

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

(Mark one)

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

For the fiscal year ended December 31, 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

(State or Other Jurisdiction of Incorporation or Organization)

91-1600822

(I.R.S. Employer Identification Number)

6244 185th Avenue NE, Suite 100

Redmond, Washington 98052

(Address of Principal Executive Offices, including Zip Code)

(425) 936-6847

(Registrant's Telephone Number, including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of class</u>	<u>Name of exchange on which registered</u>
Common Stock, \$0.001 par value per share	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:

**None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 Act). Yes  No

The aggregate market value of the common stock held by non-affiliates of the registrant as of June 30, 2017 was approximately \$151.8 million (based upon the closing price of \$2.12 per share for the registrant's common stock as reported by the NASDAQ Global Market on that date).

The number of shares of the registrant's common stock outstanding as of February 20, 2018 was 78,613,000.

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**MICROVISION, INC.**  
**ANNUAL REPORT ON FORM 10-K**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

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## PART I.

### Preliminary Note Regarding Forward-Looking Statements

*This Annual Report contains 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 "us"), 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.*

### ITEM 1. BUSINESS

#### Overview

MicroVision, Inc. is a pioneer in laser beam scanning (LBS) technology that we market under our brand name PicoP®. We have developed our proprietary PicoP® scanning technology that can be adopted by our customers to create high-resolution miniature projection and three-dimensional sensing and image capture solutions. 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 form factor, 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 for use in pico projection and augmented or virtual reality. 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 that the user could then interact with as one would a touch screen.

In November 2016, we announced our strategy for 2017 and beyond that includes selling LBS engines to original design manufacturers (ODMs) and original equipment manufacturers (OEMs.) 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 scanning engine for smart Internet of Things (IoT) products, and a light detection and ranging (LiDAR) engine for consumer electronic applications. We also are developing LiDAR for automotive collision avoidance systems.

In addition to selling modules, we have licensed our patented PicoP® scanning technology to other companies for incorporation into their scanning engines for projection. We sell our licensees key components needed to produce their laser scanning engines and/or license our technology in exchange for a royalty fee for each scanning engine they sell. Companies to whom we license our PicoP® scanning technology are typically ODMs or OEMs who are in the business of making components or products ready for sale to end users. To date, we have primarily focused on the consumer electronics market, however, we believe that our LBS technology creates a platform that could support multiple applications and markets including medical, industrial and automotive.

While we are optimistic about our technology and the potential for future revenues, we have incurred substantial losses since inception and we expect to incur a significant loss during the fiscal year ending December 31, 2018.

MicroVision, Inc. was founded in 1993 as a Washington corporation and reincorporated in 2003 under the laws of the State of Delaware. Our headquarters is located at 6244 185th Avenue NE, Suite 100, Redmond, Washington 98052, and our telephone number is (425) 936-6847.

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports are available free-of-charge from the investor page of our website, accessible at [www.microvision.com](http://www.microvision.com), as soon as reasonably practicable after such material is electronically filed with the Securities and Exchange Commission (SEC). Copies of these filings may also be obtained by visiting the Public Reference Room of the SEC at 100 F Street NE, Washington, D.C. 20549, or by calling the SEC directly at 1-800-SEC-0330 (1-800-732-0330). In addition, the SEC maintains a website, [www.sec.gov](http://www.sec.gov), which contains current, quarterly and annual reports, proxy and information statements and other information regarding issuers that file electronically.

## Technology

Our patented PicoP® scanning technology combines a MEMS scanning mirror, laser diode light sources, electronics, and optics that are controlled using our proprietary system control algorithms. The bi-directional MEMS scanning mirror is a key component of our technology platform and is one of our core competencies. We also have patents for two mirror MEMS solutions. Our most recent MEMS design is a silicon device with a one-millimeter mirror at the center. This mirror is connected to small flexures that allow it to oscillate vertically and horizontally to generate an image pixel-by-pixel for use in sensing and display. Scanning engines with our technology can operate in three modes: display only, display and sensing combined, and sensing only. For applications that include a projected display, our PicoP® scanning technology creates a brilliant, full color, high-contrast, uniform image over the entire field-of-view from a small and thin engine with low power consumption. For 3D LiDAR scanning applications, our engine is small with high resolution, low power and low latency which are features that are important for such applications. We believe that our proprietary technology offers significant advantages over traditional display and 3D LiDAR sensing systems. Depending on the specific product application, these advantages may include:

- Ability to perform projection and three-dimensional sensing and image capture from a single device;
- Leveraging our custom MEMS and application-specific integrated circuits (ASICs) components across multiple engine types for economies of scale;
- Focus-free operation;
- HD resolution;
- Low power requirements to enable battery operated devices and applications;
- Small and thin engine size;
- High contrast ratio with true black;
- High-brightness, high-dynamic range, and brightness uniformity;
- Rich, saturated color reproduction;
- Short throw projection with multi-mode operation for table top and wall mode;
- 3D LiDAR sensing as a touch interface or point cloud;
- Real-time interactive capture of moving targets; and
- Dynamic, programmable resolution and frame rate 3D scanning.

## Business Strategy

Our business strategy is to commercialize our PicoP® scanning technology by enabling ODMs and OEMs to produce end-user products via three go-to-market paths:

- Design and sell LBS engines directly to ODMs and OEMs to incorporate inside their products;
- License our LBS technology and sell key components to ODMs and OEMs to create their own scanning engines; and
- License LBS technology to ODMs and OEMs who developed their own key components or subsystems.

By providing these options, we permit ODMs and OEMs to integrate and embed our technology across a broad range of display and 3D LiDAR sensing product applications in the way that best matches their technical capabilities and timelines for bringing their products to market.

The key elements of our business strategy include the following:

- Develop LBS modules that enable our customers to make products that end users find indispensable;
- Continue to improve the performance of our PicoP® scanning technology platform by advancing the key application attributes such as higher brightness for displays, lower power, smaller size, and greater accuracy and longer distances for 3D sensing;
- Develop machine learning algorithms that allow our 3D LiDAR sensing products to respond faster and more accurately to users and/or objects in the environment;
- Sell LBS engines to ODMs and OEMs;
- Provide engineering services to develop LBS engines for ODMs and OEMs who need custom engines;
- Develop supply chain able to supply customers with high quality LBS engines in quantities to support the consumer electronics market;
- Supply key scanning engine components for products being developed by ODMs and OEMs who license our PicoP® scanning technology and/or license rights to ODMs and OEMs to produce such components;

- Partner with other companies that are interested in growing the LBS market to cooperatively promote our solutions and develop solutions for future products and capabilities where appropriate; and
- Maintain a position of LBS leadership with our intellectual property around our PicoP® scanning technology.

### **Markets for Our Technology**

Our PicoP® scanning technology platform strategy is focused on addressing the following market segments:

- Pico projection;
- Interactive pico projection;
- 3D LiDAR sensing for consumer electronics, automotive collision avoidance; and
- Augmented/Virtual Reality (AR/VR).

We see pico projection, interactive pico projection, 3D LiDAR sensing, and AR/VR as the most promising applications for our technology in the near to mid-term. We have concentrated on pico projection over the past several years and, in late 2016, we announced plans for other engine solutions for interactive pico projection and 3D LiDAR sensing. We also believe AR and VR eyewear displays can also benefit from our technology, and we are actively exploring these opportunities.

In pico projection, our goal is to enable a large screen viewing experience produced by a small projector for mobile devices such as smartphones, tablets and other consumer electronics products. The scanning display engine can either be embedded in the mobile device directly or in a small standalone companion product that is paired with the mobile device wirelessly or via a protocol such as HDMI. These potential products would allow users to watch digital videos, play games, and display images and other data onto a variety of surfaces, freeing users from the limitations of a small screen.

We have developed 3D LiDAR sensing capabilities in our LBS engine. This allows the LBS engine to sense what is in front of it and where that object is in space. If we project an image on a surface and use our 3D LiDAR sensing capability concurrently, we are able to create an LBS engine where a user can touch the projected image or interact with the image using gestures and it will react much like a touchscreen. We call this interactive display. We believe that interactive display can enable a whole new category of smart IoT products.

Additionally, we are working to bring to market 3D LiDAR sensors. The consumer 3D LiDAR sensor we are developing is a small sensor able to capture information about what is in front of the sensor with high accuracy and high fidelity. We see applications for this sensor in smart home and smart home security products and in commercial space management. We are also working on LiDAR modules for automotive collision avoidance systems.

Another application area for our PicoP® scanning technology that we are focused on is eyewear displays, also known as AR and VR. We have a long history with this application, and we believe the eyewear ecosystem has progressed to a point where we see future growth opportunities in this market.

### **Products and Services**

In 2017, our revenue was derived from development contracts, from the sale of scanning display engines, and from license and royalty fees for PicoP® scanning technology.

In April 2017, we 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 through the first quarter of 2019 and an upfront payment of \$10.0 million, which payment has been received. As of December 31, 2017, we have received \$4.0 million in fees for development work. The remaining development fees would be paid contingent on completion of milestones in 2018 and the first quarter of 2019. 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.

In 2017, we introduced a small form factor, high definition display engine for applications where form factor and flexibility of product design are required. In March 2017, we received a \$6.7 million order for our small form factor display engine from Ragetek Communication Technology Co., Limited (Ragetek), an Asian electronics device manufacturer. Initial shipments of engines to Ragetek began at the end of June 2017 to embed in its smartphone product. Ragetek launched their smartphone during the third quarter of 2017. We had planned to recognize \$4.3 million of product revenue during the fourth quarter of 2017 by completing the remainder of the order. The customer, however, requested a deferment in taking receipt of the remainder of the engines until 2018.

In addition to the small form factor display engine, we also plan to introduce an interactive display engine that integrates display and 3D LiDAR sensing to allow the user to interact with projected images and a consumer grade LiDAR engine for consumer electronics (smart home and smart home security) applications.

The key components and technology we offer for inclusion in an LBS engine are our MEMS, ASICs, optics, and software. Our licensees can purchase none, some, or all of the key components and license the technology we offer depending on their capability and desire to manufacture them and the terms of the licensing agreement.

### **Research and Development**

We believe our research and development efforts have earned us a leadership position in the field of LBS technology and applications as applied to consumer electronics, automotive and other markets. Our ability to attract customers and grow revenue will depend on our ability to maintain our LBS technology leadership, to continually improve performance, reduce costs, reduce the size of component parts and scanning engines, and to increase the number of applications and products enabled by our PicoP® scanning technology.

Our research and development team is located in Redmond, Washington and as of December 31, 2017, was comprised of 81 engineering and technical staff in optics, computer vision, software engineering, electrical engineering, and MEMS design.

### **Sales and Marketing**

Our sales and marketing approach is account based, business-to-business targeting of ODMs and OEMs. We license our PicoP® scanning technology and sell components used in the production of scanning engines to our licensees and sell scanning engines to our customers. Our customers are typically companies that want to buy or build LBS engines for incorporation into their products. We also engage end product manufacturers and retailers in our target markets to educate them about product opportunities based on our PicoP® scanning technology.

We currently have sales and business development representatives based in the United States and several parts of Asia, focused on business development in the Americas, Europe and Asia. Our sales and business development representatives are supported by a technical sales engineering team that assists customers during the "design win" and "design in" cycles. The technical sales engineering team operates from Redmond, Washington, Taiwan and Japan. Our marketing team is located in Redmond, Washington. We engage potential customers directly, participate in trade shows, maintain a website, and cooperate on co-marketing activities with key partners.

### **Manufacturing**

Our products include scanning engines as well as components that are integral to a scanning engine. Our scanning engine products are manufactured by a contract manufacturer based on our proprietary design and incorporate our PicoP® scanning technology and include MEMS and ASICs that are produced to order by semiconductor foundries.

Our manufacturing is not currently subject to seasonal variations as our shipments have been relatively small and are in the early stages of product introduction. In the future, depending on our customers' product mix, we may be affected by seasonal fluctuations which could affect working capital demands.

We provide forecasts that allow our contract manufacturers to stock component parts and other materials and plan capacity. Our contract manufacturers procure raw materials in volumes consistent with our forecasts, manufacture and/or assemble the products and perform tests according to our specifications. Products are either shipped to our customers or shipped to our Redmond, Washington headquarters to be inventoried as finished goods. We procure some specific components and either sell them or consign them to our contract manufacturers.

We hold some inventories of these components. Our contract manufacturers procure additional raw materials we do not own until the finished goods are completed by our contract manufacturer. Title to the products transfers from our contract manufacturers to us and then to our customers upon shipment from the manufacturer. If raw materials are unused, or the products are not sold within specified periods of time, we may incur carrying charges or obsolete material charges for component parts that our contract manufacturers purchased to build products to meet our forecasts or customer orders.

Many of the raw materials used in our components are standard to the consumer electronics industry. Our MEMS, MEMS die, and ASICs are currently manufactured to our specifications by separate single-source suppliers.

#### **Human Factors, Ergonomics and Safety**

We work with third party independent experts in the field of laser safety to assist in meeting safety specifications. In addition, we monitor developments in the area of permissible laser exposure limits as established by International Electrotechnical Commission (IEC) and others. Independent experts have concluded that laser exposure to the eye resulting from use of LBS devices under normal operating conditions would be below the calculated maximum permissible exposure level set by the IEC.

#### **Competitive Conditions**

The information display and 3D sensing industries are highly competitive. Potential products incorporating our PicoP® scanning technology, including any LBS engines we develop, will compete with manufacturers of established technologies, such as flat panel display devices, as well as companies developing new display and 3D LiDAR sensing technologies. Our competitors include companies such as Texas Instruments, Intel, Syndiant, Velodyne, Bosch, Quanergy, Innoluce, Opus, Mirrorcle, Maradin, Himax, Pioneer, Sony (LCOS) and others, some of which have much greater financial, technical and other resources than us. Many of our competitors are currently developing alternative miniature display and 3D LiDAR sensing technologies. Our competitors may succeed in developing innovative technologies and products that could render our technology or our proposed products commercially infeasible or technologically obsolete.

Pico projectors are a class of miniaturized projectors that are generally handheld, battery operated, mobile projectors. Most of the competing projectors currently on the market are either liquid crystal on silicon (LCOS) panel solutions or Texas Instruments' DLP™ display technology primarily using light-emitting diode (LED) light sources. Each of these projection solutions can create images of varying resolution, brightness, image quality, battery life, and ease-of-use.

The information display and 3D sensing industries have been characterized by rapid and significant technological advances. Our PicoP® scanning technology platform and potential products may not remain competitive with such advances, and we may not have sufficient funds to invest in new technologies, products or processes. Although we believe our technology platform and proposed products could deliver images of a substantially higher quality and resolution from a smaller form factor device than those of commercially available LCOS and DLP based display products, manufacturers of competing technologies may develop further improvements to screen display technology that could reduce or eliminate the anticipated advantages of our proposed products.

3D sensing is a new market for us and we believe we are developing products that will have cost and performance benefits over what competitors may offer. However, manufacturers of competing technologies may develop further improvements to size of their modules, performance for mid-range LiDAR and lower costs that could reduce or eliminate the anticipated advantages of our proposed products.

#### **Intellectual Property and Proprietary Rights**

We create intellectual property from three sources: internal research and development activities, technology acquisitions, and performance on development contracts. The inventions covered by our patent applications generally relate to systems controls in our PicoP® scanning technology, component miniaturization, power reduction, feature enhancements, specific implementation of various system components, and design elements to facilitate mass production. Protecting these key-enabling technologies and components is a fundamental aspect of our strategy to penetrate diverse markets with unique products. As such, we intend to continue to develop our portfolio of proprietary and patented LBS technologies at the system, component, and process levels.

We believe our extensive patent portfolio is the largest, broadest, and earliest filed LBS technology portfolio and includes applications such as augmented reality, range finding, portable media devices, image capture, and projection applications. We have over 500 issued patents, pending patents and licensed patents worldwide.

Since our inception in 1993, we have acquired, either under license agreements or portfolio purchases, patents that grant us exclusive rights to various LBS technologies. From time to time some of these patents may expire, or we may decide to terminate a license agreement for a variety of reasons to better utilize resources expended to maintain intellectual property.

Our ability to compete effectively in the information display and 3D sensing markets may depend, in part, on our ability and the ability of our licensors to maintain the proprietary nature of these technologies.

We also rely on unpatented proprietary technology. To protect our rights in these areas, we require all employees, and where appropriate, contractors, consultants, advisors and collaborators, to enter into confidentiality and non-compete agreements. There can be no assurance, however, that these agreements will provide meaningful protection for our trade secrets, know-how or other proprietary information in the event of any unauthorized use, misappropriation or disclosure of such trade secrets, know-how or other proprietary information.

We have registered the name "PicoP®" and "MicroVision®" with the United States Patent and Trademark Office.

## **Employees**

As of February 20, 2018, we had 113 full-time employees. None of our employees are represented by a labor union.

## **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 December 31, 2017, we had an accumulated deficit of \$524.1 million.
- We incurred consolidated net losses of \$468.8 million from inception through 2014, \$14.5 million in 2015, \$16.5 million in 2016, and \$24.2 million in 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 2018 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 into the third quarter of 2018. 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.

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 and we may be unable to continue as a going concern. This limitation of operations could include reducing investments in our production capacities or research and development projects, staff, operating costs, and capital expenditures which could jeopardize our ability to achieve our business goals or satisfy our customer requirements.

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

We rely on single or limited-source suppliers to manufacture our products. 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.**

In 2017, one commercial customer accounted for \$5.8 million in revenue, representing 53% of our total revenue, a second commercial customer accounted for \$2.3 million in revenue, representing 21% of our total revenue, and a third commercial customer accounted for \$1.6 million in revenue, representing 14% of our total revenue. In 2016, one commercial customer accounted for \$13.5 million in revenue, representing 91% of our total revenue. In 2015, the same commercial customer accounted for \$9.0 million in revenue, representing 98% of our total revenue. Our customers take time to obtain, and the loss of a significant customer could negatively affect our revenue. Our quarterly operating results may vary significantly based upon:

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

In one or more future quarters, our results of operations may fall below the expectations of securities analysts and investors and the trading price of our common stock may decline as a consequence. In addition, following periods of volatility in the market price of a company's securities, shareholders often have instituted securities class action litigation against that company.

If we become involved in a class action suit, it could divert the attention of management and, if adversely determined, could require us to pay substantial damages.

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

Our backlog under open orders and agreements totaled \$13.6 million as of December 31, 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 their obligations thereunder on a timely basis, or at all if, among other reasons, our products and technologies do not achieve market acceptance, our customers' products and technologies do not achieve market acceptance or our customers otherwise fail to achieve their operating goals. To the extent we are unable to perform under such purchase orders or agreements or to the extent customers are unable or unwilling to perform, our operating results and cash flows could be adversely affected.

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

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

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

On February 20, 2018, the closing price of our common stock was \$1.23 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 involves complex legal and factual questions. The standards that the United States Patent and Trademark Office and its foreign counterparts use to grant patents are not always applied predictably or uniformly and can change.

Additionally, the scope of patents is subject to interpretation by courts and their validity can be subject to challenges and defenses, including challenges and defenses based on the existence of prior art. Consequently, we cannot be certain as to the extent to which we will be able to obtain patents for our new products and technology or the extent to which the patents that we already own, 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 1B. UNRESOLVED STAFF COMMENTS**

None.

## **ITEM 2. PROPERTIES**

In July 2017, we entered into a 65 month facility lease amendment on 31,142 square feet of combined use office, laboratory and manufacturing space at our headquarters facility in Redmond, Washington. The lease commenced in October 2017 and includes 7,225 square feet expansion space on our existing premise of 23,917 square feet. The lease agreement includes extension and rent escalation provisions over the term of the lease.

## **ITEM 3. LEGAL PROCEEDINGS**

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

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

## **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

## **ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT**

Executive officers are appointed by our Board of Directors and hold office until their successors are elected and duly qualified. The following persons serve as executive officers of MicroVision, Inc.:

Perry M. Mulligan, age 60, has served as a director of the Company since January 2010 and Chief Executive Officer of the Company since November 2017. Mr. Mulligan has over 30 years of experience in operations and supply chain management. Mr. Mulligan was formerly Senior Vice President of Operations for Emulex Corporation where he oversaw Emulex operations, including IT, facilities, supplier management, test engineering and logistics from July 2013 to June 2015. Mr. Mulligan served as Senior Vice President, Operations for QLogic from October 2007 to June 2013, where he was responsible for all aspects of the manufacturing and delivery of products to the customer in addition to overall supply chain design and manufacturing strategy. Prior to QLogic, Mr. Mulligan was at Solectron from May 2004 to September 2007, where he held the position of Senior Vice President Supply Chain Management and Chief Procurement Officer and was responsible for establishing the overall materials and supply chain strategy. Mr. Mulligan brings extensive experience and knowledge in developing and setting up worldwide manufacturing and sourcing operations and overall supply chain strategy. Mr. Mulligan has an MBA from the University of Western Ontario.

Stephen P. Holt, age 55, joined MicroVision in April 2013 as Chief Financial Officer. Prior to MicroVision, from May 2007 to May 2012, he served as Chief Financial Officer of PixelOptics, where he played a lead role in bringing the company's first electronic focusing eyewear product to market. At this venture capital-backed start-up, Mr. Holt raised capital and negotiated strategic partner agreements to license technology in addition to implementing policies and procedures to create an infrastructure capable of supporting rapid growth while maintaining a strong internal control environment. From March 2006 to April 2007, he was the Chief Financial Officer of Interstate Distributors, a trucking and transportation services company. From December 2003 to March 2006, he was the Chief Financial Officer of a group of companies consisting of Activelight, Boxlight, Cinelight and Projector Wholesale Supply. These companies were value-added resellers and distributors of audio-visual and projection equipment. Mr. Holt, a Certified Management Accountant, holds a B.S. from California State University, Chico and an M.B.A. from Santa Clara University.

Sumit Sharma, age 44, was appointed Vice President of Product Engineering and Operations in February 2017, after serving as Vice President and Senior Director of Operations since September 2015. Prior to MicroVision, from April 2015 to September 2015, he was a Product Development and Operations consultant at BlueMadison Consulting. From November 2013 to March 2015, he was the Senior Director, Advanced Manufacturing Operations and Technology Development at Jawbone. From March 2011 to October 2013, he was the Head of Manufacturing Operations for project GLASS at Google. Mr. Sharma has extensive experience in optics, wearable technology, product development and qualification for automotive industry. Mr. Sharma also has deep experience in global operations and developing strategic partnerships. A patent holder, Mr. Sharma received his baccalaureate degree in engineering from New Jersey Institute of Technology.

David J. Westgor, age 64, was appointed Vice President, General Counsel and Secretary in November 2013, after serving as General Counsel since December 2012 and Deputy General Counsel since June 2007. Before joining MicroVision, Mr. Westgor was Senior Counsel at Medtronic Physio-Control, where he had primary responsibility for the legal affairs of its medical and informatics business units. Mr. Westgor graduated from Loyola Law School and practiced in the Los Angeles office of Pillsbury Winthrop. He moved to the Seattle area to become in-house counsel at Advanced Radio Telecom, a broadband telecommunications company. Mr. Westgor holds a B.A. from St. Olaf College and an M.F.A. degree from the Art Institute of Chicago.

Dale E. Zimmerman, age 58, has served as Vice President of Research and Development since June 2012 and as Director of Systems Engineering from June 2011 to May 2012. Prior to MicroVision, from February 2006 to December 2008, he served as Vice President of Product Strategy of Silicon Image, a company specializing in high speed serial interface solutions for HDTV, PC and storage products. From 1996 to 2006, he served as General Manager of DLP TV for Texas Instruments, where he played an important role in launching the first conference room projectors, home theater projectors, and HDTVs. His teams have received many awards, including three Emmys and CES Innovation Best of Show. He holds both a B.S. and an M.S. degree in electrical and electronics engineering from Massachusetts Institute of Technology (MIT) and a second M.S. in electrical engineering from Stanford University.

## PART II.

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock began trading publicly on August 27, 1996. Our common stock trades on The NASDAQ Global Market under the ticker symbol "MVIS." We have never declared or paid cash dividends on our common stock. We currently anticipate that we will retain all future earnings to fund the operations of our business and do not anticipate paying dividends on the common stock in the foreseeable future.

As of February 20, 2018, there were approximately 114 holders of record of 78,613,000 shares of common stock outstanding. As many of our shares of common stock are held by brokerages and institutions on behalf of shareholders, we are unable to estimate the total number of beneficial holders of our common stock represented by these record holders.

The high and low sales prices of our common stock for each full quarterly period in the last two fiscal years and year to date as reported by The NASDAQ Global Market are as follows:

Quarter Ended	Common Stock	
	HIGH	LOW
<b>2016</b>		
March 31, 2016	\$ 3.08	\$ 1.65
June 30, 2016	2.21	1.64
September 30, 2016	2.07	1.30
December 31, 2016	1.85	0.89
<b>2017</b>		
March 31, 2017	\$ 2.75	\$ 1.15
June 30, 2017	2.94	1.74
September 30, 2017	3.25	2.00
December 31, 2017	2.88	1.36
January 1, 2018 to February 20, 2018	\$ 1.85	\$ 1.09



## ITEM 6. SELECTED FINANCIAL DATA

A summary of selected financial data as of and for the five years ended December 31, 2017 is set forth below. It should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this Annual Report on Form 10-K.

*(In thousands, except per share data)*

	Year Ended December 31,				
	2017	2016	2015	2014	2013
<b>Statement of Operations Data</b>					
Revenue	\$ 10,891	\$ 14,761	\$ 9,188	\$ 3,485	\$ 5,852
Net loss available for common shareholders	(24,243)	(16,472)	(14,542)	(18,120)	(13,178)
Basic and diluted net loss per share	(0.33)	(0.32)	(0.31)	(0.44)	(0.47)
Weighted-average shares outstanding basic and diluted	72,786	51,958	46,540	41,599	28,025
<b>Balance Sheet Data</b>					
Cash and cash equivalents	\$ 16,966	\$ 15,139	\$ 7,888	\$ 8,349	\$ 5,375
Working capital (deficit)	3,074	10,104	3,371	5,040	(3,878)
Total assets	29,697	20,106	14,042	11,945	8,447
Long-term liabilities	4,758	5,388	6,491	488	481
Total shareholders' equity (deficit)	4,866	7,474	(153)	6,872	(1,696)

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Overview

Our business strategy is to commercialize our PicoP® scanning technology by enabling ODMs and OEMs to produce end-user products via three go-to-market paths:

1. Design and sell LBS engines directly to ODMs and OEMs to incorporate inside their products;
2. License our LBS technology and sell key components to ODMs and OEMs to create their own scanning engines; and
3. License LBS technology to ODMs and OEMs who developed their own key components.

In 2017, 60% of our revenue was generated from development contracts, 21% of our revenue was generated from product sales, 9% was generated from a prorated portion of the \$8.0 million upfront payment we received under a 2015 license agreement with Sony for our PicoP® scanning technology, 5% was generated from performance on contracts for prototype units, and 5% was generated from ongoing per unit royalties. In 2017, one commercial customer accounted for \$5.8 million in revenue, representing 53% of our total revenue, a second commercial customer accounted for \$2.3 million in revenue, representing 21% of our total revenue, and a third commercial customer accounted for \$1.6 million in revenue, representing 14% of our total revenue.

In 2016, 87% of our revenue was generated from product sales, less than 1% was generated from performance on contracts for prototype units, 7% was generated from a prorated portion of the \$8.0 million upfront payment, and 5% was generated from ongoing per unit royalties. Sony Corporation (Sony) accounted for 91% of our total revenue in 2016.

In 2015, 70% of our revenue was generated from product sales, 17% was generated from performance on support services contracts, 10% was generated from a prorated portion of the \$8.0 million upfront payment, and 3% was generated from ongoing per unit royalties. Sony accounted for 98% of our total revenue in 2015.

We have incurred substantial losses since inception and expect to incur a significant loss during the fiscal year ending December 31, 2018. 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. There can be no assurance that additional capital will be available or that, if available, it will be available on terms acceptable to us on a timely basis. We cannot be certain that we will succeed in commercializing our technology or products. These factors raise substantial doubt regarding our ability to continue as a going concern.

These financial statements were 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

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that materially affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent liabilities. We evaluate our estimates on a continuous basis. We base our estimates on historical data, terms of existing contracts, our evaluation of trends in the information display and 3D sensing industries, information provided by our current and prospective customers and strategic partners, information available from other outside sources and on various other assumptions we believe to be reasonable under the circumstances. The results form the basis for making judgments regarding the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following key accounting policies require significant judgments and estimates used in the preparation of our consolidated financial statements.

#### Revenue recognition

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

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

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

#### *Contract revenue*

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 related to the sale of prototype units and evaluation kits upon acceptance of the deliverables by the customer or expiration of the contractual acceptance period, after which there are no rights of return.

