FORM 10-Q

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

For the quarterly period ended June 30, 2017

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 91-1600822
(State or Other Jurisdiction of Incorporation or Organization) (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
(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 X 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 X NO

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

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

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

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

The number of shares of the registrant's common stock outstanding as of July 27, 2017 was 71,596,000.
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</tbody>
</table>
## MicroVision, Inc.
### Condensed Consolidated Balance Sheets
(In thousands, except per share data)
(Unaudited)

<table>
<thead>
<tr>
<th></th>
<th>June 30, 2017</th>
<th>December 31, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$17,744</td>
<td>$15,139</td>
</tr>
<tr>
<td>Accounts receivable, net of allowances of $26 and $26, respectively</td>
<td>805</td>
<td>245</td>
</tr>
<tr>
<td>Inventory</td>
<td>2,677</td>
<td>1,233</td>
</tr>
<tr>
<td>Other current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>4,233</td>
<td>731</td>
</tr>
<tr>
<td>Total current assets</td>
<td>25,459</td>
<td>17,348</td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>3,299</td>
<td>1,537</td>
</tr>
<tr>
<td>Restricted cash</td>
<td>435</td>
<td>435</td>
</tr>
<tr>
<td>Intangible assets, net</td>
<td>660</td>
<td>718</td>
</tr>
<tr>
<td>Other assets</td>
<td>58</td>
<td>68</td>
</tr>
<tr>
<td>Total assets</td>
<td>$29,911</td>
<td>$20,106</td>
</tr>
<tr>
<td><strong>Liabilities and Shareholders' Equity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>$1,852</td>
<td>$2,195</td>
</tr>
<tr>
<td>Accrued liabilities</td>
<td>4,706</td>
<td>3,704</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>999</td>
<td>999</td>
</tr>
<tr>
<td>Billings on uncompleted contracts in excess of related costs</td>
<td>3,667</td>
<td>168</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>10,070</td>
<td>178</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>21,294</td>
<td>7,244</td>
</tr>
<tr>
<td>Deferred revenue, net of current portion</td>
<td>4,654</td>
<td>5,150</td>
</tr>
<tr>
<td>Deferred rent, net of current portion</td>
<td>102</td>
<td>185</td>
</tr>
<tr>
<td>Other long-term liabilities</td>
<td>36</td>
<td>53</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>26,086</td>
<td>12,632</td>
</tr>
<tr>
<td>Commitments and contingencies (Note 7)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shareholders' equity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Preferred stock, par value $0.001; 25,000 shares authorized; zero and zero shares issued and outstanding</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Common stock, par value $0.001; 100,000 shares authorized; 71,596 and 68,093 shares issued and outstanding</td>
<td>72</td>
<td>68</td>
</tr>
<tr>
<td>Additional paid-in capital</td>
<td>514,737</td>
<td>507,249</td>
</tr>
<tr>
<td>Accumulated deficit</td>
<td>(510,984)</td>
<td>(499,843)</td>
</tr>
<tr>
<td>Total shareholders' equity</td>
<td>3,825</td>
<td>7,474</td>
</tr>
<tr>
<td>Total liabilities and shareholders' equity</td>
<td>$29,911</td>
<td>$20,106</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
## Condensed Consolidated Statements of Operations

(In thousands, except per share data)

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended</th>
<th></th>
<th>Six Months Ended</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Product revenue</td>
<td>$ -</td>
<td>$ 3,530</td>
<td>$ -</td>
<td>$ 6,685</td>
</tr>
<tr>
<td>Royalty revenue</td>
<td>346</td>
<td>609</td>
<td>881</td>
<td>1,151</td>
</tr>
<tr>
<td>Contract revenue</td>
<td>1,107</td>
<td>16</td>
<td>1,364</td>
<td>20</td>
</tr>
<tr>
<td>Total revenue</td>
<td>1,453</td>
<td>4,155</td>
<td>2,245</td>
<td>7,856</td>
</tr>
<tr>
<td>Cost of product revenue</td>
<td>135</td>
<td>2,587</td>
<td>348</td>
<td>5,175</td>
</tr>
<tr>
<td>Cost of contract revenue</td>
<td>810</td>
<td>5</td>
<td>1,135</td>
<td>6</td>
</tr>
<tr>
<td>Total cost of revenue</td>
<td>945</td>
<td>2,592</td>
<td>1,483</td>
<td>5,181</td>
</tr>
<tr>
<td>Gross profit</td>
<td>508</td>
<td>1,563</td>
<td>762</td>
<td>2,675</td>
</tr>
<tr>
<td>Research and development expense</td>
<td>3,672</td>
<td>2,879</td>
<td>6,990</td>
<td>5,476</td>
</tr>
<tr>
<td>Sales, marketing, general and administrative expense</td>
<td>2,325</td>
<td>2,171</td>
<td>4,905</td>
<td>4,239</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>5,997</td>
<td>5,050</td>
<td>11,895</td>
<td>9,715</td>
</tr>
<tr>
<td>Loss from operations</td>
<td>(5,489)</td>
<td>(3,487)</td>
<td>(11,133)</td>
<td>(7,040)</td>
</tr>
<tr>
<td>Other (expense) income, net</td>
<td>(5)</td>
<td>11</td>
<td>(8)</td>
<td>8</td>
</tr>
<tr>
<td>Net loss</td>
<td>$ (5,494)</td>
<td>$ (3,476)</td>
<td>$ (11,141)</td>
<td>$ (7,032)</td>
</tr>
<tr>
<td>Net loss per share - basic and diluted</td>
<td>$ (0.08)</td>
<td>$ (0.07)</td>
<td>$ (0.16)</td>
<td>$ (0.14)</td>
</tr>
<tr>
<td>Weighted-average shares outstanding - basic and diluted</td>
<td>69,373</td>
<td>51,567</td>
<td>68,747</td>
<td>49,566</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
MicroVision, Inc.
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

<table>
<thead>
<tr>
<th></th>
<th>Six Months Ended June 30,</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2017</td>
</tr>
<tr>
<td>Cash flows from operating activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net loss</td>
<td>$ (11,141)</td>
<td>$ (7,032)</td>
</tr>
<tr>
<td>Adjustments to reconcile net loss to net cash used in operations:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>172</td>
<td>396</td>
</tr>
<tr>
<td>Amortization of intangible assets</td>
<td>58</td>
<td>64</td>
</tr>
<tr>
<td>Share-based compensation expense</td>
<td>703</td>
<td>674</td>
</tr>
<tr>
<td>Inventory write-downs</td>
<td>37</td>
<td>171</td>
</tr>
<tr>
<td>Other non-cash adjustments</td>
<td>(31)</td>
<td>62</td>
</tr>
<tr>
<td>Change in:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>(560)</td>
<td>(400)</td>
</tr>
<tr>
<td>Inventory</td>
<td>(1,481)</td>
<td>(427)</td>
</tr>
<tr>
<td>Other current and non-current assets</td>
<td>(3,471)</td>
<td>12</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>(277)</td>
<td>362</td>
</tr>
<tr>
<td>Accrued liabilities</td>
<td>954</td>
<td>(150)</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>(496)</td>
<td>(713)</td>
</tr>
<tr>
<td>Billings on uncompleted contracts in excess of related costs</td>
<td>3,499</td>
<td>-</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>9,892</td>
<td>(117)</td>
</tr>
<tr>
<td>Other long-term liabilities</td>
<td>(17)</td>
<td>-</td>
</tr>
<tr>
<td>Net cash used in operating activities</td>
<td>(2,159)</td>
<td>(7,098)</td>
</tr>
<tr>
<td>Cash flows from investing activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases of property and equipment</td>
<td>(2,000)</td>
<td>(193)</td>
</tr>
<tr>
<td>Net cash used in investing activities</td>
<td>(2,000)</td>
<td>(193)</td>
</tr>
<tr>
<td>Cash flows from financing activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net proceeds from issuance of common stock and warrants</td>
<td>6,764</td>
<td>6,594</td>
</tr>
<tr>
<td>Net cash provided by financing activities</td>
<td>6,764</td>
<td>6,594</td>
</tr>
<tr>
<td>Change in cash and cash equivalents</td>
<td>2,605</td>
<td>(697)</td>
</tr>
<tr>
<td>Cash and cash equivalents at beginning of period</td>
<td>15,139</td>
<td>7,888</td>
</tr>
<tr>
<td>Cash and cash equivalents at end of period</td>
<td>$ 17,744</td>
<td>$ 7,191</td>
</tr>
<tr>
<td>Supplemental schedule of non-cash investing and financing activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-cash additions to property and equipment</td>
<td>$ 285</td>
<td>$ 116</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
1. MANAGEMENT’S STATEMENT

The Condensed Consolidated Balance Sheets as of June 30, 2017, the Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2017 and 2016, and Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2017 and 2016, 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 June 30, 2017 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, 2016. The results of operations for the six months ended June 30, 2017 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, product sales and licensing activities. At June 30, 2017, we had $17.7 million in cash and cash equivalents.

