACCOUNTING PRONOUNCEMENTS

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2016-15 (ASU 2016-15), Statement of Cash Flows (Topic 230): Clarification of Certain Cash Receipts and Cash Payments. The objective of ASU 2016-15 is to eliminate the diversity in practice related to the classification of certain receipts and payments in the statement of cash flows, by adding or clarifying guidance on eight specific cash flow issues. For public business entities, ASU 2016-15 is effective for annual and interim reporting periods beginning after December 15, 2017, with early adoption permitted. The amendments in this update should be applied retrospectively to all periods presented, unless deemed impracticable, in which case, prospective application is permitted. We are currently evaluating the impact the adoption of this standard will have on our financial statements.

In June 2016, the FASB issued Accounting Standards Update 2016-13 (ASU 2016-13), Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 amends the impairment model to utilize an expected loss methodology in place of the currently used incurred loss methodology, which will result in the more timely recognition of losses. ASU 2016-13 is effective for public entities with fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The new guidance shall be applied on a modified-retrospective approach. We are currently evaluating the impact the adoption of this standard will have on our financial statements.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09 (ASU 2016-09), Improvements to Employee Share-Based Payment Accounting. ASU 2016-09 simplifies several aspects of the accounting for share-based payment award transactions including a) income tax consequences; b) classification of awards as either equity or liabilities; and c) classification on the statement of cash flows. ASU 2016-09 is effective for public entities in the fiscal years beginning after December 15, 2016, and for interim periods within those fiscal years. Various elements of the amendments will be applied using either a modified retrospective transition method, retrospectively, or prospectively. Early adoption is permitted. We are currently evaluating the impact the adoption of this standard will have on our financial statements.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02 (ASU 2016-02), Leases (Topic 842). ASU 2016-02 requires lessees to recognize a right-of-use asset and lease liability in the balance sheet for all leases, including operating leases, with terms of more than twelve months. Recognition, measurement and presentation of expenses and cash flows from a lease by a lessee have not significantly changed from previous guidance. The principal difference from previous guidance is that the lease assets and lease liabilities arising from operating leases should be recognized in the balance sheet. The amendments also require qualitative disclosures along with specific quantitative disclosures. The new guidance will be effective for fiscal years beginning after December 15, 2018, and interim periods within those years, with early adoption permitted. The amendments must be applied on a modified retrospective basis. We are currently evaluating the impact the adoption of this standard will have on our financial statements.

In November 2015, the FASB issued Accounting Standards Update No. 2015-17 (ASU 2015-17), Income Taxes: Balance Sheet Classification of Deferred Taxes. ASU 2015-17 eliminates the current requirement to present deferred tax liabilities and assets as current and non-current on the balance sheet and requires that all deferred tax liabilities and asset, and any related valuation allowance, be classified as non-current on the balance sheet. ASU 2015-17 is effective for public entities in fiscal years beginning after December 15, 2016, and for the interim periods within those fiscal years. The new guidance can be applied retrospectively or prospectively and early adoption is permitted. We do not expect the implementation of this standard to have a material effect on our financial statements.

In August 2014, the FASB issued Accounting Standards Update No. 2014-15 (ASU 2014-15), Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern, which provides guidance on determining when and how to disclose going concern uncertainties in the financial statements. The new standard requires

management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about the entity's ability to continue as a going concern. ASU 2014-15 will be effective for annual periods ending after December 15, 2016, and interim periods thereafter, with early adoption permitted. We do not expect the implementation of this standard to have a material effect on our financial statements.

In May 2014, FASB issued Accounting Standards Update No. 2014-09 (ASU 2014-09), Revenue from Contracts with Customers, an updated standard on revenue recognition. ASU 2014-09 provides enhancements to the quality and consistency of how revenue is reported while also improving comparability in the financial statements of companies reporting using International Financial Reporting Standards and generally accepted accounting principles of the United States. Subsequent accounting standards updates have been issued which amend and/or clarify the application of ASU 2014-09. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard also will result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively, and improve guidance for multiple-element arrangements. ASU 2014-09 will be effective in the first quarter of fiscal 2018 and may be applied on a full retrospective or modified retrospective approach. We have not yet selected a transition method and we are currently evaluating the effect that the updated standard will have on our financial statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-looking statements

The information set forth in this report in Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Item 3, "Quantitative and Qualitative Disclosure about Market Risk," includes "Forward-Looking Statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and is subject to the safe harbor created by those sections. Such statements may include, but are not limited to, projections of revenues, income or loss, capital expenditures, plans for product development and cooperative arrangements, technology development by third parties, future operations, financing needs or plans of MicroVision, Inc. ("we" or "our"), as well as assumptions relating to the foregoing. The words "anticipate," "could," "would," "believe," "estimate," "expect," "goal," "may," "plan," "project," "will," and similar expressions identify forward-looking statements. Factors that could cause actual results to differ materially from those projected in our forward-looking statements include risk factors identified below in Item 1A.

Overview

MicroVision, Inc. is a pioneer in laser beam scanning (LBS) technology that we market under our brand name PicoP®. We have developed our proprietary PicoP® scanning technology that can be adopted by our customers to create high-resolution miniature projection and three-dimensional sensing and image capture solutions that use laser diodes as the light source. Our PicoP® scanning technology incorporates our patented expertise in two-dimensional Micro-Electrical Mechanical Systems (MEMS), lasers, optics, and electronics to create a small form factor scanning engine with lower power needs than many other technologies that projects high-quality video and still image and/or uses depth sensing to capture three-dimensional data.

Our business strategy is to commercialize our PicoP® scanning technology by enabling original design manufacturers (ODMs) and original equipment manufacturers (OEMs) to produce scanning engines by licensing our technology to those ODMs and OEMs, and by selling key scanning engine components to them, as needed. Additionally, in 2017, we plan to begin selling scanning engines directly to ODMs and OEMs.