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

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

#### *License agreements*

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

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

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

#### *Intangible assets*

Our intangible assets consist exclusively of purchased patents. The patents are amortized using the straight-line method over their estimated period of benefit, ranging from one to seventeen years. We evaluate the recoverability of intangible assets periodically by taking into account events or circumstances that may warrant revised estimates of useful lives or that indicate the asset may be impaired. We compare the projected undiscounted net cash flows associated with the related intangible assets or group of assets over their remaining lives against their respective carrying amounts. Measurement of an impairment loss for our intangible assets is based on the difference between the fair value of the asset and its carrying value.

#### *Inventory valuation*

Inventory is computed using the first-in, first-out (FIFO) method and is stated at the lower of cost and net realizable value. We make judgments and estimates to value our inventory and make adjustments to its carrying value. We review several factors in determining the market value of our inventory including: evaluating the replacement cost of the raw materials, the net realizable value of the finished goods, and the likelihood of obsolescence. If we do not achieve our targeted sales prices, if market conditions for our components or products were to decline, or if we do not achieve our sales forecast, additional reductions in the carrying value of the inventory would be required.

#### *Warranty*

We provide a warranty on scanning engines and components incorporating our PicoP® scanning technology, and we accrue warranty reserves at the time revenue is recognized. Warranty reserves include management's best estimate of the projected costs to repair or to replace any items under warranty based upon the actual units of revenue recognized in the period. We review our reserves each period to ensure that our accruals are adequate in meeting expected future warranty obligations, and we will adjust our estimates as needed. These estimates are inherently uncertain and changes to our historical or projected experience may cause material changes to our warranty reserves in the future.

### 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.

### Income taxes

Significant judgment is required in evaluating our tax position and in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. We record a valuation allowance when necessary to reduce deferred tax assets to the amount expected to be realized. Based on our history of losses since inception, the available objective evidence creates sufficient uncertainty regarding the realizability of the deferred tax assets. Our actual tax exposure may differ from our estimates and any such differences may impact income our tax expense in the period in which such determination is made.

The key accounting policies described above are not intended to be a comprehensive list of all of our accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by generally accepted accounting principles, with no need for us to apply judgment or make estimates. There are also areas in which our judgment in selecting any available alternative would not produce a materially different result to our consolidated financial statements. Additional information about our accounting policies, and other disclosures required by generally accepted accounting principles, are set forth in the notes to our consolidated financial statements.

Inflation has not had a material impact on our revenues or income from continuing operations over the three most recent fiscal years.

### Results of Operations

#### YEAR ENDED DECEMBER 31, 2017 COMPARED TO YEAR ENDED DECEMBER 31, 2016.

#### Product revenue

	<u>2017</u>	<u>% of total revenue</u>	<u>2016</u>	<u>% of total revenue</u>	<u>\$ change</u>	<u>% change</u>
<i>(In thousands)</i>						
Product revenue	\$ 2,300	21.1	\$ 12,849	87.0	\$ (10,549)	(82.1)

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.

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. Product revenue was lower during the year ended December 31, 2017, compared to the same period in 2016, due to no component sales and is partially offset by the initial shipments of our engines.

In March 2017, we received a \$6.7 million order for small form factor display engines from Ragentek. The backlog of product orders at December 31, 2017 was approximately \$4.3 million compared to zero at December 31, 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 December 31, 2017 does not include any portion of the upfront payment from the April 2017 contract.

*Royalty revenue*

	<u>2017</u>	<u>% of total revenue</u>	<u>2016</u>	<u>% of total revenue</u>	<u>\$ change</u>	<u>% change</u>
<i>(In thousands)</i>						
Royalty revenue	\$ 1,568	14.4	\$ 1,803	12.2	\$ (235)	(13.0)

Royalty revenue is revenue under license agreements to our PicoP® scanning technology. We recognize revenue on upfront license fees over the expected time frame that we provide services or have ongoing obligations under the agreement. Ongoing per unit royalties are reported by Sony and are recognized as revenue in the period in which the data becomes available to us. Royalty revenue was lower during the year ended December 31, 2017, compared to the same period in 2016, due to lower sales by licensees.

During the year ended December 31, 2017, we recognized \$569,000 from ongoing per unit royalties, and \$999,000 from a prorated portion of the \$8.0 million upfront payment. During the year ended December 31, 2016, we recognized \$801,000 from ongoing per unit royalties, and \$1.0 million from a prorated portion of the \$8.0 million upfront payment. At December 31, 2017, remaining unrecognized upfront license fees are included in current and long-term deferred revenues, amounting to \$999,000 and \$4.2 million, respectively. Refer to Note 2 of our condensed consolidated financial statements for the expected future impact of updated FASB accounting guidance.

*Contract revenue*

	<u>2017</u>	<u>% of total revenue</u>	<u>2016</u>	<u>% of total revenue</u>	<u>\$ change</u>	<u>% change</u>
<i>(In thousands)</i>						
Contract revenue	\$ 7,023	64.5	\$ 109	0.8	\$ 6,914	6,343.1

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. As of December 31, 2017, we have received \$4.0 million in fees for development work. We are recognizing revenue on the \$14.0 million in development fees under the percentage-of-completion method of accounting. During the year ended December 31, 2017, we have recognized \$4.7 million of contract revenue from development fees on this agreement.

The increase in contract revenue during the year ended December 31, 2017 compared to same period in 2016 was attributed to increased contract activity. Our contract backlog, including orders for prototype units and evaluation kits, at December 31, 2017 and 2016 was approximately \$9.3 million and \$942,000, respectively. The April 2017 development contract represents \$9.3 million of the contract backlog and is scheduled for completion during the first quarter of 2019. Refer to Note 2 of our condensed consolidated financial statements for the expected future impact of updated FASB accounting guidance.

*Cost of product revenue*

	<u>2017</u>	<u>% of product revenue</u>	<u>2016</u>	<u>% of product revenue</u>	<u>\$ change</u>	<u>% change</u>
<i>(In thousands)</i>						
Cost of product revenue	\$ 4,359	189.5	\$ 10,320	80.3	\$ (5,961)	(57.8)

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 year ended December 31, 2017, compared to 2016, due to lower sales.

During the year ended December 31, 2017, we expensed approximately \$538,000 of manufacturing overhead associated with production capacity in excess of production requirements, compared to \$1.1 million in 2016. Additionally, during the year ended December 31, 2017, we recorded a provision for scrap of \$1.0 million compared to \$187,000 in 2016.

*Cost of contract revenue*

<i>(In thousands)</i>	<u>2017</u>	<u>% of contract revenue</u>	<u>2016</u>	<u>% of contract revenue</u>	<u>\$ change</u>	<u>% change</u>
Cost of contract revenue	\$ 5,517	78.6	\$ 54	49.5	\$ 5,463	10,116.7

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 in cost of contract revenue for the year ended December 31, 2017, compared to 2016, was primarily attributed to direct and indirect costs incurred related to the April 2017 development contract.

*Research and development expense*

<i>(In thousands)</i>	<u>2017</u>	<u>2016</u>	<u>\$ change</u>	<u>% change</u>
Research and development expense	\$ 15,096	\$ 12,134	\$ 2,962	24.4

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 year ended December 31, 2017, compared to 2016, was attributable to higher costs related to subcontractors, direct materials and increased headcount and personnel-related compensation and benefits expenses related to our LBS engine development.

*Sales, marketing, general and administrative expense*

<i>(In thousands)</i>	<u>2017</u>	<u>2016</u>	<u>\$ change</u>	<u>% change</u>
Sales, marketing, general and administrative expense	\$ 10,156	\$ 8,743	\$ 1,413	16.2

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 year ended December 31, 2017, compared to 2016, was primarily due to separation costs associated with the departure of our former chief executive officer, and to a lesser extent increased professional fees and business development costs.

Gain on sale of previously reserved inventory

	<u>2017</u>	<u>2016</u>	<u>\$ change</u>	<u>% change</u>
(In thousands)				
Gain on sale of previously reserved inventory	\$ -	\$ (32)	\$ 32	(100.0)

Gain on sale of previously reserved inventory includes the sales of excess component inventory for discontinued products that was fully reserved in prior periods. The activity during the year ended December 31, 2016 was primarily the sale of previously reserved excess component inventory.

**YEAR ENDED DECEMBER 31, 2016 COMPARED TO YEAR ENDED DECEMBER 31, 2015.**

Product revenue

	<u>2016</u>	<u>% of total revenue</u>	<u>2015</u>	<u>% of total revenue</u>	<u>\$ change</u>	<u>% change</u>
(In thousands)						
Product revenue	\$ 12,849	87.0	\$ 6,452	70.2	\$ 6,397	99.1

Product revenue was higher during the year ended December 31, 2016, compared to the same period in 2015, due to higher product sales to Sony as part of continued shipments of orders we received during 2015 and 2014 totaling \$14.6 million and \$3.8 million, respectively, for key components to be integrated into display modules it manufactures and sells. During 2016, we completed delivery of all outstanding orders from Sony and the backlog of product orders at December 31, 2016 was zero compared to \$11.0 million at December 31, 2015.

Royalty revenue

	<u>2016</u>	<u>% of total revenue</u>	<u>2015</u>	<u>% of total revenue</u>	<u>\$ change</u>	<u>% change</u>
(In thousands)						
Royalty revenue	\$ 1,803	12.2	\$ 1,165	12.7	\$ 638	54.8

Royalty revenue was higher during the year ended December 31, 2016, compared to the same period in 2015, as a result of higher royalty payments we received from Sony for display modules it sold.

During the year ended December 31, 2016, we recognized \$801,000 from ongoing per unit royalties, and \$1.0 million from a prorated portion of the \$8.0 million upfront payment. During the year ended December 31, 2015, we recognized \$316,000 from ongoing per unit royalties, and \$849,000 from a prorated portion of the \$8.0 million upfront payment. At December 31, 2016, remaining unrecognized upfront license fees are included in current and long-term deferred revenues, amounting to \$999,000 and \$5.1 million, respectively. At December 31, 2015, unrecognized upfront license fees are included in current and long-term deferred revenues, amounting to \$1.0 million and \$6.1 million, respectively.

Contract revenue

	<u>2016</u>	<u>% of total revenue</u>	<u>2015</u>	<u>% of total revenue</u>	<u>\$ change</u>	<u>% change</u>
(In thousands)						
Contract revenue	\$ 109	0.8	\$ 1,571	17.1	\$ (1,462)	(93.1)

In June 2015, we recognized the full contract value of \$1.5 million in revenue having completed all deliverables and obligations under an agreement to provide support services to Sony for the production readiness, initial production and market launch for display modules incorporating our PicoP® scanning technology.

The contract backlog, including orders for prototype units and evaluation kits, at December 31, 2016 was \$942,000 compared to \$45,000 at December 31, 2015.

*Cost of product revenue*

	<u>2016</u>	<u>% of product revenue</u>	<u>2015</u>	<u>% of product revenue</u>	<u>\$ change</u>	<u>% change</u>
<i>(In thousands)</i>						
Cost of product revenue	\$ 10,320	80.3	\$ 6,384	98.9	\$ 3,936	61.7

Cost of product revenue as a percentage of net product revenue decreased during the year ended December 31, 2016, compared to 2015, driven primarily by a significant increase in product deliveries to Sony.

During the year ended December 31, 2016, we expensed approximately \$1.1 million of manufacturing overhead associated with production capacity in excess of production requirements, compared to \$873,000 in 2015. Additionally, during the year ended December 31, 2016, we recorded a provision for scrap of \$187,000 compared to \$287,000 in 2015.

*Cost of contract revenue*

	<u>2016</u>	<u>% of contract revenue</u>	<u>2015</u>	<u>% of contract revenue</u>	<u>\$ change</u>	<u>% change</u>
<i>(In thousands)</i>						
Cost of contract revenue	\$ 54	49.5	\$ 796	50.7	\$ (742)	(93.2)

The decrease in cost of contract revenue for the year ended December 31, 2016, compared to 2015, was primarily attributed to reduced contract activity compared to the prior year.

*Research and development expense*

	<u>2016</u>	<u>2015</u>	<u>\$ change</u>	<u>% change</u>
<i>(In thousands)</i>				
Research and development expense	\$ 12,134	\$ 8,680	\$ 3,454	39.8

The increase in research and development expense during the year ended December 31, 2016, compared to 2015, was attributable to the allocation of resources to internal research and development activities that were previously designated to a commercial contract in prior periods in addition to higher costs related to subcontractors and increased personnel-related compensation and benefits expenses.

*Sales, marketing, general and administrative expense*

	<u>2016</u>	<u>2015</u>	<u>\$ change</u>	<u>% change</u>
<i>(In thousands)</i>				
Sales, marketing, general and administrative expense	\$ 8,743	\$ 7,879	\$ 864	11.0

The increase in sales, marketing, general and administrative expense during the year ended December 31, 2016, compared to 2015, was primarily due to increased personnel-related compensation and benefits expenses, professional fees and business development costs.

*Gain on sale of previously reserved inventory*

	<u>2016</u>	<u>2015</u>	<u>\$ change</u>	<u>% change</u>
<i>(In thousands)</i>				
Gain on sale of previously reserved inventory	\$ (32)	\$ (1)	\$ (31)	3,100.0

Gain on sale of previously reserved inventory includes the sales of excess component inventory for discontinued products that was fully reserved in prior periods. The activity during the years ended December 31, 2016 and 2015 was primarily the sale of previously reserved excess component inventory.

Income taxes

No provision for income taxes has been recorded because we have experienced net losses from inception through December 31, 2017. At December 31, 2017, we had net operating loss carryforwards of approximately \$391.5 million for federal income tax reporting purposes. In addition, we have research and development tax credits of \$7.4 million.



The net operating loss carryforwards and research and development credits available to offset future taxable income, if any, will expire in varying amounts from 2018 to 2037, if not previously used.

In certain circumstances, as specified in the Internal Revenue Code, a 50% or more ownership change by certain combinations of our shareholders during any three year period would result in a limitation on our ability to use a portion of our net operating loss carryforwards.

We recognize interest accrued and penalties related to unrecognized tax benefits in tax expense. We did not have any unrecognized tax benefits at December 31, 2017 or at December 31, 2016.

#### 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 December 31, 2017, we had \$17.0 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 into the third quarter of 2018. 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 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 \$15.5 million during 2017, compared to \$14.8 million in 2016, and \$5.8 million in 2015. Cash used in operating activities resulted primarily from cash used to fund our net loss, after adjusting for non-cash charges such as share-based compensation, depreciation and amortization charges and changes in operating assets and liabilities. The change in cash flows from operating activities in 2017 was primarily attributable to the higher net loss from operations and an increase in inventory to support our growth strategy selling LBS engines. For the year ended December 31, 2017, this was offset by the \$10.0 million upfront payment we received from the April 2017 development contract. The change in cash flows from operating activities in 2015 primarily reflects an \$8.0 million upfront payment we received under the terms of the license agreement with Sony Corporation for our PicoP® scanning technology.

#### *Investing activities*

Cash used in investing activities totaled \$3.0 million in 2017, compared to \$891,000 in 2016, and \$1.1 million in 2015. Purchases of property and equipment totaled \$3.1 million in 2017, compared to \$895,000 in 2016, and \$1.1 million in 2015. We received proceeds totaling \$59,000 from the sale of property and equipment during 2017, compared to sales proceeds of \$4,000 in 2016. There was no activity in the sale of property and equipment during 2015.

#### *Financing activities*

Cash provided by financing activities totaled \$20.3 million in 2017, compared to \$23.0 million in 2016, and \$6.5 million in 2015. Principal payments under capital leases and long-term debt was zero in 2017, \$15,000 in 2016, and zero in 2015.

The following is a list of our financing activities during 2017, 2016, and 2015.

- In August 2017, we raised approximately \$11.5 million before issuance costs of approximately \$1.1 million through an underwritten public offering of 5.5 million shares of our common stock.
- In August 2017, we raised approximately \$3.2 million before issuance costs of approximately \$26,000 through a private placement of 1.5 million shares of our common stock.
- 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 earlier financing transactions.
- In May 2017, we entered into an ATM agreement with IFS Securities (DBA Brinson Patrick). During the second quarter of 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 second quarter of 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. Under the terms of the agreement, in September 2016, Lincoln Park made an initial purchase of \$2.0 million in shares of common stock at a purchase price of \$1.50 per share. The agreement was terminated in August 2017 at our election without penalty.
- In December 2016, we raised approximately \$2.1 million before issuance costs of approximately \$18,000 through a registered direct offering of 2.0 million shares of our common stock.
- In December 2016, we raised approximately \$13.0 million before issuance costs of approximately \$1.2 million through an underwritten public offering of approximately 12.1 million shares of our common stock.
- During the year ended December 31, 2016, we received gross proceeds of \$845,000 before issuance cost of approximately \$24,000 from the sale of approximately 498,000 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.
- 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 year ended December 31, 2015, we received approximately \$3.3 million from the exercise of warrants to purchase 1.5 million shares of our common stock, which warrants were issued in connection with earlier financing transactions.
- During the three months ended March 31, 2015, we received gross proceeds of \$1.0 million as part of an ATM agreement we entered into with Meyers Associates, L.P. in June 2014. We have completed sales under this agreement, having received total proceeds of approximately \$4.5 million before issuance costs of approximately \$206,000 from the sale of 2.0 million shares of our common stock.

Our capital requirements will depend on many factors, including, but not limited to, the rate at which ODMs and OEMs introduce products incorporating our PicoP® scanning technology and the market acceptance and competitive position of such products. Our ability to raise capital will depend on numerous factors, including the following:

- 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;
- The cost of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights;
- Our ability to establish cooperative development, joint venture and licensing arrangements; or
- Other factors unrelated to our company or industry.

If we are successful in establishing ODM or OEM co-development and joint venture arrangements, we expect our partners to fund certain non-recurring engineering costs for technology development and/or for product development. Nevertheless, we expect our capital requirements to remain high as we expand our activities and operations with the objective of commercializing our PicoP® scanning technology.

### Contractual obligations

The following table lists our contractual obligations as of December 31, 2017 (in thousands):

	Payments Due By Period				
	< 1 year	1-3 years	3-5 years	> 5 years	Total
Open purchase obligations *	\$ 4,833	\$ -	\$ -	\$ -	\$ 4,833
Minimum payments under operating leases	625	1,318	1,372	175	3,490
Minimum payments under long-term liabilities	32	53	-	-	85
Minimum payments under research, royalty and licensing agreements	12	24	24	24	84
	<u>\$ 5,502</u>	<u>\$ 1,395</u>	<u>\$ 1,396</u>	<u>\$ 199</u>	<u>\$ 8,492</u>

\* Open purchase obligations represent commitments to purchase inventory, materials, capital equipment, maintenance agreements and other goods used in the normal operation of our business.  
+ License and royalty obligations continue through the lives of the underlying patents, which is currently through at least 2024.

### Recent accounting pronouncements

See Note 2, "Summary of significant accounting policies," in the Notes to the consolidated financial statements found in Part II, Item 8 of this Form 10-K.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

### Interest Rate and Market Liquidity Risks

As of December 31, 2017, all of our cash and cash equivalents have variable interest rates. Therefore, we believe our exposure to market and interest rate risks is not material.

Our investment policy generally directs that the investment managers should select investments to achieve the following goals: principal preservation, adequate liquidity, and return. As of December 31, 2017, our cash and cash equivalents are comprised of short-term highly rated money market savings accounts. The values of cash and cash equivalents as of December 31, 2017, are as follows (in thousands):

	<u>Amount</u>	<u>Percent</u>
Cash and cash equivalents	\$ 16,966	100%
Less than one year	-	-
	<u>\$ 16,966</u>	<u>100%</u>

### 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 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of  
MicroVision, Inc.

### *Opinion on the Financial Statements*

We have audited the accompanying consolidated balance sheets of MicroVision, Inc. (the "Company") as of December 31, 2017 and 2016, the related consolidated statements of operations, shareholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 2017, and the related notes and schedule (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2017 and 2016, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 23, 2018, expressed an unqualified opinion on the Company's internal control over financial reporting.

### *Going Concern Uncertainty*

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has suffered recurring losses from operations and has an accumulated deficit that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### *Basis for Opinion*

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Moss Adams LLP

Seattle, Washington  
February 23, 2018

We have served as the Company's auditor since 2012.

**MicroVision, Inc.**  
**Consolidated Balance Sheets**  
(In thousands)

	<b>December 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 16,966	\$ 15,139
Accounts receivable, net of allowances of \$26 and \$26, respectively	15	245
Costs and estimated earnings in excess of billings on uncompleted contracts	680	125
Inventory	4,541	1,233
Other current assets	945	606
Total current assets	23,147	17,348
Property and equipment, net	3,251	1,537
Restricted cash	435	435
Intangible assets, net	602	718
Other assets	2,262	68
Total assets	\$ 29,697	\$ 20,106
<b>Liabilities and shareholders' equity (deficit)</b>		
Current liabilities		
Accounts payable	\$ 3,063	\$ 2,195
Accrued liabilities	5,864	3,704
Deferred revenue	999	999
Billings on uncompleted contracts in excess of related costs	5	168
Other current liabilities	10,142	178
Total current liabilities	20,073	7,244
Deferred revenue, net of current portion	4,151	5,150
Deferred rent, net of current portion	302	185
Other long-term liabilities	305	53
Total liabilities	24,831	12,632
Commitments and contingencies (Note 11)		
Shareholders' equity (deficit)		
Preferred stock, par value \$0.001; 25,000 shares authorized; zero and zero shares issued and outstanding, respectively	-	-
Common stock, par value \$0.001; 100,000 shares authorized; 78,597 and 68,093 shares issued and outstanding at December 31, 2017 and 2016, respectively	79	68
Additional paid-in capital	528,873	507,249
Accumulated deficit	(524,086)	(499,843)
Total shareholders' equity (deficit)	4,866	7,474
Total liabilities and shareholders' equity (deficit)	\$ 29,697	\$ 20,106

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

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

	<b>Year Ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Product revenue	\$ 2,300	\$ 12,849	\$ 6,452
Royalty revenue	1,568	1,803	1,165
Contract revenue	7,023	109	1,571
Total revenue	<u>10,891</u>	<u>14,761</u>	<u>9,188</u>
Cost of product revenue	4,359	10,320	6,384
Cost of contract revenue	5,517	54	796
Total cost of revenue	<u>9,876</u>	<u>10,374</u>	<u>7,180</u>
Gross profit	<u>1,015</u>	<u>4,387</u>	<u>2,008</u>
Research and development expense	15,096	12,134	8,680
Sales, marketing, general and administrative expense	10,156	8,743	7,879
Gain on sale of previously reserved inventory	-	(32)	(1)
Total operating expenses	<u>25,252</u>	<u>20,845</u>	<u>16,558</u>
Loss from operations	(24,237)	(16,458)	(14,550)
Other income (expense), net	(6)	(14)	8
Net loss	<u>\$ (24,243)</u>	<u>\$ (16,472)</u>	<u>\$ (14,542)</u>
Net loss per share - basic and diluted	<u>\$ (0.33)</u>	<u>\$ (0.32)</u>	<u>\$ (0.31)</u>
Weighted-average shares outstanding - basic and diluted	<u>72,786</u>	<u>51,958</u>	<u>46,540</u>

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

**MicroVision, Inc.**  
**Consolidated Statements of Shareholders' Equity (Deficit)**  
(In thousands)

	<b>Common Stock</b>		<b>Additional paid-in capital</b>	<b>Accumulated deficit</b>	<b>Total shareholders' equity (deficit)</b>
	<b>Shares</b>	<b>Par value</b>			
<b>Balance at January 1, 2015</b>	44,758	\$ 45	\$ 475,656	\$ (468,829)	\$ 6,872
Share-based compensation expense	86	-	1,011	-	1,011
Exercise of warrants and options	1,510	1	3,299	-	3,300
Sales of common stock and warrants	1,069	1	3,205	-	3,206
Net loss	-	-	-	(14,542)	(14,542)
<b>Balance at December 31, 2015</b>	47,423	47	483,171	(483,371)	(153)
Share-based compensation expense	87	-	1,223	-	1,223
Exercise of options	4	-	7	-	7
Sales of common stock and warrants	20,579	21	22,848	-	22,869
Net loss	-	-	-	(16,472)	(16,472)
<b>Balance at December 31, 2016</b>	68,093	68	507,249	(499,843)	7,474
Share-based compensation expense	92	-	1,288	-	1,288
Exercise of warrants and options	506	-	991	-	991
Sales of common stock	9,906	11	19,345	-	19,356
Net loss	-	-	-	(24,243)	(24,243)
<b>Balance at December 31, 2017</b>	<u>78,597</u>	<u>\$ 79</u>	<u>\$ 528,873</u>	<u>\$ (524,086)</u>	<u>\$ 4,866</u>

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



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

	<b>Year Ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities</b>			
Net loss	\$ (24,243)	\$ (16,472)	\$ (14,542)
Adjustments to reconcile net loss to net cash used in operations:			
Depreciation	1,141	1,120	429
Amortization of intangible assets	116	127	128
Non-cash share-based compensation expense	1,288	1,223	1,007
Inventory write-downs	1,004	187	287
Other non-cash adjustments	(42)	27	(62)
Change in:			
Accounts receivable	230	1,442	(1,018)
Costs and estimated earnings in excess of billings on uncompleted contracts	(555)	(125)	-
Inventory	(4,312)	(558)	(1,033)
Other current and non-current assets	(2,533)	(18)	(147)
Accounts payable	1,147	(174)	493
Accrued liabilities	2,226	245	572
Deferred revenue	(999)	(2,122)	8,271
Billings on uncompleted contracts in excess of related costs	(163)	168	(230)
Other current liabilities	9,964	56	18
Other long-term liabilities	252	53	-
Net cash used in operating activities	(15,479)	(14,821)	(5,827)
<b>Cash flows from investing activities</b>			
Proceeds on sale of property and equipment	59	4	-
Purchases of property and equipment	(3,100)	(895)	(1,140)
Net cash used in investing activities	(3,041)	(891)	(1,140)
<b>Cash flows from financing activities</b>			
Principal payments under capital leases and long-term debt	-	(15)	-
Net proceeds from issuance of common stock and warrants	20,347	22,978	6,506
Net cash provided by financing activities	20,347	22,963	6,506
Net increase (decrease) in cash and cash equivalents	1,827	7,251	(461)
Cash and cash equivalents at beginning of period	15,139	7,888	8,349
Cash and cash equivalents at end of period	\$ 16,966	\$ 15,139	\$ 7,888
<b>Supplemental schedule of non-cash investing and financing activities</b>			
Non-cash additions to property and equipment	\$ 165	\$ 351	\$ 165
Issuance of common stock for commitment fee	\$ -	\$ 721	\$ -

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

**MicroVision, Inc.**  
**Notes to Consolidated Financial Statements**  
**For the year ended December 31, 2017**

**1. THE COMPANY AND LIQUIDITY**

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 MEMS, laser diodes, opto-mechanics, and electronics and how those elements are packaged into a small form factor, lower 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), or a retina (AR). For sensing, we use 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 simultaneously project an image that the user can then interact with as one would a touch screen.

We have incurred significant losses since inception and expect to incur a significant loss during the fiscal year ending December 31, 2018. 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 December 31, 2017, we had \$17.0 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 into the third quarter of 2018. 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 or that, if available, it will be available on terms acceptable to us 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 our planned investment in our production capabilities or 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 (refer to Note 3), 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. These financial statements were 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles of the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from our estimates. We have identified the following areas where estimates and assumptions have been made in preparing the financial statements: revenue recognition, inventory valuation, valuation of share-based payments, intangibles impairment assessment, depreciable lives assessment and related disclosure of contingent assets and liabilities.

#### Cash and cash equivalents and fair value of financial instruments

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the authoritative guidance establishes a three level fair value inputs hierarchy, and requires an entity to maximize the use of observable valuation inputs and minimize the use of unobservable inputs. We use market data, assumptions and risks we believe market participants would use in measuring the fair value of the asset or liability, including the risks inherent in the inputs and the valuation techniques.

Our financial instruments include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities. The carrying value of our financial instruments approximates fair value due to their short maturities.

Our cash equivalents are comprised of short-term highly rated money market savings accounts.

#### Intangible assets

Our intangible assets consist exclusively of purchased patents. The patents are amortized using the straight-line method over their estimated period of benefit, ranging from one to seventeen years. Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. Recoverability of these assets is measured by comparison of their carrying values to the projected undiscounted net cash flows associated with the related intangible assets or group of assets over their remaining lives. Measurement of an impairment loss for our intangible assets is based on the difference between the fair value of the asset and its carrying value.

#### Inventory

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. Inventory that will not be consumed through the normal course of business during the next twelve months is classified as "other assets" on the balance sheet.