Based on our current operating plan that includes expected proceeds from a development contract signed in April 2017 with a major technology company, we anticipate that we have sufficient cash and cash equivalents to fund our operations through December 2017. Our receipt of proceeds under our April 2017 development contract is subject to our completion of certain milestones, and we can provide no assurance that such milestones will be completed. 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, product sales 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.

We are introducing new technology and products 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 commercial success of our laser beam scanning (LBS) engines, 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 we fail to meet milestones for future payments or have to repay amounts already received under our April 2017 development contract, 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.

These factors raise substantial doubt regarding our ability to continue as a going concern. Our unaudited consolidated financial statements have been prepared assuming we will continue as a going concern and do not include any adjustments that might be necessary should we be unable to continue as a going concern.

2. NET LOSS PER SHARE

Basic net loss per share is calculated using the weighted-average number of common shares outstanding during the period. Net loss per share, assuming dilution, 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. Net loss per share, assuming dilution, 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.
The components of basic and diluted net loss per share were as follows (in thousands, except loss per share data):

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended</th>
<th>Six Months Ended</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>June 30,</td>
<td>June 30,</td>
</tr>
<tr>
<td>Numerator:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net loss available</td>
<td>$ (5,494)</td>
<td>$ (3,476)</td>
</tr>
<tr>
<td>for common shareholders - basic and diluted</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Denominator:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Weighted-average</td>
<td>69,373</td>
<td>51,567</td>
</tr>
<tr>
<td>common shares</td>
<td>$ (0.08)</td>
<td>$ (0.07)</td>
</tr>
<tr>
<td>outstanding - basic</td>
<td></td>
<td></td>
</tr>
<tr>
<td>and diluted</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

For the three and six months ended June 30, 2017 and 2016, we excluded the following securities from net loss per share as the effect of including them would have been anti-dilutive: options outstanding and warrants exercisable into a total of 7,217,000 and 9,078,000 shares of common stock, respectively, and 60,000 and 60,000 nonvested restricted stock units, respectively.

3. LONG-TERM CONTRACTS

In April 2017, we signed a contract with a major technology company to develop an LBS display system. Under this agreement, we are working to develop a new generation of MEMS, ASICs and related firmware for a high resolution, LBS-based product that the technology company is planning to produce. We may receive up to $24.0 million, including $14.0 million in fees for development work that is expected to span 21 months and an upfront payment of $10.0 million, which payment has been received. Our receipt of the development fees is contingent on completion of milestones in 2017 and 2018. As of June 30, 2017, our balance sheet includes $3.2 million of billings in excess of costs incurred on this contract. Upon successful completion of the development program, if the major technology company decides to manufacture the product with the MicroVision display components, the $10.0 million upfront payment would be applied as a discount to future component purchases from us. If the contract is terminated by the technology company for our failure to meet milestones, the $10.0 million upfront payment is subject to repayment. We are recognizing revenue on the $14.0 million in development fees under the percentage-of-completion method of accounting. For the three and six months ended June 30, 2017, we have recognized $761,000 of contract revenue from development fees on this agreement. The $10.0 million upfront payment is classified within other current liabilities on the balance sheet.

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 June 30, 2017, 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 six months ended June 30, 2017, one commercial customer accounted for $769,000 and $973,000 in revenue, representing 53% and 43% of our total revenue, respectively. Additionally, a second commercial customer accounted for $345,000 and $880,000 in revenue, representing 24% and 39% of our total revenue for the three and six months ended June 30, 2017, respectively.

For the three and six months ended June 30, 2016, one commercial customer accounted for $3.5 million and $6.8 million in revenue, representing 84% and 87% of our total revenue, respectively. Additionally, a second commercial customer accounted for $486,000 and $859,000 in revenue, representing 12% and 11% of our total revenue for the three and six months ended June 30, 2016, respectively.

At June 30, 2017, one commercial customer accounted for $510,000, or 63% of our net accounts receivable balance, a second commercial customer accounted for $182,000, or 23% of our net accounts receivable balance, and a third commercial customer accounted for $92,000, or 11% of our net accounts receivable balance.
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:

<table>
<thead>
<tr>
<th></th>
<th>June 30, 2017</th>
<th>December 31, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw materials</td>
<td>$1,142</td>
<td>$999</td>
</tr>
<tr>
<td>Finished goods</td>
<td>$1,535</td>
<td>$234</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$2,677</strong></td>
<td><strong>$1,233</strong></td>
</tr>
</tbody>
</table>

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 June 30, 2017 and December 31, 2016, we recorded aggregate write-downs of $6.6 million and $6.6 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.

We have made significant advance payments to our contract manufacturer that will be applied against future inventory purchases. As of June 30, 2017, these advance payments totaled $3.1 million and are classified within other current assets on the balance sheet.

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:

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended</th>
<th>June 30,</th>
<th>Six Months Ended</th>
<th>June 30,</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of product revenue</td>
<td>$10</td>
<td>$10</td>
<td>$19</td>
<td>$20</td>
</tr>
<tr>
<td>Research and development expense</td>
<td>158</td>
<td>102</td>
<td>263</td>
<td>185</td>
</tr>
<tr>
<td>Sales, marketing, general and administrative expense</td>
<td>225</td>
<td>262</td>
<td>421</td>
<td>469</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$393</td>
<td>$374</td>
<td>$703</td>
<td>$674</td>
</tr>
</tbody>
</table>
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 June 30, 2017:

<table>
<thead>
<tr>
<th>Options</th>
<th>Shares</th>
<th>Weighted-Average Exercise Price</th>
<th>Weighted-Average Remaining Contractual Term (years)</th>
<th>Aggregate Intrinsic Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding as of June 30, 2017</td>
<td>5,244,000</td>
<td>$2.91</td>
<td>7.7</td>
<td>$1,294,000</td>
</tr>
<tr>
<td>Exercisable as of June 30, 2017</td>
<td>2,514,000</td>
<td>$3.96</td>
<td>6.2</td>
<td>$400,000</td>
</tr>
</tbody>
</table>

As of June 30, 2017, our unamortized share-based employee compensation related to stock options was $3.1 million which we plan to amortize over the next 2.9 years, and our unamortized share-based compensation related to RSUs was $110,000 which we plan to amortize over the next 11 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.

Purchase commitments

At June 30, 2017, we had $11.3 million in open purchase obligations that represent commitments to purchase inventory, materials, capital equipment, and other goods used in the normal operation of our business.

Adverse purchase commitments

As of June 30, 2017, we had $500,000 accrued for commitments to purchase materials for the SHOWWX™ pico projector that were in excess of estimated future proceeds from sales of that product.

8. COMMON STOCK AND WARRANTS

During the second quarter of 2017, we received $906,000 from the exercise of warrants to purchase 460,000 shares of common stock, which warrants were issued in connection with an earlier financing transactions.