While we are optimistic about our technology and the potential for future revenues, we have incurred substantial losses since inception and expect to incur a significant loss during the fiscal year ending December 31, 2016. The consolidated financial statements are prepared assuming we will continue as a going concern.

Key accounting policies and estimates - Revenue recognition

We recognize revenue when: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred and there are no uncertainties regarding customer acceptance, (iii) fees are fixed or determinable, and (iv) collection is reasonably assured.

We generate revenue from many sources and activities. We enter into arrangements that can include various combinations of product sales, services, and licensing activities. For multiple-element arrangements, we use a hierarchy to determine the contract consideration to be used for allocating revenue to deliverables: (i) vendor-specific objective evidence of fair value (VSOE), (ii) third party evidence of selling price (TPE), and (iii) best estimate of selling price. To date, our revenue sources can be classified as: product revenue, royalty revenue, or contract revenue.

Product revenue

Our product sales generally include acceptance provisions. We recognize product revenue upon acceptance of the product by the customer or expiration of the contractual acceptance period, after which there are no rights of return. No estimates are made for product returns because revenue is recognized upon expiration of the contractual acceptance period.

Royalty revenue

Royalty revenue is revenue under license agreements to our PicoP® scanning technology. We recognize revenue on upfront license fees over the expected time frame that we provide services or have ongoing obligations under the agreement. Ongoing per unit royalties are recognized when reported by our customer to us on a quarterly basis. Currently, we recognize revenue for ongoing per unit royalties one quarter in arrears when reported by our customer, representing when such amounts are fixed and determinable, and all other revenue recognition criteria are met.

Contract revenue

We recognize contract revenue on long-term, cost plus fixed fee, and fixed price contracts using the percentage-of-completion method. Under the percentage-of-completion method, revenue is recognized as work progresses on the contract. The percentage-of-completion method relies on estimates of total expected contract revenue and costs. At the end of each period, we estimate the labor, material and other costs required to complete the contract using data provided by our technical team, project managers, vendors, outside consultants and others and compare these to costs incurred to date.

Recognized revenues are subject to amendments for actual costs incurred. Amendments to revenue and costs-to-complete estimates are recognized in the period in which the facts become known. In the future, amendments to estimates could significantly impact recognized revenue in any one reporting period. If we are unable to estimate costs on a contract, revenue is recognized using the completed-contract method. Under the completed-contract method, revenue and contract costs are deferred and both are recognized when all deliverables are completed.

License agreement

In March 2015, we signed a license agreement as part of a multiple-element arrangement with Sony for our PicoP® scanning technology. The license agreement granted Sony a non-exclusive license to manufacture and sell scanning engines that use our PicoP® scanning technology.

For multiple-element arrangements, we use a hierarchy to determine the contract consideration to be used for allocating revenue to deliverables: (i) vendor-specific objective evidence of fair value (VSOE), (ii) third-party evidence of selling price (TPE) and (iii) best estimate of selling price. Because VSOE and TPE do not exist for the March 2015 agreement, we have allocated the contract consideration based on our best estimate.

Under the terms of this multiple-element arrangement, we received an \$8.0 million upfront payment in March 2015 and we will receive a per unit royalty for each display module sold by Sony containing our PicoP® scanning technology. We recognize revenue on the initial \$8.0 million payment on a straight-line basis within Royalty Revenues, over a period of eight years which is the expected time frame that we will provide services under the agreement. Ongoing per unit royalties are reported by Sony to us on a quarterly basis. Currently, we recognize revenue for ongoing per unit royalties one quarter in arrears when reported by Sony, representing when such amounts are fixed and determinable, and all other revenue recognition criteria are met. Products delivered under multiple-element arrangements will be recognized upon acceptance of the deliverables by the customer or the expiration of the contractual acceptance period, after which there are no rights of return.

Results of operations

Product revenue

| <i>(in thousands)</i> | 2016 | | 2015 | | \$ change | % change |
|----------------------------------|-------------|--------|-------------|-------|------------------|-----------------|
| Three Months Ended September 30, | \$ | 3,617 | \$ | 2,078 | \$ 1,539 | 74.1 |
| Nine Months Ended September 30, | | 10,302 | | 5,001 | 5,301 | 106.0 |
| | | | | 12 | | |

Product revenue is revenue from sales of our products which are MEMS and ASICs. Our product sales generally include acceptance provisions. We recognize product revenue upon acceptance of the product by the customer or the expiration of the contractual acceptance period, after which there are no rights of return. Our quarterly product revenue may vary substantially due to the timing of product orders from customers, product shipments, production constraints and availability of components and raw materials.

Product revenue was higher during the three and nine months ended September 30, 2016 compared to the same periods in 2015 due to higher product sales to Sony as part of continued shipments of orders we received during 2015 and 2014 totaling \$14.6 million and \$3.8 million, respectively, for key components to be integrated into display modules it manufactures and sells. The backlog of product orders at September 30, 2016 was approximately \$1.4 million, compared to \$13.5 million at September 30, 2015. The product backlog is scheduled for delivery in the fourth quarter.

Royalty revenue

| <i>(in thousands)</i> | 2016 | 2015 | \$ change | % change |
|----------------------------------|--------|--------|-----------|----------|
| Three Months Ended September 30, | \$ 331 | \$ 309 | \$ 22 | 7.1 |
| Nine Months Ended September 30, | 1,482 | 777 | 705 | 90.7 |

Royalty revenue is revenue under license agreements to our PicoP® scanning technology. We recognize revenue on upfront license fees over the expected time frame that we provide services or have ongoing obligations under the agreement. Ongoing per unit royalties are reported by Sony and are recognized as revenue in the period in which the data becomes available to us. Royalty revenue was higher during the three and nine months ended September 30, 2016 compared to the same periods in 2015 as a result of higher royalty payments we received from Sony for display modules it sold.