#### Property and equipment

Property and equipment is stated at cost and depreciated over the estimated useful lives of the assets (two to five years) using the straight-line method. As our production needs change, we periodically assess the remaining estimated useful life of our production equipment. If necessary, we adjust the depreciation on our production equipment to reflect the remaining estimated useful life. Leasehold improvements are depreciated over the shorter of estimated useful lives or the lease term. Costs for repairs and maintenance are charged to expense as incurred and expenditures for major improvements are capitalized at cost. Gains or losses on the disposition of assets are reflected in the income statements at the time of disposal.

#### Restricted cash

As of December 31, 2017 and 2016, restricted cash was in money market savings accounts and serve as collateral for \$435,000 in irrevocable letters of credit. The restricted cash balance includes a letter of credit which is outstanding in connection with a lease agreement for our corporate headquarters building in Redmond, Washington. The balance is required over the term of the lease, which expires in March 2023.

#### Revenue recognition

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

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

### *Product revenue*

Product revenue is revenue from our 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 product revenue, from period to period, may vary substantially due to the timing of product orders from customers, product shipments, production constraints and availability of components and raw materials.

Fulfillment and delivery of the backlog is dependent upon the successful supply chain development and delivery of required components to us. From time to time, raw materials and manufacturing delays and components received that do not meet quality standards have resulted in delivery delays to our customers.

Refer to Recent Accounting Pronouncements later in this Note for the expected future impact of updated FASB accounting guidance.

### *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 Recent Accounting Pronouncements later in this Note for the expected future impact of updated FASB accounting guidance.

### *Contract revenue*

Contract revenue includes revenue from support service 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 related to the sale of prototype units and evaluation kits upon acceptance of the deliverables by the customer or expiration of the contractual acceptance period, after which there are no rights of return.

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 Recent Accounting Pronouncements later in this Note for the expected future impact of updated FASB accounting guidance.

### *Cost of product revenue*

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. The 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 contract revenue*

Cost of contract revenue includes both the direct and allocated indirect costs of performing on contracts and producing prototype units and evaluation kits based on our PicoP® scanning engine. 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.

Our overhead, which includes the costs of procuring, inspecting and storing material, and facility and depreciation costs, is allocated to inventory, cost of product revenue, cost of contract revenue, and research and development expense based on the level of effort supporting production or research and development activity.

### 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 December 31, 2017, our cash and cash equivalents are comprised of short-term highly rated money market savings accounts.

#### *Concentration of major customers and suppliers*

In 2017, one commercial customer accounted for \$5.8 million in revenue, representing 53% of our total revenue, a second commercial customer accounted for \$2.3 million in revenue, representing 21% of our total revenue, and a third commercial customer accounted for \$1.6 million in revenue, representing 14% of our total revenue. In 2016, one commercial customer accounted for \$13.5 million in revenue, representing 91% of our total revenue. In 2015, the same commercial customer accounted for \$9.0 million in revenue, representing 98% of our total revenue.

In 2016, one commercial customer accounted for \$182,000, or 74% of our net accounts receivable balance, and a second commercial customer accounted for \$54,000, or 22% 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, which are primarily located in foreign countries. 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 regarding, 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.

### Income taxes

Deferred tax assets and liabilities are recorded for differences between the financial statement and tax bases of the assets and liabilities that will result in taxable or deductible amounts in the future, based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is recorded for the amount of income tax payable for the period increased or decreased by the change in deferred tax assets and liabilities during the period.

### Net loss per share

Basic net loss per share is calculated using the weighted-average number of common shares outstanding during the periods. 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 periods, 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):

	<b>Year Ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Numerator:			
Net loss available for common shareholders	\$ (24,243)	\$ (16,472)	\$ (14,542)
Denominator:			
Weighted-average common shares outstanding	72,786	51,958	46,540
Net loss per share - basic and diluted	\$ (0.33)	\$ (0.32)	\$ (0.31)

During each of the years ended December 31, 2017, 2016 and 2015, we excluded the following securities from net loss per share as the effect of including them would have been anti-dilutive. The shares shown represent the number of shares of common stock which would be issued upon conversion in the respective years shown below (in thousands):

	<b>Year Ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Options outstanding and warrants exercisable	7,007	7,764	8,185
Nonvested restricted stock units	185	60	60
	<u>7,192</u>	<u>7,824</u>	<u>8,245</u>

#### Research and development

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. Research and development costs are expensed as incurred. We believe that a substantial level of continuing research and development expense will be required to further develop our technology.

#### 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 on the Statement of Operations (in thousands):

	<b>Year Ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Cost of product revenue	\$ 39	\$ 37	\$ 19
Research and development expense	546	350	282
Sales, marketing, general and administrative expense	703	836	706
	<u>\$ 1,288</u>	<u>\$ 1,223</u>	<u>\$ 1,007</u>

#### Reclassifications

Certain reclassifications have been made to prior year financial statements to conform to classifications used in the current year. These reclassifications had no impact on net loss, shareholders' equity or cash flows, as previously reported.

### 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 Financial Accounting Standards Board (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 shall be applied using a retrospective approach. As of December 31, 2017 and 2016, 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 have chosen to implement ASU 2014-09 as of January 1, 2018 using the full retrospective approach, meaning we will restate each prior reporting period presented. We have performed 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, in adopting ASU 2014-09, we expect the following significant changes to our financial statements:

- i. Timing of revenue recognition under the PicoP® scanning technology license agreement we signed with Sony in March 2015. Under current guidance, we have been 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, the entire \$8.0 million upfront license fee payment would have been recognized in the first quarter of 2015. The result of this change in timing will result in a decrease of \$7.2 million in our beginning 2016 accumulated deficit balance and a reduction in our short-term deferred revenue balance of \$1.0 million and long-term deferred revenue balance of \$6.1 million. Royalty revenue for each of the years ended December 31, 2016 and 2017 will be reduced by approximately \$1.0 million.
- ii. Timing of revenue recognition on product sales. Currently, we recognize revenue after expiration of the contractual acceptance period. Under the new guidance, we will recognize revenue when control of the product transfers to the buyer, which may occur before the expiration of the contractual acceptance period. The result of this change is a net decrease in our beginning 2016 accumulated deficit of \$527,000, as well as a shift in revenue and cost recognition to earlier quarters in 2016 and 2017.
- iii. Timing of revenue recognition on contract sales. Under ASU 2014-09, we will allocate the transaction price of a contract with a customer to the various performance obligations in a contract based on their relative standalone selling price. Our methodologies for estimating the standalone selling price of various performance obligations will be generally consistent with our previous methodologies used to establish VSOE of fair value on multiple element arrangements. In our analysis of development contracts, only one contract resulted in a change in the timing of revenue recognition based on the allocation of standalone selling prices. There is not a material change to the timing of revenue recognition on the \$24.0 million April 2017 contract.
- iv. Presentation of accounts receivable, contract assets, and contract liabilities (deferred revenue). Under ASU 2014-09, our rights to consideration are presented separately depending on whether those rights are conditional or unconditional. We will present our unconditional rights to consideration as "accounts receivable" in our Consolidated Balance Sheet. In contrast, separate "contract assets" will represent rights to consideration that are subject to a condition other than the passage of time, and will be comprised primarily of costs and estimated profits in excess of billings on uncompleted contracts and estimated accrued sales-based royalty revenue. Contract costs in excess of billing will be included in the "Costs and estimated earnings in excess of billings on uncompleted contracts" line of our Consolidated Balance Sheet, and sales-based royalties will be included in "Other current assets". This does not represent a change in presentation for contract fulfillment costs; however, for sales-based royalty revenue, this revenue was previously not recognized until quarterly royalty reporting had been received from Sony. Under ASU 2014-09, once quarterly royalty reporting has been received, the related contract assets will be transferred to accounts receivable.

### 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 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 through the first quarter of 2019 and an upfront payment of \$10.0 million, which payment has been received. As of December 31, 2017, we have received \$4.0 million in fees for development work. The remaining development fees would be paid contingent on completion of milestones in 2018 and the first quarter of 2019. 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.

In March 2015, we signed a license agreement with Sony for our PicoP® scanning technology. The license agreement granted Sony a non-exclusive license to our technology to incorporate into display modules it manufactures and sells for up to eight years. As part of the agreement, we received an \$8.0 million upfront license fee in March 2015, and we will receive ongoing per unit royalties for each display module it sells.



The following table summarizes the costs incurred on our revenue contracts (in thousands):

	<b>December 31,</b>	
	<b>2017</b>	<b>2016</b>
Costs and estimated earnings incurred on uncompleted contracts	\$ 4,680	\$ 193
Billings on uncompleted contracts	(4,005)	(236)
	<u>\$ 675</u>	<u>\$ (43)</u>
<b>Included in consolidated balance sheets under the following captions:</b>		
Costs and estimated earnings incurred on uncompleted contracts	\$ 680	\$ 125
Billings on uncompleted contracts in excess of related costs	(5)	(168)
	<u>\$ 675</u>	<u>\$ (43)</u>

#### 4. INVENTORY

Inventory consists of the following (in thousands):

	<b>December 31,</b>	
	<b>2017</b>	<b>2016</b>
Raw materials	\$ 53	\$ 999
Finished goods	4,488	234
	<u>\$ 4,541</u>	<u>\$ 1,233</u>

As of December 31, 2017, \$2.2 million of materials that are not expected to be consumed during the next twelve months are classified as "other assets" on the balance sheet.

We recorded inventory write-downs of \$1.0 million in 2017, \$187,000 in 2016, and \$287,000 in 2015.

#### 5. ACCRUED LIABILITIES

Accrued liabilities consists of the following (in thousands):

	<b>December 31,</b>	
	<b>2017</b>	<b>2016</b>
Bonuses	\$ 1,143	\$ 1,350
Adverse purchase commitments	500	500
Payroll and payroll taxes	631	398
Compensated absences	436	393
Warranty	153	316
Relocation	90	204
Deferred rent credit	37	158
Separation agreement	359	-
Prepayments from customers	1,738	-
Other	777	385
	<u>\$ 5,864</u>	<u>\$ 3,704</u>

#### 6. PROPERTY AND EQUIPMENT

Property and equipment consists of the following (in thousands):

	<b>December 31,</b>	
	<b>2017</b>	<b>2016</b>
Production equipment	\$ 6,573	\$ 4,580
Leasehold improvements	601	494
Computer hardware and software/lab equipment	5,515	4,968
Office furniture and equipment	1,304	1,096
	<u>13,993</u>	<u>11,138</u>
Less: Accumulated depreciation	(10,742)	(9,601)
	<u>\$ 3,251</u>	<u>\$ 1,537</u>

Depreciation expense was \$1.1 million in 2017, \$1.1 million in 2016, and \$429,000 in 2015. In the fourth quarter of 2016, we recorded additional depreciation expense of \$297,000, as a result of a change in the estimated useful life of production equipment to be replaced in connection with our current business strategy to sell LBS engines directly to ODMs and OEMs.

Capital leases are collateralized by the related assets financed and by security deposits held by the lessors under the lease agreements. The cost and accumulated depreciation of equipment under capital leases was \$704,000 in each of the years ended December 31, 2017 and 2016.

## 7. INTANGIBLE ASSETS

Our intangible assets consist exclusively of technology-based purchased patents. The gross value of our intangible assets was \$1.6 million in each of the years ended December 31, 2017 and 2016. Amortization expense was \$116,000 in 2017, \$127,000 in 2016, and \$128,000 in 2015. In 2017, 2016, and 2015 there were no impairments recorded and none of our patents were abandoned in prosecution. The following table outlines our estimated future amortization expense related to intangible assets held at December 31, 2017 (in thousands):

<b>Years Ended December 31,</b>	<b>Amount</b>
2018	\$ 115
2019	115
2020	98
2021	80
2022	71
Thereafter	123
	<u>\$ 602</u>

## 8. COMMON STOCK

In August 2017, we raised approximately \$11.5 million before issuance costs of approximately \$1.1 million through an underwritten public offering of 5.5 million shares of our common stock.

In August 2017, we raised approximately \$3.2 million before issuance costs of approximately \$26,000 through a private placement of 1.5 million shares of our common stock.

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 earlier financing transactions.

In May 2017, we entered into an ATM agreement with IFS Securities (DBA Brinson Patrick). During the second quarter of 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 second quarter of 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. Under the terms of the agreement, in September 2016, Lincoln Park made an initial purchase of \$2.0 million in shares of common stock at a purchase price of \$1.50 per share. The agreement was terminated in August 2017 at our election without penalty.

In December 2016, we raised approximately \$2.1 million before issuance costs of approximately \$18,000 through a registered direct offering of 2.0 million shares of our common stock.

In December 2016, we raised approximately \$13.0 million before issuance costs of approximately \$1.2 million through an underwritten public offering of approximately 12.1 million shares of our common stock.

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.

In May 2015, we entered into an ATM agreement with Meyers Associates, L.P. Under the terms of the agreement, we may, from time to time, at our discretion, offer and sell shares of our common stock having an aggregate value of up to \$6.0 million. As of December 31, 2016, we have received gross proceeds of approximately \$3.1 million before issuance costs of approximately \$109,000 from the sale of 1.2 million shares of our common stock. There were no sales under this agreement in 2017. The agreement was terminated in May 2017 in accordance with its terms without penalty.

During the year ended December 31, 2015, we received approximately \$3.3 million from the exercise of warrants to purchase 1.5 million shares of our common stock, which warrants were issued in connection with earlier financing transactions.

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

## 9. 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 earlier financing transactions.

The outstanding warrants to purchase 2.0 million shares of our common stock that we sold in our March 2014 offering have an exercise price of \$2.47 per share and expire on the fifth anniversary of the date of issuance.

The following table summarizes activity with respect to our common stock warrants for the periods shown below (in thousands):

	<b>Warrants to purchase common shares</b>	<b>Weighted- average exercise price</b>
<b>Outstanding at January 1, 2015</b>	6,526	\$ 3.08
Granted:		
Exercise price less than intrinsic value	-	-
Exercise price greater than intrinsic value	-	-
Exercised	(1,487)	2.19
Canceled/expired	-	-
<b>Outstanding at December 31, 2015</b>	<u>5,039</u>	3.34
Granted:		
Exercise price less than intrinsic value	-	-
Exercise price greater than intrinsic value	-	-
Exercised	-	-
Canceled/expired	(1,278)	6.24
<b>Outstanding at December 31, 2016</b>	<u>3,761</u>	2.23
Granted:		
Exercise price less than intrinsic value	-	-
Exercise price greater than intrinsic value	-	-
Exercised	(460)	1.97
Canceled/expired	(1,328)	1.97
<b>Outstanding at December 31, 2017</b>	<u><u>1,973</u></u>	\$ 2.47
<b>Exercisable at December 31, 2017</b>	<u><u>1,973</u></u>	\$ 2.47

There were no common stock warrants issued in 2017, 2016 or 2015.

The following table summarizes information about our common stock warrants outstanding and exercisable at December 31, 2017 (in thousands):

	Warrants outstanding			Warrants exercisable	
	Outstanding at December 31, 2017	Weighted-average remaining contractual term (in years)	Weighted-average exercise price	Exercisable at December 31, 2017	Weighted-average exercise price
Range of exercise prices					
\$1.92 - \$3.07	1,973	1.21	\$ 2.47	1,973	\$ 2.47
	<u>1,973</u>			<u>1,973</u>	

## 10. SHARE-BASED COMPENSATION

We use the straight-line attribution method to allocate the fair value of share-based compensation awards over the requisite service period for each award. The valuation of and accounting for share-based awards includes a number of complex and subjective estimates. These estimates include, but are not limited to, the future volatility of our stock price, future stock option exercise behaviors, estimated employee turnover, and award forfeiture rates.

### Description of Incentive Plans

We currently have two share-based incentive plans: the 2013 Incentive Plan; and the legacy Independent Director Stock Option Plan under which we no longer issue awards.

The 2013 Incentive Plan has 9.3 million shares authorized, of which 2.2 million shares were available for awards as of December 31, 2017. In June 2008, we determined not to issue additional options from the Independent Director Stock Option Plan. There were 9,000 shares relating thereto issued and outstanding as of December 31, 2017.

### Options Valuation Methodology and Assumptions

We use the Black-Scholes option valuation model to determine the fair value of options granted and use the closing price of our common stock as the fair market value of our stock on that date.

We consider historical stock price volatilities, volatilities of similar companies and other factors in determining estimates of future volatilities.

We use historical lives, including post-termination exercise behavior, as the basis for estimating expected lives.

Risk-free rates are based on the U.S. Treasury Yield Curve, as published by the U.S. Treasury.

The following table summarizes the weighted-average valuation assumptions and weighted-average grant date fair value of options granted during the periods shown below:

Assumptions (weighted-average)	Year Ended December 31,		
	2017	2016	2015
Volatility	79%	84%	98%
Expected term (in years)	4.0	4.0	4.0
Risk-free rate	1.6%	1.2%	1.3%
Expected dividends	0.0%	0.0%	0.0%
Pre-vest forfeiture rate	8.5%	8.5%	8.5%
Grant date fair value of options granted	\$ 1.03	\$ 1.12	\$ 2.20

## Options Activity and Positions

The following table summarizes activity and positions with respect to options for the periods shown below (in thousands):

Options	Shares	Weighted- average exercise price	Weighted- average remaining	Aggregate
			contractual term (in years)	intrinsic value
Outstanding as of January 1, 2015	2,427	\$ 6.72	7.4	\$ 18,700
Granted	849	3.23	-	-
Exercised	(23)	1.88	-	-
Forfeited or expired	(107)	13.98	-	-
Outstanding as of December 31, 2015	3,146	5.56	7.3	1,613
Granted	1,167	1.83	-	-
Exercised	(3)	1.77	-	-
Forfeited or expired	(307)	12.58	-	-
Outstanding as of December 31, 2016	4,003	3.94	7.3	4
Granted	1,724	1.76	-	-
Exercised	(46)	1.87	-	-
Forfeited or expired	(647)	6.09	-	-
Outstanding as of December 31, 2017	5,034	\$ 2.94	6.6	\$ 53
Vested and expected to vest as of December 31, 2017	4,729	\$ 3.00	6.4	\$ 49
Exercisable as of December 31, 2017	2,555	\$ 3.90	4.5	\$ 25

The intrinsic value of options exercised during the year ended December 31, 2017 was \$40,000 compared to \$3,000 in 2016 and \$29,000 in 2015.

The total grant date fair value of options vested during the years ended December 31, 2017, 2016 and 2015 was \$1.0 million, \$998,000, and \$591,000, respectively. As of December 31, 2017, our unrecognized share-based compensation was \$2.3 million related to options, which we plan to amortize over the next 2.7 years.

As of December 31, 2017, our unrecognized share-based compensation related to the RSUs was \$244,000, which we plan to amortize over the next 3.1 years.

## 11. 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 legal proceedings that management believes are reasonably possible to have a material adverse effect on our financial position, results of operations or cash flows.

### Purchase commitments

At December 31, 2017, we have \$4.8 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.

### Lease commitments

We lease our office space and certain equipment under operating leases with initial or remaining terms in excess of one year. Future minimum rental commitments under operating leases for years ending December 31, are as follows (in thousands):

Years Ended December 31,	<b>Operating leases</b>
2018	\$ 625
2019	652
2020	666
2021	676
2022	696
Thereafter	175
Total minimum lease payments	<u>\$ 3,490</u>

Net rent expense was \$531,000 in 2017, \$483,000 in 2016, and \$465,000 in 2015.

### Adverse purchase commitments

We have periodically entered into noncancelable purchase contracts in order to ensure the availability of materials to support production of our products. We continuously assess our outstanding commitments and recognize a loss on purchase commitments, when required, if such commitments are in excess of our product needs or the costs are not expected to be recoverable. As of December 31, 2017, we have \$500,000 accrued for commitments to purchase materials for the discontinued SHOWWX<sup>TM</sup> pico projector that were in excess of estimated future proceeds from sales of that product.

## **12. INCOME TAXES**

A provision for income taxes has not been recorded for 2017, 2016 and 2015, due to the valuation allowances placed against the net operating losses and deferred tax assets arising during such periods. A valuation allowance has been recorded for all deferred tax assets. Based on our history of losses since inception, the available objective evidence creates sufficient uncertainty regarding the realizability of the deferred tax assets.

At December 31, 2017, we have net operating loss carryforwards of approximately \$391.5 million for federal income tax reporting purposes. In addition, we have research and development tax credits of \$7.4 million. The net operating loss carryforwards and research and development credits available to offset future taxable income, if any, will expire in varying amounts from 2018 to 2037, if not previously used.

On December 22, 2017, legislation commonly known as the Tax Cuts and Jobs Act, or the Tax Act, was signed in to law. The Tax Act, among other changes, reduces the U.S. federal corporate tax rate from 35% to 21%, requires taxpayers to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and creates new taxes on certain foreign sourced earnings. On December 31, 2017, we did not have any foreign subsidiaries and the international aspects of the Tax Act are not applicable.

In connection with the initial analysis of the impact of the Tax Act, we remeasured certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally 21%. As a result, we recorded a decrease in net deferred tax assets of \$64.3 million with a corresponding net adjustment to deferred income tax expense of \$64.3 million. These adjustments were fully offset by a decrease in the valuation allowance for the year ended December 31, 2017. We have completed and recorded the adjustments necessary under Staff Accounting Bulletin No. 118 related to the Tax Act.

In certain circumstances, as specified in the Internal Revenue Code, a 50% or more ownership change by certain combinations of our shareholders during any three year period would result in limitations on our ability to use a portion of our net operating loss carryforwards.

Deferred tax assets are summarized as follows (in thousands):

	<b>December 31,</b>	
	<b>2017</b>	<b>2016</b>
Deferred tax assets		
Reserves	\$ 1,561	\$ 2,351
Net operating loss carryforwards	82,210	126,335
R&D credit carryforwards	7,435	6,998
Depreciation/amortization deferred	13,005	20,024
Deferred revenue	1,081	2,091
Other	5,944	9,045
Net deferred taxes before valuation allowance	111,236	166,844
Less: Valuation allowance	(111,236)	(166,844)
Deferred tax assets	<u>\$ -</u>	<u>\$ -</u>

Certain net operating losses arise from the deductibility for tax purposes of compensation under nonqualified stock options equal to the difference between the fair value of the stock on the date of exercise and the exercise price of the options. For financial reporting purposes, the tax effect of this deduction, when recognized, is accounted for as a credit to shareholders' equity.

We did not have any unrecognized tax benefits at December 31, 2017 or 2016.

We recognize interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2017, 2016, and 2015, we did not recognize any interest or penalties.

We file income tax returns in the U.S. federal jurisdiction and various states. Due to our operating loss and credit carryforwards, the U.S. federal statute of limitations remains open for 1998 and onward.

### 13. RETIREMENT SAVINGS PLAN

We have a retirement savings plan that qualifies under Internal Revenue Code Section 401(k). The plan covers all qualified employees. Contributions to the plan are made at the discretion of our Board of Directors. During the years ended December 31, 2017, 2016, and 2015 we contributed \$278,000, \$214,000, and \$108,000 to the plan, respectively.

### 14. QUARTERLY FINANCIAL INFORMATION (Unaudited)

The following table summarizes our unaudited quarterly financial information for the periods shown below (in thousands, except per share data):

	<b>Fiscal Year 2017</b>			
	<b>December 31,</b>	<b>September 30,</b>	<b>June 30,</b>	<b>March 31,</b>
Revenue	\$ 2,560	\$ 6,086	\$ 1,453	\$ 792
Gross profit	10	243	508	254
Net loss	(7,861)	(5,241)	(5,494)	(5,647)
Net loss per share, basic and diluted	(0.10)	(0.07)	(0.08)	(0.08)

  

	<b>Fiscal Year 2016</b>			
	<b>December 31,</b>	<b>September 30,</b>	<b>June 30,</b>	<b>March 31,</b>
Revenue	\$ 2,905	\$ 4,000	\$ 4,155	\$ 3,701
Gross profit	505	1,207	1,563	1,112
Net loss	(5,370)	(4,070)	(3,476)	(3,553)
Net loss per share, basic and diluted	(0.09)	(0.08)	(0.07)	(0.07)

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There have been no changes in or disagreements with accountants on accounting or financial disclosure matters during our fiscal years ended December 31, 2017, 2016 and 2015.

### ITEM 9A. CONTROLS AND PROCEDURES

(a) *Evaluation of Disclosure Controls and Procedures.* Our Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) evaluated our disclosure controls and procedures (as defined in Rules 13a-15(e)) under the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), prior to the filing of this Form 10-K. Based upon that evaluation, our CEO and CFO concluded that, as of December 31, 2017, our disclosure controls and procedures were effective.

(b) *Management's Report on Internal Control Over Financial Reporting.* Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Our management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its evaluation under the framework in *Internal Control - Integrated Framework (2013)*, our management concluded that our internal control over financial reporting was effective as of December 31, 2017.

(c) *Limitations on the Effectiveness of Controls.* Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The effectiveness of our internal control over financial reporting as of December 31, 2017 has been audited by Moss Adams LLP, an independent registered public accounting firm, as stated in its report, which is included herein.

(d) *Changes in Internal Control Over Financial Reporting.* There was no change in our internal control over financial reporting during the quarter ended December 31, 2017 which has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of  
MicroVision, Inc.

### ***Opinion on Internal Control over Financial Reporting***

We have audited MicroVision, Inc.'s (the "Company") internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). In our opinion, the Company maintained, in all material respects, effective control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of MicroVision, Inc. as of December 31, 2017 and 2016, the related consolidated statements of operations, shareholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 2017, and the related notes and schedule (collectively referred to as the "consolidated financial statements") and our report dated February 23, 2018, expressed an unqualified opinion on those consolidated financial statements and included an explanatory paragraph relating to going concern uncertainty.

### ***Basis for Opinion***

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting included in Item 9A. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### ***Definition and Limitations of Internal Control Over Financial Reporting***

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Moss Adams LLP

Seattle, Washington  
February 23, 2018

## ITEM 9B. OTHER INFORMATION

None.

### PART III.

## ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

### Executive Officers

Information regarding executive officers is included in Part I of this Annual Report on Form 10-K in Item 4A.

### Directors

We seek individuals to serve as directors with established strong professional reputations, sophistication and experience in strategic planning, leadership, business management, innovation and in substantive areas that affect our business such as: technology development; sourcing, manufacturing and operations; financing; finance and accounting; business operations; government contracts; intellectual property strategy and licensing; legal and regulatory; and sales and marketing. We believe that each of our current directors possesses the professional and personal qualifications necessary for Board service and have highlighted particularly noteworthy attributes for each director in the individual biographies below.

Set forth below are the name, position held and age of each of the directors of the Company. The principal occupation and recent employment history of each director is described below.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Robert P. Carlile (1)(2)*	62	Director
Yalon Farhi	56	Director
Slade Gorton (1) (3)*	90	Director
Perry M. Mulligan	60	Director and Chief Executive Officer
Berne D.L. Strom (1)(2)*	70	Director
Brian Turner (2) (3)*	58	Chairman of the Board and Lead Independent Director
Thomas M. Walker (3)*	53	Director

\* Independent Director

(1) Member of the Compensation Committee

(2) Member of the Audit Committee

(3) Member of the Nominating Committee

Perry M. Mulligan has served as a director of the Company since January 2010 and Chief Executive Officer of the Company since November 2017. Mr. Mulligan has over 30 years of experience in operations and supply chain management. Mr. Mulligan was formerly Senior Vice President of Operations for Emulex Corporation where he oversaw Emulex operations, including IT, facilities, supplier management, test engineering and logistics from July 2013 to June 2015. Mr. Mulligan served as Senior Vice President, Operations for QLogic from October 2007 to June 2013, where he was responsible for all aspects of the manufacturing and delivery of products to the customer in addition to overall supply chain design and manufacturing strategy. Prior to QLogic, Mr. Mulligan was at Solectron from May 2004 to September 2007, where he held the position of Senior Vice President Supply Chain Management and Chief Procurement Officer and was responsible for establishing the overall materials and supply chain strategy. Mr. Mulligan brings extensive experience and knowledge in developing and setting up worldwide manufacturing and sourcing operations and overall supply chain strategy. Mr. Mulligan has an MBA from the University of Western Ontario.

Robert P. Carlile, a retired partner at KPMG LLP, joined the Company's board in February 2017. In his 39-year career in public accounting at KPMG and Arthur Andersen, Mr. Carlile served as the lead audit partner on numerous public company engagements operating across different industries including technology, retail, transportation, bio-science, and manufacturing. He worked directly with boards of directors and audit committees of these companies on audits of financial statements and internal controls, registration statements and assistance with mergers, acquisitions and dispositions. In addition to his experience as a lead audit partner Mr. Carlile held a variety of operating leadership positions at KPMG and Arthur Andersen in the Pacific Northwest. In these roles he was responsible for establishing market strategy, fostering community relationships and accomplishing operating results. Mr. Carlile brings expertise to the board in the areas of auditing, accounting and financial reporting, internal controls and corporate governance.