In May 2017, we entered into an At-The-Market (ATM) agreement with IFS Securities (DBA Brinson Patrick). As of June 30, 2017, we received gross proceeds of $3.7 million before issuance costs of approximately $125,000 from the sale of approximately 1.7 million shares of our common stock under this agreement. The agreement was terminated in June 2017 at our election without penalty.

During the three months ended June 30, 2017, we received proceeds of $2.2 million from the sale of 1.2 million shares of our common stock as part of the Common Stock Purchase agreement we entered into with Lincoln Park Capital Fund, LLC (Lincoln Park) in September 2016. As of June 30, 2017, $12.8 million in shares of our common stock remain available for sale under our Common Stock Purchase Agreement.
In March 2016, we raised approximately $6.9 million before issuance costs of approximately $650,000 through an underwritten public offering of approximately 4.1 million shares of our common stock. The offering included the exercise in full of the underwriter's option to purchase up to an additional 529,411 shares of our common stock.

During the six months ended June 30, 2016, we received gross proceeds of $349,000 before issuance cost of approximately $10,000 from the sale of approximately 186,000 shares of our common stock as part of an ATM agreement we entered into with Meyers Associates, L.P. in May 2015. We received total gross proceeds of $3.1 million before issuance costs of approximately $109,000 from the sale of 1.2 million shares of our common stock during 2015 and 2016. There were no sales under this agreement in 2017. The agreement was terminated in May 2017 in accordance with its terms without penalty.

9. RECENT ACCOUNTING PRONOUNCEMENTS

In May 2017, the Financial Accounting Standards Board (FASB) issued ASU 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting, which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The new standard is effective for annual reporting periods, including interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted. We do not expect the adoption of ASU 2017-09 to have a material impact on our consolidated financial statements and related disclosures because we do not anticipate any changes to our share-based payment plans.

In November 2016, the FASB issued Accounting Standards Update 2016-18 (ASU 2016-18), Restricted Cash. The standard requires restricted cash and cash equivalents to be included with cash and cash equivalents on the statement of cash flows. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. The new guidance will be applied using a retrospective approach. As of June 30, 2017, we have $435,000 of restricted cash, and as such we do not expect the implementation of this standard to have a material effect on our financial statements.

In August 2016, the 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 do not expect the implementation of this standard to have a material effect on our financial statements.

In February 2016, the FASB issued Accounting Standards Update 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 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 anticipate the adoption of this standard will have a material impact on our financial statements. While we are continuing to assess all the potential impacts of the standard, we currently believe the most significant impact relates to our accounting for our office lease. Under the new guidance, the net present value of the obligation for our office lease will appear on the balance sheet. Currently, it is classified as an operating lease and payments are expensed in the period incurred.

In May 2014, the FASB issued Accounting Standards Update 2014-09 (ASU 2014-09), Revenue from Contracts with Customers, an updated standard on revenue recognition. 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. We will implement the new standard as of January 1, 2018 using the full retrospective approach, meaning we will restate each prior reporting period presented. We are performing a review of our revenue generated from significant product and service contracts with customers subject to ASU 2014-09, and we expect the implementation of this standard to have a material impact on our financial statements. While we are continuing to assess all potential impacts of this standard, we currently believe the most significant impact relates to our accounting for the $8.0 million upfront license fee payment under the PicoP® scanning technology license agreement we signed with Sony in March 2015. Under current guidance, we are recognizing the upfront license fee payment of $8.0 million on a straight-line basis over a period of
eight years. Under the new guidance, we expect to recognize the entire $8.0 million upfront license fee payment in the first quarter of 2015, which will increase 2015 revenues by $7.2 million, and reduce reported 2016 revenues by $1.0 million and year-to-date 2017 revenues by $496,000. We currently expect no changes to the timing of our recognition of the ongoing per unit royalties; they will continue to be recognized one quarter in arrears when reported by our customers. We expect product revenue related to our component sales to remain substantially unchanged. We are currently evaluating the impact the adoption of this standard will have on our financial statements relating to the $24.0 million contract with a major technology company that was signed in April 2017 to develop an LBS system.

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 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. PicoP® scanning technology is based on our patented expertise in micro-electrical mechanical systems (MEMS), laser diodes, opto-mechanics, and electronics and how those elements are packaged into a small, low power scanning engine that can display, interact and sense, depending on the needs of the application. For display, the engine can project a high-quality image on any surface (pico projection), a windshield (head-up display or HUD), or a retina (augmented reality or AR). For sensing, we use infrared (IR) lasers to capture three-dimensional data in the form of a point cloud. Interactivity uses the 3D sensing function and the display function to project an image with which the user can interact as one would use a touch screen.

In November 2016, we announced a growth strategy for 2017 and beyond that includes selling LBS engines to ODMs and OEMs in addition to our strategy of licensing LBS technology to licensees to offer their own solutions. We plan to offer three scanning engines to support a wide array of applications: a small form factor display engine for consumer products, an interactive display engine for smart Internet of Things (IoT) products, and a mid-range light detection and ranging (LiDAR) engine for autonomous machines, industrial products and robotics.

In March 2017, we received a $6.7 million order for our small form factor display engine from Ragentek Communication Technology Co., Limited (Ragentek), an Asian electronics device manufacturer. We have begun initial shipments of engines to Ragentek at the end of June 2017 to embed in its smartphone product. The smartphone is expected to begin selling in China in the third quarter of 2017 and later in other markets where the device manufacturer has existing distribution of its products.

In April 2017, MicroVision signed a contract with a major technology company to develop an LBS display system. Under this agreement, we would develop a new generation of MEMS, ASICs and related firmware for a high resolution, LBS-based product that the technology company is planning to produce. We would receive up to $24.0 million, including $14.0 million in fees for development work that is expected to span 21 months and an upfront payment of $10.0 million, which payment has been received. The development fees would be paid contingent on completion of milestones in 2017 and 2018. Upon successful completion of the development program, if the company decides to manufacture the product with the MicroVision display components, the $10.0 million upfront payment would be applied as a discount to future component purchases from us. If the contract is terminated by the technology company for our failure to meet milestones, the $10.0 million upfront payment is subject to repayment.
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, 2017. Our unaudited consolidated financial statements have been prepared assuming we will continue as a going concern and do not include any adjustments that might be necessary should we be unable to 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 and prototype sales, engineering and development 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. Refer to Note 9 of our condensed consolidated financial statements for the expected future impact of updated FASB accounting guidance.

**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. Refer to Note 9 of our condensed consolidated financial statements for the expected future impact of updated FASB accounting guidance.

**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. Under the current FASB accounting guidance, we are recognizing the upfront license fee payment of $8.0 million on a straight-line basis over a period of eight years. 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

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
<th>$ change</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Three Months Ended</td>
<td>$ -</td>
<td>$ 3,530</td>
<td>$(3,530)</td>
<td>(100.0)</td>
</tr>
<tr>
<td>June 30,</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Six Months Ended</td>
<td>$ -</td>
<td>$ 6,685</td>
<td>$(6,685)</td>
<td>(100.0)</td>
</tr>
<tr>
<td>June 30,</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Product revenue is revenue from sales of our products which are LBS engines, 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.

During the fourth quarter of 2016, we completed delivery of all outstanding orders from Sony for key components to be integrated into display modules it manufactures and sells.

In March 2017, we received a $6.7 million order for small form factor display engines from Ragentek. The backlog of product orders at June 30, 2017 was approximately $6.7 million compared to $5.3 million at June 30, 2016. The product backlog is scheduled for delivery during the next twelve months.

In April 2017, we signed a contract with a major technology company to develop an LBS display system. The backlog of product orders at June 30, 2017 does not include any portion of the upfront payment from the April 2017 contract.