During the three and nine months ended September 30, 2016, we recognized \$79,000 and \$732,000, respectively, from ongoing per unit royalties, and \$252,000 and \$750,000, respectively, from a prorated portion of the \$8.0 million upfront payment. During the three and nine months ended September 30, 2015, we recognized \$57,000 and \$180,000, respectively, from ongoing per unit royalties, and \$252,000 and \$597,000, respectively, from a prorated portion of the \$8.0 million upfront payment. At September 30, 2016, remaining unrecognized upfront license fees are included in current and long-term deferred revenues, amounting to \$999,000 and \$5.4 million, respectively. At December 31, 2015, unrecognized upfront license fees are included in current and long-term deferred revenues, amounting to \$1.0 million and \$6.1 million, respectively.

Contract revenue

| <i>(in thousands)</i> | 2016 | 2015 | \$ change | % change |
|----------------------------------|-------|-------|-----------|----------|
| Three Months Ended September 30, | \$ 52 | \$ 11 | \$ 41 | 372.7 |
| Nine Months Ended September 30, | 72 | 1,564 | (1,492) | (95.4) |

Contract revenue includes revenue from the sale of prototype units and evaluation kits based on our PicoP® scanning engine. Our contract revenue in a particular period is dependent upon when we enter into a contract, the value of the contracts we have entered into, and the availability of technical resources to perform work on the contracts. We recognize contract revenue on long-term, cost plus fixed fee, and fixed price contracts using the percentage-of-completion method. If we are unable to estimate costs on a contract, revenue is recognized using the completed-contract method. Under the completed-contract method, revenue and contract costs are deferred and both are recognized when all deliverables are completed.

In June 2015, we recognized the full contract value of \$1.5 million in revenue having completed all deliverables and obligations under an agreement to provide support services to Sony for the production readiness, initial production and market launch for display modules incorporating our PicoP® scanning technology. Our contract backlog, including orders for prototype units and evaluation kits, at September 30, 2016 was approximately \$931,000 compared to \$5,000 at September 30, 2015. The contract backlog is scheduled for completion during the next twelve months.

Cost of product revenue

| <i>(in thousands)</i> | 2016 | % of product revenue | 2015 | % of product revenue | \$ change | % change |
|----------------------------------|----------|----------------------------|----------|----------------------------|-----------|----------|
| Three Months Ended September 30, | \$ 2,767 | 76.5 | \$ 1,810 | 87.1 | \$ 957 | 52.9 |
| Nine Months Ended September 30, | 7,942 | 77.1 | 4,921 | 98.4 | 3,021 | 61.4 |

Cost of product revenue includes the direct and allocated indirect costs of products sold to customers. Direct costs include labor, materials, reserves for estimated warranty expenses, and other costs incurred directly, or charged to us by our contract manufacturers, in the manufacture of these products. Indirect costs include labor, manufacturing overhead, and other costs associated with operating our manufacturing capabilities and capacity. Manufacturing overhead includes the costs of procuring, inspecting and storing material, facility and other costs, and is allocated to cost of product revenue based on the proportion of indirect labor which supported production activities.

Cost of product revenue can fluctuate significantly from period to period, depending on the volume and product mix and the level of manufacturing overhead expense. Cost of product revenue as a percentage of net product revenue decreased during the three and nine months ended September 30, 2016 compared to the same periods in 2015 driven primarily by higher volume of product sales to Sony. We expect that future gross margins could be impacted by multiple factors including, but not limited to, those set forth in Part II, Item 1A of this Form 10-Q under the heading "Risk Factors".

During the three and nine months ended September 30, 2016, we expensed approximately \$245,000 and \$656,000 of manufacturing overhead associated with production capacity in excess of production requirements, compared to \$288,000 and \$651,000 during the same periods in 2015. Additionally, during the nine months ended September 30, 2016, we recorded a provision for scrap of \$187,000 compared to \$287,000 during the same period in 2015.

Cost of contract revenue

| <i>(in thousands)</i> | 2016 | % of contract revenue | 2015 | % of contract revenue | \$ change | % change |
|----------------------------------|-------|-----------------------------|------|-----------------------------|-----------|----------|
| Three Months Ended September 30, | \$ 26 | 50.0 | \$ 3 | 27.3 | \$ 23 | 766.7 |
| Nine Months Ended September 30, | 32 | 44.4 | 792 | 50.6 | (760) | (96.0) |

Cost of contract revenue includes both the direct and allocated indirect costs of performing on contracts and producing prototype units and evaluation kits. Direct costs include labor, materials and other costs incurred directly in producing prototype units and evaluation kits or performing on a contract. Indirect costs include labor and other costs associated with operating our research and development department and building our technical capabilities and capacity. Cost of contract revenue is determined by the level of direct and indirect costs incurred, which can fluctuate substantially from period to period.

The decrease in the cost of contract revenue during the nine months ended September 30, 2016 was primarily attributed to the direct and indirect costs recognized in connection with the completion of all deliverables and obligations under the \$1.5 million display module support service contract in 2015 with Sony.

Research and development expense

| <i>(in thousands)</i> | 2016 | 2015 | \$ change | % change |
|----------------------------------|----------|----------|-----------|----------|
| Three Months Ended September 30, | \$ 3,053 | \$ 2,231 | \$ 822 | 36.8 |
| Nine Months Ended September 30, | 8,529 | 6,140 | 2,389 | 38.9 |

Research and development expense consists of compensation related costs of employees and contractors engaged in internal research and product development activities, direct material to support development programs, laboratory operations, outsourced development and processing work, and other operating expenses. We assign our research and development resources based on the business opportunity of the available projects, the skill mix of the resources available and the contractual commitments we have made to our customers. We believe that a substantial level of continuing research and development expense will be required to further develop our scanning technology.