Yalon Farhi joined the Company's board in September 2016. Since 1998, Mr. Farhi, a Colonel in the Israeli Defense Forces (reserves), has served as a motivational lecturer and educator at Bnei-David Institutions, a pre-army and post-army educational program in Israel. From 1998 to January 2016, Mr. Farhi worked as an administrative manager for El-Ami, a non-governmental organization in Israel. Mr. Farhi also serves on the board of directors of DarioHealth Corp., a provider of digital health services. In addition, for the past thirty years, Mr. Farhi has been the owner of a private gardening and land development services company based in Israel. Mr. Farhi received a degree in Education Studies and holds a Teaching Certificate from the Moreshet Yaacov College in Jerusalem. Mr. Farhi brings expertise to the board in international business.

Slade Gorton has served as a director of the Company since September 2003. Mr. Gorton is Of Counsel at the law firm of K&L Gates, LLP. Prior to joining the firm, he represented Washington State in the United States Senate for 18 years. Mr. Gorton began his political career in 1958 as a Washington State Representative and went on to serve as State House Majority Leader. Mr. Gorton served as Attorney General of Washington from 1969-1981, and during that time, he argued 14 cases before the United States Supreme Court. After leaving the Senate, Mr. Gorton served as a Commissioner on the National Commission on Terrorist Attacks Upon the United States ("9-11 Commission"); as a member of the National War Powers Commission and is Co-Chairman of the National Transportation Policy Project. Mr. Gorton also served in the U.S. Army, U.S. Air Force, and the U.S. Air Force Reserves. Mr. Gorton is a former Director of Clearwire, Inc. From his positions as an attorney, in business and government, and prior history as a director of the Company, Mr. Gorton brings expertise in legal matters, corporate governance, general leadership and the Company's business and technology involvement.

Bernece D.L. Strom has served as a director of the Company since October 2017. Ms. Strom has over 25 years of experience in executive management, marked by advisory roles and board memberships at Polaroid Corporation, Hughes Electronics/DirecTV, Benchmark Electronics and other public and privately held companies. Since April 2015, Ms. Strom has served as a Senior Advisor to Seattle-based investment bank Cascadia Capital and SkyLIFE Technologies. From 2008 to 2014 Ms. Strom was Chairman and CEO of WebTuner Corp., continuing as Chairman until 2015. Ms. Strom has also served as Chairman and CEO of Strom Group, an investment, management consulting, and business advisory firm focused on high technology companies. Prior to that, Ms. Strom founded or ran Gemstar/TV Guide International (now part of TIVO), Priceline.com, and USA Digital Radio (now HD Radio). Further, she was a founding partner of Revitalization Partners, a Seattle-based business advisory firm. Ms. Strom was named one of the leading business women of the State of Washington with its Lead Where You Land award and is the recipient of many other awards and recognition for her mentorship, entrepreneurship and leadership in both commercial and civic organizations.

Brian Turner has served as a director of the Company since July 2006 and currently serves as Chairman of the Board and Lead Independent Director. Mr. Turner was the Chief Financial Officer of Coinstar Inc. from 2003 until June 2009. Prior to Coinstar, from 2001 to 2003, he served as Senior Vice President of Operations, Chief Financial Officer and Treasurer of Real Networks, Inc., a digital media and technology company. Prior to Real Networks, from 1999 to 2001, Mr. Turner was employed by BSquare Corp., a software company, where he initially served as Senior Vice President of Operations, Chief Financial Officer and Secretary, before being promoted to President and Chief Operating Officer. From 1995 to 1999, Mr. Turner was Chief Financial Officer and Vice President of Administration of Radisys Corp., an embedded software company. Mr. Turner's experience also includes 13 years at PricewaterhouseCoopers LLP where he held several positions including Director, Corporate Finance. Mr. Turner sits on various private company boards as well as on the board of Cray, Inc., a public company. Mr. Turner brings financing expertise and knowledge of operational finance and accounting to the Board.

Thomas M. Walker has served as a director of the Company since November 2013. Mr. Walker served as Executive Vice President of the Company from December 2012 through November 2013. Mr. Walker served as Vice President, General Counsel and Secretary of the Company from May 2002 to December 2012. Prior to joining MicroVision, Mr. Walker served as Senior Vice President, General Counsel and Secretary of Advanced Radio Telecom Corp., a publicly held telecommunications company where he managed domestic and international legal affairs from April 1996 to April 2002. Prior to that, Mr. Walker advised publicly and privately held businesses while practicing in the Los Angeles offices of the law firms of Pillsbury Winthrop and Buchalter Nemer Fields and Younger. Mr. Walker holds a B.A. from Claremont McKenna College and a J.D. from the University of Oregon. Mr. Walker has an in depth knowledge of the Company's business from his time spent as an executive of the Company and also brings an understanding of corporate governance and relevant legal topics to the Board.

#### **Board Meetings and Committees**

Our Board of Directors met seven times during 2017. All directors attended at least 75% of the meetings of the Board and meetings of the Board committees on which they served. We have adopted a policy that each of our directors be requested to attend our Annual Meeting each year. All directors attended our annual meeting in 2017.

#### ***Independence Determination***

No director will be deemed to be independent unless the Board affirmatively determines that the director has no material relationship with the Company, directly or as an officer, share owner, or partner of an organization that has a relationship with the Company. The Board observes all criteria for independence set forth in the NASDAQ listing standards and other governing laws and regulations.

In its annual review of director independence, the Board considers all commercial, banking, consulting, legal, accounting, charitable, or other business relationships any director may have with us. As a result of its annual review, the Board has determined that all of the directors, with the exception of Mr. Mulligan and Mr. Farhi, are independent (the "Independent Directors"). The Independent Directors are identified by an asterisk in the table above.

The NASDAQ listing standards have both objective tests and a subjective test for determining who is an "independent director." The objective tests state, for example, that a director is not considered independent if he or she is our employee or is a partner in or executive officer of an entity to which we made, or from which we received, payments in the current or any of the past three fiscal years that exceed 5% of the recipient's consolidated gross revenue for that year. The subjective test states that an independent director must be a person who lacks a relationship that, in the opinion of the Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. None of the non-employee directors were disqualified from "independent" status under the objective tests. In assessing independence under the subjective test, the Board took into account the standards in the objective tests, and reviewed and discussed additional information provided by the directors and us with regard to each director's business and personal activities as they may relate to us and our management. Based on all of the foregoing, as required by NASDAQ rules, the Board made a subjective determination as to each Independent Director that no relationship exists which, in the opinion of the Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. The Board has not established categorical standards or guidelines to make these subjective determinations, but considers all relevant facts and circumstances.

In addition to the Board-level standards for director independence, the directors who serve on the Audit Committee each satisfy standards established by the SEC providing that to qualify as "independent" for purposes of membership on that Committee, members of audit committees may not accept, directly or indirectly any consulting, advisory, or other compensatory fee from us other than their director compensation.

#### ***Board's Role in Risk Oversight***

It is management's responsibility to manage risk and bring to the Board's attention risks that are material to the Company. The Board has oversight responsibility of the processes established to report and monitor systems for the most significant risks applicable to the Company. The Board administers its risk oversight role directly and through its committee structure and the committees' regular reports to the Board at Board meetings. The Board reviews strategic, financial and execution risks and exposures associated with the annual plan and multi-year plans, major litigation and other matters that may present material risk to our operations, plans, prospects or reputation; acquisitions and divestitures and senior management succession planning.

### ***Board Expertise and Diversity***

The Nominating Committee seeks to have a Board that represents diversity as to experience, gender, race and ethnicity, but does not have a formal policy with respect to diversity. We seek a Board that reflects a range of talents, ages, skills, viewpoints, professional experience, educational background and expertise to provide sound and prudent guidance with respect to our operations and interests. All of our directors are financially literate, and three members of our Audit Committee are audit committee financial experts.

### ***Board Leadership Structure***

Our Board annually elects a Chairman of the Board. The Board has chosen to separate the roles of Chairman and Chief Executive Officer. Mr. Turner currently serves as Chairman and Lead Independent Director. In this role, among other duties, Mr. Turner meets with our Chief Executive Officer and with senior officers as necessary, schedules and presides at meetings of the Board, including meetings of the Independent Directors, serves as a liaison between the Board and our management, approves meeting schedules and agendas, and undertakes other responsibilities designated by the Board. The Board believes that the separate roles of Mr. Mulligan as Chief Executive Officer and Mr. Turner as Chairman and Lead Independent Director currently well serve the interests of us and our shareholders. Mr. Mulligan can devote his attention to leading the Company and focus on our business strategy. The Board believes that Mr. Turner provides an appropriate level of independence in the Company's leadership through his review and approval of meeting agendas and his leadership of the Board.

### ***Committees***

The Board of Directors has an Audit Committee, a Compensation Committee, and a Nominating Committee. The Board of Directors has adopted a written charter for each of the Audit Committee, Compensation Committee and Nominating Committee. The full text of each charter is available on our website located at [www.microvision.com](http://www.microvision.com).

#### ***The Audit Committee***

The Board has an Audit Committee which assists the Board by monitoring and overseeing: (1) our accounting and financial reporting processes and the audits of our financial statements, (2) the integrity of our financial statements, (3) our compliance with legal and regulatory requirements, and (4) the performance of our internal finance and accounting personnel and our independent auditors. The Audit Committee conducts discussions related to our earnings announcements and periodic filings, as well as numerous other informal meetings and communications among the Chair, various Audit Committee members, the independent auditors and/or members of our management. Robert P. Carlile, Bernee D.L. Strom and Brian Turner currently serve on the Audit Committee, with Mr. Carlile serving as Chairman. The Audit Committee met four times during 2017.

Among other matters, the Audit Committee monitors the activities and performance of our external auditors, including the audit scope, external audit fees, auditor independence matters and the extent to which the independent auditor may be retained to perform non-audit services. The Audit Committee and the Board of Directors have ultimate authority and responsibility to select, evaluate and, when appropriate, replace our independent auditor. The Audit Committee also reviews the results of the external audit work with regard to the adequacy and appropriateness of our financial accounting and internal controls. Management and independent auditor presentations to and discussions with the Audit Committee also cover various topics and events that may have significant financial impact or are the subject of discussions between management and the independent auditor. In addition, the Audit Committee generally oversees our internal financial controls and financial disclosure procedures.

The "audit committee financial experts" designated by the Board are Bernee D.L. Strom, Robert P. Carlile and Brian Turner, each an independent director. Ms. Strom has over 25 years of executive management experience, marked by advisory roles and board memberships on both publicly and privately held companies. Mr. Carlile has thirty-nine years of experience in various roles in Public Accounting at KPMG and Arthur Andersen. Mr. Turner has eight years of experience as a chief financial officer of three public companies and has thirteen years of experience in various roles at PricewaterhouseCoopers LLP, including Director, Corporate Finance. Mr. Turner has been actively involved in and has supervised the preparation of financial statements that present a breadth and complexity of issues comparable to accounting issues raised by our financial statements.

#### ***The Compensation Committee***

The Compensation Committee makes decisions on behalf of, and recommendations to, the Board regarding salaries, incentives and other forms of compensation for directors, officers, and other key employees, and administers policies relating to compensation and benefits. The Compensation Committee also serves as the Plan Administrator for our stock option plans pursuant to authority delegated by the Board. Slade Gorton, Bernee D.L. Strom, and Robert P. Carlile currently serve as members of the Compensation Committee, with Ms. Strom serving as chairperson. The Compensation Committee met four times during 2017.

### *The Nominating Committee*

The Nominating Committee counsels the Board of Directors with respect to Board and committee structure and membership. In fulfilling its duties, the Nominating Committee, among other things, will:

- establish criteria for nomination to the Board and its committees, taking into account the composition of the Board as a whole;
- identify, review, and recommend director candidates for the Board;
- recommend directors for election at the annual meeting of shareholders and to fill new or vacant positions;
- establish policies with respect to the process by which our shareholders may recommend candidates to the Nominating Committee for consideration for nomination as a director;
- assess and monitor, with Board involvement, the performance of the Board; and
- recommend directors for membership on Board Committees.

Thomas Walker, Slade Gorton and Brian Turner currently serve as members of the Nominating Committee, with Mr. Turner serving as Chairman. The Nominating Committee met once during 2017.

The Nominating Committee will consider recommendations for directorships submitted by shareholders, or groups of shareholders, that have beneficially owned at least 5% of our outstanding shares of common stock for at least one year prior to the date the nominating shareholder submits a candidate for nomination as a director. A nominating shareholder or group of nominating shareholders may submit only one candidate for consideration. Shareholders who wish the Nominating Committee to consider their recommendations for nominees for the position of director should submit their request in writing no later than the 120th calendar day before the anniversary of the date of the prior year's annual meeting proxy statement was released to shareholders. Such written requests should be submitted to the Nominating Committee care of the Corporate Secretary, MicroVision, Inc., 6244 185th Avenue NE, Suite 100, Redmond, Washington 98052, and must contain the following information:

- The name, address, and number of shares of common stock beneficially owned by the nominating shareholder and each participant in a nominating shareholder group (including the name and address of all beneficial owners of more than 5% of the equity interests of a nominating shareholder or participant in a nominating shareholder group);
- A representation that the nominating shareholder, or nominating shareholder group, has been the beneficial owner of more than 5% of our outstanding shares of common stock for at least one year and will continue to beneficially own at least 5% of our outstanding shares of common stock through the date of the annual meeting;
- A description of all relationships, arrangements, or understandings between or among the nominating shareholder (or any participant in a nominating shareholder group) and the candidate or any other person or entity regarding the candidate, including the name of such person or entity;
- All information regarding the candidate that we would be required to disclose in a proxy statement filed pursuant to the rules and regulations of the SEC with respect to a meeting at which the candidate would stand for election;
- Confirmation that the candidate is independent, with respect to the Company, under the independence requirements established by us, the SEC, and NASDAQ listing requirements, or, if the candidate is not independent with respect to the Company under all such criteria, a description of the reasons why the candidate is not independent;
- The consent of the candidate to be named as a nominee and to serve as a member of the Board if nominated and elected;
- A representation signed by the candidate that if elected he or she will: (1) represent all shareholders of the Company in accordance with applicable laws, and our certificate of incorporation, by-laws, and other policies; (2) comply with all rules, policies, or requirements generally applicable to non-employee directors; and (3) upon request, complete and sign customary Directors and Officers Questionnaires.

In its assessment of each potential candidate, the Nominating Committee will review the nominee's judgment, experience, independence, understanding of our or other related industries and such other factors the Nominating Committee determines are pertinent in light of the current needs of the Board. The Nominating Committee will also take into account the ability of a director to devote the time and effort necessary to fulfill his or her responsibilities.

Nominees may be suggested by directors, members of management, and, as described above, by shareholders. In identifying and considering candidates for nomination to the Board, the Nominating Committee considers, in addition to the requirements set out in the Nominating Committee charter, quality of experience, our needs and the range of talent and experience represented on the Board.

#### **Shareholder Communication with the Board of Directors**

We have adopted written procedures establishing a process by which our shareholders can communicate with the Board of Directors regarding various topics related to the Company. A shareholder desiring to communicate with the Board, or any individual director, should send his or her written message to the Board of Directors (or the applicable director or directors) care of the Corporate Secretary, MicroVision, Inc., 6244 185th Avenue NE, Suite 100, Redmond, Washington 98052. Each submission will be forwarded, without editing or alteration, by the Secretary of the Company to the Board, or the applicable director or directors, on or prior to the next scheduled meeting of the Board. The Board will determine the method by which such submission will be reviewed and considered. The Board may also request the submitting shareholder to furnish additional information it may reasonably require or deem necessary to sufficiently review and consider the submission of such shareholder.

#### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires that our directors, executive officers, and greater-than 10% shareholders file reports with the SEC relating to their initial beneficial ownership of our securities and any subsequent changes. They must also provide us with copies of the reports.

Based solely on a review of the copies of such forms in our possession, and on written representations from reporting persons, we believe that all of these reporting persons complied with their filing requirements during 2017.

#### **Code of Ethics**

We have adopted a code of ethics applicable to all of our executive officers, known as the Code of Ethics for MicroVision Executives. We have also adopted a code of conduct applicable to our directors, officers, and employees, known as the Code of Conduct. The Code of Ethics for MicroVision Executives and the Code of Conduct are available on our website. In the event that we amend or waive any of the provisions of the Code of Ethics for MicroVision Executives we intend to disclose the same on our website at [www.microvision.com](http://www.microvision.com).

### **ITEM 11. EXECUTIVE COMPENSATION**

#### **Compensation Discussion and Analysis**

##### *Executive Compensation Objectives*

The Company's executive compensation program is designed to attract, retain, motivate and recognize high-performance executive officers. The Compensation Committee is responsible for and oversees the Company's compensation program. The Company's philosophy is to provide compensation programs that incentivize and reward both the short- and long-term performance of the executive officers relative to the Company's performance. Thus, the Compensation Committee utilizes compensation components that measure overall Company performance, including performance against the Company's annual strategic operating plan. In addition, the Compensation Committee seeks to align the interests of the Company's executive officers with its shareholders.

##### *Executive Compensation Components*

**Overview.** The principal elements of the Company's compensation are base salary, incentive bonus awards, and equity awards. The Company's executive compensation policy recognizes that stock price is only one measure of performance, and given industry business conditions and the long-term strategic direction and goals of the Company, it may not necessarily be the best current measure of executive performance. Thus, the Compensation Committee considers the median level of compensation of its peer group and the achievement of the Company's business objectives when determining executive compensation.

**Base Salary.** Base salaries for the named executive officers are primarily based on the position, taking into account competitive market compensation paid by other companies in the Company's peer group for similar positions. Recommendations from management regarding each named executive officer's base salary based on management's evaluation of the executive officer's performance are also taken into account.

As with total executive compensation, the Compensation Committee believes that executive base salaries should generally target the median base salary of the Company's peer group. Each named executive officer's base salary is also determined by reviewing the other components of the executive officer's compensation to ensure that the total compensation is in line with the Compensation Committee's overall compensation philosophy.

Salaries for 2017 were based on the compensation objectives mentioned above and, in the case of Messrs. Tokman and Mulligan, their employment agreements. Base salary rates in 2017 for Messrs. Tokman, Mulligan, Holt, Zimmerman, Westgor and Sharma were \$375,000, \$350,000, \$255,905, \$227,990, \$232,032 and \$240,000, respectively. Mr. Tokman resigned as Chief Executive Officer and Director of the Company on November 13, 2017 but continued serving as President through December 31, 2017 and, in that capacity, continued to earn the same base salary. Mr. Mulligan was appointed as Chief Executive Officer, in addition to his role as a Director of the Company, effective November 13, 2017.

**Incentive Bonus.** The Compensation Committee believes that a portion of an executive officer's total compensation, an incentive bonus, should be based on the Company's performance. The Compensation Committee believes that structuring a significant portion of each executive officer's annual cash compensation as an incentive bonus, and the contingent nature of that compensation, induces an executive officer to execute on both the short- and long-term goals of the Company. It has structured the executive compensation program to reflect this philosophy by creating an incentive bonus framework that translates Company financial and operational performance into incentive bonuses.

Each of the named executive officers is eligible for an annual incentive bonus. The amount of the bonus depends generally on the level of Company performance, with a target set as a percentage of base salary. The Compensation Committee approves the target bonus percentages and the actual bonus awards for all executive officers. Target bonus percentages are set to be approximately at the median of the Company's peer group.

In 2017, the Compensation Committee approved 65% as a target bonus award (as a percentage of base salary) for Mr. Tokman, 65% as a target bonus for Mr. Mulligan, and 40% as a target bonus for each of the other named executive officers. The amount of the bonus actually awarded to executives is determined solely in the discretion of the Compensation Committee for all executive officers. Based on its review of management's evaluation of the Company's performance in 2017, the Compensation Committee, using its discretionary authority, determined that each named executive officer employed by the Company should receive approximately 70% of his target incentive bonus. Bonuses awarded in 2017 to Messrs. Mulligan, Holt, Zimmerman, Westgor and Sharma were \$25,000, \$72,500, \$65,000, \$67,000 and \$70,000, respectively. Mr. Mulligan's bonus was prorated for 2017. Mr. Tokman will receive an amount equal to \$196,000 pursuant to the Letter Agreement described below, which represents his target bonus amount for 2017.

**Equity Awards.** The Compensation Committee believes that equity participation is a key component of the Company's executive compensation program. Equity awards are designed to attract and retain executive officers and to motivate them to enhance shareholder value by aligning the financial interests of executive officers with those of shareholders. Each year the Compensation Committee reviews the size and composition of the equity grants to ensure that they are aligned with the Company's philosophy of compensating executives at the median of the Company's peer group. Similar to base salary, a review of equity award levels is conducted to ensure that a named executive officer's equity compensation comports with the Compensation Committee's overall philosophy and objectives and is competitive with the Company's peer group.

The Compensation Committee's practice is to make annual equity awards as part of its overall philosophy of performance-based compensation. Restricted stock units and stock options are awarded by the Compensation Committee to executive officers based on a philosophy of providing equity incentives at the median of the Company's peer group.

In 2017, Messrs. Tokman, Mulligan, Holt, Zimmerman, Westgor and Sharma were awarded options to purchase 150,000, 125,000, 65,000, 65,000, 65,000 and 130,000 shares of the Company's common stock, respectively.

#### ***Tax Deductibility of Compensation***

Limitations on the deductibility of compensation may occur under Section 162(m) of the Internal Revenue Code of 1986, which generally limits a public company's tax deduction for compensation paid to its named executive officers to \$1 million in any year. The Compensation Committee takes into consideration various factors, which may from time to time may include tax deductibility, in making executive compensation decisions and may, from time to time, approve and authorize compensation that is not fully tax deductible.



**Processes and Procedures**

*Role of the Compensation Committee and the Chief Executive Officer in the Compensation Process* The Chief Executive Officer, with the assistance and support of the human resources department and other members of management, provides recommendations regarding the compensation of the executive officers, including himself. The Compensation Committee considers these recommendations and consults with the Chief Executive Officer and other members of management as to his recommendations for the executive officers. The Compensation Committee considers the Chief Executive Officer's recommendations, together with the Compensation Committee's philosophy, objectives and market data in approving these recommendations.

*Role of Compensation Consultants in the Compensation Process.* The Compensation Committee's charter provides the Compensation Committee with the authority to retain a compensation consulting firm in its discretion.

*Role of Say-on-Pay Advisory Votes in the Compensation Process* The Compensation Committee and the Board value the views of our shareholders and consider the outcome of "say-on-pay" votes when determining future compensation arrangements for our named executive officers. "Say-on-pay" votes are non-binding, advisory votes on the compensation of our named executive officers.

**Compensation Committee Report**

The Compensation Committee has reviewed and discussed this Compensation Discussion and Analysis with management. Based on the review and discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Annual Report on Form 10-K for filing with the Securities and Exchange Commission.

Compensation Committee  
 Slade Gorton  
 Bernice D.L. Strom (Chairperson)  
 Robert P. Carlile

**Summary Compensation Table for 2017**

We refer to each person who served as Chief Executive Officer of the Company in 2017, the Company's Chief Financial Officer, and the Company's four other executive officers as of December 31, 2017 collectively as "named executive officers." This table shows certain information about the compensation we paid each of the Company's named executive officers.

Name and Principal Position	Fiscal Year	Salary	Bonus (5)	Stock Awards (6)	Option Awards (6)	All Other Compensation (7)(8)	Total
Alexander Y. Tokman (1)(2) Former President, Chief Executive Officer and Director	2017	\$ 403,053	\$ 165,822	\$ -	\$ 147,719	\$ 9,087	\$ 725,681
	2016	364,443	177,666	10,934	232,227	7,622	792,892
	2015	362,360	140,528	-	444,209	3,464	950,561
Perry M. Mulligan (1)(3) Chief Executive Officer and Director	2018	-	25,000	-	-	-	25,000
	2017	93,728	-	215,750	114,119	75,672	499,269
Stephen P. Holt Chief Financial Officer	2018	-	72,500	-	-	-	72,500
	2017	230,186	62,770	-	64,012	6,215	363,183
	2016	221,459	65,295	-	58,057	7,399	352,210
Dale E. Zimmerman Vice President, Research and Development	2015	214,942	50,676	-	111,052	2,336	379,006
	2018	-	65,000	-	-	-	65,000
	2017	226,123	62,583	-	64,012	-	352,718
David J. Westgor Vice President, General Counsel and Secretary	2016	220,798	65,700	-	58,057	-	344,555
	2015	216,583	41,840	-	111,052	-	369,475
	2018	-	67,000	-	-	-	67,000
Sumit Sharma(4) Vice President, Engineering & Operations	2017	227,194	61,718	-	64,012	6,954	359,878
	2016	217,745	64,200	-	58,057	5,549	345,551
	2015	210,250	49,200	-	111,052	2,026	372,528
	2018	-	70,000	-	-	-	70,000
	2017	213,333	60,600	-	128,023	5,143	407,099

- (1) Effective November 13, 2017, Mr. Tokman resigned as Chief Executive Officer and Director of MicroVision, Inc. and Mr. Mulligan was appointed as Chief Executive Officer, in addition to his role as Director of the Company. Mr. Tokman served as President through the end of 2017 to assist with the transition. Compensation for Mr. Mulligan is reported for fiscal 2017, the year in which he became Chief Executive Officer of the Company.
- (2) In 2016 Mr. Tokman elected to receive restricted stock awards in lieu of an increase in base salary.
- (3) Mr. Mulligan's compensation includes the following payments to him in his capacity as Director prior to his appointment as Chief Executive Officer: salary, \$46,000 (representing director fees earned or paid in cash); stock awards, \$19,500.
- (4) Compensation for Mr. Sharma is reported for fiscal 2017, the year in which he became an executive officer of the Company.
- (5) Bonuses payable in year presented, earned in prior year.
- (6) Reflects the fair value of stock and option awards on the grant date in accordance with FASB ASC Topic 718.
- (7) Perquisites and other personal benefits are valued on an aggregate incremental cost basis. All figures shown below in footnote 7 represent the direct dollar cost incurred in providing these perquisites and other personal benefits to the named executive officers.
- (8) The table below shows all other amounts under All Other Compensation for fiscal 2015, 2016 and 2017:

<b>Name and Principal Position</b>	<b>Fiscal Year</b>	<b>Perquisites and Personal Benefits</b>	<b>Employer contribution to 401(k) account (9)</b>	<b>Separation payments (10)</b>	<b>Relocation payments (11)</b>
Alexander Y. Tokman Former President, Chief Executive Officer and Director	2017	\$ ---	\$ 9,087	\$ 828,737	---
	2016	---	7,622	---	---
	2015	---	3,464	---	---
Perry M. Mulligan President, Chief Executive Officer and Director	2017	---	---	---	75,672
Stephen P. Holt Chief Financial Officer	2017	---	6,215	---	---
	2016	---	7,399	---	---
	2015	---	2,336	---	---
Dale E. Zimmerman Vice President, Research and Development	2017	---	---	---	---
	2016	---	---	---	---
	2015	---	---	---	---
David J. Westgor Vice President, General Counsel and Secretary	2017	---	6,954	---	---
	2016	---	5,549	---	---
	2015	---	2,026	---	---
Sumit Sharma	2017	---	5,143	---	---

- (9) This column represents the amount of matching contributions made to our qualified 401(k) retirement plan for each of our named executive officers. In June 2015, the Company began making contributions to our qualified 401(k) retirement plan for all employees.
- (10) This column represents the amounts paid to or accrued for Mr. Tokman pursuant to the Letter Agreement described below.
- (11) This column represents the reimbursement of Mr. Mulligan's relocation expenses in connection with his employment as Chief Executive Officer pursuant to his Employment Agreement described below.

## Grants of Plan-Based Awards During 2017

The following table shows grants of plan based awards to our named executive officers in 2017:

<u>Name</u>	<u>Grant Date</u>	<u>Estimated Possible Payments Under Non-Equity Incentive Plan Awards Target</u>	<u>All Other Stock Awards: Number of Shares of Stock or Units</u>	<u>All Other Option Awards: Number of Securities Underlying Options</u>	<u>Exercise or Base Price of Option Awards (1)</u>	<u>Grant Date Fair Value of Stock and Option Awards (2)</u>
Alexander Y. Tokman	2/8/2017	\$ -	-	150,000	\$ 1.67	147,719
Perry M. Mulligan	11/13/2017	31,023	135,000	125,000	1.57	329,869
Stephen P. Holt	2/8/2017	92,074	-	65,000	1.67	64,012
Dale E. Zimmerman	2/8/2017	90,449	-	65,000	1.67	64,012
David J. Westgor	2/8/2017	90,878	-	65,000	1.67	64,012
Sumit Sharma	2/8/2017	85,333	-	130,000	1.67	128,023

- (1) All option awards were granted with an exercise price equal to the closing price of our common stock on the NASDAQ Global Market on the date of grant.
- (2) Reflects the fair value of option and stock awards on the date of grant in accordance with FASB ASC Topic 718.