Royalty revenue

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
<th>$ change</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Three Months Ended</td>
<td>$ 346</td>
<td>$ 609</td>
<td>$(263)</td>
<td>(43.2)</td>
</tr>
<tr>
<td>June 30,</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Six Months Ended</td>
<td>$ 881</td>
<td>$ 1,151</td>
<td>$(270)</td>
<td>(23.5)</td>
</tr>
<tr>
<td>June 30,</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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.

During the three and six months ended June 30, 2017, we recognized $97,000 and $385,000, respectively, from ongoing per unit royalties and $249,000 and $496,000, respectively, from a prorated portion of the $8.0 million upfront payment. During the three and six months ended June 30, 2016, we recognized $360,000 and $653,000, respectively, from ongoing per unit royalties and $249,000 and $498,000, respectively, from a prorated portion of the $8.0 million upfront payment. Royalty revenue is lower during the three and six month ended June 30, 2017 due to lower sales by licensees.

At June 30, 2017, remaining unrecognized upfront license fees are included in current and long-term deferred revenues, amounting to $999,000 and $4.7 million, respectively. At December 31, 2016, unrecognized upfront license fees are included in current and long-term deferred revenues, amounting to $999,000 and $5.1 million, respectively. Refer to Note 9 of our condensed consolidated financial statements for the expected future impact of updated FASB accounting guidance.
Contract revenue

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended June 30,</th>
<th>2017</th>
<th></th>
<th>2016</th>
<th>$ change</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>$</td>
<td>$</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Six Months Ended June 30,</td>
<td>$</td>
<td>$</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Contract revenue includes revenue from performance on development contracts and 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 April 2017, we signed a contract with a major technology company to develop an LBS display system. Under the terms of this agreement, we may receive $14.0 million in fees for development work contingent on completion of milestones. We are recognizing revenue on the $14.0 million in development fees under the percentage-of-completion method of accounting. During the three and six months ended June 30, 2017, we have recognized $761,000 of contract revenue from development fees on this agreement.

The increase in contract revenue during the three and six months ended June 30, 2017 compared to the same periods in 2016 was attributed to increased contract activity. Our contract backlog, including orders for prototype units and evaluation kits, at June 30, 2017 and 2016 was approximately $14.8 million and $45,000, respectively. The April 2017 development contract represents $13.2 million of the contract backlog and is scheduled for completion during the fourth quarter of 2018.

Cost of product revenue

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended June 30,</th>
<th>2017</th>
<th></th>
<th>2016</th>
<th>$ change</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>$</td>
<td>$</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Six Months Ended June 30,</td>
<td>$</td>
<td>$</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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 product mix and volume, the level of manufacturing overhead expense and the volume of direct material purchased. Cost of product revenue was lower during the three and six months ended June 30, 2017 compared to the same periods in 2016 due to lower shipments.

During the three and six months ended June 30, 2017, we expensed approximately $155,000 and $400,000, respectively, of manufacturing overhead associated with production capacity in excess of production requirements compared to $183,000 and $411,000, respectively, during the same periods in 2016. Additionally, during the three and six months ended June 30, 2017, we recorded a provision for scrap of $21,000 and $21,000, respectively, compared to $49,000 and $171,000, respectively, during the same periods in 2016.
Cost of contract revenue

<table>
<thead>
<tr>
<th>(in thousands)</th>
<th>2017</th>
<th>% of contract revenue</th>
<th>2016</th>
<th>% of contract revenue</th>
<th>$ change</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Three Months Ended June 30,</td>
<td>$ 810</td>
<td>73.2</td>
<td>$ 5</td>
<td>31.3</td>
<td>$ 805</td>
<td>16,100.0</td>
</tr>
<tr>
<td>Six Months Ended June 30,</td>
<td>$ 1,135</td>
<td>83.2</td>
<td>$ 6</td>
<td>30.0</td>
<td>$ 1,129</td>
<td>18,816.7</td>
</tr>
</tbody>
</table>

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 increase during the three and six months ended June 30, 2017 was primarily attributed to direct and indirect costs incurred related to the April 2017 development contract.

Research and development expense

<table>
<thead>
<tr>
<th>(in thousands)</th>
<th>2017</th>
<th>2016</th>
<th>$ change</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Three Months Ended June 30,</td>
<td>$ 3,672</td>
<td>$ 2,879</td>
<td>$ 793</td>
<td>27.5</td>
</tr>
<tr>
<td>Six Months Ended June 30,</td>
<td>$ 6,990</td>
<td>$ 5,476</td>
<td>$ 1,514</td>
<td>27.6</td>
</tr>
</tbody>
</table>

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 and six months ended June 30, 2017 compared to the same periods in 2016 was attributable to higher costs related to subcontractors and increased headcount and personnel-related compensation and benefits expenses related to our LBS engine development.

Sales, marketing, general and administrative expense

<table>
<thead>
<tr>
<th>(in thousands)</th>
<th>2017</th>
<th>2016</th>
<th>$ change</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Three Months Ended June 30,</td>
<td>$ 2,325</td>
<td>$ 2,171</td>
<td>$ 154</td>
<td>7.1</td>
</tr>
<tr>
<td>Six Months Ended June 30,</td>
<td>$ 4,905</td>
<td>$ 4,239</td>
<td>$ 666</td>
<td>15.7</td>
</tr>
</tbody>
</table>

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 months ended June 30, 2017 compared to the same period in 2016 was attributed to the higher expenses related to subcontractors and consultants. The increase during the six months ended June 30, 2017 compared to the same period in 2016 was attributed to higher legal fees related to commercial contracts, higher expenses related to subcontractors and consultants, and higher travel-related expenses.
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 June 30, 2017, we had $17.7 million in cash and cash equivalents.

Based on our current operating plan that includes expected proceeds from a development contract signed in April 2017 with a major technology company, we anticipate that we have sufficient cash and cash equivalents to fund our operations through December 2017. Our receipt of proceeds under our April 2017 development contract is subject to our completion of certain milestones, and we can provide no assurance that such milestones will be completed. 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, product sales 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.

These factors raise substantial doubt regarding our ability to continue as a going concern. Our unaudited consolidated financial statements have been prepared assuming we will continue as a going concern and do not include any adjustments that might be necessary should we be unable to continue as a going concern.

Operating activities

Cash used in operating activities totaled $2.2 million during the six months ended June 30, 2017 compared to cash used in operating activities of $7.1 million during the same period in 2016. The change in cash flows from operating activities is primarily attributable to the $10.0 million upfront payment we received from the April 2017 development contract which was offset by higher net loss from operations and an increase in inventory to support our growth strategy selling LBS engines.

Investing activities

During the six months ended June 30, 2017 and 2016, net cash used in investing activities was $2.0 million and $193,000, respectively, are primarily attributed to capital expenditures in manufacturing and production equipment.

Financing activities

During the six months ended June 30, 2017 and 2016, net cash provided by financing activities was $6.8 million and $6.6 million, respectively.

During the second quarter of 2017, we received $906,000 from the exercise of warrants to purchase 460,000 shares of common stock, which warrants were issued in connection with an earlier financing transactions.

In May 2017, we entered into an ATM agreement with IFS Securities (DBA Brinson Patrick). As of June 30, 2017 we received gross proceeds of $3.7 million before issuance costs of approximately $125,000 from the sale of approximately 1.7 million shares of our common stock. The agreement was terminated in June 2017 at our election without penalty.

During the three months ended June 30, 2017, we received proceeds of $2.2 million from the sale of 1.2 million shares of our common stock as part of the Common Stock Purchase agreement we entered into with Lincoln Park in September 2016. As of June 30, 2017, $12.8 million in shares of our common stock remain available for sale under our Common Stock Purchase Agreement.

In March 2016, we raised approximately $6.9 million before issuance costs of approximately $650,000 through an underwritten public offering of approximately 4.1 million shares of our common stock.