The increase in research and development expense during the three months ended September 30, 2016 compared to the same period in 2015 was attributable to higher costs related to subcontractors and increased personnel-related compensation and benefits expenses. The increase during the nine months ended September 30, 2016 compared to the same period in 2015 was attributable to the allocation of resources to internal research and development activities that were previously designated to a commercial contract in prior periods in addition to higher costs related to subcontractors and increased personnel-related compensation and benefits expenses.

Sales, marketing, general and administrative expense

| <i>(in thousands)</i> | | 2016 | | 2015 | | \$ change | | % change |
|----------------------------------|----|-------|----|-------|----|-----------|--|----------|
| Three Months Ended September 30, | \$ | 2,231 | \$ | 1,873 | \$ | 358 | | 19.1 |
| Nine Months Ended September 30, | | 6,470 | | 5,740 | | 730 | | 12.7 |

Sales, marketing, general and administrative expense includes compensation and support costs for marketing, sales, management and administrative staff, and for other general and administrative costs, including legal and accounting services, consultants and other operating expenses.

The increase in sales, marketing, general and administrative expense during the three and nine months ended September 30, 2016 compared to the same periods in 2015 was primarily due to increased personnel-related compensation and benefits expenses, professional fees and business development costs.

Liquidity and capital resources

We have incurred significant losses since inception. We have funded operations to date primarily through the sale of common stock, convertible preferred stock, warrants, the issuance of convertible debt and, to a lesser extent, from development contract revenues, product sales, and licensing activities. At September 30, 2016, we had \$5.8 million in cash and cash equivalents. The consolidated financial statements are prepared assuming we will continue as a going concern.

Based on our current operating plan,

and without additional proceeds from the sale of shares under our existing Common Stock Purchase Agreement or ATM facility discussed in Note 8 to our condensed consolidated financial statements, we anticipate that we have sufficient cash and cash equivalents to fund our operations into January 2017. We will require additional capital to fund our operating plan past that time. We plan to obtain additional capital through the issuance of equity or debt securities and/or licensing activities. There can be no assurance that additional capital will be available to us or, if available, will be available on terms acceptable to us or on a timely basis. If adequate capital resources are not available on a timely basis, we intend to consider limiting our operations substantially. This limitation of operations could include reducing investments in our production capacities, research and development projects, staff, operating costs, and capital expenditures. Our ability to raise proceeds from the sale of shares under our Common Stock Purchase Agreement is subject to limitations and conditions, including a \$1.00 minimum stock price.

Operating activities

Cash used in operating activities totaled \$10.9 million during the nine months ended September 30, 2016 compared to cash used in operating activities of \$2.2 million during the same period in 2015. The change in cash flows from operating activities in the 2015 period primarily reflects an \$8.0 million upfront payment we received under the terms of the license agreement with Sony for our PicoP® scanning technology in March 2015.

Investing activities

During the nine months ended September 30, 2016 and 2015, net cash used in investing activities was \$282,000 and \$1.0 million.

Financing activities

During the nine months ended September 30, 2016 and 2015, net cash provided by financing activities was \$9.1 million and \$6.0 million.

In September 2016, we entered into a Common Stock Purchase Agreement with Lincoln Park granting us the right to sell shares of our common stock having an aggregate value of up to \$17.0 million. Under the terms of the agreement, Lincoln Park made an initial purchase of \$2.0 million in shares of common stock at a purchase price of \$1.50 per share. Subject to various limitations and conditions set forth in the agreement, including a \$1.00 minimum stock price, we may sell up to an additional \$15.0 million in shares of common stock, from time to time, at our sole discretion to Lincoln Park over a twenty-four month period beginning September 2016. In consideration for entering into the agreement, we issued 522,556 shares of common stock, having a value of \$721,000 based on the closing stock price on the date of grant, to Lincoln Park as a commitment fee. We incurred an additional \$133,000 in issuance costs.

During the nine months ended September 30, 2016, we received gross proceeds of \$845,000 as part of an ATM agreement we entered into with Meyers Associates, L.P. in May 2015. As of September 30, 2016, we have received aggregate gross proceeds of approximately \$3.1 million before issuance costs of approximately \$109,000 from the sale of 1.2 million shares of common stock.

In March 2016, we raised \$6.9 million before issuance costs of approximately \$650,000 from the sale of 4.1 million shares of common stock in an underwritten public offering.

During the six months ended June 30, 2015, we received \$3.3 million from the exercise of warrants to purchase 1.5 million shares of common stock, which warrants were issued in connection with earlier financing transactions.

During the three months ended March 31, 2015, we received gross proceeds of \$1.0 million as part of an ATM agreement we entered into with Meyers Associates, L.P. in June 2014. We have completed sales under this agreement, having received total proceeds of \$4.5 million before issuance costs of approximately \$206,000 from the sale of 2.0 million shares of common stock.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest rate and market liquidity risks

As of September 30, 2016, all of our cash and cash equivalents have variable interest rates. Therefore, we believe our exposure to market and interest rate risks is not material.

Our investment policy generally directs that the investment manager should select investments to achieve the following goals: principal preservation, adequate liquidity and return. As of September 30, 2016, we had \$5.8 million in cash and cash equivalents, which are comprised of operating checking accounts and short-term highly rated money market savings accounts.

Foreign exchange rate risk

Our major contract and collaborative research and development agreements, product sales, and licensing activity payments are currently made in U.S. dollars. However, in the future we may enter into contracts or collaborative

research and development agreements in foreign currencies that may subject us to foreign exchange rate risk. We have entered into purchase orders and supply agreements in foreign currencies in the past and may enter into such arrangements, from time to time, in the future. We believe our exposure to currency fluctuations related to these arrangements is not material. We may enter into foreign currency hedges to offset material exposure to currency fluctuations when we can adequately determine the timing and amounts of the exposure.

ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) as of the end of the period covered by this report and, based on this evaluation, our Principal Executive Officer and Principal Financial Officer have concluded that these disclosure controls and procedures are effective. There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934) that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II.

ITEM 1.

LEGAL PROCEEDINGS

On March 31, 2014, Asia Optical Co., Inc., a supplier pursuant to an agreement entered into in 2008, filed a complaint for arbitration with the American Arbitration Association claiming that we ordered products from them and failed to take delivery of and pay for such products. The relief sought in the complaint is \$3.6 million plus attorneys' fees, interest and arbitration costs. We contest the claim and are defending against it. An adverse outcome of these proceedings could materially and adversely affect our financial condition. At this stage, we cannot predict the likelihood of an unfavorable outcome or the range of potential loss.

We are also subject to various claims and pending or threatened lawsuits in the normal course of business. We are not currently party to any other legal proceedings that management believes are reasonably possible to have a material adverse effect on our consolidated financial position, results of operations or cash flows.

ITEM 1A.

RISK FACTORS

You should carefully consider the risks described below together with the other information set forth in this report, which could materially affect our business, financial condition and future results. The risks described below are not the only risks facing our company. Risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and operating results.

Risk Factors Related to Our Business and Industry

We have a history of operating losses and expect to incur significant losses in the future.

We have had substantial losses since our inception. We cannot assure you that we will ever become or remain profitable.

- As of September 30, 2016, we had an accumulated deficit of \$494.5 million.
- We incurred consolidated net losses of \$483.4 million from inception through 2015, and a net loss of \$11.1 million during the nine months ended September 30, 2016.

The likelihood of our success must be considered in light of the expenses, difficulties and delays frequently encountered by companies formed to develop and commercialize new technologies. In particular, our operations to date have focused primarily on research and development of our PicoP® scanning technology platform and development of demonstration units. We are unable to accurately estimate future revenues and operating expenses

based upon historical performance.

We cannot be certain that we will succeed in obtaining additional development revenue or commercializing our technology or products. In light of these factors, we expect to continue to incur significant losses and negative cash flow at least through 2016 and likely thereafter. We cannot be certain that we will achieve positive cash flow at any time in the future.

We will require additional capital to fund our operations and to implement our business plan. If we do not obtain additional capital, we may be required to curtail our operations substantially. Raising additional capital may dilute the value of current shareholders' shares.

Based on our current operating plan, and without additional proceeds from the sale of shares under our existing Common Stock Purchase Agreement or ATM facility discussed in Note 8 to our condensed consolidated financial statements, we anticipate that we have sufficient cash and cash equivalents to fund our operations into January 2017. We will require additional capital to fund our operating plan past that time. We plan to obtain additional capital through the issuance of equity or debt securities and/or licensing activities.

Our ability to raise proceeds from the sale of shares under our Common Stock Purchase Agreement is subject to limitations and conditions, including a \$1.00 minimum stock price. In addition, pursuant to the Common Stock Purchase Agreement, we agreed that we will not enter into any "variable rate" transactions with any third party from the date of the Purchase Agreement until the expiration of the twenty-four month period following the date of the Purchase Agreement, subject to certain exceptions, which could limit our ability to raise capital through certain sales of equity.

We are introducing new technology into an emerging market which creates significant uncertainty about our ability to accurately project revenue, costs and cash flows. Our capital requirements will depend on many factors, including, but not limited to, the rate at which ODMs and OEMs introduce products incorporating our PicoP® scanning technology and the market acceptance and competitive position of such products. If revenues are less than we anticipate, if the mix of revenues and the associated margins varies from anticipated amounts or if expenses exceed the amounts budgeted, we may require additional capital earlier than expected to fund our operations. In addition, our operating plan provides for the development of strategic relationships with suppliers of components, products and systems, and equipment manufacturers that may require additional investments by us.

Additional capital may not be available to us or, if available, may not be available on terms acceptable to us or on a timely basis. Raising additional capital may involve issuing securities with rights and preferences that are senior to our common stock and may dilute the value of our current shareholders' shares. If adequate capital resources are not available on a timely basis, we may consider limiting our operations substantially. This limitation of operations could include reducing investments in our production capacities or research and development projects, staff, operating costs, and capital expenditures which could jeopardize our ability to achieve our business goals or satisfy our customer requirements.

Qualifying a new or alternative contract manufacturer or foundry for our products could cause us to experience delays that result in lost revenues and damaged customer relationships.

We rely on single or limited-source suppliers to manufacture our products, including our MEMS die in wafer form. Establishing a relationship with a new or alternative contract manufacturer or foundry would be a time-consuming process with significant lead time, as our unique technology may require significant manufacturing process adaptation to achieve full manufacturing capacity. Accordingly, we may be unable to establish a relationship with new or alternative contract manufacturers in the short-term, or at all, at prices or on other terms that are acceptable to us.

Changes in our supply chain may result in increased cost and delay and may subject us to risks and uncertainties regarding, but not limited to, product warranty, product liability and quality control standards. The loss of any single or limited-source supplier, the failure of any of these suppliers to perform as expected or the disruption in the supply chain of components from these suppliers could cause significant delays in product deliveries, which may result in lost revenues and damaged customer relationships. To the extent that we are not able to establish a relationship with a new or alternative contract manufacturer(s) or foundry in a timely manner, we may be unable to meet contract or production milestones which could have a material adverse effect on our financial condition, results of operations and cash flows.

Our success will depend, in part, on our ability to secure significant third party manufacturing resources.

Our success will depend, in part, on our ability to provide our components and future products in commercial quantities at competitive prices and on schedule. Accordingly, we will be required to obtain access, through business partners or contract manufacturers, to manufacturing capacity and processes for the commercial production of our expected future products.