**Outstanding Equity Awards at Year-End 2017**

The following table shows outstanding equity awards for our named executive officers as of December 31, 2017:

<b>Name</b>		<b>Number of Securities Underlying Unexercised Options Exercisable</b>	<b>Number of Securities Underlying Unexercised Options Unexercisable</b>	<b>Option Exercise Price</b>	<b>Option Expiration Date</b>	<b>Number of Shares of Stock That Have Not Vested</b>	<b>Market Value of Shares of Stock That Have Not Vested (7)</b>
Alexander Y. Tokman	(1)	18,509	---	\$ 17.84	12/31/2018	---	\$ ---
	(3)	8,594	---	17.84	12/31/2018	---	---
	(1)	16,714	---	14.88	12/31/2018	---	---
	(3)	8,750	---	14.88	12/31/2018	---	---
	(1)	13,928	---	27.28	12/31/2018	---	---
	(3)	5,878	---	27.28	12/31/2018	---	---
	(4)	80,000	---	1.80	12/31/2018	---	---
	(2)	2,807	---	2.28	12/31/2018	---	---
	(2)	225,000	---	2.28	12/31/2018	---	---
	(1)	150,000	---	1.76	12/31/2018	---	---
	(1)	100,000	---	3.26	12/31/2018	---	---
	(1)	50,000	---	1.89	12/31/2018	---	---
	(1)	37,500	---	1.67	12/31/2018	---	---
Perry M. Mulligan	(3)(6)	1,875	---	22.64	7/30/2020	---	---
	(5)(6)	1,875	---	22.64	7/30/2020	---	---
	(5)(6)	1,875	---	9.20	6/9/2021	---	---
	(5)(6)	15,000	---	3.08	6/7/2022	10,000	16,300
	(1)	---	125,000	1.57	11/13/2027	125,000	203,750
Stephen P. Holt	(1)	40,000	---	2.20	5/7/2023	---	---
	(2)	40,000	---	2.28	8/8/2023	---	---
	(1)	37,500	12,500	1.76	6/3/2024	---	---
	(1)	25,000	25,000	3.26	6/2/2025	---	---
	(1)	12,500	37,500	1.89	6/1/2026	---	---
	(1)	16,250	48,750	1.67	2/8/2027	---	---
Dale E. Zimmerman	(1)	3,750	---	7.62	8/4/2021	---	---
	(4)	40,000	---	1.80	8/3/2022	---	---
	(2)	65,000	---	2.28	8/8/2023	---	---
	(1)	37,500	12,500	1.76	6/3/2024	---	---
	(1)	25,000	25,000	3.26	6/2/2025	---	---
	(1)	12,500	37,500	1.89	6/1/2026	---	---
	(1)	16,250	48,750	1.67	2/8/2027	---	---
David J. Westgor	(1)	1,888	---	17.84	3/25/2018	---	---
	(3)	625	---	17.84	3/25/2018	---	---
	(3)	1,750	---	14.88	4/23/2019	---	---
	(1)	2,805	---	14.88	4/23/2019	---	---
	(1)	1,876	---	27.28	4/26/2020	---	---
	(3)	1,032	---	27.28	4/26/2020	---	---
	(1)	1,467	---	10.40	4/6/2021	---	---
	(4)	15,000	---	1.80	8/3/2022	---	---
	(2)	15,000	---	2.28	8/8/2023	---	---
	(1)	37,500	12,500	1.76	6/3/2024	---	---
	(1)	25,000	25,000	3.26	6/2/2025	---	---
	(1)	12,500	37,500	1.89	6/1/2026	---	---
	(1)	16,250	48,750	1.67	2/8/2027	---	---
Sumit Sharma	(1)	10,000	10,000	3.16	10/7/2025	---	---
	(1)	12,500	37,500	1.89	6/1/2026	---	---
	(1)	32,500	97,500	1.67	2/8/2027	---	---

- (1) The indicated option vests 25% on each anniversary of the grant date.
- (2) The indicated option vests 33% on each anniversary of the grant date.
- (3) The indicated options vested 100% on the date of grant.
- (4) The indicated options vested 34% on 8/15/2012, 33% on 8/15/2013 and 33% on 8/15/2014.
- (5) The indicated option vests on the earlier of the day prior to the date of the Company's annual meeting of shareholders next following the date of grant, or one year from the date of grant.
- (6) The indicated option was awarded to Mr. Mulligan as a member of the Board of Directors.
- (7) The market value of shares of stock that have not vested is based on a price per share of \$1.63, the closing sale price of the Company's common stock as of December 29, 2017 as reported by NASDAQ.

#### Option Exercises and Stock Vested During 2017

None of our named executive officers exercised stock options, and no shares were acquired upon vesting of stock awards held by our named executive officers, during 2017.

#### Potential Payments upon Termination or Change in Control

All of our named executive officers, except for Mr. Tokman (who is no longer employed by the Company) and Mr. Mulligan, are employed at will and do not have employment agreements. Mr. Mulligan's employment agreement is summarized below. Under the 2013 Incentive Plan, 100% of each of the named executive officers' options which have not been exercised will become fully vested and immediately exercisable upon a change of control of the Company that does not result in an assumption, substitution or pay off of such award by the acquiring company. In addition, 100% of each named executive officer's restricted stock units will become fully vested upon a change of control at the Company.

The following table sets forth aggregate estimated payment obligations to each of our named executive officers assuming a termination without cause, or a change in control, occurred on December 31, 2017:

Name	Payments Due in Connection with a Termination of Employment without Cause or for Good Reason	Payments Due in Connection with a Change of Control and Termination of Employment without Cause or for Good Reason (1)	Payments Due in Connection with Change in Control (2)
Alexander Y. Tokman(3)	\$ ---	\$ ---	---
Perry M. Mulligan	569,547	74,160	15,000
Stephen P. Holt	14,284	454,278	---
Dale E. Zimmerman	24,343	417,755	---
David J. Westgor	29,748	430,819	---
Sumit Sharma	10,000	425,226	---

- (1) We included the estimated intrinsic value of accelerating any award of stock options or awards that are accelerated upon a change in control. In the case of a change in control, we assumed that all such awards would be cashed out at closing using the closing price of our common stock on the NASDAQ Global Market on December 29, 2017, which was \$1.63 per share. See the section titled "Outstanding Equity Awards at Fiscal Year-End 2017" for information regarding unvested equity awards.
- (2) See "Severance and Employment Agreements-Change of Control Severance Plan."
- (3) Mr. Tokman is no longer employed by the Company and therefore is not entitled to the payments described in this section.

#### Severance and Employment Agreements

##### *Mr. Mulligan's Employment Agreement*

Payment upon Termination. Under Mr. Mulligan's employment agreement with the Company dated November 21, 2017, as amended, if he dies, becomes disabled, retires, terminates his employment other than for "good reason" or is terminated by us for "cause," he will be provided his earned but unpaid base salary, earned but unused vacation time, any bonus compensation for the prior year which is unpaid on the date of termination to the extent bonuses are paid to other officers, 12 months of certain group and medical benefits for Mr. Mulligan's family and any business expenses which have not yet been reimbursed by us. If we terminate him "other than for cause," or if he terminates his employment for "good reason," he will receive, in addition to the amounts listed in the foregoing sentence, his base salary for 18 months following the date of his termination, plus an amount equal to his target bonus for the year prior to the termination, and we will continue to pay certain group medical and dental expenses in that 12-month period.

We do not accelerate the vesting of equity incentives for our executive officers in the event of a termination of employment. In the event of a change in control of the Company, all unvested stock options vest upon the change in control if the change in control does not result in an assumption, substitution or pay off of such award by the acquiring company, and the Compensation Committee has the discretion to remove the vesting restrictions on all unvested restricted shares.

In determining whether a termination occurred with or without "cause," "cause" is deemed to exist under Mr. Mulligan's employment agreement when there is a repeated willful failure to perform or gross negligence in the performance of his duties; fraud, embezzlement or other dishonesty with respect to us; a breach of his obligations of confidentiality, non-competition, or non-solicitation against us; or commission of a felony or other crime involving moral turpitude.

In determining whether Mr. Mulligan has "good reason" to terminate his employment, "good reason" is deemed to exist when: we have failed to continue him in a certain position; there is a material diminution in the nature and scope of his responsibilities; there is a material failure of us to provide him with base salary and benefits, excluding an inadvertent failure which is cured within a certain time period; or his office is relocated more than thirty-five miles from the then-current location of our principal offices without his consent. Mr. Mulligan may only terminate his employment for good reason if he (a) gives notice to us within ninety (90) days of the initial occurrence of the event or condition constituting good reason, setting forth in reasonable detail the nature of such good reason; (b) we fail to cure within thirty (30) days following such notice; and (c) Mr. Mulligan terminates his employment within thirty (30) days following the end of the thirty (30)-day cure period (if we fail to cure).

Payment upon a Change in Control. In the event of a change of control and the termination of Mr. Mulligan's employment "other than for cause" by us within two years following a change of control, we must pay Mr. Mulligan an amount equal to one year of base salary plus a payment equal to his target bonus. The foregoing amount will be paid in a single lump sum. We must also pay the full cost of Mr. Mulligan's continued participation in our group health and dental plans for two years or, if less, for so long as he remains entitled to continue such participation under applicable law. In addition, 100% of his equity-based or equity-linked awards which have not been exercised and have not expired or been surrendered or cancelled, will become exercisable in accordance with the applicable award agreement.

Our obligation to pay the severance amounts mentioned in this "Payments upon a Termination or Change in Control" section is subject to Mr. Mulligan signing an employee release. Also, Mr. Mulligan must comply with certain confidential information and assignment of intellectual property obligations. Further, Mr. Mulligan is subject to a non-compete and non-solicit obligation for 12 months following his termination.

#### ***Mr. Tokman's Letter Agreement***

On November 14, 2017, the Company and Mr. Tokman entered into a Letter Agreement regarding the terms of Mr. Tokman's separation. Pursuant to the Letter Agreement, Mr. Tokman ceased to serve in the role of Chief Executive Officer on November 13, 2017 but continued to serve in the role of President until December 31, 2017 (the "Separation Date"), after which time Mr. Tokman ceased to be employed by the Company. The Letter Agreement provides that for a period of 18 months following the Separation Date Mr. Tokman will make himself available to assist as needed with transition matters. Mr. Tokman received his salary through the Separation Date as well as pay for any vacation days earned but not yet used as of the Separation Date. In consideration for Mr. Tokman's execution of a general release and waiver of claims, Mr. Tokman will also receive (a) a monthly amount equal to \$31,250, which represents Mr. Tokman's monthly base salary at his final base rate of pay for a period of 18 months following the Separation Date, payable in the form of salary continuation in accordance with the Company's customary pay practices, and (b) an amount equal to \$196,000, which represents Mr. Tokman's target bonus amount for performance year 2017, payable on a pro rata basis over the same period. The Company also accelerated the vesting and exercisability of 37,500 shares of the Company's common stock subject to the stock option award granted to Mr. Tokman on February 8, 2017. Mr. Tokman continues to be subject to the non-compete and non-solicit obligations specified in his employment agreement with the Company.

### ***Change of Control Severance Plan***

In November 2011, the Company adopted a Change of Control Severance Plan (the "Severance Plan"). Under the Severance Plan, a "change of control" is defined as the occurrence of any of the following events: (i) the acquisition by any person or group of more than 50% of the then outstanding securities of the Company entitled to vote generally in the election of directors; (ii) individuals who constitute the board of directors cease for any reason to constitute at least a majority of the board, provided, however, that any individual becoming a director whose election, or nomination for election, by the Company's shareholders, was approved by a vote of at least a majority of the incumbent directors are considered as though such individual were a member of the incumbent board; (iii) certain reorganizations, recapitalizations, mergers or consolidations; (iv) the sale, transfer or other disposition of all or substantially all of the assets of the Company; or (v) approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

In the event that a "designated participant," including Stephen Holt, Sumit Sharma, David J. Westgor and Dale Zimmerman is terminated on, or during the two-year period following, a change of control, for any reason other than by the Company for cause (or, in the case of a participant other than a designated participant, any termination of the participant's employment, on or during the eighteen-month period following a change of control, by the Company other than for cause or by the participant for good reason), the Company will pay the participant an amount equal to one year of base salary at the rate in effect at the date of termination or, if higher, on the date of the change of control, plus a payment equal to the target bonus for which the participant is eligible, which amount shall be payable within ten business days following the later of the effective date of the release of claims described below or the date it is received by the Company. If, however, the timing associated with the execution, revocation and effectiveness of the release of claims would otherwise allow the payment described above to be made in either of two taxable years, such payment will not be made prior to the first day of the second taxable year. The Company will also pay the full cost of the participant's continued participation in the Company's group health and dental plans for one year or, if less, for so long as the participant remains entitled to continue such participation under applicable law. In addition, all options held by the participant which are not exercisable, and which have not been exercised and have not expired or been surrendered or cancelled, will become initially exercisable upon termination and will otherwise be and remain exercisable in accordance with their terms, and all other equity-based compensation awards granted to the participant, including, restricted stock and restricted stock units, will become vested and become free of restrictions.

Payment under the Plan is contingent upon the participant executing and delivering to the Company a release from all claims in any way resulting from, arising out of or connected with such participant's employment with the Company.

### **Pay Ratio**

Following is a reasonable estimate, prepared under applicable SEC rules, of the ratio of the annual total compensation of Perry Mulligan, our Chief Executive Officer compared to the median of the annual total compensation of our other employees.

We determined our median employee based on base salary (annualized in the case of full- and part-time employees who joined the Company during 2017) of each of our 107 employees (excluding Mr. Mulligan) as of December 1, 2017.

The annual total compensation of our median employee (other than Mr. Mulligan) for 2017 was \$155,348.

As disclosed in the Summary Compensation Table above, Mr. Mulligan joined the Company on November 13, 2017 and was Chief Executive Officer on December 1, 2017. His total compensation for 2017, including an annualized base salary and initial grant of shares and options and relocation allowance, was \$755,541.

Based on the foregoing, our estimate of the ratio of the annual total compensation of the Chief Executive Officer to the median of the annual total compensation of all other employees was 4.9 to 1. Given the different methods that other public companies may use to determine an estimated pay ratio, the estimated ratio reported above should not be used as a basis for comparison between companies.

### **Director Compensation for 2017**

The following table provides information concerning our non-employee directors during the year ended December 31, 2017. Mr. Tokman was not paid additional compensation for his service as Director and his compensation is fully reflected in the other tables contained in this Annual Report on Form 10-K. Mr. Mulligan's compensation for his services as Director for 2017 and as Chief Executive Officer beginning on November 13, 2017 is fully reflected in the other tables contained in this Annual Report on Form 10-K.

<b>Name</b>	<b>Fees Earned or Paid in Cash</b>	<b>Stock Awards (1)(4)</b>	<b>Option Awards (2)(4)</b>	<b>Total</b>
Robert P. Carlile (3)	\$ 68,000	\$ 19,500	\$ 29,544	\$ 117,044
Richard A. Cowell(3)	12,000	---	---	12,000
Yalon Farhi	36,500	19,500	---	56,000
Slade Gorton	47,000	19,500	---	66,500
Jeanette Horan(3)	6,000	---	---	6,000
Berne D.L. Strom(3)	29,000	---	44,928	73,928
Brian Turner	59,250	19,500	---	78,750
Thomas M. Walker	38,250	19,500	---	57,750

- (1) Reflects the fair value of stock awards granted in 2017 in accordance with FASB ASC Topic 718.
- (2) Reflects the fair value of option awards on the grant date in accordance with FASB ASC Topic 718.
- (3) On February 8, 2017, Robert P. Carlile was elected to the Board and Jeanette Horan stepped down from the Board. Richard A. Cowell's director term expired at the Company's 2017 annual meeting of shareholders, at which time he stepped down from the Board. Bernee D.L. Strom was elected to our Board on October 9, 2017.
- (4) The following table shows the number of outstanding shares underlying option and stock awards for each of our non-employee directors as of December 31, 2017:

<b>Name</b>	<b>Option Awards</b>	<b>Stock Awards (5)</b>
Yalon Farhi	30,000	10,000
Robert P. Carlile	30,000	10,000
Richard A. Cowell	22,500	41,974
Slade Gorton	22,500	51,974
Jeanette Horan	22,500	41,974
Berne D.L. Strom	30,000	---
Brian Turner	22,500	51,974
Thomas M. Walker	177,811	61,839

- (5) 10,000 shares vest on the date that is the earlier of one year from the June 7, 2017 grant date, or the day before the next scheduled annual meeting of shareholders.

Each non-employee director is granted a non-statutory option to purchase 15,000 shares of common stock on the date on which he or she is first elected or appointed to the Board. These options are fully vested and immediately exercisable upon the date of grant. Under the terms of a director compensation plan approved by the Board, each of our non-employee directors also receives, upon his or her initial appointment or election and upon each subsequent reelection to the Board, an option to purchase 15,000 shares that vests in full on the earlier of (i) the day prior to the date of our annual meeting of shareholders next following the date of grant, or (ii) one year from the date of grant, provided the non-employee director continues to serve as a director on the vesting date. If a non-employee director ceases to be a director for any reason other than death or disability before his or her term expires, then any outstanding unvested options issued to such Independent Director will be forfeited. Options vested as of the date of termination for any reason other than death or disability are exercisable through the date of expiration. The exercise price for each option is equal to the closing price of our common stock as reported on the NASDAQ Global Market on the date of grant. The options generally expire on the tenth anniversary of the date of grant.



Notwithstanding the terms of the aforementioned director compensation plan, in each of our last five fiscal years, the Board has approved the issuance of 10,000 shares of the Company's restricted stock to each of our non-employee directors upon his or her reelection to the Board, in lieu of the option award described in the foregoing paragraph.

In addition, each non-employee director generally receives the following cash compensation for his or her service as a director:

- A fee of \$20,000 that accrues as of the date of appointment or election to the Board, and as of the date of each subsequent reelection;
- A fee of \$3,000 for the Board chair or \$2,000 per director for each Board meeting attended by the director; and
- A fee of \$3,000 for the committee chair or \$2,000 per committee member for each committee meeting attended by the director that is held on a day other than a day on which a Board meeting is held.

All directors are reimbursed for reasonable travel and other out-of-pocket expenses incurred in attending meetings of the Board.

#### Compensation Committee Interlocks and Insider Participation

All members of the Compensation Committee during 2017 were independent directors, and none of them were our employees or former employees, at the time they served on the Compensation Committee. Mr. Mulligan served on the Compensation Committee in 2017 but stepped down from the Compensation Committee at the time he assumed the role of Chief Executive Officer of the Company. During 2017, none of our executive officers served on the compensation committee (or equivalent), or the board of directors, of any other entity whose executive officer(s) served on the Compensation Committee or Board.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

### Security Ownership of Certain Beneficial Owners and Management

The following table shows as of February 20, 2018, the number of shares of our common stock beneficially owned by our directors and nominees, the named executive officers, and all directors and executive officers as a group and each person known by us to own beneficially more than 5% of our outstanding common stock.

Name of Beneficial Owner	Number of Share (1)	Percent of Common Stock (2)
Perry Mulligan (3)	102,307	*
Alexander Y. Tokman (4)	898,401	1.1%
Stephen P. Holt (5)	180,596	*
Sharma, Sumit (6)	55,000	*
David J. Westgor (7)	149,680	*
Dale E. Zimmerman (8)	215,298	*
Robert P. Carlile (9)	30,000	*
Richard A. Cowell (10)	68,811	*
Yalon S. Farhi (9)	30,000	*
Slade Gorton (11)	161,307	*
Jeanette Horan (10)	66,786	*
Bernie D. L. Strom (12)	15,000	*
Brian Turner (11)	89,088	*
Thomas Walker (13)	230,650	*
AWM Investment Company, Inc. (14)	7,367,231	9.4%
BlackRock, Inc. (15)	4,706,522	6.0%
All executive officers and directors as a group (14 persons) (16)	2,292,924	2.8%

\* Less than 1% of the outstanding shares of common stock.

(1) Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Shares of common stock subject to options or warrants that are currently exercisable or convertible or may be exercised or converted within sixty days are deemed to be outstanding and to be beneficially owned by the person holding these options or warrants for the purpose of computing the number of shares beneficially owned and the percentage of ownership of the person holding these securities, but are not outstanding for the purpose of computing the percentage ownership of any other person or entity. Subject to community property laws where applicable, and except as otherwise noted, we believe that each shareholder named in this table has sole voting and investment power with respect to the shares indicated as beneficially owned thereby.

(2) Percentage of common stock is based on 78,613,343 shares of common stock outstanding as of February 20, 2018.

- (3) Includes 20,625 shares issuable upon exercise of options.  
(4) Includes 717,680 shares issuable upon exercise of options.  
(5) Includes 171,250 shares issuable upon exercise of options.  
(6) Includes 55,000 shares issuable upon exercise of options.  
(7) Includes 132,693 shares issuable upon exercise of options.  
(8) Includes 200,000 shares issuable upon exercise of options.  
(9) Includes 30,000 shares issuable upon exercise of options.  
(10) Includes 24,375 shares issuable upon exercise of options.  
(11) Includes 22,500 shares issuable upon exercise of options.  
(12) Includes 15,000 shares issuable upon exercise of options.  
(13) Includes 177,811 shares issuable upon exercise of options.  
(14) Based solely on information set forth in a Schedule 13G filed with the SEC on February 13, 2018.  
(15) Based solely on information set forth in a Schedule 13G filed with the SEC on February 1, 2018.  
(16) Includes 2,292,924 shares issuable upon exercise of options.

Information as of December 31, 2017, regarding equity compensation plans approved and not approved by shareholders is summarized in the following table (in thousands, except per share data):

<b>Plan Category</b>	<b>Equity Compensation Plan Information</b>		
	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights</b> <b>(a)</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights</b> <b>(b)</b>	<b>Number of securities remaining available for further issuance under equity compensation plans (excluding securities reflected in column (a))</b> <b>(c)</b>
Equity compensation plans approved by shareholders	5,034	\$ 2.94	2,185
Equity compensation plans not approved by shareholders	-	-	-
<b>Total</b>	<b>5,034</b>		<b>2,185</b>

#### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE**

Under the Code of Conduct adopted by us, officers, directors and employees must avoid even the appearance of a conflict of interest. Under the Code of Ethics for MicroVision Executives we have adopted, all of our executive officers must report any material transaction or relationship that reasonably could be expected to give rise to a conflict of interest. We also review questionnaires completed by all directors and executive officers for potential "related-person transactions" between us and related persons. The Board's Audit Committee is responsible for review, approval, or ratification of related-person transactions. The Audit Committee determines whether the related person has a material interest in a transaction and may approve, ratify, rescind, or take other action with respect to the transaction in its discretion.

More information regarding the independence of our directors is included in Part III of this Annual Report on Form 10-K in Item 10.

#### **ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

##### **Accountant Fees and Services**

Our independent auditors, Moss Adams LLP, billed the following fees to us for audit and other services for fiscal year 2017 and fiscal year 2016, respectively:

##### **Audit Fees**

The aggregate fees billed for professional services rendered by Moss Adams LLP for the audit of our annual financial statements and the review of the financial statements included in our Quarterly Reports on Form 10-Q were \$350,946 for 2017 and \$352,450 for 2016.

### ***Audit Related Fees***

Audit related fees include the aggregate fees billed for professional services rendered by Moss Adams LLP in connection with the audit of the Company's 401(k) plan. Fees for audit related services totaled \$14,815 in 2017 and \$14,572 in 2016.

### ***Tax Fees***

Tax fees include the aggregate fees billed for professional services rendered by Moss Adams LLP in connection with federal, state and foreign tax compliance and tax advice. Fees for tax services totaled \$15,313 in 2017 and \$23,061 in 2016.

### ***All Other Fees***

Fees for all other services not described above include fees for subscriptions to online accounting research tools. Fees for these services totaled \$2,864 and \$2,728 billed by Moss Adams LLP for 2017 and 2016, respectively.

The Audit Committee has considered whether the provision of services under the heading "All Other Fees" is compatible with maintaining the accountants' independence and has determined that it is consistent with such independence.

### **Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditor**

The Audit Committee pre-approves all audit services and all permitted non-audit services by the independent auditors. The Audit Committee has delegated the authority to take such action between meetings to the Audit Committee chairman, who reports the decisions made to the full Audit Committee at its next scheduled meeting.

The Audit Committee evaluates whether our use of the independent auditors for permitted non-audit services is compatible with maintaining the independence of the independent auditors. The Audit Committee's policies prohibit us from engaging the independent auditors to provide any services relating to bookkeeping or other services related to accounting records or financial statements, financial information systems design and implementation, appraisal or valuation services, fairness opinions or contribution-in-kind reports, actuarial services, or internal audit outsourcing services unless it is reasonable to conclude that the results of these services will not be subject to audit procedures. The Audit Committee's policies completely prohibit us from engaging the independent auditors to provide any services relating to any management function, expert services not related to the audit, legal services, broker-dealer, investment adviser, or investment banking services or human resource consulting.

### **Audit Committee Report**

#### *Review of the Company's Audited Financial Statements*

The Audit Committee serves as the representative of the Board for general oversight of the Company's financial accounting and reporting, systems of internal control, audit process, and monitoring compliance with laws and regulations and standards of business conduct. Management has responsibility for preparing the Company's financial statements, as well as for the Company's financial reporting process. Moss Adams LLP, acting as an independent registered public accounting firm, is responsible for expressing an opinion on the conformity of the Company's audited financial statements with generally accepted accounting principles.

The Audit Committee has reviewed and discussed the audited consolidated financial statements of the Company for the fiscal year ended December 31, 2017 with the Company's management, and management represented to the Audit Committee that the Company's consolidated financial statements were prepared in conformity with generally accepted accounting principles. The Audit Committee has discussed with Moss Adams LLP, the Company's independent auditors for the fiscal year ended December 31, 2017, the matters required to be discussed by the Public Company Accounting Oversight Board (PCAOB) AS 1301, Communications with Audit Committees.

The Audit Committee received from Moss Adams LLP the written disclosures required by Rule 3526 of the PCAOB (Communication with Audit Committee Concerning Independence) and discussed with the firm its independence. Based on the review and discussions noted above, and subject to the limitations on the role and responsibilities of the Audit Committee referred to in the Charter of the Audit Committee, the Audit Committee recommended to the Board that the Company's audited consolidated financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017 for filing with the SEC.

This report of the Audit Committee shall not be deemed to be incorporated by reference by any general statement incorporating by reference this Annual Report on Form 10-K into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the Company specifically incorporates this information by reference.

Audit Committee

Robert P. Carlile, Chairman  
Bernee D.L. Strom  
Brian Turner

PART IV.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(A) Documents filed as part of this Annual Report on Form 10-K:

1. Consolidated Financial Statements

- Report of Independent Registered Public Accounting Firm
- Consolidated Balance Sheets as of December 31, 2017 and 2016
- Consolidated Statements of Operations for the years ended December 31, 2017, 2016 and 2015
- Consolidated Statements of Shareholders' Equity (Deficit) for the years ended December 31, 2017, 2016 and 2015
- Consolidated Statements of Cash Flows for the years ended December 31, 2017, 2016 and 2015
- Notes to Consolidated Financial Statements

2. Financial Statement Schedules

Schedule II

MicroVision, Inc.  
Valuation and Qualifying Accounts and Reserves Schedule  
(In thousands)

Year Ended December 31,	Balance at beginning of fiscal period	Additions		Deductions	Balance at end of fiscal period
		Charges to costs and expenses	Charges to other accounts		
<b>2015</b>					
Allowance for receivables from related parties	\$ 400	\$ -	\$ -	\$ (30)	\$ 370
Tax valuation allowance	156,671	-	4,489	-	161,160
<b>2016</b>					
Allowance for receivables from related parties	\$ 370	\$ -	\$ -	\$ (370)	\$ -
Tax valuation allowance	161,160	-	5,684	-	166,844
<b>2017</b>					
Allowance for receivables from related parties	\$ -	\$ -	\$ -	\$ -	\$ -
Tax valuation allowance	166,844	(55,608)	-	-	111,236

All other schedules are omitted because they are not applicable, or because the information required is included in the consolidated financial statements and notes thereto.

### 3. Exhibits

The following exhibits are referenced or included in this Annual Report on Form 10-K.