During the six months ended June 30, 2016, we received gross proceeds of $349,000 before issuance cost of approximately $10,000 from the sale of approximately 186,000 shares of our common stock as part of an ATM agreement we entered into with Meyers Associates, L.P. in May 2015. We received total gross proceeds of $3.1 million before issuance costs of approximately $109,000 from the sale of 1.2 million shares of our common stock during 2015 and 2016. There were no sales under this agreement in 2017. The agreement was terminated in May 2017 in accordance with its term without penalty.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest rate and market liquidity risk
As of June 30, 2017, all of our cash and cash equivalents have variable interest rates. Therefore, we believe our exposure to market and interest rate risk 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 June 30, 2017, we had $17.7 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 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 June 30, 2017, we had an accumulated deficit of $511.0 million.
- We incurred consolidated net losses of $499.8 million from inception through 2016, and a net loss of $11.1 million during the six months ended June 30, 2017.

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 2017 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 that includes expected proceeds from a development contract signed in April 2017 with a major technology company, we anticipate that we have sufficient cash and cash equivalents to fund our operations through December 2017. Our receipt of proceeds under our April 2017 development contract is subject to our completion of certain milestones, and we can provide no assurance that such milestones will be completed. 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, product sales 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 and products 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 commercial success of our LBS engines, 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 we fail to meet milestones for future payments or have to repay amounts already received under our April 2017 development contract, 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.

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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. Establishing a relationship with a new or alternative contract manufacturer(s) or foundry is a time-consuming process, 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, scanning engines, 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 introducing 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 3D sensing technologies in their products, by systems integrators, ODMs, and OEMs who incorporate the 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 and scanning engines are dependent on advances in technology by other companies. Our PicoP® scanning technology will continue to rely on technologies, such as laser diode 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.

For the six months ended June 30, 2017, one commercial customer accounted for $973,000 in revenue, representing 43% of our total revenue, and a second commercial customer accounted for $880,000 in revenue, representing 39% of our total revenue. For the six months ended June 30, 2016, one commercial customer accounted for $6.8 million in revenue, representing 87% of our total revenue, and a second commercial customer accounted for $859,000 in revenue, representing 11% 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 under open orders and agreements totaled $21.5 million as of June 30, 2017. We or our customers may be unable to meet the performance requirements and obligations under open orders or agreements, including performance specifications, milestones or delivery dates, required by such purchase orders or agreements. Furthermore, our customers may be unable or unwilling to perform 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 July 27, 2017, the closing price of our common stock was $2.27 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 3D sensing industries have 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 3D sensing 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, tax or 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 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, 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 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 are 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, 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.
Our operations could be adversely impacted by information technology system failures, network disruptions, or cyber security breaches.

We rely on information technology systems to process, transmit, store, and protect electronic data between our employees, our customers and our suppliers. Our systems are vulnerable to damage or interruptions due to events beyond our control, including, but are not limited to, natural disasters, power loss, telecommunications failures, computer viruses, hacking, or other cyber security issues. Our system redundancy may be inadequate and our disaster recovery planning may be ineffective or insufficient to account for all eventualities. Additionally, we maintain insurance coverage to address certain aspects of cyber risks. Such insurance coverage may be insufficient to cover all losses or all claims that may arise, should such an event occur.

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 LBS markets and adversely affect our business strategy execution and results of operations.

ITEM 6. EXHIBITS

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
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: August 3, 2017

By: /s/ Alexander Y. Tokman

Alexander Y. Tokman
Chief Executive Officer and Director
(Principal Executive Officer)

Date: August 3, 2017

By: /s/ Stephen P. Holt

Stephen P. Holt
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)
The following documents are filed herewith.

<table>
<thead>
<tr>
<th>Exhibit Number</th>
<th>Description</th>
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<tbody>
<tr>
<td>31.1</td>
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<tr>
<td>32.1</td>
<td>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.</td>
</tr>
<tr>
<td>32.2</td>
<td>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.</td>
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<tr>
<td>101.INS</td>
<td>XBRL Instance Document</td>
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<tr>
<td>101.SCH</td>
<td>XBRL Taxonomy Extension Schema Document</td>
</tr>
<tr>
<td>101.CAL</td>
<td>XBRL Taxonomy Extension Calculation Linkbase Document</td>
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<td>101.DEF</td>
<td>XBRL Taxonomy Extension Definition Linkbase Document</td>
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<td>101.LAB</td>
<td>XBRL Taxonomy Extension Label Linkbase Document</td>
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<tr>
<td>101.PRE</td>
<td>XBRL Taxonomy Extension Presentation Linkbase Document</td>
</tr>
</tbody>
</table>
1. **DEFINED TERMS**

Exhibit A, which is incorporated by reference, defines the terms used in the Plan and sets forth certain operational rules related to those terms.

2. **EFFECTIVE DATE**

This 2013 MicroVision, Inc. Incentive Plan, amends, restates and renames the Company's 2006 MicroVision, Inc. Incentive Plan. The Plan was originally adopted by the Board in April 2006 and approved by the stockholders of the Company in September 2006. This amendment and restatement of the Plan shall become effective if, and at such time as, the stockholders of the Company have approved this amendment and restatement.

3. **PURPOSE**

The purpose of the Plan is to provide means by which the Company may attract, reward and retain the services or advice of current or future employees, officers, consultants or independent contractors of, and other advisors to, the Company and to provide added incentives to them by encouraging stock ownership in the Company.

4. **ADMINISTRATION**

The Administrator has discretionary authority, subject only to the express provisions of the Plan, to interpret the Plan; determine eligibility for and grant Awards; determine, modify or waive the terms and conditions of any Award; prescribe forms, rules and procedures; and otherwise do all things necessary to carry out the purposes of the Plan. In the case of any Award intended to be eligible for the performance-based compensation exception under Section 162(m), the Administrator will exercise its discretion consistent with qualifying the Award for that exception. Determinations of the Administrator made under the Plan will be conclusive and will bind all parties.

5. **LIMITS ON AWARDS UNDER THE PLAN**

   a. **Number of Shares.** A maximum of 9,300,000 shares of Stock may be delivered in satisfaction of Awards under the Plan. The number of shares of Stock delivered in satisfaction of Awards shall, for purposes of the preceding sentence, be determined net of shares of Stock withheld by the Company in payment of the exercise price of the Award or in satisfaction of tax withholding requirements with respect to the Award. The limit set forth in this Section 5(a) shall be construed to comply with Section 422 of the Code and regulations thereunder. To the extent consistent with the requirements of Section 422 of the Code and regulations thereunder, and with other applicable legal requirements (including applicable stock exchange requirements), Stock issued under awards of an
acquired company that are converted, replaced, or adjusted in connection with the acquisition shall not reduce the number of shares available for Awards under the Plan.

b. **Type of Shares.** Stock delivered by the Company under the Plan may be authorized but unissued Stock or previously issued Stock acquired by the Company. No fractional shares of Stock will be delivered under the Plan.

c. **Section 162(m) Limits.** The maximum number of shares of Stock for which Stock Options may be granted to any person in any calendar year and the maximum number of shares of Stock subject to SARs granted to any person in any calendar year will each be 250,000. The maximum number of shares subject to other Awards granted to any person in any calendar year will be 250,000 shares. The maximum amount payable to any person in any year under Cash Awards will be $3,000,000. The foregoing provisions will be construed in a manner consistent with Section 162(m).

6. **ELIGIBILITY AND PARTICIPATION**

The Administrator may grant Awards to any current or future Employee, officer, director, consultant or independent contractor of, or other advisor to, the Company or its subsidiaries. Eligibility for ISOs is limited to employees of the Company or of a "parent corporation" or "subsidiary corporation" of the Company as those terms are defined in Section 424 of the Code.

7. **RULES APPLICABLE TO AWARDS**

a. **All Awards**

1. **Award Provisions.** The Administrator will determine the terms of all Awards, subject to the limitations provided herein. By accepting any Award granted hereunder, the Participant agrees to the terms of the Award and the Plan. Notwithstanding any provision of this Plan to the contrary, awards of an acquired company that are converted, replaced or adjusted in connection with the acquisition may contain terms and conditions that are inconsistent with the terms and conditions specified herein, as determined by the Administrator.