Our foreign contract manufacturers could experience severe financial difficulties or other disruptions in their business, and such continued supply could be significantly reduced or terminated. In addition, we cannot be certain that we will successfully obtain access to needed manufacturing resources concurrent with a significant increase in our planned production levels.

Future manufacturing limitations of our suppliers could constrain the number of products that we are able to develop and produce.

We are dependent on third parties in order to develop, manufacture, sell and market products incorporating our PicoP

® scanning technology and the scanning engine components.

Our business strategy for commercializing our technology in products incorporating PicoP® scanning technology includes entering into development, manufacturing, sales and marketing arrangements with ODMs, OEMs and other third parties. These arrangements reduce our level of control over production and distribution and may subject us to risks and uncertainties regarding, but not limited to, product warranty, product liability and quality control standards. We cannot be certain that we will be able to negotiate arrangements on acceptable terms, if at all, or that these arrangements will be successful in yielding commercially viable products. If we cannot establish these arrangements, we would require additional capital to undertake such activities on our own and would require extensive manufacturing, sales and marketing expertise that we do not currently possess and that may be difficult to obtain.

In addition, we could encounter significant delays in commercializing our PicoP® scanning technology or find that the development, manufacture or sale of products incorporating our technology would not be feasible. To the extent that we enter into development, manufacturing, sales and marketing or other arrangements, our revenues will depend upon the performance of third parties. We cannot be certain that any such arrangements will be successful.

We cannot be certain that our technology platform or products incorporating our PicoP

® scanning technology will achieve market acceptance. If our technology platform or products incorporating our technology do not achieve market acceptance, our revenues may not grow.

Our success will depend, in part, on customer acceptance of our PicoP® scanning technology. Our technology may not be accepted by manufacturers who use display and image capture technologies in their products, by systems integrators, ODMs, and OEMs who incorporate our scanning engines or scanning engine components into their products or by end users of these products. To be accepted, our PicoP® scanning technology must meet the expectations of our current and potential customers in the consumer electronics, automotive, and other markets. If our technology platform or products incorporating our PicoP® scanning technology do not achieve market acceptance, we may not be able to continue to develop our technology.

Future products incorporating our PicoP

® scanning technology are dependent on advances in technology by other companies.

Our PicoP® scanning technology will continue to rely on technologies, such as laser light sources and other components that are developed and produced by other companies. The commercial success of certain future products incorporating our PicoP® scanning technology will depend, in part, on advances in these and other technologies by other companies. We may, from time to time, contract with and support companies developing key technologies in order to accelerate the development of them for our or our customers' specific uses. There are no guarantees that such activities will result in useful technologies or products that will be profitable.

We are dependent on a small number of customers for our revenue. Our quarterly performance may vary substantially and this variance, as well as general market conditions, may cause our stock price to fluctuate greatly and potentially expose us to litigation.

One commercial customer accounted for \$10.8 million of our total revenue, representing 91% of our total revenue during the nine months ended September 30, 2016. In the same period in 2015, the same commercial customer

accounted for \$7.2 million of our total revenue, representing 98% of our total revenue. Our customers take time to obtain, and the loss of a significant customer could negatively affect our revenue. Our quarterly operating results may vary significantly based upon:

- Market acceptance of products incorporating our PicoP® scanning technology;
- Changes in evaluations and recommendations by any securities analysts following our stock or our industry generally;
- Announcements by other companies in our industry;
- Changes in business or regulatory conditions;
- Announcements or implementation by our competitors of technological innovations or new products;
- The status of particular development programs and the timing of performance under specific development agreements;
- Economic and stock market conditions; or
- Other factors unrelated to our company or industry.

In one or more future quarters, our results of operations may fall below the expectations of securities analysts and investors and the trading price of our common stock may decline as a consequence. In addition, following periods of volatility in the market price of a company's securities, shareholders often have instituted securities class action litigation against that company. If we become involved in a class action suit, it could divert the attention of management and, if adversely determined, could require us to pay substantial damages.

We or our customers may fail to perform under open orders or agreements which could adversely affect our operating results and cash flows.

Our backlog of open orders and agreements totaled \$2.3 million as of September 30, 2016. We or our customers may be unable to meet the performance requirements and obligations under open orders or agreements, including performance specifications or delivery dates, required by such purchase orders or agreements. Furthermore, our customers may be unable or unwilling to perform their obligations thereunder on a timely basis, or at all if, among other reasons, our products and technologies do not achieve market acceptance, our customers' products and technologies do not achieve market acceptance or our customers otherwise fail to achieve their operating goals. To the extent we are unable to perform under such purchase orders or agreements or to the extent customers are unable or unwilling to perform, our operating results and cash flows could be adversely affected.

It may become more difficult to sell our stock in the public market or maintain our listing on the NASDAQ Global Market.

Our common stock is listed on The NASDAQ Global Market. To maintain our listing on this market, we must meet NASDAQ's listing maintenance standards. If we are unable to continue to meet NASDAQ's listing maintenance standards for any reason, our common stock could be delisted from The NASDAQ Global Market. If our common stock were delisted, we likely would seek to list our common stock on The NASDAQ Capital Market, the American Stock Exchange or on a regional stock exchange. Listing on such other market or exchange could reduce the liquidity of our common stock. If our common stock were not listed on The NASDAQ Capital Market or an exchange, trading of our common stock would be conducted in the Over-the-Counter (OTC) market on an electronic bulletin board established for unlisted securities or directly through market makers in our common stock. If our common stock were to trade in the OTC market, an investor would find it more difficult to dispose of, or to obtain accurate quotations for the price of, the common stock.