<u>Exhibit Number</u>	<u>Description</u>
3.1	<a href="#">Amended and Restated Certificate of Incorporation of MicroVision, Inc., as amended.</a> <sup>(4)</sup>
3.2	<a href="#">Certificate of Amendment to the Amended and Restated Certificate of Incorporation of MicroVision, Inc.</a> <sup>(6)</sup>
3.3	<a href="#">Bylaws of MicroVision, Inc.</a> <sup>(7)</sup>
4.1	<a href="#">Form of Specimen Stock Certificate for Common Stock.</a> <sup>(1)</sup>
4.2	<a href="#">Form of Warrant dated March 18, 2014 issued under the Securities Purchase Agreement dated as of March 13, 2014 by and between MicroVision, Inc. and the investors named therein.</a> <sup>(8)</sup>
10.1	<a href="#">2013 MicroVision, Inc. Incentive Plan, as amended.</a> <sup>(9)*</sup>
10.2	<a href="#">Independent Director Stock Option Plan, as amended.</a> <sup>(2)*</sup>
10.3	<a href="#">Employment Agreement between MicroVision, Inc. and Alexander Y. Tokman dated April 7, 2009.</a> <sup>(3)</sup>
10.4	<a href="#">Third Amendment to Lease Agreement between BRE WA Office Owner, LLC and MicroVision, Inc., dated July 25, 2017.</a>
10.5	<a href="#">Change of Control Severance Plan.</a> <sup>(5)</sup>
10.6	<a href="#">Letter Agreement between MicroVision, Inc. and Alexander Y. Tokman dated November 14, 2017.</a>
10.7	<a href="#">Employment Agreement between MicroVision, Inc. and Perry Mulligan dated November 21, 2017.</a>
23.1	<a href="#">Consent of Independent Registered Public Accounting Firm - Moss Adams LLP.</a>
31.1	<a href="#">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.</a>
31.2	<a href="#">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.</a>
32.1	<a href="#">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 Sarbanes-Oxley Act of 2002.</a>
32.2	<a href="#">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 Sarbanes-Oxley Act of 2002.</a>
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

(1) Incorporated by reference to the Company's Post-Effective Amendment to Form S-3 Registration Statement, Registration No. 333-102244.

(2) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended June 30, 2002.

(3) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended March 31, 2009.

(4) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended September 30, 2009.

(5) Incorporated by reference to the Company's Form 10-K for the year ended December 31, 2011.

(6) Incorporated by reference to the Company's Current Report on Form 8-K filed on February 17, 2012.

(7) Incorporated by reference to the Company's Current Report on Form 8-K filed on November 27, 2013.

(8) Incorporated by reference to the Company's Current Report on Form 8-K filed on March 13, 2014.

(9) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended June 30, 2017.

\* Management contracts and compensatory plans and arrangements required to be filed as exhibits pursuant to Item 15(b) of this Annual Report on Form 10-K.

### ITEM 16. FORM 10-K SUMMARY

None.

**SIGNATURES**

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

Date: February 23, 2018

MICROVISION, INC.  
By /s/ Perry M. Mulligan  
Perry M. Mulligan  
Chief Executive Officer and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the following capacities on February 23, 2018.

<b>Signature</b>	<b>Title</b>
<u>/s/ Perry M. Mulligan</u> Perry M. Mulligan	Chief Executive Officer and Director (Principal Executive Officer)
<u>/s/ Stephen P. Holt</u> Stephen P. Holt	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)
<u>/s/ Robert P. Carlile</u> Robert P. Carlile	Director
<u>/s/ Yalon Farhi</u> Yalon Farhi	Director
<u>/s/ Slade Gorton</u> Slade Gorton	Director
<u>/s/ Bernee D.L. Strom</u> Bernee D.L. Strom	Director
<u>/s/ Brian V. Turner</u> Brian V. Turner	Director
<u>/s/ Thomas M. Walker</u> Thomas M. Walker	Director

THIRD AMENDMENT TO LEASE

(Redmond)

THIS THIRD AMENDMENT TO LEASE ("**Third Amendment**") is made and entered into as of \_\_\_\_\_, 2017, by and between BRE WA OFFICE OWNER LLC, a Delaware limited liability company ("**Landlord**") and MICROVISION, INC., a Delaware corporation ("**Tenant**").

RECITALS

A. Carramerica Realty Operating Partnership, L.P., Delaware limited partnership ("**Original Landlord**") and Tenant entered into that certain Lease dated as of June 14, 2005 (the "**Original Lease**"), as amended by (i) that certain First Amendment to Lease dated as of June 1, 2006 ("**First Amendment**") by and between Original Landlord and Tenant, and (ii) that certain Second Amendment to Lease dated as of January 15, 2013 ("**Second Amendment**") by and between Arden Realty Limited Partnership, a Maryland limited partnership ("**Successor Landlord**") and Tenant, whereby Tenant leases certain office space located in that certain building located and addressed at 6244 18<sup>th</sup> Avenue NE, Redmond, Washington 98052 (the "**Building**"). The Original Lease, as amended by the First Amendment and Second Amendment, may be referred to herein as the "**Lease**." Landlord is the successor-in-interest to Successor Landlord.

B. By this Third Amendment, Landlord and Tenant desire to expand the Existing Premises (as defined below), extend the Extended Term (as defined in Section 3 of the Second Amendment) and to otherwise modify the Lease as provided herein.

C. Unless otherwise defined herein, capitalized terms as used herein shall have the same meanings as given thereto in the Original Lease.

NOW, THEREFORE, in consideration of the foregoing recitals and the mutual covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

AGREEMENT

1. The Existing Premises. Landlord and Tenant hereby agree that pursuant to the Lease, Landlord currently leases to Tenant and Tenant currently leases from Landlord that certain office space in the Building containing 23,917 rentable square feet located on the first (1<sup>st</sup>) floor of the Building and known as Suite 100 (the "**Existing Premises**"), as outlined on Appendix "A" to the Original Lease.
  2. Expansion of the Existing Premises. That certain space located on the second (2<sup>nd</sup>) floor of the Building consisting of 7,225 rentable square feet designated as Suite 225, as outlined on the floor plan attached hereto as Exhibit "A" and made a part hereof, may be referred to herein as the "**Expansion Space**." Effective as of the date (the "**Expansion Commencement Date**"), which is the earlier of (i) the date Tenant commences business operations in the Expansion Space, or (ii) December 1, 2017, Tenant shall lease from Landlord and Landlord shall lease to Tenant the Expansion Space. Accordingly, effective upon the Expansion Commencement Date, the Existing Premises shall be increased to include the Expansion Space. Landlord and Tenant hereby agree that such addition of the Expansion Space to the Existing Premises shall, effective as of the Expansion Commencement Date, increase the number of rentable square feet leased by Tenant in the Building to a total of 31,142 rentable square feet. Effective as of the Expansion Commencement Date, all references to the "Premises" shall mean and refer to the Existing Premises as expanded by the Expansion Space.
  3. Extended Lease Term
    - 3.1. Third Amendment Extended Term. The New Expiration Date (as defined in Section 3 of the Second Amendment) shall be extended such that the Lease shall expire on the date ("**Third Amendment Expiration Date**") immediately preceding the 65<sup>th</sup> monthly anniversary of the Expansion Commencement Date; provided, however, that if the Expansion Commencement Date is a date other than the first (1<sup>st</sup>) day of a month, the Third Amendment Expiration Date shall be the last day of the month which is 65 months after the month in which
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the Expansion Commencement Date falls. The period from the Expansion Commencement Date through the Third Amendment Expiration Date specified above, shall be referred to herein as the "**Third Amendment Extended Term**." Tenant shall not have any right to extend the Lease beyond the Third Amendment Extended Term; consequently, Addendum 1 of the Original Lease shall be null and void.

3.2. Renewal Term. Tenant shall have the option to extend the Third Amendment Extended Term for one (1) period of five (5) years in accordance with, and subject to, Addendum 1 of the Original Lease; provided, however, that (i) all references in Addendum 1 to the "Termination Date" shall mean the Third Amendment Expiration Date (as defined in Section 3.1 above), and (ii) the reference to ninety-five percent (95%) in the first line of Section (A) of Addendum 1 shall be revised to one hundred percent (100%).

4. Base Rent. Commencing on the Expansion Commencement Date and continuing through the Third Amendment Expiration Date, Tenant shall pay in accordance with the provisions of this Section 4, monthly Base Rent for the entire Premises as follows:

<u>Months</u>	<u>Monthly Base Rent</u>	<u>Annual Base Rent Per Rentable Square Foot</u>
1 - 12*	\$51,903.33**	\$20.00
13 - 29*	\$53,460.43	\$20.60
30 - 41	\$55,069.44	\$21.22
42 - 53	\$56,704.39	\$21.85
54 - 65	\$58,417.20	\$22.51

\*Commencing on the Expansion Commencement Date the Base Rent schedule in Section 4 of the Second Amendment is deleted in its entirety and is replaced with the Base Rent schedule above.

\*\*Plus any partial month at the beginning of the Third Amendment Extended Term and subject to abatement for the Expansion Space as described in Section 5 below.

5. Rental Abatement. Notwithstanding anything to the contrary contained in the Lease or in this Third Amendment, and provided that Tenant faithfully performs all of the terms and conditions of the Lease, as amended by this Third Amendment, Landlord hereby agrees to abate Tenant's obligation to pay monthly Base Rent for the Expansion Space only for the first four (4) months of the Third Amendment Extended Term. During such abatement period, Tenant shall still be responsible for the payment of all of its other monetary obligations under the Lease, as amended by this Third Amendment; provided, however, Landlord hereby agrees to abate Tenant's obligation to pay its Operating Costs Share Rent and Tax Share Rent for the Expansion Space only for the first three (3) months of the Third Amendment Extended Term. In the event of a default by Tenant under the terms of the Lease, as amended by this Third Amendment, that results in early termination pursuant to the provisions of Section 13 of the Original Lease, then as a part of the recovery set forth in Section 13 of the Original Lease, Landlord shall be entitled to the recovery of the monthly Base Rent and Operating Costs Share Rent and Tax Share Rent that was abated under the provisions of this Section 5. The amount of Base Rent and Tenant's Operating Costs Share Rent and Tax Share Rent to be abated pursuant to this Section 5 may be referred herein as "**Abated Rent Amount**." Notwithstanding the foregoing or anything to the contrary contained herein, upon written notice to Tenant, Landlord shall have the option to purchase all or any portion of Tenant's Abated Rent Amount by paying such amount to Tenant, in which case the amount so paid to Tenant shall nullify an equivalent amount of abatement of Tenant's Base Rent and Tenant's Operating Costs Share Rent and Tax Share Rent for the Expansion Space as to the period so designated by Landlord in Landlord's written notice to Tenant.



6. **Tenant's Proportionate Share.** Effective as of the Expansion Commencement Date and continuing throughout the Third Amendment Extended Term, (i) Tenant's Proportionate Share of Operating Costs Share Rent and Tax Share Rent for the Premises shall be increased to 64.5510%; provided, however, that due to the abatement described in Section 5 above, Tenant shall pay Tenant's Proportionate Share of Operating Costs Share Rent and Tax Share Rent for the first three (3) months of the Third Amendment Extended Term with a Proportionate Share of 49.5751%.
7. **Refurbishment Allowance.** Tenant shall be entitled to further renovate the Premises in accordance with this Section 7. In connection therewith, Tenant shall be entitled to a tenant refurbishment allowance (collectively, the "**Refurbishment Allowance**") in the amount of \$711,782.00 (based on \$29.00 per rentable square foot of the Expansion Space plus \$21.00 per rentable square foot of the Existing Premises) for the costs relating to the design and construction of renovations to the tenant improvements in the Expansion Space and/or the Existing Premises that are to be permanently affixed to the Expansion Space and/or the Existing Premises (such renovations may be collectively referred to herein as the "**Refurbishment Improvements**") and the other Refurbishment Allowance Items described below.
- 7.1. **Refurbishment Allowance Items.** The Refurbishment Allowance shall be disbursed by Landlord for the following items and costs only (collectively the "**Refurbishment Allowance Items**"): (a) payment of the fees of the architect and engineer(s) retained by Tenant (if any), and payment of the fees incurred by, and the cost of documents and materials supplied by, Landlord and Landlord's consultants in connection with the review of the plans and specifications prepared for the Refurbished Improvements ("**Refurbishment Drawings**"), (b) the payment of plan check, permit and license fees relating to construction of the Refurbished Improvements (Landlord or the general contractor shall submit for such permits and licenses), (c) the cost of construction of the Refurbished Improvements including, without limitation, testing and inspection costs, trash removal costs, and contractors' fees and general conditions, (d) the cost of any changes in the Building when such changes are required by the Refurbishment Drawings or the Refurbished Improvements, such cost to include all architectural and/or engineering fees and expenses incurred in connection therewith, and (e) a coordination fee to Landlord in the amount of 3% of the cost of design and construction of the Refurbished Improvements, and (f) the cost of furniture, trade fixtures, equipment, moving costs and cabling for the Premises and, upon prior written notice to Landlord, as a credit toward monthly Base Rent for the Premises (collectively, the "**Miscellaneous Items**"), provided that the maximum amount of the Refurbishment Allowance which may be applied to Miscellaneous Items under this Section 7.1(f) shall be \$280,278.00 (based on \$9.00 per rentable square foot of the Premises).
- 7.2. **Refurbishment Drawings.** To the extent necessary based on the scope of the Refurbished Improvements, Tenant shall retain an architect/space planner reasonably approved by Landlord (the "**Architect**") to prepare any necessary Refurbishment Drawings for the Refurbished Improvements. If necessary (as determined by Landlord in its reasonable discretion), Tenant shall also retain the engineering consultants reasonably approved by Landlord (the "**Engineers**") to prepare all plans and engineering working drawings relating to the structural, mechanical, electrical, plumbing, HVAC and life safety work of the Refurbished Improvements. Any Refurbishment Drawings shall be subject to Landlord's approval, which approval shall not unreasonably withheld.
- 7.3. **Contractor.** The contractor which shall construct the Improvements shall be a contractor selected pursuant to the following procedure. Initially, the Refurbishment Drawings shall be submitted by Landlord to a general contractor mutually agreed upon by Landlord and Tenant. Landlord will request that such general contractor submit a bid to Landlord. Upon receipt of such bid, Landlord and Tenant shall make a determination as to whether such general contractor's bid is fair and reasonable considering overall cost and ability to meet Landlord's construction schedule. If the parties do agree to retain such general contractor, such general contractor shall be required to submit all subcontracts to a competitive bidding process to at least three (3) subcontractors. If the parties are not able to agree upon a single general contractor, or if the mutually agreed upon general contractor's bid is not considered fair and reasonable, then the Refurbishment Drawings shall be submitted by Landlord to three (3)

general contractors selected by Landlord and reasonably approved by Tenant. Each such contractor shall be invited to submit a sealed, fixed price contract bid (on such bid form as Landlord shall designate) to construct the Refurbished Improvements. Each contractor shall be notified in the bid package of the time schedule for construction of the Refurbished Improvements. The subcontractors utilized by the Contractor shall be subject to Landlord's reasonable approval and the bidding instructions shall provide that as to work affecting the structure of the Building and/or the systems and equipment of the Building, Landlord shall be entitled to designate the subcontractors. The bids shall be submitted promptly to Landlord and a reconciliation shall be performed by Landlord to adjust inconsistent or incorrect assumptions so that a like-kind comparison can be made and a low bidder determined. Landlord shall select the contractor based on overall cost, reputation, and ability to meet Landlord's construction schedule. The general contractor selected pursuant to this Section 7.3 shall be retained by Landlord and may be referred to herein as the "**Contractor**".

7.4. Cost of the Refurbished Improvements. After the Refurbishment Drawings are approved by Landlord and Tenant, Landlord shall provide Tenant with a cost proposal in accordance with the Refurbishment Drawings, which cost proposal shall include, as nearly as possible, all costs to be incurred in connection with the construction of the Refurbished Improvements (the "**Cost Proposal**"). Tenant shall approve and deliver the Cost Proposal to Landlord prior to commencement or construction. In the event the cost of design and construction or the Refurbished Improvements and the other Refurbishment Allowance Items exceeds the Refurbishment Allowance, Tenant shall deliver to Landlord, within ten (10) days after invoicing, an amount (the "**Over-Allowance Amount**") equal to the difference between (a) the total cost of design and construction of the Refurbished Improvements and the other Refurbishment Allowance Items and (b) the amount of the Refurbishment Allowance. In no event shall Tenant be entitled to any credit for any portion or the Refurbishment Allowance not used or applied by March 31, 2018.

7.5. Completion of the Refurbished Improvements. Tenant acknowledges that the Refurbished Improvements will be constructed in the Existing Premises during the current Extended Term, that certain inconveniences may be associated with such construction, but that Tenant shall not be entitled to any abatement of rent nor shall Tenant be deemed to be constructively evicted from the Premises as a result of such construction. Except as specifically set forth in this Section 7, Tenant hereby agrees to accept the Premises in its "as-is" condition and Tenant hereby acknowledges that Landlord shall not be obligated to provide or pay for any improvement work or services related to the improvement of the Premises. Tenant also acknowledges that Landlord has made no representation or warranty regarding the condition of the Premises.

8. Letter of Credit. Section 8 of the Second Amendment shall remain in full force and effect during the Third Amendment Extended Term; provided, however (i) all references to the "Second Amendment" shall mean and refer to the Third Amendment, (ii) all references to the "Extended Term" shall mean and refer to the Third Amendment Extended Term, and (iii) Section 8.2(B)(2) shall be deleted in its entirety and replaced with the following: "to reimburse Landlord for costs incurred by Landlord in connection with the Lease (as amended) (including, without limitation, the unamortized portion or the Refurbishment Allowance provided under the Third Amendment, brokerage commissions and attorneys' fees calculated over a forty-eight (48) month amortization period commencing as of February 1, 2019)."
9. Brokers. Each party represents and warrants to the other that no broker, agent or finder negotiated or was instrumental in negotiating or consummating this Third Amendment other than Washington Partners Corporate Real Estate, Inc. (representing Tenant) and Broderick Group (representing Landlord), each of whom shall be compensated by Landlord pursuant to a separate agreement. Each party further agrees to defend, indemnify and hold harmless the other party from and against any claim for commission or finder's fee by any other person or entity who claims or alleges that they were retained or engaged by the first party or at the request of such party in connection with this Third Amendment.
10. Defaults. Tenant hereby represents and warrants to Landlord that, as of the date of this Third Amendment, Tenant is in full compliance with all terms, covenants and conditions of the Lease and that there are no breaches or defaults under the Lease by Landlord or Tenant, and that Tenant knows of no events or circumstances which, given the passage of time, would constitute a default under the Lease by either Landlord or Tenant.

11. No Further Modification. Except as set forth in this Third Amendment, all of the terms and provisions of the Lease shall apply with respect to the Expansion Space and shall remain unmodified and in full force and effect. Effective as of the Expansion Commencement Date, all references to the "Lease" shall refer to the Lease as amended by this Third Amendment.

IN WITNESS WHEREOF, this Third Amendment has been executed as of the day and year first above written.

"LANDLORD"

BRE WA OFFICE OWNER LLC,  
a Delaware limited liability company

By: \_\_\_\_\_

Print Name: \_\_\_\_\_

Its: \_\_\_\_\_

"TENANT"

MICROVISION, INC.,  
a Delaware corporation

By: \_\_\_\_\_

Print Name: \_\_\_\_\_

Title: \_\_\_\_\_

By: \_\_\_\_\_

Print Name: \_\_\_\_\_

Title: \_\_\_\_\_

STATE OF WASHINGTON )  
 )  
COUNTY OF \_\_\_\_\_ )

I certify that I know or have satisfactory evidence that \_\_\_\_\_ is the person who appeared before me, and said person acknowledged that he/she signed this instrument, on oath stated that he/she was authorized to execute the instrument and acknowledged it as the \_\_\_\_\_ of \_\_\_\_\_ to be the free and voluntary act of such party for the uses and purposes mentioned in the instrument.

Dated: \_\_\_\_\_

\_\_\_\_\_  
(Signature)

(Seal or stamp)

\_\_\_\_\_  
(Name legibly printed or stamped)

Notary Public in and for the State of Washington  
residing at \_\_\_\_\_

My appointment expires \_\_\_\_\_

STATE OF WASHINGTON )  
 )  
COUNTY OF \_\_\_\_\_ )

I certify that I know or have satisfactory evidence that \_\_\_\_\_ is the person who appeared before me, and said person acknowledged that he/she signed this instrument, on oath stated that he/she was authorized to execute the instrument and acknowledged it as the \_\_\_\_\_ of \_\_\_\_\_ to be the free and voluntary act of such party for the uses and purposes mentioned in the instrument.

Dated: \_\_\_\_\_

\_\_\_\_\_  
(Signature)

(Seal or stamp)

\_\_\_\_\_  
(Name legibly printed or stamped)

Notary Public in and for the State of Washington  
residing at \_\_\_\_\_

My appointment expires \_\_\_\_\_

STATE OF \_\_\_\_\_ )  
 )  
COUNTY OF \_\_\_\_\_ )

I certify that I know or have satisfactory evidence that \_\_\_\_\_ is the person who appeared before me, and said person acknowledged that he/she signed this instrument, on oath stated that he/she was authorized to execute the instrument and acknowledged it as the \_\_\_\_\_ of \_\_\_\_\_ to be the free and voluntary act of such party for the uses and purposes mentioned in the instrument.

Dated: \_\_\_\_\_

\_\_\_\_\_  
(Signature)

(Seal or stamp)

\_\_\_\_\_  
(Name legibly printed or stamped)

Notary Public in and for the State of Washington  
residing at \_\_\_\_\_

My appointment expires \_\_\_\_\_

**EXHIBIT "A"**

**OUTLINE OF EXPANSION SPACE**

This Exhibit "A" is provided for informational purposes only and is intended to be only an approximation of the layout of the Expansion Space and shall not be deemed to constitute any representation by Landlord as to the exact layout or configuration of the Expansion Space.

EXHIBIT "A"

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November 14, 2017

**By hand delivery**

Alexander Y. Tokman  
MicroVision, Inc.  
6244 185<sup>th</sup> Avenue NE  
Suite 100  
Redmond, WA 98052

Dear Alexander:

As we have discussed, you have offered to resign your positions at the Company, as outlined below, and it is anticipated your employment with MicroVision, Inc. (the "Company") will terminate, effective as of December 31, 2017 (the "Separation Date"). This letter (the "Agreement") will confirm the terms concerning the remainder of your employment and your separation from the Company, as follows:

**1. Transition Period and Separation Date.**

- a. For purposes of this Agreement, the earlier of December 31, 2017 or the date on which your employment actually terminates, if sooner, with the Company shall be referred to herein as the "Separation Date." Until the Separation Date, you will continue to be employed by the Company, as President, on a full-time basis. The period beginning November 13, 2017 and concluding on the Separation Date will be referred to as the "Transition Period." During the Transition Period, you will be employed as an at-will employee. The terms of the Employment Agreement between you and the Company, effective as of April 7, 2009 and amended as of March 27, 2012 (the "Employment Agreement") are hereby superseded by this Agreement, provided, however, that the provisions of the Employment Agreement that survive the termination of your employment will continue to apply to you, as set forth in Section 6 below.

1. Upon signing this Agreement, you will resign your position as CEO and your role as a director. On the Separation Date you will resign your position as President. You agree that for the period of up to eighteen months following the Separation Date, you will make yourself reasonably available, on an as-needed basis, to assist the Company upon request. Such assistance shall be limited to discrete transition matters and shall not amount to more than a *de minimis* amount of time during any given week and at a time and place mutually agreed to by you and the Company.

**MicroVision, Inc.**

6244 185<sup>th</sup> Avenue NE Suite 100  
Redmond, WA 98052, USA

Tel (425) 936-6847  
Fax (425) 936-6997

microvision.com

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2. **Final Salary and Vacation Pay.** You will receive, on the Company's next regular payday following the Separation Date, pay for all work you performed for the Company through the Separation Date, to the extent not previously paid, as well as pay, at your final base rate of pay, for any vacation days you earned but had not used as of the Separation Date, determined in accordance with Company policy and as reflected on the books of the Company. You will receive the payments described in this Section 2 regardless of whether or not you sign this Agreement.
3. **Severance Benefits.** In consideration of your acceptance of this Agreement and subject to your meeting in full your obligations under it, including your obligation to execute a post-employment general release and waiver of claims in the form attached hereto as Exhibit A (the "Release"), and your Continuing Obligations:
- a. The Company will pay you a monthly amount equal to \$31,250 (which represents your monthly base salary at your final base rate of pay as of immediately prior to the Transition Period), for a period of eighteen (18) months following the Separation Date (the "Severance Period"). Payments will be made in the form of salary continuation in accordance with the Company's customary pay practices, and, consistent with Section 5(d) of the Employment Agreement and Code Section 409A(2)(B)(i), will begin on the next regular Company payday following the date that is six months after the Separation Date. The first payment will be retroactive to the day following the Separation Date and include any amounts that otherwise would have been paid between the Separation Date and the first payment date had the payments started at the beginning of the Severance Period.
  - b. The Company will pay you an amount equal to \$196,000 (which represents your target bonus amount for performance year 2017). Such amount will be paid on a *pro rata* basis during the Severance Period on the Company's payroll schedule, and, consistent with Section 5(d) of the Employment Agreement and Code Section 409A(2)(B)(i), will begin on the next regular Company payday following the date that is six months after the Separation Date. The first payment will be retroactive to the day following the Separation Date and include any amounts that otherwise would have been paid between the Separation Date and the first payment date had the payments started at the beginning of the Severance Period.
  - c. If enrolled in the Company's group medical, dental and/or vision plans on the Separation Date, you and/or your eligible dependents may elect to continue your participation in those plans for a period of time pursuant to the federal law known as "COBRA" or similar applicable state law (together, "COBRA"). This election may be made whether or not you accept this Agreement. However, if you accept this Agreement and you and/or your eligible dependents timely elect to continue your participation in such plans, the Company will reimburse you a monthly amount equal to the amount it contributes from time to time to group medical, dental and/or vision insurance premiums (as applicable) for its active employees (the "Monthly Premium Payment"), until the earlier of (i) the end of the Severance Period or (ii) the date you and your eligible dependents are no longer entitled to coverage under COBRA or Company plans (the "COBRA Period"). Consistent with Section 5(d) of the Employment Agreement and Code Section 409A(2)(B)(i), Monthly Premium Payments will begin on the next regular Company payday



following the date that is six months after the Separation Date and be payable each month thereafter. The first payment will be retroactive to the day following the Separation Date and include any amounts that otherwise would have been paid between the Separation Date and the first payment date had the payments started at the beginning of the Severance Period. In addition to the Monthly Premium Payments, the Company will pay you an additional amount equal to the statutory minimum withholding applicable to the Monthly Premium Payment (the "Additional Amount") plus an amount equal to the statutory minimum withholding that applies to the Additional Amount (together with the Additional Amount, the "Tax Gross Up"). The Tax Gross Up will be paid on the same schedule as the underlying Monthly Premium Payment.

- d. The Company will accelerate the vesting and exercisability of 37,500 shares of the Company's common stock subject to the Company stock option granted to you on February 8, 2017, effective as of the Separation Date, which shares represent the number of shares subject to such Company stock option that otherwise would have vested and become exercisable on February 8, 2018 had you remained employment with the Company through such date under the original terms of such stock option.

#### **4. Acknowledgement of Full Payment and Withholding.**

- a. You acknowledge and agree that, except as required by law, the payments provided under Section 2 of this Agreement are in complete satisfaction of any and all compensation or benefits due to you from the Company, whether for services provided to the Company or otherwise, through the Separation Date and that, except as expressly provided under this Agreement, no further compensation or benefits are owed or will be provided to you.
- b. All payments made by the Company under this Agreement shall be reduced by any tax or other amounts required to be withheld by the Company under applicable law and all other lawful deductions authorized by you.

#### **5. Status of Employee Benefits, Paid Time Off and Expenses.**

- a. Except for any right you may have to continue your participation and that of your eligible dependents in the Company's medical, dental, and vision plans under COBRA and except as provided for in Section 3(c) of this Agreement, your participation in all employee benefit plans of the Company will end as of the Separation Date, in accordance with the terms of those plans. You will receive information about your COBRA continuation rights under separate cover.
- b. Within sixty (60) days following the Separation Date, you must submit your final expense reimbursement statement reflecting all business expenses you incurred through the Separation Date, if any, for which you seek reimbursement, and, in accordance with Company policy, reasonable substantiation and documentation for the same. The Company will reimburse you for your authorized and documented expenses within thirty (30) days of receiving such statement pursuant to its regular business practice.

- c. Except as set forth in Section 3(d) of this Agreement, your rights and obligations with respect to any stock options granted to you by the Company which had vested as of the Separation Date shall be governed by the applicable stock option plan and any agreements or other requirements applicable to those options.

