

MICROVISION INC  
Form 10-Q  
May 08, 2014

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

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FORM 10-Q

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

For the quarterly period ended March 31, 2014

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-34170

[MicroVision, Inc.](#)

(Exact name of Registrant as Specified in its Charter)

**Delaware**

(State or Other Jurisdiction of Incorporation or Organization)

**91-1600822**

(I.R.S. Employer Identification Number)

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

(Address of Principal Executive Offices, including Zip Code)

(425) 936-6847

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(Registrant's Telephone Number, including Area Code)

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

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

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

|                          |                          |                          |                                     |
|--------------------------|--------------------------|--------------------------|-------------------------------------|
| Large accelerated filer  | Accelerated filer        | Non-accelerated filer    | Smaller reporting company           |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> |

(Do not check if a smaller reporting company)

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

As of May 5, 2014, 42,971,000 shares of the Company's common stock, \$0.001 par value, were outstanding.

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Part I: Financial Information

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MicroVision, Inc.  
Condensed Consolidated Balance Sheets  
(In thousands, except per share data)  
(Unaudited)

|  | March 31,<br>2014 | December 31,<br>2013 |
|--|-------------------|----------------------|
| <b>Assets</b>  |                   |                      |
| Current assets   |                   |                      |
| Cash and cash equivalents  | \$ 15,338         | \$ 5,375             |
| Accounts receivable, net of allowance of \$373 and \$373   | 135               | 24                   |
| Inventory  | 49                | 49                   |
| Other current assets   | 256               | 336                  |
| Total current assets   | 15,778            | 5,784                |
| Property and equipment, net  | 924               | 1,065                |
| Restricted cash  | 435               | 435                  |
| Intangible assets, net   | 1,112             | 1,145                |
| Other assets   | 18                | 18                   |
| Total assets   | \$ 18,267         | \$ 8,447             |
| <b>Liabilities and Shareholders' Equity</b>  |                   |                      |
| Current liabilities  |                   |                      |
| Accounts payable   | \$ 1,369          | \$ 1,610             |
| Accrued liabilities  | 2,700             | 2,455                |
| Billings in excess of costs and estimated earnings on uncompleted contracts                                | 347               | 680                  |
| Warrant liability  | -                 | 4,902                |
| Current portion of capital lease obligations   | 5                 | 15                   |
| Total current liabilities  | 4,421             | 9,662                |
| Deferred rent, net of current portion  | 533               | 481                  |
| Total liabilities  | 4,954             | 10,143               |
| Commitments and contingencies (Note 6)   |                   |                      |
| Shareholders' Equity (Deficit)   |                   |                      |
| Preferred stock, par value \$.001; 25,000 shares authorized; 0 and 0 shares issued and outstanding         | -                 | -                    |
| Common stock, par value \$.001; 100,000 shares authorized; 42,961 and 32,069 shares issued and outstanding | 43                | 32                   |
| Additional paid-in capital   | 471,997           | 448,981              |
| Accumulated deficit  | (458,727)         | (450,709)            |
| Total shareholders' equity (deficit)   | 13,313            | (1,696)              |
| Total liabilities and shareholders' equity (deficit)   | \$ 18,267         | \$ 8,447             |

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

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

|   | <b>Three Months Ended</b> |             |
|---|---------------------------|-------------|
|   | <b>March 31,</b>          |             |
|   | <b>2014</b>               | <b>2013</b> |
| Development revenue                                     | \$ 1,193                  | \$ 300      |
| Product revenue   | 9                         | 1,219       |
| Contract revenue  | 17                        | 282         |
| Total revenue   | 1,219                     | 1,801       |
| Cost of product revenue                                 | (10)                      | 664         |
| Cost of contract revenue                                | 9                         | 137         |
| Total cost of revenue                                   | (1)                       | 801         |
| Gross margin  | 1,220                     | 1,000       |
| Research and development expense                        | 2,543                     | 2,252       |
| Sales, marketing, general and administrative expense    | 1,959                     | 2,403       |
| Gain on disposal of fixed assets                        | -                         | (2)         |
| Gain on sale of previously reserved inventory           | (227)                     | (5)         |
| Total operating expenses                                | 4,275                     | 4,648       |
| Loss from operations                                    | (3,055)                   | (3,648)     |
| Loss on warrant exchange                                | (4,967)                   | -           |
| Other income (expense)                                  | 4                         | (6)         |
| Net loss  | \$ (8,018)                | \$ (3,654)  |
| Net loss per share - basic and diluted                  | \$ (0.23)                 | \$ (0.14)   |
| Weighted-average shares outstanding - basic and diluted | 34,842                    | 25,240      |

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

MicroVision, Inc.  
 Condensed Consolidated Statements of Shareholders' Equity (Deficit)  
 (In thousands, except per share data)  
 (Unaudited)