A delisting from The NASDAQ Global Market and failure to obtain listing on another market or exchange would subject our common stock to so-called penny stock rules that impose additional sales practice and market-making requirements on broker-dealers who sell or make a market in such securities. Consequently, removal from The NASDAQ Global Market and failure to obtain listing on another market or exchange could affect the ability or willingness of broker-dealers to sell or make a market in our common stock and the ability of purchasers of our common stock to sell their securities in the secondary market.

On October 28, 2016, the closing price of our common stock was \$1.04 per share.

Our lack of financial and technical resources relative to our competitors may limit our revenues, potential profits, overall market share or value.

Our products and potential products incorporating our PicoP® scanning technology will compete with established manufacturers of existing products and companies developing new technologies. Many of our competitors have substantially greater financial, technical and other resources than we have. Because of their greater resources, our competitors may develop products or technologies that may be superior to our own. The introduction of superior competing products or technologies could result in reduced revenues, lower margins or loss of market share, any of which could reduce the value of our business.

We may not be able to keep up with rapid technological change and our financial results may suffer.

The information display and image capture industry has been characterized by rapidly changing technology, accelerated product obsolescence and continuously evolving industry standards. Our success will depend upon our ability to further develop our PicoP® scanning technology platform and to cost effectively introduce new products and features in a timely manner to meet evolving customer requirements and compete with competitors' product advances.

We may not succeed in these efforts due to:

- Delays in product development;
- Lack of market acceptance for our technology or products incorporating our PicoP® scanning technology; or
- Lack of funds to invest in product research, development and marketing.

The occurrence of any of the above factors could result in decreased revenues, market share and value of our business.

We could face lawsuits related to our use of PicoP® scanning technology or other technologies. Defending these suits would be costly and time-consuming. An adverse outcome, in any such matter, could limit our ability to commercialize our technology or products incorporating our PicoP

® scanning technology, reduce our revenues and increase our operating expenses.

We are aware of several patents held by third parties that relate to certain aspects of light scanning displays and image capture products. These patents could be used as a basis to challenge the validity, limit the scope or limit our ability to obtain additional or broader patent rights of our patents or patents we have licensed. A successful challenge to the validity of our patents or patents we have licensed could limit our ability to commercialize our technology or products incorporating our PicoP® scanning technology and, consequently, materially reduce our revenues. Moreover, we cannot be certain that patent holders or other third parties will not claim infringement by us with respect to current and future technology. Because U.S. patent applications are held and examined in secrecy, it is also possible that presently pending U.S. applications will eventually be issued with claims that will be infringed by our products or our technology.

The defense and prosecution of a patent suit would be costly and time-consuming even if the outcome were ultimately favorable to us. An adverse outcome in the defense of a patent suit could subject us to significant costs, require others and us to cease selling products incorporating our technology, require us to cease licensing our technology or require disputed rights to be licensed from third parties. Such licenses, if available, would increase our operating expenses. Moreover, if claims of infringement are asserted against our future co-development partners or customers, those partners or customers may seek indemnification from us for any damages or expenses they incur.

If we fail to manage expansion effectively, our revenue and expenses could be adversely affected.

Our ability to successfully offer products incorporating PicoP® scanning technology and implement our business plan in a rapidly evolving market requires an effective planning and management process. The growth in business and relationships with customers and other third parties has placed, and will continue to place, a significant strain on our management systems and resources. We will need to continue to improve our financial and managerial controls, reporting systems and procedures, and will need to continue to train and manage our work force.

If we fail to adequately reduce and control our manufacturing, supply chain and operating costs, our business, financial condition, and operating results could be adversely affected.

We incur significant costs related to procuring components and increasing our production capabilities to manufacture our products. We may experience delays, cost overruns or other unexpected costs associated with an increase in production. If we are unsuccessful in our efforts to reduce and control our manufacturing, supply chain and operating costs and keep costs aligned with the levels of revenues we generate, our business and financial condition could suffer.

Our technology and products incorporating our PicoP

® scanning technology may be subject to future environmental, health and safety regulations that could increase our development and production costs.

Our technology and products incorporating our PicoP® scanning technology could become subject to future environmental, health and safety regulations or amendments that could negatively impact our ability to commercialize our technology and products incorporating our PicoP® scanning technology. Compliance with any such new regulations would likely increase the cost to develop and produce products incorporating our PicoP® scanning

technology, and violations may result in fines, penalties or suspension of production. If we become subject to any environmental, health, or safety laws or regulations that require us to cease or significantly change our operations to comply, our business, financial condition and operating results could be adversely affected.

Our operating results may be adversely impacted by worldwide political and economic uncertainties and specific conditions in the markets we address.

In the recent past, general worldwide economic conditions have experienced a downturn due to slower economic activity, concerns about inflation, increased energy costs, decreased consumer confidence, reduced corporate profits and capital spending, and adverse business conditions. Any continuation or worsening of the current global economic and financial conditions could materially adversely affect: (i) our ability to raise, or the cost of, needed capital, (ii) demand for our current and future products, and (iii) our ability to commercialize products. We cannot predict the timing, strength, or duration of any economic slowdown or subsequent economic recovery, worldwide, regionally or in the display industry.

Because we plan to continue using foreign contract manufacturers, our operating results could be harmed by economic, political, regulatory and other factors in foreign countries.

We currently use foreign contract manufacturers and plan to continue to use foreign contract manufacturers to manufacture current and future products, where appropriate. These international operations are subject to inherent risks, which may adversely affect us, including, but not limited to:

- Political and economic instability;
- High levels of inflation, historically the case in a number of countries in Asia;
- Burdens and costs of compliance with a variety of foreign laws, regulations and sanctions;
- Foreign taxes and duties;
- Changes in tariff rates or other trade and monetary policies; and
- Changes or volatility in currency exchange rates and interest rates.

Our contract manufacturers' facilities could be damaged or disrupted by a natural disaster or labor strike, either of which would materially affect our financial position, results of operations and cash flows.