**6. Continuing Obligations, Confidentiality and Non-Disparagement.**

- a. Subject to Section 8(b) of this Agreement and applicable law, you acknowledge that you continue to be bound by your obligations under the Employment Agreement that survive the termination of your employment, including without limitation your obligations set forth in Sections 7-11 and 13 thereof (collectively, the "Continuing Obligations"). For the avoidance of doubt, you will not be held criminally or civilly liable under any federal or state trade secret law for disclosing a trade secret (y) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney, solely for the purpose of reporting or investigating a suspected violation of law, or (z) in a complaint or other document filed under seal in a lawsuit or other proceeding; provided, however, that notwithstanding this immunity from liability, you may be held liable if you unlawfully access trade secrets by unauthorized means.
- b. Subject to Section 8(b) of this Agreement, and except as otherwise required by law, you agree that you will not disclose this Agreement or any of its terms or provisions, directly or by implication, except to members of your immediate family and to your legal and tax advisors, and then only on condition that they agree not to further disclose this Agreement or any of its terms or provisions to others.
- c. Subject to Section 8(b) of this Agreement and applicable law, you agree that you will never disparage or criticize any of the Released Parties (as defined below), the Company, its Affiliates, their business, their management or their products or services, and that you will not otherwise do or say anything that could harm the interests or reputation of the Company or any of its Affiliates. The Company, in turn, agrees that it will never disparage or criticize you, your professional standing, your role with the Company, or otherwise, and that it will not otherwise do or say anything that could harm your personal or professional interests or reputation. You understand that the Company's obligations under this Section 6(c) relate only to the Company's officers and directors.

- 7. Return of Company Documents and Other Property.** In signing this Agreement, you agree that you will return to the Company any and all documents, materials and information (whether in hardcopy, on electronic media or otherwise) related to the business of the Company and its Affiliates (whether present or otherwise), and all Company keys, access cards, credit cards, computer hardware and software (with exception of your Company-issued MacBook laptop computer, which you are being permitted to keep), telephones and telephone-related equipment and all other property of the Company or any of its Affiliates in your possession or control. Further, you agree that you will not retain any copy or derivation of any documents, materials or information (whether in hardcopy, on electronic media or otherwise) of the Company or any of its

Affiliates. Recognizing that your employment with the Company will terminate as of the Separation Date, you agree that you will not, except as requested or otherwise agreed to by the Company in connection with any transition assistance, following the Separation Date, for any purpose, attempt to access or use any computer or computer network or system of the Company or any of its Affiliates, including without limitation the electronic mail system. Further, you agree to disclose to the Company, on or before the Separation Date, any and all passwords necessary or desirable to obtain access to, or that would assist in obtaining access to, all information which you have password-protected on any computer equipment, network or system of the Company or any of its Affiliates.

#### **8. General Release and Waiver of Claims.**

- a. In exchange for the special severance benefits provided to you under this Agreement, to which you would not otherwise be entitled, on your own behalf and that of your heirs, executors, administrators, beneficiaries, personal representatives and assigns, you agree that this Agreement shall be in complete and final settlement of any and all causes of action, rights and claims, whether known or unknown, accrued or un-accrued, contingent or otherwise, that you have had in the past, now have, or might now have, in any way related to, connected with or arising out of your employment, its termination, your other associations with the Company or any of its Affiliates, or pursuant to Title VII of the Civil Rights Act, the Americans with Disabilities Act, the Age Discrimination in Employment Act, as amended by the Older Workers Benefit Protection Act, the Employee Retirement Income Security Act, the Washington Minimum Wage and Wage Payment Acts, the Washington Industrial Welfare Act, the Washington Law Against Discrimination, the Washington Family Leave Act, and/or any other federal, state or local law, regulation or other requirement, each as amended from time to time, (collectively, the "Claims"), and you hereby release and forever discharge the Company, its Affiliates and all of their respective past, present and future directors, shareholders, officers, members, managers, general and limited partners, employees, employee benefit plans, administrators, trustees, agents, representatives, predecessors, successors and assigns, and all others connected with any of them, both individually and in their official capacities (collectively, the "Released Parties"), from, and you hereby waive, any and all such Claims.
- b. This release does not extend to any obligations incurred under this Agreement. This release does not release claims that cannot be released as a matter of law, including any Protected Activity (as discussed below) or any indemnification rights available under any indemnification agreement signed by you with the Company, Company Bylaws, or otherwise under applicable law.
- c. This Agreement, including the general release and waiver of claims set forth in Section 8(a), creates legally binding obligations and the Company and its Affiliates therefore advise you to consult an attorney before signing this Agreement. In signing this Agreement, you give the Company and its Affiliates assurance that you have signed it voluntarily and with a full understanding of its terms; that you have had sufficient opportunity of not less than twenty-one (21) days before signing this Agreement, to consider its terms and to consult with an attorney, if

you wished to do so, or to consult with any other of those persons to whom reference is made in Section 6(b) above; and that you have not relied on any promises or representations, express or implied, that are not set forth expressly in this Agreement.

- d. You agree to sign the Release by the later of five (5) days following the Separation Date and twenty-one (21) days following the date hereof (and in no event before the Separation Date). You further agree that the signed and unrevoked Release is an express condition to your receipt and retention of the severance benefits described in Section 3 above.
- e. You understand that nothing in this Agreement shall in any way limit or prohibit you from engaging in any Protected Activity. For purposes of this Agreement, "Protected Activity" shall mean filing a charge, complaint, or report with, or otherwise communicating, cooperating, or participating in any investigation or proceeding that may be conducted by, any federal, state or local government agency or commission, including the Securities and Exchange Commission, the Equal Employment Opportunity Commission, the Occupational Safety and Health Administration, and the National Labor Relations Board ("Government Agencies"). You understand that in connection with such Protected Activity, you are permitted to disclose documents or other information as permitted by law, and without giving notice to, or receiving authorization from, the Company.

**9. Miscellaneous.**

- a. This Agreement constitutes the entire agreement between you and the Company and supersedes all prior and contemporaneous communications, agreements and understandings related to the subject matter of this Agreement, whether written or oral, with respect to your employment, its termination and all related matters, excluding only the Continuing Obligations, as may be modified herein, and any indemnification agreement signed by you with the Company, all of which shall remain in full force and effect in accordance with their terms.
- b. This Agreement may not be modified or amended, and no breach shall be deemed to be waived, unless agreed to in writing by you and a member of the Compensation Committee of the Company or its expressly authorized designee. The captions and headings in this Agreement are for convenience only, and in no way define or describe the scope or content of any provision of this Agreement.
- c. The obligation of the Company to make payments or provide benefits to you or on your behalf under this Agreement, and your right to retain the same, is expressly conditioned upon your continued full performance of your obligations under this Agreement and of the Continuing Obligations.
- d. The Company agrees to promptly pay reasonable legal fees and related expenses, not to exceed \$15,000, incurred by you in connection with the drafting, negotiation and execution of this Agreement.

e. This is a Washington contract and shall be governed and construed in accordance with the laws of state of Washington, without regard to any conflict of laws principles that would result in the application of the laws of another jurisdiction. You agree to submit to the exclusive jurisdiction of the courts of and in the state of Washington in connection with any dispute arising out of this Agreement.

If the terms of this Agreement are acceptable to you, please sign, date and return it to me within twenty-one (21) days of the date that you receive it. You may revoke this Agreement at any time during the seven (7)-day period immediately following the date of your signing by notifying me in writing of your revocation within that period, and this Agreement shall not become effective or enforceable until that seven (7)-day revocation period has expired. If you do not revoke this Agreement, then, on the eighth (8th) day following the date that you signed it, this Agreement shall take effect as a legally binding agreement between you and the Company on the basis set forth above. You agree that if there have been any changes to a prior version of this Agreement (material or immaterial), the 21-day consideration period will not be reset. The enclosed copy of this letter, which you should also sign and date, is for your records.

Sincerely,  
MicroVision, Inc.

By: \_\_\_\_\_  
Name:  
Title:

Accepted and agreed:

Signature: \_\_\_\_\_  
Alexander Y. Tokman

Date: \_\_\_\_\_

**Exhibit A**  
**Post-Employment General Release and Waiver of Claims**  
**November 14, 2017**

For and in consideration of certain benefits to be provided to me under the Separation and Transition Agreement between MicroVision, Inc. (the "Company") and me, dated as of November 14, 2017 (the "Agreement"), which are conditioned on my signing this General Release and Waiver of Claims (this "Release of Claims") and on my compliance with the Continuing Obligations, and to which I am not otherwise entitled, and other good and valuable consideration, the receipt and sufficiency of which I hereby acknowledge, on my own behalf and on behalf of my heirs, executors, administrators, beneficiaries, representatives, successors and assigns, and all others connected with or claiming through me, I hereby release and forever discharge the Company and its affiliates, and all of their respective past, present and future officers, directors, shareholders, employees, employee benefits plans, administrators, trustees, agents, representatives, consultants, successors and assigns, and all those connected with any of them, in their official and individual capacities (collectively, the "Released Parties"), from any and all causes of action, suits, rights and claims, demands, damages and compensation of any kind and nature whatsoever, whether at law or in equity, whether now known or unknown, suspected or unsuspected, contingent or otherwise, which I now have or ever have had against the Released Parties, or any of them, in any way related to, connected with or arising out of my employment and/or other relationship with the Company or any of its affiliates, or pursuant to Title VII of the Civil Rights Act, the Americans With Disabilities Act, the Family and Medical Leave Act, the Age Discrimination in Employment Act (as amended by the Older Workers Benefit Protection Act), the Employee Retirement Income Security Act, the Washington Minimum Wage and Wage Payment Acts, the Washington Industrial Welfare Act, the Washington Law Against Discrimination, the Washington Family Leave Act, and/or any other federal, state or local law, regulation or other requirement, each as amended from time to time, (collectively, the "Claims"), through the date that I sign this Release of Claims, and I hereby waive all such Claims.

I understand that nothing in this Agreement prohibits me from engaging in any Protected Activity. For purposes of this Release of Claims, "Protected Activity" shall mean filing a charge, complaint, or report with, or otherwise communicating, cooperating, or participating in any investigation or proceeding that may be conducted by, any federal, state or local government agency or commission, including the Securities and Exchange Commission, the Equal Employment Opportunity Commission, the Occupational Safety and Health Administration, and the National Labor Relations Board ("Government Agencies"). I understand that in connection with such Protected Activity, I am permitted to disclose documents or other information as permitted by law, and without giving notice to, or receiving authorization from, the Company.

I represent and warrant that, in accordance with Section 7 of the Agreement, I have returned to the Company any and all Documents and other property of the Company and its Affiliates that I had in my possession, custody or control on the date my employment with the Company terminated and that I have retained no such property. Without limiting the foregoing, I also represent and warrant that I have retained no copy of any such documents, materials or information.

I acknowledge that this Release of Claims creates legally binding obligations, and that the Company has advised me to consult an attorney before signing it. I further acknowledge that I may not sign this Release of Claims prior to the Separation Date (as such term is defined in the Agreement). In signing this Release of Claims, I give the Company assurance that I have signed it voluntarily and with a full understanding of its terms; that I have had sufficient opportunity of not less than twenty-one (21) days before signing this Release of Claims to consider its terms and to consult with an attorney, if I wished to do so, or to consult with any person to whom reference is made in Section 6(b) of the Agreement; and that I have not relied on any promises or representations, express or implied, that are not set forth expressly in this Release of Claims. I understand that I will have seven (7) days after signing this Release of Claims to revoke my signature, and that, if I intend to revoke my signature, I must do so in writing addressed and delivered to the Compensation Committee prior to the end of the seven (7)-day revocation period. I understand that this Release of Claims will become effective upon the eighth (8th) day following the date that I sign it, provided that I do not revoke my acceptance in accordance with the immediately preceding sentence.

This Release of Claims constitutes the entire agreement between the Company and me and supersedes all prior and contemporaneous communications, agreements and understandings regarding the subject matter of this Release of Claims, whether written or oral, with respect to my employment, its termination and all related matters, excluding only the Agreement and the Continuing Obligations (as such term is defined in the Agreement), as may be modified by the Agreement, which shall remain in full force and effect in accordance with their terms. This Release of Claims may not be modified or amended, and no breach shall be deemed to be waived, unless agreed to in writing by me and a member of the Compensation Committee of the Company or its expressly authorized designee.

Accepted and agreed:

Signature: \_\_\_\_\_  
Alexander Y. Tokman

Date: \_\_\_\_\_

## EMPLOYMENT AGREEMENT

**AGREEMENT** made and entered into in Seattle, Washington, by and between MICROVISION, Inc. (the "Company"), a Delaware corporation with its principal place of business in Seattle, Washington, and Perry Mulligan ("Executive"), effective as of November 21, 2017 (the "Effective Date").

**WHEREAS**, subject to the terms and conditions hereinafter set forth, the Company wishes to employ Executive as its Chief Executive Officer and Executive wishes to accept such employment;

**NOW, THEREFORE**, in consideration of the foregoing premises and the mutual promises, terms, provisions and conditions set forth in this Agreement, the parties hereby agree:

1. Employment. Subject to the terms and conditions set forth in this Agreement, the Company hereby offers, and Executive hereby accepts, employment.
  2. Term. Subject to earlier termination as hereafter provided, Executive's employment hereunder shall be for an initial term of two (2) years, commencing as of the Effective Date of this Agreement ("Employment Term"), subject to earlier termination as set forth in Section 5 below. Following the expiration of the Employment Term, this Agreement shall be automatically renewed for successive one (1) year periods ("Renewal Term") unless, at least ninety (90) days prior to the expiration of the Employment Term or the then current Renewal Term, either party provides the other with written notice of intention not to renew, in which case this Agreement shall terminate as of the end of the Employment Term or the Renewal Term, as applicable. If this Agreement is renewed, the terms of this Agreement during any Renewal Term shall be the same as the terms in effect immediately prior to such renewal (including but not limited to, the provisions set forth in Sections 4 and 5 below), subject to any changes or modifications as mutually may be agreed between the Parties as evidenced in a written instrument signed by both the Company and Executive. "Term" as used in this Agreement without further modification shall mean the Employment Term together with any Renewal Term.
  3. Capacity and Performance.
    - a. During the Term, Executive shall serve the Company as its Chief Executive Officer, reporting to the Company's Board of Directors (the "Board"). In addition, and without further compensation, Executive may also serve as a member of the Board. In addition, Executive may also serve as a director and/or officer of one or more of the Company's Affiliates, if so elected or appointed from time to time.
    - b. During the Term, Executive shall be employed by the Company on a full-time basis and shall perform such duties as are intrinsic to his position and such other duties and responsibilities on behalf of the Company and its Affiliates as may reasonably be designated from time to time by the Board or by its designees.
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- c. During the Term, Executive shall devote his full business time and his best efforts, business judgment, skill and knowledge exclusively to the advancement of the business and interests of the Company and its Affiliates and to the discharge of his duties and responsibilities hereunder. Executive shall not actively engage in any other business activity during the Term, but may participate in industry, trade, professional, charitable and community activities and manage personal investments so long as such activities, either individually or in the aggregate, do not unreasonably conflict with the interests of the Company and its Affiliates or unreasonably interfere with the discharge of Executive's responsibilities to the Company and its Affiliates. Executive may serve on the boards of directors of other companies only with the prior express permission of the Board.
4. Compensation and Benefits. As compensation for all services performed by Executive under and during the Term and subject to performance of Executive's duties and of the obligations of Executive to the Company and its Affiliates, pursuant to this Agreement or otherwise:
- a. Base Salary. Beginning with the Effective Date, the Company shall pay Executive an annual base salary at the rate of Three Hundred Fifty Thousand Dollars (\$350,000) per year (the "Base Salary"), payable in accordance with the payroll practices of the Company for its executives and subject to annual review by the Board or a committee thereof and to such adjustment as the Board or a committee thereof, in its sole discretion, may from time to time determine. No decrease may be made in Executive's Base Salary without the prior written consent of the Executive
- b. Bonus Compensation. During the Term, Executive will be eligible for an annual bonus opportunity (the "Bonus") at a level commensurate with his position and responsibilities as Chief Executive Officer of the Company, as reasonably determined by the Board or a committee thereof ("Target Bonus"). The Parties agree that the target equivalent of such Bonus will be no less than 50% of the Base Salary. The actual amount of the payment under any Bonus shall be determined in good faith by the Board or a committee thereof, based on its assessment, in its discretion, of Executive's performance and that of the Company against appropriate and reasonably attainable goals established by the Board or a committee thereof after consultation with Executive, in the calendar year following the performance year. To the extent consistent with bonus opportunities (and payments thereunder) awarded to other executive officers of the Company whose compensation is subject to Section 162(m) of the Code, the Board or a committee thereof may structure any Bonus for Executive with the intent that it comply with the performance-based compensation exception requirements under Section 162(m), *provided* that the Target Bonus shall not go below 50% of the Base Salary. Any Bonus compensation earned by Executive shall be paid to Executive in the calendar year following the performance year, no later than bonus payments to other Executives and in all events by December 31 of such following year.
- c. Long Term Incentives. As soon as reasonably practicable following the Effective Date, Executive will be awarded (i) an option to purchase 125,000 shares of the Company's common stock (the "Option"), and (ii) a grant of 125,000 restricted stock units (the "RSU Award", and together with the Option, the "Awards"), with each of the Awards vesting in equal amounts annually over four years, in each case with a vesting commencement date of

November 13, 2017. The Awards will be granted pursuant the Company's 2013 Equity Incentive Plan (the "Plan") and the applicable stockholders' agreement. The terms and conditions of the Awards will be as set forth in separate award agreements (the "Award Agreements"). Each Award will be subject to the terms and conditions of the Plan, the applicable Award Agreement, the applicable stockholders' agreement, and any other restrictions and limitations generally applicable to the equity of the Company or equity awards held by Company executives or otherwise imposed by law.

- d. Vacations. During the Term, Executive shall be entitled to four (4) weeks of paid vacation per year to be taken at such times and intervals as shall be determined by Executive, subject to the reasonable business needs of the Company. Vacation shall otherwise be governed by the policies of the Company, as in effect from time to time; *provided, however*, that nothing in Company policy or practice shall prevent Executive from receiving pay for accrued but unused vacation at the time of Executive's termination from employment pursuant to the terms of this Agreement.
- e. Relocation. Executive will be required to relocate on a full-time basis to the Seattle, Washington area. The Company will pay or reimburse Executive for reasonable out-of-pocket expenses incurred by Executive in connection with his relocation on a full-time basis to the Seattle area (including expenses related to interim temporary housing), up to a maximum amount of \$75,000 (the "Relocation Amount"), in each case subject to Executive's employment by the Company through the date the reimbursable obligation is incurred, or as applicable, the date the payment is paid. The Relocation Amount will consist of two parts: (i) reimbursement for up to \$25,000 for any expenses that are incurred (based on submitted documentation) in connection with or within two months following the execution of this Agreement; and (ii) two equal payments of \$25,000 each (in a total amount of \$50,000), with the first payment payable following Executive's execution of this Agreement and the second payment payable on January 1, 2018, to pay for Executive's relocation expenses without need for submitted documentation. Any expenses that are reimbursed under this Section 4.e will be paid to Executive not later than March 15, 2018.
- f. Other Benefits. During the Term and subject to any contribution therefore generally required of employees of the Company, Executive shall be entitled to participate in any and all employee benefit plans from time to time in effect for executives or employees of the Company generally, except to the extent such plans provide a category of benefit (for example, but without limitation, severance) otherwise provided to Executive pursuant to this Agreement. Such participation shall be subject to the terms of the applicable plan documents and generally applicable Company policies. The Company may alter or terminate its employee benefit plans at any time, as it, in its sole judgment, determines to be appropriate.
- g. Business Expenses. The Company shall pay or reimburse Executive for all reasonable business expenses incurred or paid by Executive in the performance of his duties and responsibilities hereunder, subject to such policies as may be established by the Company from time to time, any maximum annual limit or other restrictions on such expenses and to provision of such reasonable substantiation and documentation as may be specified by the Company from time to time. Any such payment or reimbursement that could constitute "nonqualified deferred compensation" subject to Section 409A of the Code shall be subject to the

requirements that: (i) the amount of expenses eligible for payment or reimbursement during any calendar year may not affect the expenses eligible for payment or reimbursement in any other taxable year, (ii) the payment or reimbursement must be made, if at all, not later than December 31 of the calendar year following the calendar year in which the expense was incurred, and (iii) any right that Executive may have to reimbursement shall in no event be subject to liquidation or exchange for any other benefit.

5. Termination of Employment and Severance Benefits Notwithstanding the provisions of Section 2 hereof, Executive's employment hereunder shall terminate prior to the expiration of the Term under the following circumstances:

a. Death. In the event of Executive's death during the Term, Executive's employment hereunder shall immediately and automatically terminate. In such event, the Company shall pay to Executive's designated beneficiary or, if no beneficiary has been designated by Executive, to his estate: (i) any earned and unpaid Base Salary, payable on the Company's next regular pay day following termination, (ii) any vacation time earned but not used through the date of termination, payable on the Company's next regular pay day following the termination, (iii) any bonus compensation for the year preceding that in which the termination occurs and unpaid on the date of termination ("Awarded Bonus"), payable in accordance with Section 4.b hereof, (iv) subject to Section 4(f) above, any reimbursable business expenses incurred by Executive but not yet reimbursed on the date of termination, *provided* that such expenses and required substantiation and documentation are submitted within sixty (60) days of termination, with reimbursement being made promptly after receipt of documentation (amounts provided in (i) through (iv), "Final Payment"); and (v) payment for a pro-rata portion of Executive's Bonus for the year in which the termination occurs in the event that bonuses are paid to other officers of the Company for the same year and *provided* that the timing of such pro-rata bonus payment will be made in the same form of consideration and at the same time as the bonus payments made to other officers. The Company shall also make provision, in a manner consistent with Section 409A of the Code, such that for a period of up to twelve (12) months following Executive's death Executive's surviving spouse, if any, and his surviving dependents, if any, if they are eligible for and elect continuation of health coverage pursuant to the so-called "COBRA" coverage-continuation provisions applicable to the Company's group health plan, shall be required to contribute to such coverage only so much as they would have contributed for comparable family coverage had Executive continued to be employed. The Company shall have no further obligations to Executive.

b. Disability.

i. To the extent permitted by applicable law, the Company may terminate Executive's employment hereunder, upon notice to Executive, in the event that Executive becomes disabled during his employment hereunder through any illness, injury, accident or condition of either a physical or psychological nature and, as a result, is unable to perform substantially all of his duties and responsibilities hereunder, with or without reasonable accommodation as required by law, for a period of more than one hundred twenty (120) days during any period of three hundred and sixty-five (365) consecutive calendar days. In the event of such termination, the Company shall pay Executive the Final Payment and payment for a pro-rata portion of Executive's Bonus for

the year in which the termination occurs in the event that bonuses are paid to other officers of the Company for the same year and *provided* that the timing of such pro-rata bonus payment will be made in the same form of consideration and at the same time as the bonus payments made to other officers. The Company shall also make provision, in a manner consistent with Section 409A of the Code, such that for a period of up to twelve (12) months following such termination Executive and his family members, to the extent they are eligible for and elect continuation of health coverage (including pursuant to the so-called "COBRA" coverage-continuation provisions applicable to the Company's group health plan), shall be required to contribute to such coverage only so much as they would have contributed for comparable family coverage had Executive continued to be employed. The Company shall have no further obligations to Executive.

- ii. Prior to termination as provided at clause i. above, the Board may designate another employee to act in Executive's place during any period of Executive's disability. Notwithstanding any such designation, Executive shall continue to receive the compensation and benefits in accordance with Sections 4.a through 4.d and benefits in accordance with Section 4.e, to the extent permitted by the then-current terms of the applicable benefit plans, until Executive becomes eligible for disability income benefits under the Company's disability income plan or until the termination of his employment, whichever shall first occur.
  - iii. While receiving disability income payments under the Company's disability income plan, Executive shall not be entitled to receive any Base Salary under Section 4.a hereof, but shall continue to participate in Company benefit plans in accordance with Section 4.e and the terms of such plans, until the termination of his employment.
  - iv. If any question shall arise as to whether during any period Executive is disabled as described above, a determination of whether Executive has a disability shall be made by Executive's health care provider. In the event the Company questions the medical opinion of Executive's health care provider, the Company may require Executive to obtain a second opinion from a different health care provider chosen by the Company at its own expense. If there is a conflict between the opinion of Executive's health care provider and the opinion of the Company's selected health care provider, the Company may require Executive to obtain a third opinion from a health care provider jointly approved by the Company and Executive at the Company's expense, and this third opinion shall be binding on Executive and the Company. Any such determination of disability under this Section 5.b.iv is not intended to alter any benefits any party may be entitled to receive under any long-term disability insurance policy carried by either the Company or Executive with respect to Executive, which benefits shall be governed solely by the terms of any such insurance policy. If Executive fails to submit to a medical examination at the request of the Company as provided above, the Company's determination of the issue shall be binding on Executive.
- c. By the Company for Cause. The Company may terminate Executive's employment hereunder for Cause at any time upon notice to Executive setting forth in reasonable detail the nature of such Cause. The following, as determined by the Board in its reasonable

judgment, shall constitute Cause for termination: (i) Executive's repeated willful failure to perform, or gross negligence in the performance of, his duties and responsibilities to the Company or any of its Affiliates; (ii) fraud, embezzlement or other dishonesty with respect to the Company or any of its Affiliates; (iii) breach of any of his obligations under Section 7, 8 or 9 hereof or (iv) commission of a felony or other crime involving moral turpitude. Upon termination of Executive's employment hereunder for Cause, the Company shall have no further obligations to Executive other than to pay Executive the Final Payment.

- d. By the Company Other than for Cause. The Company may terminate Executive's employment hereunder other than for Cause at any time upon notice to Executive. In the event of such termination during the Employment Term or a Renewal Term, then, the Company (i) shall pay Executive (A) the Final Payment, (B) severance pay in an amount equal to twelve (12) months of Base Salary, at the rate in effect at the date of termination, and (C) a pro-rata portion of Executive's Bonus for the year in which the termination occurs in the event that bonuses are paid to other officers of the Company for the same year, or, if the Bonus for the year of termination has not yet been determined, a pro-rata portion of the Bonus paid or payable to Executive for the most recently completed fiscal year of the Company for which an annual bonus was paid or is payable to Executive (in each case, with the pro-rata amount determined by multiplying the amount of such full-year bonus by a fraction, the numerator of which is the number of days during the fiscal year of termination that Executive was employed by the Company and the denominator of which is three hundred and sixty-five (365)); (If termination happens in 2018 and the Bonus for the year has not been determined, the pro-rata amount would be calculated using the 2017 Bonus amount paid or payable for the previous CEO); and (ii) shall reimburse Executive a monthly amount equal to the amount the Company contributes from time to time to group medical, dental and/or vision insurance premiums (as applicable) for its active employees (the "Monthly Premium Payment"), until the earlier of (x) the end of the Severance Period (as defined below) or (y) the date Executive and his dependents are no longer entitled to coverage under COBRA or Company plans (the "COBRA Period"); *provided* that Executive timely elects to continue his participation and that of his eligible dependents in such plans, is entitled to continue such participation under applicable law and plan terms and pays the remainder of the premium cost from month to month in accordance with the schedule established by the Company. Any obligation of the Company to Executive under clause (i) or (ii) hereof, however, shall be reduced by any other payments from the Company to which Executive is entitled as a result of termination (exclusive of any Final Payment due) and is conditioned on Executive signing and delivering to the Company, not later than the earlier of (a) sixty (60) days after termination of employment or (b) the deadline for consideration and execution thereof specified in the reasonable form of release of claims to be provided to Executive by the Company at the time Executive's employment terminates (the "Employee Release"), and such deadline therein, together with the end of any applicable revocation period, the "Release Deadline". Severance pay and Bonus to which Executive is entitled hereunder shall be payable pro-rata at the Company's regular payroll periods during the twelve (12) month period immediately following termination of Executive's employment (the "Severance Period"), with the first payment being made on the Company's next regular payday following the Release Deadline, but retroactive to the next business day following the date of termination of employment; *provided*, that no payment will be made prior to the effective date of the Employee Release and that if at the relevant time Executive is a Specified Employee, so much of the amounts payable hereunder as constitutes nonqualified deferred compensation

subject to Section 409A of the Code and that would be payable during the six-month period following Executive's termination shall instead be accumulated and paid in a single sum upon the day after the conclusion of such six-month period.