2. **Term of Plan.** No Awards may be made after June 6, 2023, but previously granted Awards may continue beyond that date in accordance with their terms.

3. **Transferability.** Neither ISOs nor, except as the Administrator otherwise expressly provides, other Awards may be transferred other than by will or by the laws of descent and distribution, and during a Participant's lifetime ISOs (and, except as the Administrator otherwise expressly provides, other non-transferable Awards requiring exercise) may be exercised only by the Participant.
4. **Vesting, Etc.** The Administrator may determine the time or times at which an Award will vest or become exercisable and the terms on which an Award requiring exercise will remain exercisable. Without limiting the foregoing, the Administrator may at any time accelerate the vesting or exercisability of an Award, regardless of any adverse or potentially adverse tax consequences resulting from such acceleration. Unless the Administrator expressly provides otherwise, however, the following rules will apply: immediately upon the cessation of the Participant's Employment, each Award requiring exercise that is then held by the Participant or by the Participant's permitted transferees, if any, will cease to be exercisable and will terminate, and all other Awards that are then held by the Participant or by the Participant's permitted transferees, if any, to the extent not already vested will be forfeited, except that:

   A. subject to (B) and (C) below, all Stock Options and SARs held by the Participant or the Participant's permitted transferees, if any, immediately prior to the cessation of the Participant's Employment, to the extent then exercisable, will remain exercisable for the lesser of (i) a period of three months or (ii) the period ending on the latest date on which such Stock Option or SAR could have been exercised without regard to this Section 7(a)(4), and will thereupon terminate;

   B. all Stock Options and SARs held by a Participant or the Participant's permitted transferees, if any, immediately prior to the Participant's death or Disability, to the extent then exercisable, will remain exercisable for the lesser of (i) the one year period ending with the first anniversary of the Participant's death or Disability or (ii) the period ending on the latest date on which such Stock Option or SAR could have been exercised without regard to this Section 7(a)(4), and will thereupon terminate; and

   C. all Stock Options and SARs held by a Participant or the Participant's permitted transferees, if any, immediately prior to the cessation of the Participant's Employment will immediately terminate upon such cessation if the Administrator in its sole discretion determines that such cessation of Employment has resulted for reasons which cast such discredit on the Participant as to justify immediate termination of the Award.

5. **Taxes.** The Administrator will make such provision for the withholding of taxes as it deems necessary. The Administrator may, but need not, hold back shares of Stock from an Award or permit a Participant to tender previously owned shares of Stock in satisfaction of tax withholding requirements (but not in excess of the minimum withholding required by law).
6. **Dividend Equivalents, Etc.** The Administrator may provide for the payment of amounts in lieu of cash dividends or other cash distributions with respect to Stock subject to an Award. Any entitlement to dividend equivalents or similar entitlements shall be established and administered consistent either with exemption from, or compliance with, the requirements of Section 409A to the extent applicable.

7. **Foreign Qualified Grants.** Awards under this Plan may be granted to officers and Employees of the Company and other persons described in Section 6 who reside in foreign jurisdictions as the Administrator may determine from time to time. The Administrator may adopt supplements to the Plan as needed to comply with the applicable laws of such foreign jurisdictions and to give Participants favorable treatment under such laws; provided, however that no award shall be granted under any such supplement on terms more beneficial to such Participants than those permitted by this Plan.

8. **Corporate Mergers, Acquisitions, Etc.** The Administrator may grant Awards under this Plan having terms, conditions and provisions that vary from those specified in this Plan provided that such Awards are granted in substitution for, or in connection with the assumption of, existing Awards granted or issued by another corporation and assumed or otherwise agreed to be provided for by the Company pursuant to or by reason of a transaction involving a corporate merger, consolidation, acquisition of property or stock, reorganization or liquidation to which the Company is a party.

9. **Rights Limited.** Nothing in the Plan will be construed as giving any person the right to continued employment or service with the Company or its Affiliates, or any rights as a stockholder except as to shares of Stock actually issued under the Plan. The loss of existing or potential profit in Awards will not constitute an element of damages in the event of termination of Employment for any reason, even if the termination is in violation of an obligation of the Company or Affiliate to the Participant.

10. **Section 162(m).** This Section 7(a)(10) applies to any Performance Award intended to qualify as performance-based for the purposes of Section 162(m) other than a Stock Option or SAR. In the case of any Performance Award to which this Section 7(a)(10) applies, the Plan and such Award will be construed to the maximum extent permitted by law in a manner consistent with qualifying the Award for such exception. With respect to such Performance Awards, the Administrator will preestablish, in writing, one or more specific Performance Criteria no later than 90 days after the commencement of the period of service to which the performance
relates (or at such earlier time as is required to qualify the Award as performance-based under Section 162(m)). Prior to grant, vesting or payment of the Performance Award, as the case may be, the Administrator will certify whether the applicable Performance Criteria have been attained and such determination will be final and conclusive. No Performance Award to which this Section 7(a)(10) applies may be granted after the first meeting of the stockholders of the Company held in 2018 until the listed performance measures set forth in the definition of "Performance Criteria" (as originally approved or as subsequently amended) have been resubmitted to and reapproved by the stockholders of the Company in accordance with the requirements of Section 162(m) of the Code, unless such grant is made contingent upon such approval.

b. Awards Requiring Exercise

1. Time And Manner Of Exercise. Unless the Administrator expressly provides otherwise, an Award requiring exercise by the holder will not be deemed to have been exercised until the Administrator receives a notice of exercise (in form acceptable to the Administrator) signed by the appropriate person and accompanied by any payment required under the Award. If the Award is exercised by any person other than the Participant, the Administrator may require satisfactory evidence that the person exercising the Award has the right to do so. Awards may be exercised in whole or in part.

2. Exercise Price. The exercise price (or the base value from which appreciation is to be measured) of each Award requiring exercise shall be 100% (in the case of an ISO granted to a ten-percent shareholder within the meaning of Section 422(b)(6) of the Code, 110%) of the fair market value of the Stock subject to the Award, determined as of the date of grant, or such higher amount as the Administrator may determine in connection with the grant. Fair market value shall be determined by the Administrator consistent with the requirements of Section 422 and Section 409A. Without the affirmative vote of holders of a majority of the shares of Stock cast in person or by proxy at a meeting of the stockholders of the Company at which a quorum representing a majority of all outstanding shares of Stock is present or represented by proxy, the Committee shall not approve a program providing for either (a) the cancellation of outstanding Awards requiring exercise and the grant in substitution therefor of new Awards having a lower exercise price that has the effect of a repricing or (b) the amendment of such Awards to reduce the exercise price thereof. The preceding sentence shall not be construed to apply to: (i) "issuing or assuming a stock option in a transaction to which section 424(a) applies," within the meaning of Section 424 of the Code or (ii) the substitution or assumption of an Award by reason of or pursuant to a corporate transaction, to the extent such substitution or assumption would not be treated as a grant of a new stock right or a change in the form of

3. **Payment Of Exercise Price.** Where the exercise of an Award is to be accompanied by payment, the Administrator may determine the required or permitted forms of payment, subject to the following: all payments will be by cash or check acceptable to the Administrator, or, if so permitted by the Administrator and if legally permissible, (i) through the delivery of shares of Stock that have been outstanding for at least six months (unless the Administrator approves a shorter period) and that have a fair market value equal to the exercise price, (ii) by delivery to the Company of a promissory note of the person exercising the Award, payable on such terms as are specified by the Administrator, (iii) through a broker-assisted exercise program acceptable to the Administrator, (iv) by other means acceptable to the Administrator, or (v) by any combination of the foregoing permissible forms of payment. The delivery of shares in payment of the exercise price under clause (a)(i) above may be accomplished either by actual delivery or by constructive delivery through attestation of ownership, subject to such rules as the Administrator may prescribe.