A major catastrophe, such as an earthquake, monsoon, flood or other natural disaster, labor strike, or work stoppage at our contract manufacturers' facilities, our suppliers, or our customers, could result in a prolonged interruption of our business. A disruption resulting from any one of these events could cause significant delays in product shipments and the loss of sales and customers, which could have a material adverse effect on our financial condition, results of operations, and cash flows.

If our licensors and we are unable to obtain effective intellectual property protection for our products, processes and technology, we may be unable to compete with other companies.

Intellectual property protection for our products, processes and technology is important and uncertain. If we do not obtain effective intellectual property protection for our products, processes and technology, we may be subject to increased competition. Our commercial success will depend, in part, on our ability and the ability of our licensors, to maintain the proprietary nature of our PicoP® scanning technology and other key technologies by securing valid and enforceable patents and effectively maintaining unpatented technology as trade secrets.

We protect our proprietary PicoP® scanning technology by seeking to obtain United States and foreign patents in our name, or licenses to third party patents, related to proprietary technology, inventions, and improvements that may be important to the development of our business. However, our patent position and the patent position of our licensors involve complex legal and factual questions. The standards that the United States Patent and Trademark Office and its foreign counterparts use to grant patents are not always applied predictably or uniformly and can change.

Additionally, the scope of patents is subject to interpretation by courts and their validity can be subject to challenges and defenses, including challenges and defenses based on the existence of prior art. Consequently, we cannot be certain as to the extent to which we will be able to obtain patents for our new products and technology or the extent to

which the patents that we already own or license from others, protect our products and technology. Reduction in scope of protection or invalidation of our licensed or owned patents, or our inability to obtain new patents, may enable other companies to develop products that compete directly with ours on the basis of the same or similar technology.

We also rely on the law of trade secrets to protect unpatented know-how and technology to maintain our competitive position. We try to protect this know-how and technology by limiting access to the trade secrets to those of our employees, contractors and partners, with a need-to-know such information and by entering into confidentiality agreements with parties that have access to it, such as our employees, consultants and business partners. Any of these parties could breach the agreements and disclose our trade secrets or confidential information, or our competitors might learn of the information in some other way. If any trade secret not protected by a patent were to be disclosed to or independently developed by a competitor, our competitive position could be negatively affected.

We could be subject to significant product liability claims that could be time-consuming and costly, divert management attention and adversely affect our ability to obtain and maintain insurance coverage.

We could be subject to product liability claims if any of the product applications are alleged to be defective or cause harmful effects. For example, because some of the scanning engines incorporating our PicoP® scanning technology could scan a low power beam of colored light into the user's eye, the testing, manufacture, marketing and sale of these products involve an inherent risk that product liability claims will be asserted against us.

Additionally, any misuse of our technology or products incorporating our PicoP® scanning technology by end users or third parties that obtain access to our technology, could result in negative publicity and could harm our brand and reputation. Product liability claims or other claims related to our products or our technology, regardless of their outcome, could require us to spend significant time and money in litigation, divert management time and attention, require us to pay significant damages, harm our reputation or hinder acceptance of our products. Any successful product liability claim may prevent us from obtaining adequate product liability insurance in the future on commercially desirable or reasonable terms. An inability to obtain sufficient insurance coverage at an acceptable cost or otherwise to protect against potential product liability claims could prevent or inhibit the commercialization of our products and our PicoP® scanning technology.

Our contracts and collaborative research and development agreements have long sales cycles which makes it difficult to plan our expenses and forecast our revenues.

Our contracts and collaborative research and development agreements have long sales cycles that involve numerous steps including determining the product application, exploring the technical feasibility of a proposed product, evaluating the costs of manufacturing a product or qualifying a new or alternative contract manufacturer for production. Our long sales cycle, which can last several years, makes it difficult to predict the quarter in which revenue recognition will occur. Delays in entering into contracts and collaborative research and development agreements could cause significant variability in our revenues and operating results for any particular period.

Our contracts and collaborative research and development agreements may not lead to any product or any products that will be profitable.

Our contracts and collaborative research and development agreements, including without limitation, those discussed in this document, are exploratory in nature and are intended to develop new types of products for new applications. Our efforts may prove unsuccessful and these relationships may not result in the development of any product or any products that will be profitable.

Loss of any of our key personnel could have a negative effect on the operation of our business.

Our success depends on our executive officers and other key personnel and on the ability to attract and retain qualified new personnel. Achievement of our business objectives will require substantial additional expertise in the areas of sales and marketing, research and product development and manufacturing. Competition for qualified personnel in these fields is intense, and the inability to attract and retain additional highly skilled personnel, or the loss of key personnel, could hinder our ability to compete effectively in the display and image capture markets and adversely

affect our business strategy execution and results of operations.

ITEM 6. Exhibits

- 10.1 2013 MicroVision, Inc. Incentive Plan, as amended.
- 31.1 Principal Executive Officer Certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Principal Financial Officer Certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Principal Executive Officer Certification pursuant to Rule 13a-14(b) or Rule 15d-14(b) and Section 1350, Chapter 63 of Title 18, United States Code (18 U.S.C. 1350), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Principal Financial Officer Certification pursuant to Rule 13a-14(b) or Rule 15d-14(b) and Section 1350, Chapter 63 of Title 18, United States Code (18 U.S.C. 1350), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MICROVISION, INC.

Date: November 2, 2016

BY: /s/ Alexander Y. Tokman

Alexander Y. Tokman

Chief Executive Officer and Director
(Principal Executive Officer)

Date: November 2, 2016

BY: /s/ Stephen P. Holt

Stephen P. Holt

Chief Financial Officer
(Principal Financial Officer and Principal
Accounting Officer)

EXHIBIT INDEX

The following documents are filed herewith.

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