- e. By Executive for Good Reason. Executive may terminate his employment hereunder for Good Reason *provided* that (A) he gives notice to the Company within ninety (90) days of Executive's knowledge of the initial occurrence of the event or condition constituting Good Reason, setting forth in reasonable detail the nature of such Good Reason; (B) the Company fails to cure within thirty (30) days following such notice; and (C) Executive terminates his employment within thirty (30) days following the end of the thirty (30)-day cure period (if the Company fails to cure). The following shall constitute Good Reason for termination by Executive: (i) failure of the Company to continue Executive in the position of Chief Executive Officer; (ii) material diminution in the nature and scope of Executive's responsibilities, duties, authority, and reporting up requirements of Executive, *provided, however*, that the Company's failure to continue Executive's appointment or election as a director or officer of one of the Company's Affiliates and any diminution of the business at the Company or any of its Affiliates shall not constitute "Good Reason"; (iii) material failure of the Company to provide Executive with the Base Salary and benefits in accordance with the terms of Section 4 hereof; or (iv) relocation of Executive's office more than thirty-five (35) miles from the then-current location of the Company's principal offices without his consent. In the event of termination in accordance with this Section 5.e during the Employment Term or Renewal Term, then Executive will be entitled to the same pay and benefits he would have been entitled to receive had Executive been terminated by the Company other than for Cause in accordance with Section 5.d above; *provided* that Executive satisfies all conditions to such entitlement, including without limitation the timely signing of an effective Employee Release, in accordance with the requirements set forth in Section 5.d.
- f. By Executive Other than for Good Reason. Executive may terminate his employment hereunder at any time upon sixty (60) days' notice to the Company. In the event of termination by Executive pursuant to this Section 5.f, the Board may elect to waive the period of notice, or any portion thereof, and, if the Board so elects, the Company will pay Executive the Base Salary for the notice period (or for any remaining portion of the period) and the Final Payment. The Company shall have no further obligation to Executive.
- g. Upon a Change of Control.
  - i. If a Change of Control occurs and the Company terminates Executive's employment hereunder other than for Cause during the Employment Term or Renewal Term and within two (2) years following such Change of Control or Executive terminates his employment hereunder for any reason during the Employment Term or Renewal Term and within two (2) years following such Change of Control, then, in lieu of any payments to or on behalf of Executive under Section 5.d or 5.e hereof, the Company, in addition to providing Executive the Final Payment, (A) shall pay Executive an amount equal to one year of Base Salary at the rate in effect at the date of termination or, if higher, on the date of the Change of Control plus a payment equal to the Target Bonus for which Executive is eligible, which amount shall be payable in a single lump sum within ten (10) business days following the Employee Release Deadline and (B)

shall pay the full cost of Executive's continued participation in the Company's group health and dental plans for two years or, if less, for so long as Executive remains entitled to continue such participation under applicable law. In addition, 100% of those Options, or any subsequently-awarded options, which are not exercisable and which have not been exercised and have not expired or been surrendered or cancelled, shall become exercisable upon such termination and shall otherwise be and remain exercisable in accordance with the terms of the Plan. Further, 100% of those restricted stock units which have not vested shall vest immediately upon such termination, in accordance with the terms of the Plan. The obligations of the Company hereunder, however, other than for the Final Payment, if any, are subject to Executive signing a timely and effective Employee Release in accordance with the rules specified in subsection (d) above. Notwithstanding the generality of the foregoing, (i) if the Change of Control is not a "change in control event" (as that term is defined at Section 1.409A-3(i)(5) of the Treasury Regulations), so much of the amounts described in this paragraph as does not exceed the amounts that would have been payable to Executive under Section 5.d. or Section 5.e., as the case may be, had termination occurred prior to the Change of Control, and that constitutes nonqualified deferred compensation subject to Section 409A of the Code, shall be paid in the same manner and on the same schedule as described in Sections 5.d. and 5.e., and (ii) if at the relevant time Executive is a Specified Employee, so much of the amounts payable hereunder as constitutes nonqualified deferred compensation subject to Section 409A of the Code and that would be payable during the six-month period following Executive's termination shall instead be accumulated and paid in a single lump sum upon the day after the conclusion of such six-month period.

ii. Certain Additional Payments by the Employer:

- A. Payments under this Agreement shall be made without regard to whether the deductibility of such payments (or any other payments or benefits to or for the benefit of Executive) would be limited or precluded by Section 280G of the Code ("Section 280G") and without regard to whether such payments (or any other payments or benefits) would subject Executive to the federal excise tax levied on certain "excess parachute payments" under Section 4999 of the Code (the "Excise Tax"). If any portion of the payments or benefits to or for the benefit of Executive (including, but not limited to, payments and benefits under this Agreement but determined without regard to this paragraph) constitutes an "excess parachute payment" within the meaning of Section 280G (the aggregate of such payments being hereinafter referred to as the "Excess Parachute Payments"), the Company shall promptly pay (and to the extent practicable, no later than ten (10) days prior to the date Executive is required to make any Excise Tax payment to the Internal Revenue Service) to Executive an additional amount (the "gross-up payment") that after reduction for all taxes (including but not limited to the Excise Tax) with respect to such gross-up payment equals the Excise Tax with respect to the total of the Excess Parachute Payments and the gross-up Payment. The gross-up payment will be made within 60 days following the date on which Executive remits the related taxes to the taxing authorities, in accordance with Treasury Regulation Section 1.409A-3(i)(1)(v).

B. The determination as to whether Executive's payments and benefits include Excess Parachute Payments and, if so, the amount of such payments, the amount of any Excise Tax owed with respect thereto, and the amount of any gross-up payment shall be made at the Company's expense by PricewaterhouseCoopers LLP or by such other certified public accounting firm as the Committee may designate prior to a Change of Control (the "accounting firm"). Notwithstanding the foregoing, if the Internal Revenue Service shall assert an Excise Tax liability that is higher than the Excise Tax (if any) determined by the accounting firm, the Company shall, promptly (and to the extent practicable, no later than ten (10) days prior to the date Executive is required to make any Excise Tax payment to the Internal Revenue Service) augment the gross-up payment to address such higher Excise Tax liability.

iii. "Change of Control" means the occurrence of any of the following events after the Effective Date:

- A. The acquisition by any Person or group of the ultimate beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) of more than 50% of the then outstanding securities of the Company entitled to vote generally in the election of directors; excluding, however, the following: (i) any acquisition directly from the Company (other than any acquisition by virtue of the exercise of an exercise, conversion or exchange privilege unless the security being so exercised, converted or exchanged was itself acquired directly from the Company); (ii) any acquisition by the Company; (iii) any acquisition by an employee benefit plan (or related trust) sponsored or maintained by the Company or by any corporation controlled by the Company; (iv) any acquisition by Executive, by any Executive Related Party (as defined herein) or by a group of which Executive is a member; or (v) any acquisition by any corporation pursuant to a transaction which complies with clauses (i), (ii) and (iii) of this subsection g.(iii)(A); or
- B. Individuals who, as of the date hereof, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; *provided, however*, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election, by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or
- C. A reorganization, recapitalization, merger or consolidation (a "Corporate Transaction") of the Company, unless (i) securities representing more than 50% of the then outstanding securities entitled to vote generally in the election of directors of the Company or the corporation resulting from or surviving such Corporate Transaction (or the ultimate parent of the Company or such corporation after such Corporate Transaction) are beneficially owned subsequent to such Corporate Transaction by the Person or Persons who were the beneficial owners of the outstanding securities of



the Company entitled to vote generally in the election of directors immediately prior to such Corporate Transaction, in substantially the same proportions as their ownership immediately prior to such Corporate Transaction, (ii) no Person (excluding any corporation resulting from such Corporate Transaction or any employee benefit plan (or related trust) of the Company of such corporation resulting from such Corporate Transaction) ultimately beneficially owns, directly or indirectly, more than 50% of the then outstanding securities entitled to vote generally in the election of directors of the Company or the corporation resulting from or surviving such Corporate Transaction (or the ultimate parent of the Company or such corporation after such Corporate Transaction) except to the extent that such ownership existed prior to the Corporate Transaction; and (iii) at least a majority of the members of the board of directors of the corporation resulting from such Corporate Transaction were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Corporate Transaction; or

D. The sale, transfer or other disposition of all or substantially all of the assets of the Company; or

E. Approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

For purposes of this definition, securities entitled to vote generally in the election of directors that are issuable upon exercise of an exercise, conversion or exchange shall be deemed to be outstanding. In addition, for purposes of this definition, the following terms have the meanings set forth below:

A Person shall be deemed to be the "owner" of any securities of which such Person would be the "beneficial owner," as such term is defined in Rule 13d-3 promulgated by the Securities and Exchange Commission under the Exchange Act.

"Person" has the meaning used in Section 13.d of the Exchange Act, except that "Person" does not include (i) Executive, an Executive Related Party, or any group of which Executive or Executive Related Party is a member, or (ii) the Company or a wholly owned subsidiary of the Company or an employee benefit plan (or related trust) of the Company or of a wholly owned subsidiary.

An "Executive Related Party" means any affiliate or associate of Executive other than the Company or a subsidiary of the Company. The terms "affiliate" and "associate" have the meanings given in Rule 12b-2 under the Exchange Act; the term "registrant" in the definition of "associate" means, in this case, the Company.

6. Effect of Termination. The provisions of this Section 6 shall apply to termination of employment pursuant to Section 5 or otherwise.

- a. Payment by the Company in accordance with the applicable termination provision of Section 5, if any, shall constitute the entire obligation of the Company to Executive. Executive shall promptly give the Company notice of all facts necessary for the Company to determine the amount and duration of its obligations in connection with any termination pursuant to Section 5.d, 5.e or 5.g hereof.

- b. Except for medical, dental and vision plan coverage continued pursuant to Section 5.d, 5.e or 5.g hereof, benefits shall terminate pursuant to the terms of the applicable benefit plans based on the date of termination of Executive's employment without regard to any payments to Executive following such date of termination.
- c. Provisions of this Agreement shall survive expiration of the Employment Term and any termination hereunder if so provided herein or if necessary or desirable to accomplish the purposes of other surviving provisions, including without limitation the obligations of Executive under Sections 7, 8 and 9 hereof. The obligation of the Company to make payments to or on behalf of Executive under Section 5.d, 5.e or 5.g hereof is expressly conditioned upon Executive's continued full performance of obligations under Sections 7, 8 and 9 hereof. Executive recognizes that, except as expressly provided in Section 5.d, 5.e or 5.g no compensation is earned after termination of employment.

7. Confidential Information.

- a. Executive acknowledges that the Company and its Affiliates continually develop Confidential Information, that Executive may in the future develop Confidential Information for the Company or its Affiliates and that Executive has in the past and may in the future learn of Confidential Information during the course of employment. Executive will comply with the policies and procedures of the Company and its Affiliates for protecting Confidential Information and shall not use or disclose to any Person (except as required by applicable law or for the proper performance of his duties and responsibilities to the Company and its Affiliates hereunder) any Confidential Information obtained by Executive incident to his employment or other association with the Company or any of its Affiliates. Executive understands that this restriction shall continue to apply after his employment terminates, regardless of the reason for such termination. Nothing in this Agreement limits, restricts or in any other way affects Executive's communicating with any governmental agency or entity, or communicating with any official or staff person of a governmental agency or entity, concerning matters relevant to the governmental agency or entity. Executive cannot be held criminally or civilly liable under any federal or state trade secret law for disclosing a trade secret (i) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney, solely for the purpose of reporting or investigating a suspected violation of law, or (ii) in a complaint or other document filed under seal in a lawsuit or other proceeding. Notwithstanding this immunity from liability, Executive may be held liable if Executive unlawfully accesses trade secrets by unauthorized means.
- b. All documents, records, tapes and other media of every kind and description relating to the business, present or otherwise, of the Company or its Affiliates and any copies, in whole or in part, thereof (the "Documents"), whether or not prepared by Executive, shall be the sole and exclusive property of the Company and its Affiliates. Executive shall reasonably safeguard all Documents and shall surrender to the Company at the time his employment terminates, or at such earlier time or times as the Board or its designee may specify, all Documents then in Executive's possession or control.

8. Assignment of Rights to Intellectual Property.

- a. Executive shall promptly and fully disclose all Intellectual Property to the Company. Executive hereby assigns and agrees to assign to the Company (or as otherwise directed by the Company) Executive's full right, title and interest in and to all Intellectual Property. Executive agrees to execute any and all applications for domestic and foreign patents, copyrights or other proprietary rights and to do such other acts (including without limitation the execution and delivery of instruments of further assurance or confirmation) reasonably requested by the Company to assign the Intellectual Property to the Company and to permit the Company to enforce any patents, copyrights or other proprietary rights to the Intellectual Property. Executive will not charge the Company for time spent in complying with these obligations. All copyrightable works that Executive creates shall be considered "work made for hire."
- b. For purposes of this Agreement, "Intellectual Property" means inventions, discoveries, developments, methods, processes, compositions, works, concepts and ideas (whether or not patentable or copyrightable or constituting trade secrets) conceived, made, created, developed or reduced to practice by Executive (whether alone or with others, whether or not during normal business hours or on or off Company premises) during Executive's employment; *provided, however*, that, pursuant to Section 49.44.140 of the Revised Code of Washington, the text of which is appended hereto as Exhibit A, the Company shall have no rights to any invention for which no equipment, supplies, facilities or trade secret information of the Company was used and which was developed entirely on Executive's own time, unless (a) the invention relates (i) directly to the business of the Company or (ii) to the Company's actual or demonstrably anticipated research or development; or (b) the invention results from any work performed by Executive for the Company.

9. Restricted Activities. Executive agrees that some restrictions on his activities during and after his employment are necessary to protect the goodwill, Confidential Information and other legitimate interests of the Company and its Affiliates:

- a. While Executive is employed by the Company and for the twelve (12) month period immediately following termination of his employment with the Company (the "Non-Competition Period"), Executive shall not, directly or indirectly, whether as owner, partner, investor, consultant, agent, employee, co-venturer or otherwise, compete with the Company anywhere worldwide. Specifically, but without limiting the foregoing, Executive agrees not to engage in any manner of any activity that is directly or indirectly competitive or potentially competitive with the business of the Company as conducted at any time during Executive's employment. For the purposes of this Section 9, the business of the Company shall include all Products and Executive's undertaking shall encompass all items, products and services that may be used in substitution for Products. The foregoing, however, shall not prevent Executive's passive ownership of two percent (2%) or less of the equity securities of any publicly traded company.
- b. Executive agrees that, during his employment with the Company, in addition to complying with the limitations of Section 3.C., he will not undertake any outside activity, whether or not competitive with the business of the Company or its Affiliates, that could reasonably give rise to a conflict of interest or otherwise interfere with his duties and obligations to the Company or any of its Affiliates and that would not otherwise be prohibited under Section 3.c.

- c. Executive further agrees that while he is employed by the Company and for twelve (12) months following termination of his employment (the "Non-Solicitation Period"), Executive will not solicit any employee of the Company or encourage any customer or vendor of the Company to terminate or diminish its relationship with the Company, or, in the case of a customer, to conduct with any Person any business or activity which such customer conducts with the Company. It shall not be a violation of this Agreement for Executive to hire, interview, recruit or otherwise discuss employment or other business relationship with any employee of the Company that (i) has been given notice of involuntary termination by the Company, or (ii) responds to a general advertisement or otherwise initiates contact with Executive for purposes of seeking employment or other business relationship. For purposes of this Agreement, an employee or customer of the Company is any Person who was a current employee or customer of the Company at the time Executive's employment with the Company ended.

For purposes of this Section 9, "Company" shall include Affiliates of the Company with which Executive has had involvement in the course of his employment or about which Affiliate or Affiliate's activities he has acquired or received any Confidential Information until a Change of Control has occurred, after such time Company shall not be broadened to include any new Affiliates.

10. Notification Requirement. Until the conclusion of the Non-Competition Period, Executive shall give notice to the Company of each new business activity he plans to undertake that could reasonably be construed to potentially violate Section 7, 8 or 9 above, at least ten (10) business days prior to beginning any such activity. Such notice shall state the name and address of the Person for whom such activity is undertaken and the nature of Executive's business relationship(s) and position(s) with such Person. Executive shall provide the Company with such other pertinent information concerning such business activity as the Company may reasonably request in order to determine Executive's continued compliance with his obligations under Sections 7, 8 and 9 hereof.
11. Enforcement of Covenants. Executive acknowledges that he has carefully read and considered all the terms and conditions of this Agreement, including the restraints imposed upon him pursuant to Sections 7, 8 and 9 hereof. Executive agrees that said restraints are necessary for the reasonable and proper protection of the Company and its Affiliates (as defined in Section 9) and that each and every one of the restraints is reasonable in respect to subject matter, length of time and geographic area. Executive further acknowledges that, were he to breach any of the covenants contained in Sections 7, 8 and 9 hereof, the damage to the Company would be irreparable. Executive therefore agrees that the Company, in addition to any other remedies available to it, shall be entitled to preliminary relief against any breach or threatened breach by Executive of any of said covenants, without having to post bond. So that the Company may enjoy the full benefit of the covenants contained in Section 9, Executive further agrees that the Non-Competition Period and the Non-Solicitation Period shall be tolled, and shall not run, during the period of any breach by Executive of any of the covenants contained in Section 9. The parties further agree that, in the event that any provision of Sections 7, 8 or 9 hereof shall be determined by any court of competent jurisdiction to be unenforceable by reason

of its being extended over too great a time, too large a geographic area or too great a range of activities, such provision shall be deemed to be modified to permit its enforcement to the maximum extent permitted by law. No claimed breach of this Agreement or other violation of law attributed to the Company, or change in the nature or scope of Executive's employment or other relationship with the Company or any of its Affiliates, shall operate to excuse Executive from the performance of his obligations under Section 9.

12. Conflicting Agreements. Executive hereby represents and warrants that the execution of this Agreement and the performance of his obligations hereunder will not breach or be in conflict with any other agreement to which Executive is a party or is bound and that Executive is not now subject to any covenants against competition or similar covenants or any court order or other obligation that would affect the performance of his obligations hereunder. Executive will not disclose to or use on behalf of the Company any proprietary information of a third party without such party's consent.

13. Arbitration.

- a. Any dispute, controversy or claim between the parties arising out of this Agreement shall be settled by arbitration conducted in Seattle, Washington in accordance with the rules and procedures of JAMS for the resolution of employment disputes (the "Rules") and the laws of the State of Washington.
- b. In the event that a party requests arbitration (the "Requesting Party"), it shall serve upon the other party (the "Non-Requesting Party") within ninety (90) days of the date the Requesting Party knew, or reasonably should have known, of the facts on which the controversy, dispute or claim is based, a written demand for arbitration stating the substance of the controversy, dispute or claim and the contention of the Requesting Party. An arbitrator shall be selected in accordance with the Rules, with the Requesting Party initiating that process within thirty (30) days of the date it serves demand for arbitration on the Non-Requesting Party (or such longer period to which the parties shall agree in writing.).
- c. The function of the arbitrator shall be to determine the interpretation and application of the specific provisions of this Agreement to the issues submitted to arbitration. There shall be no right in arbitration to obtain, and no arbitrator shall have any authority to award or determine, any change in, addition to, or detraction from, any of the provisions of this Agreement. The decision of the arbitrator shall be in writing, shall set forth the basis for the decision and shall be rendered within thirty (30) business days following the hearing. The decision of the arbitrator acting within the scope of his/her authority shall be final and binding upon the parties and may be enforced and executed upon in any court having jurisdiction over the party against whom enforcement of such decision is sought.
- d. The parties involved in the dispute shall divide equally the administrative charges, arbitrator's fees and related expenses of the arbitration, but each party shall pay its own legal fees and expenses incurred in connection with such arbitration.

e. Nothing contained herein, however, shall limit the right of the Company to seek equitable or other relief from any court of competent jurisdiction for violation of Section 7, 8 or 9 of this Agreement.

14. **Definitions.** Words or phrases which are initially capitalized or are within quotation marks shall have the meanings provided in this Section 14 and as provided elsewhere in this Agreement. For purposes of this Agreement, the following definitions apply:

- a. "Affiliates" means any parent and subsidiaries of the Company and any entities directly or indirectly controlling, controlled by or under common control with the Company, where control may be by either management authority or equity interest.
- b. "Code" means the U.S. Internal Revenue Code of 1986, as amended.
- c. "Confidential Information" means any and all information of the Company and its Affiliates that is not generally known by others with whom they compete or do business, or with whom they plan to compete or do business. Confidential Information includes without limitation such information relating to (i) the development, research, testing, manufacturing, marketing and financial activities of the Company and its Affiliates, (ii) the Products, (iii) the costs, sources of supply; financial performance and strategic plans of the Company and its Affiliates, (iv) the identity and special needs of the customers of the Company and its Affiliates and (v) the people and organizations with whom the Company and its Affiliates have business relationships and those relationships. Confidential Information also includes information that the Company or any of its Affiliates have received belonging to others with any understanding, express or implied, that it would not be disclosed. Confidential Information does not include information which is in the public domain without fault by Executive or any third party.
- d. Exclusive of Section 5.g.iii of this Agreement, "Person" means an individual, a corporation, an association, a partnership, an estate, a trust and any other entity or organization, other than the Company or any of its Affiliates.
- e. "Products" mean all products planned, researched, developed, tested, manufactured, sold, licensed, leased or otherwise distributed or put into use by the Company, or prior to a Change of Control, of its Affiliates with which Affiliate or Affiliate's activities Executive has had involvement in the course of his employment or about which he has acquired or received any Confidential Information, together with all services provided or planned by the Company, or prior to a Change of Control, of its Affiliates with which Executive has had involvement in the course of his employment or about which Affiliate or Affiliate's activities he has acquired or received any Confidential Information, during Executive's employment.
- f. References to termination of employment, retirement, separation from service and similar or correlative terms mean a "separation from service" (as defined at Section 1.409A-1(h) of the Treasury Regulations) from the Company and from all other corporations and trades or businesses, if any, that would be treated as a single "service recipient" with the Company under Section 1.409A-1(h)(3) of the Treasury Regulations. For purposes of Code Section 409A (including, without limitation, for purposes of Treasury Regulation Section

1.409A-2(b)(2)(iii)), Executive's right to receive any installment payments under this Agreement (whether severance payments, reimbursements or otherwise) will be treated as a right to receive a series of separate payments and, accordingly, each installment payment hereunder will at all times be considered a separate and distinct payment.

- g. "Specified employee" means an individual who is determined by the Company to be a specified employee as defined in subsection (a)(2)(B)(i) of Section 409A of the Code. The Company may, but need not, elect in writing, subject to the applicable limitations under Section 409A of the Code, any of the special elective rules prescribed in Section 1.409A-1(i) of the Treasury Regulations for purposes of determining "specified employee" status. Any such written election shall be deemed part of this Agreement.
15. Withholding. All payments made by the Company under this Agreement shall be reduced by any tax or other amounts required to be withheld by the Company under applicable law.
16. Assignment. Neither the Company nor Executive may make any assignment of this Agreement or any interest herein, by operation of law or otherwise, without the prior written consent of the other; *provided, however*, that the Company may assign its rights and obligations under this Agreement without the consent of Executive to one of its Affiliates or to a Person with whom the Company shall hereafter effect a reorganization, consolidation or merger or to whom the Company transfers all or substantially all of its business or assets. This Agreement shall inure to the benefit of and be binding upon the Company and Executive, their respective successors, executors, administrators, heirs and permitted assigns.
17. Severability. If any portion or provision of this Agreement shall to any extent be declared illegal or unenforceable by a court of competent jurisdiction, then the remainder of this Agreement; or the application of such portion or provision in circumstances other than those as to which it is so declared illegal or unenforceable, shall not be affected thereby, and each portion and provision of this Agreement shall be valid and enforceable to the fullest extent permitted by law.
18. Waiver. No waiver of any provision hereof shall be effective unless made in writing and signed by the waiving party. The failure of either party to require the performance of any term or obligation of this Agreement, or the waiver by either party of any breach of this Agreement, shall not prevent any subsequent enforcement of such term or obligation or be deemed a waiver of any subsequent breach.
19. Notices. Any and all notices, requests, demands and other communications provided for by this Agreement shall be in writing and shall be effective when delivered in person, consigned to a national overnight courier service or deposited in the United States mail, postage prepaid, and addressed to Executive at his last known address on the books of the Company or, in the case of the Company, at its principal place of business, attention of the Chairman of the Board, or to such other address as either party may specify by notice to the other actually received.

20. Entire Agreement. As of the Effective Date, this Agreement constitutes the entire agreement between the parties and supersedes all prior communications, agreements and understandings, written or oral, with respect to the terms and conditions of Executive's employment.
21. Amendment. This Agreement may be amended or modified only by a written instrument signed by Executive and by an expressly authorized representative of the Company.
22. Headings. The headings and captions in this Agreement are for convenience only and in no way define or describe the scope or content of any provision of this Agreement.
23. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be an original and all of which together shall constitute one and the same instrument.
24. Governing Law. This Agreement shall be construed and enforced under, and be governed in all respects by, the laws of the State of Washington, without regard to the conflict of laws principles thereof; *provided, however*, that in the event the Company relocates its principal place of business and Executive's principal place of work to another state, the laws of that state shall apply without regard to the conflict of laws principles thereof.

**IN WITNESS WHEREOF**, this Agreement has been executed as a sealed instrument by Executive and by the Company, by its duly authorized representative, as of the date first above written.

**EXECUTIVE**

**THE COMPANY:**

\_\_\_\_\_  
Perry Mulligan

\_\_\_\_\_  
Name:  
Title:



**Exhibit A**

**INVENTION ASSIGNMENT NOTICE**

You are hereby notified that the Employment Agreement between you and MICROVISION, Inc., to which this Exhibit A is appended (the "Agreement"), does not apply to any invention or Intellectual Property (as such term is defined in the Agreement) which qualifies fully for exclusion under the provisions of Section 49.44.140 of the Revised Code of Washington. Following is the text of Washington Revised Code § 49.44.140:

Washington Revised Code § 49.44.140

Requiring assignment of employee's rights to inventions-Conditions.

(1) A provision in an employment agreement which provides that an employee shall assign or offer to assign any of the employee's rights in an invention to the employer does not apply to an invention for which no equipment, supplies, facilities, or trade secret information of the employer was used and which was developed entirely on the employee's own time, unless (a) the invention relates (i) directly to the business of the employer, or (ii) to the employer's actual or demonstrably anticipated research or development, or (b) the invention results from any work performed by the employee for the employer. Any provision which purports to apply to such an invention is to that extent against the public policy of this state and is to that extent void and unenforceable.

(2) An employer shall not require a provision made void and unenforceable by subsection (1) of this section as a condition of employment or continuing employment.

(3) If an employment agreement entered into after September 1, 1979, contains a provision requiring the employee to assign any of the employee's rights in any invention to the employer, the employer must also, at the time the agreement is made, provide a written notification to the employee that the agreement does not apply to an invention for which no equipment, supplies, facility, or trade secret information of the employer was used and which was developed entirely on the employee's own time, unless (a) the invention relates (i) directly to the business of the employer, or (ii) to the employer's actual or demonstrably anticipated research or development, or (b) the invention results from any work performed by the employee for the employer.

I acknowledge receiving a copy of this Invention Assignment Notice:

\_\_\_\_\_  
Perry Mulligan  
Date: \_\_\_\_\_

\_\_\_\_\_

## Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-184701, No. 333-173114, No. 333-163929, No. 333-19011, No. 333-71373, No. 333-42276, No. 333-45534, No. 333-73652, No. 333-89176, No. 333-141458, and No. 333-214388) and on Form S-3 (No. 333-184703, No. 333-184702, No. 333-182462, No. 333-175419, No. 333-160577, No. 333-211869) of MicroVision, Inc. (the "Company") of our reports dated February 23, 2018, relating to the consolidated financial statements of the Company and the effectiveness of internal control over financial reporting of the Company, appearing in this Annual Report on Form 10-K for the year ended December 31, 2017.

/s/ Moss Adams LLP

Seattle, Washington  
February 23, 2018

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Exhibit 31.1

**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, Perry M. Mulligan, certify that:

1. I have reviewed this annual report on Form 10-K for the period ended December 31, 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 periods 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: February 23, 2018

/s/ PERRY M. MULLIGAN

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Perry M. Mulligan  
*Chief Executive Officer*

Exhibit 31.2

**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 annual report on Form 10-K for the period ended December 31, 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 periods 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: February 23, 2018

/s/ STEPHEN P. HOLT

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Stephen P. Holt  
*Chief Financial Officer*

**Exhibit 32.1**

**CERTIFICATION 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**

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-K for the period ended December 31, 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-K for the period ended December 31, 2017 fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ PERRY M. MULLIGAN

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Perry M. Mulligan  
*Chief Executive Officer*

Date: February 23, 2018

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**Exhibit 32.2**

**CERTIFICATION 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**

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-K for the period ended December 31, 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-K for the period ended December 31, 2017 fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ STEPHEN P. HOLT

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Stephen P. Holt  
*Chief Financial Officer*

Date: February 23, 2018

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