4. **409A Exemption.** Except as the Administrator otherwise determines, no Award requiring exercise shall have deferral features, or shall be administered in a manner, that would cause such Award to fail to qualify for exemption from Section 409A.

c. **Awards Not Requiring Exercise**

Restricted Stock and Unrestricted Stock, whether delivered outright or under Awards of Stock Units or other Awards that do not require exercise, may be made in exchange for such lawful consideration, including services, as the Administrator determines. Any Award resulting in a deferral of compensation subject to Section 409A shall be construed to the maximum extent possible, as determined by the Administrator, consistent with the requirements of Section 409A.

8. **EFFECT OF CERTAIN TRANSACTIONS**

a. **Mergers, etc.** Except as otherwise provided in an Award, the following provisions shall apply in the event of a Covered Transaction:

1. **Assumption or Substitution.** If the Covered Transaction is one in which there is an acquiring or surviving entity, the Administrator may provide for the assumption of some or all outstanding Awards or for the grant of new awards in substitution therefor by the acquiror or survivor or an affiliate of the acquiror or survivor.
2. **Cash-Out of Awards.** If the Covered Transaction is one in which holders of Stock will receive upon consummation a payment (whether cash, non-cash or a combination of the foregoing), the Administrator may provide for payment (a "cash-out"), with respect to some or all Awards, equal in the case of each affected Award to the excess, if any, of (A) the fair market value of one share of Stock (as determined by the Administrator in its reasonable discretion) times the number of shares of Stock subject to the Award, over (B) the aggregate exercise or purchase price, if any, under the Award (in the case of an SAR, the aggregate base price above which appreciation is measured), in each case on such payment terms (which need not be the same as the terms of payment to holders of Stock) and other terms, and subject to such conditions, as the Administrator determines.

3. **Acceleration of Certain Awards.** If the Covered Transaction (whether or not there is an acquiring or surviving entity) is one in which there is no assumption, substitution or cash-out, each Award requiring exercise will become fully exercisable, and the delivery of shares of Stock deliverable under each outstanding Award of Stock Units (including Restricted Stock Units and Performance Awards to the extent consisting of Stock Units) will be accelerated and such shares will be delivered, prior to the Covered Transaction, in each case on a basis that gives the holder of the Award a reasonable opportunity, as determined by the Administrator, following exercise of the Award or the delivery of the shares, as the case may be, to participate as a stockholder in the Covered Transaction.

4. **Termination of Awards Upon Consummation of Covered Transaction.** Each Award (unless assumed pursuant to Section 8(a)(1) above), other than outstanding shares of Restricted Stock (which shall be treated in the same manner as other shares of Stock, subject to Section 8(a)(5) below), will terminate upon consummation of the Covered Transaction.

5. **Additional Limitations.** Any share of Stock delivered pursuant to Section 8(a)(2) or Section 8(a)(3) above with respect to an Award may, in the discretion of the Administrator, contain such restrictions, if any, as the Administrator deems appropriate to reflect any performance or other vesting conditions to which the Award was subject. In the case of Restricted Stock, the Administrator may require that any amounts delivered, exchanged or otherwise paid in respect of such Stock in connection with the Covered Transaction be placed in escrow or otherwise made subject to such restrictions as the Administrator deems appropriate to carry out the intent of the Plan.
b. **Change in and Distributions With Respect to Stock**

1. **Basic Adjustment Provisions.** In the event of a stock dividend, stock split or combination of shares (including a reverse stock split), recapitalization or other change in the Company's capital structure, the Administrator will make appropriate adjustments to the maximum number of shares specified in Section 5(a) that may be delivered under the Plan and to the maximum share limits described in Section 5(c), and will also make appropriate adjustments to the number and kind of shares of stock or securities subject to Awards then outstanding or subsequently granted, any exercise prices relating to Awards and any other provision of Awards affected by such change.

2. **Certain Other Adjustments.** The Administrator may also make adjustments of the type described in Section 8(b)(1) above to take into account distributions to stockholders other than those provided for in Section 8(a) and 8(b)(1), or any other event, if the Administrator determines that adjustments are appropriate to avoid distortion in the operation of the Plan and to preserve the value of Awards made hereunder, having due regard for the qualification of ISOs under Section 422 of the Code, the performance-based compensation rules of Section 162(m), and the requirements of Section 409A, where applicable.

3. **Continuing Application of Plan Terms.** References in the Plan to shares of Stock will be construed to include any stock or securities resulting from an adjustment pursuant to this Section 8.

9. **LEGAL CONDITIONS ON DELIVERY OF STOCK**

The Company will not be obligated to deliver any shares of Stock pursuant to the Plan or to remove any restriction from shares of Stock previously delivered under the Plan until: (i) the Company is satisfied that all legal matters in connection with the issuance and delivery of such shares have been addressed and resolved; (ii) if the outstanding Stock is at the time of delivery listed on any stock exchange or national market system, the shares to be delivered have been listed or authorized to be listed on such exchange or system upon official notice of issuance; and (iii) all conditions of the Award have been satisfied or waived. If the sale of Stock has not been registered under the Securities Act of 1933, as amended, the Company may require, as a condition to exercise of the Award, such representations or agreements as counsel for the Company may consider appropriate to avoid violation of such Act. The Company may require that certificates evidencing Stock issued under the Plan bear an appropriate legend reflecting any restriction on transfer applicable to such Stock, and the Company may hold the certificates pending lapse of the applicable restrictions.
10. AMENDMENT AND TERMINATION

The Administrator may at any time or times amend the Plan or any outstanding Award for any purpose which may at the time be permitted by law, and may at any time terminate the Plan as to any future grants of Awards; provided, that except as otherwise expressly provided in the Plan the Administrator may not, without the Participant's consent, alter the terms of an Award so as to affect adversely the Participant's rights under the Award, unless the Administrator expressly reserved the right to do so at the time of the Award. Any amendments to the Plan shall be conditioned upon stockholder approval only to the extent, if any, such approval is required by law (including the Code and applicable stock exchange requirements), as determined by the Administrator.

11. OTHER COMPENSATION ARRANGEMENTS

The existence of the Plan or the grant of any Award will not in any way affect the Company's right to Award a person bonuses or other compensation in addition to Awards under the Plan.

12. MISCELLANEOUS

a. **Waiver of Jury Trial.** By accepting an Award under the Plan, each Participant waives any right to a trial by jury in any action, proceeding or counterclaim concerning any rights under the Plan and any Award, or under any amendment, waiver, consent, instrument, document or other agreement delivered or which in the future may be delivered in connection therewith, and agrees that any such action, proceedings or counterclaim shall be tried before a court and not before a jury. By accepting an Award under the Plan, each Participant certifies that no officer, representative, or attorney of the Company has represented, expressly or otherwise, that the Company would not, in the event of any action, proceeding or counterclaim, seek to enforce the foregoing waivers.

b. **Limitation of Liability.** Notwithstanding anything to the contrary in the Plan, neither the Company, any Affiliate, nor the Administrator, nor any person acting on behalf of the Company, any Affiliate, or the Administrator, shall be liable to any Participant or to the estate or beneficiary of any Participant or to any other holder of an Award by reason of any acceleration of income, or any additional tax, asserted by reason of the failure of an Award to satisfy the requirements of Section 422 or Section 409A or by reason of Section 4999 of the Code; provided, that nothing in this Section 12(b) shall limit the ability of the Administrator or the Company to provide by separate express written agreement with a Participant for a gross-up payment or other payment in connection with any such tax or additional tax.
EXHIBIT A

Definition of Terms

The following terms, when used in the Plan, will have the meanings and be subject to the provisions set forth below:

"Administrator": The Board, except that the Board may delegate (i) to one or more of its members such of its duties, powers and responsibilities as it may determine; provided, that with respect to any delegation described in this clause (i) only the Board may amend or terminate the Plan as provided in Section 10; (ii) to one or more officers of the Company the power to grant rights or options to the extent permitted by Section 157(c) of the Delaware General Corporation Law; (iii) to one or more officers of the Company the authority to allocate other Awards among such persons (other than officers of the Company) eligible to receive Awards under the Plan as such delegated officer or officers determine consistent with such delegation; provided, that with respect to any delegation described in this clause (iii) the Board (or a properly delegated member or members of the Board) shall have authorized the issuance of a specified number of shares of Stock under such Awards and shall have specified the consideration, if any, to be paid therefor; and (iv) to such Employees or other persons as it determines such ministerial tasks as it deems appropriate. In the event of any delegation described in the preceding sentence, the term "Administrator" shall include the person or persons so delegated to the extent of such delegation.

"Affiliate": Any corporation or other entity owning, directly or indirectly, 50% or more of the outstanding Stock of the Company, or in which the Company or any such corporation or other entity owns, directly or indirectly, 50% of the outstanding capital stock (determined by aggregate voting rights) or other voting interests. However, for purposes of determining eligibility for the grant of a Stock Option or SAR, the term "Affiliate" shall mean a person standing in a relationship to the Company such that the Company and such person are treated as a single employer under Section 414(b) and Section 414(c) of the Code, in accordance with the definition of "service recipient" under Section 409A of the Code.

"Award": Any or a combination of the following:

(i) Stock Options.
(ii) SARs.
(iii) Restricted Stock.
(iv) Unrestricted Stock.
(v) Stock Units, including Restricted Stock Units.
(vi) Performance Awards.
(vii) Cash Awards.
(viii) Awards (other than Awards described in (i) through (vii) above) that are convertible into or otherwise based on Stock.

"Board": The Board of Directors of the Company.
"Cash Award": An Award denominated in cash.

"Code": The U.S. Internal Revenue Code of 1986 as from time to time amended and in effect, or any successor statute as from time to time in effect.

"Company": MicroVision, Inc.

"Covered Transaction": Any of (i) a consolidation, merger, or similar transaction or series of related transactions, including a sale or other disposition of stock, in which the Company is not the surviving corporation or which results in the acquisition of all or substantially all of the Company's then outstanding common stock by a single person or entity or by a group of persons and/or entities acting in concert, (ii) a sale or transfer of all or substantially all the Company's assets, or (iii) a dissolution or liquidation of the Company. Where a Covered Transaction involves a tender offer that is reasonably expected to be followed by a merger described in clause (i) (as determined by the Administrator), the Covered Transaction shall be deemed to have occurred upon consummation of the tender offer.

"Disability": The total and permanent disability of any Participant, as determined by the Administrator in its sole discretion. Without limiting the generality of the foregoing, the Administrator may, but is not required to, rely on a determination of disability by the Company's long term disability carrier or the Social Security Administration.

"Employee": Any person who is employed by the Company or an Affiliate.

"Employment": A Participant's employment or other service relationship with the Company and its Affiliates. Employment will be deemed to continue, unless the Administrator expressly provides otherwise, so long as the Participant is employed by, or otherwise is providing services in a capacity described in Section 6 to the Company or its Affiliates. If a Participant's employment or other service relationship is with an Affiliate and that entity ceases to be an Affiliate, the Participant's Employment will be deemed to have terminated when the entity ceases to be an Affiliate unless the Participant transfers Employment to the Company or its remaining Affiliates.

"ISO": A Stock Option intended to be an "incentive stock option" within the meaning of Section 422 of the Code. Each option granted pursuant to the Plan will be treated as providing by its terms that it is to be a non-incentive stock option unless, as of the date of grant, it is expressly designated as an ISO.

"Participant": A person who is granted an Award under the Plan.

"Performance Award": An Award subject to Performance Criteria. The Committee in its discretion may grant Performance Awards that are intended to qualify for the performance-based compensation exception under Section 162(m) and Performance Awards that are not intended so to qualify.

"Performance Criteria": Specified criteria, other than the mere continuation of Employment or the mere passage of time, the satisfaction of which is a condition for the grant, exercisability, vesting or full enjoyment of an Award. For purposes of Awards that are intended to qualify for the performance-based compensation exception under Section 162(m), a Performance Criterion will mean an objectively determinable measure of performance relating to any or any combination of the following (measured either absolutely or by reference to an index or indices and determined either on a consolidated basis or, as the context permits, on a divisional, subsidiary, line of business, project or geographical basis or in combinations thereof): sales; revenues; assets; expenses; earnings before or after deduction for all or any portion of interest, taxes, depreciation, or
amortization, whether or not on a continuing operations or an aggregate or per share basis; return on equity, investment, capital or assets; one or more operating ratios; borrowing levels, leverage ratios or credit rating; market share; capital expenditures; cash flow; stock price; stockholder return; sales of particular products or services; customer acquisition or retention; acquisitions and divestitures (in whole or in part); joint ventures and strategic alliances; spin-offs, split-ups and the like; reorganizations; or recapitalizations, restructurings, financings (issuance of debt or equity) or refinancings. A Performance Criterion and any targets with respect thereto determined by the Administrator need not be based upon an increase, a positive or improved result or avoidance of loss. To the extent consistent with the requirements for satisfying the performance-based compensation exception under Section 162(m), the Administrator may provide in the case of any Award intended to qualify for such exception that one or more of the Performance Criteria applicable to such Award will be adjusted in an objectively determinable manner to reflect events (for example, but without limitation, acquisitions or dispositions) occurring during the performance period that affect the applicable Performance Criterion or Criteria.

"Plan": The 2013 MicroVision, Inc. Incentive Plan, as from time to time amended and in effect.

"Restricted Stock": Stock subject to restrictions requiring that it be rede redelivered or offered for sale to the Company if specified conditions are not satisfied.

"Restricted Stock Unit": A Stock Unit that is, or as to which the delivery of Stock or cash in lieu of Stock is, subject to the satisfaction of specified performance or other vesting conditions.

"Section 162(m)": Section 162(m) of the Code.

"Section 409A": Section 409A of the Code.

"SAR": A right entitling the holder upon exercise to receive an amount (payable in shares of Stock of equivalent value) equal to the excess of the fair market value of the shares of Stock subject to the right over the fair market value of such shares at the date of grant.

"Stock": Common Stock of the Company, par value $.001 per share.

"Stock Option": An option entitling the holder to acquire shares of Stock upon payment of the exercise price.

"Stock Unit": An unfunded and unsecured promise, denominated in shares of Stock, to deliver Stock or cash measured by the value of Stock in the future.

"Unrestricted Stock": Stock not subject to any restrictions under the terms of the Award.
CERTIFICATION PURSUANT TO
RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Alexander Y. Tokman, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended June 30, 2017 of MicroVision, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the period presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2017

/s/ Alexander Y. Tokman

Alexander Y. Tokman
Chief Executive Officer
CERTIFICATION PURSUANT TO
RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Stephen P. Holt, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended June 30, 2017 of MicroVision, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the period presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2017

/s/ Stephen P. Holt

Stephen P. Holt
Chief Financial Officer
Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as Chief Executive Officer of MicroVision, Inc. (the “Company”), does hereby certify that to the undersigned's knowledge:

1) the Company's Form 10-Q for the quarter ended June 30, 2017 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) the information contained in the Company's Form 10-Q for the quarter ended June 30, 2017 fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 3, 2017

/s/ Alexander Y. Tokman

Alexander Y. Tokman

Chief Executive Officer
Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as Chief Financial Officer of MicroVision, Inc. (the "Company"), does hereby certify that to the undersigned's knowledge:

1) the Company's Form 10-Q for the quarter ended June 30, 2017 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) the information contained in the Company's Form 10-Q for the quarter ended June 30, 2017 fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 3, 2017

/s/ Stephen P. Holt

Stephen P. Holt
Chief Financial Officer