Shareholders' Equity (Deficit)

|                                     | Common Stock |              | Additional         |                        | Total                             |  |
|-------------------------------------|--------------|--------------|--------------------|------------------------|-----------------------------------|--|
|                                     | Shares       | Par<br>value | paid-in<br>capital | Accumulated<br>deficit | Shareholders'<br>equity (deficit) |  |
| <b>Balance at December 31, 2012</b> | 25,237       | \$ 25        | \$ 442,560         | \$ (437,531)           | \$ 5,054                          |  |
| Share-based compensation expense    | 323          | -            | 1,589              | -                      | 1,589                             |  |
| Exercise of options                 | 23           | -            | 41                 | -                      | 41                                |  |
| Sales of common stock and warrants  | 6,128        | 7            | 4,255              | -                      | 4,262                             |  |
| Exchange of warrants                | 358          | -            | 536                | -                      | 536                               |  |
| Net loss                            | -            | -            | -                  | (13,178)               | (13,178)                          |  |
| <b>Balance at December 31, 2013</b> | 32,069       | 32           | 448,981            | (450,709)              | (1,696)                           |  |
| Share-based compensation expense    | 19           | -            | 310                | -                      | 310                               |  |
| Sales of common stock and warrants  | 7,160        | 7            | 12,841             | -                      | 12,848                            |  |
| Exchange of warrants                | 3,713        | 4            | 9,865              | -                      | 9,869                             |  |
| Net loss                            | -            | -            | -                  | (8,018)                | (8,018)                           |  |
| <b>Balance at March 31, 2014</b>    | 42,961       | \$ 43        | \$ 471,997         | \$ (458,727)           | \$ 13,313                         |  |

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

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

|   | Three Months Ended<br>March 31, |            |
|---|---------------------------------|------------|
|   | 2014                            | 2013       |
| Cash flows from operating activities  |                                 |            |
| Net loss  | \$ (8,018)                      | \$ (3,654) |
| Adjustments to reconcile net loss to net cash used in operations:           |                                 |            |
| Depreciation  | 158                             | 239        |
| Amortization of intangible assets   | 33                              | 40         |
| Gain on disposal of property and equipment                                  | -                               | (2)        |
| Non-cash share-based compensation expense                                   | 305                             | 385        |
| Realized loss on warrant exchange   | 4,967                           | -          |
| Non-cash deferred rent  | (15)                            | -          |
| Change in:  |                                 |            |
| Accounts receivable, net  | (111)                           | (391)      |
| Inventory   | -                               | 280        |
| Other current assets  | 85                              | 509        |
| Other assets  | -                               | 4          |
| Accounts payable  | (274)                           | (754)      |
| Accrued liabilities   | 272                             | (506)      |
| Deferred revenue  | -                               | (246)      |
| Billings in excess of costs and estimated earnings on uncompleted contracts | (333)                           | 594        |
| Net cash used in operating activities                                       | (2,931)                         | (3,502)    |
| Cash flows from investing activities  |                                 |            |
| Decrease in restricted cash   | -                               | 1          |
| Proceeds on sale of property and equipment                                  | -                               | 2          |
| Purchases of property and equipment   | (77)                            | (4)        |
| Net cash used in investing activities                                       | (77)                            | (1)        |
| Cash flows from financing activities  |                                 |            |
| Principal payments under capital leases and long-term debt                  | (10)                            | (37)       |
| Net proceeds from issuance of common stock and warrants                     | 12,981                          | -          |
| Net cash provided by (used in) financing activities                         | 12,971                          | (37)       |
| Net increase (decrease) in cash and cash equivalents                        | 9,963                           | (3,540)    |
| Cash and cash equivalents at beginning of period                            | 5,375                           | 6,850      |
| Cash and cash equivalents at end of period                                  | \$ 15,338                       | \$ 3,310   |
| Supplemental disclosure of cash flow information                            |                                 |            |
| Cash paid for interest  | \$ -                            | \$ 5       |
| Supplemental schedule of non-cash investing and financing activities        |                                 |            |
| Other non-cash additions to property and equipment                          | \$ -                            | \$ 33      |
| Issuance of common stock for exchange of warrants                           | \$ 9,869                        | \$ -       |

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

MicroVision, Inc.  
Notes to Condensed Consolidated Financial Statements  
March 31, 2014  
(Unaudited)

1. MANAGEMENT'S STATEMENT AND PRINCIPLES OF CONSOLIDATION

Management's Statement

The Condensed Consolidated Balance Sheet as of March 31, 2014, the Condensed Consolidated Statements of Operations for the three months ended March 31, 2014 and 2013, the Condensed Consolidated Statements of Shareholders' Equity (Deficit), and Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2014 and 2013 have been prepared by MicroVision, Inc. ("we" or "us") and have not been audited. In the opinion of management, all adjustments necessary to state fairly the financial position at March 31, 2014 and the results of operations and cash flows for all periods presented have been made and consist of normal recurring adjustments. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules of the Securities and Exchange Commission (the "SEC"). The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. You should read these condensed consolidated financial statements in conjunction with the financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013. The results of operations for the three months ended March 31, 2014 are not necessarily indicative of the operating results that may be attained for the entire fiscal year.

We have incurred significant losses since inception. We have funded 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 contract revenues, collaborative research and development agreements and product sales. At March 31, 2014, we had \$15.3 million in cash and cash equivalents.

Based on our current operating plan, we anticipate that we have sufficient cash and cash equivalents to fund our operations through the third quarter of 2014. We will require additional cash to fund our operating plan past that time.

We plan to obtain additional cash through the issuance of equity or debt securities. There can be no assurance that additional cash will be available or that, if available, it will be available on terms acceptable to us on a timely basis. If adequate funds 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 development projects resulting in reductions in staff, operating costs, property and equipment expenditures and investment in research and development.

Our capital requirements will depend on many factors, including, but not limited to, the rate at which original equipment manufacturers (OEMs) or original device manufacturers (ODMs) introduce products incorporating the PicoP® display and image capture technologies and the market acceptance and competitive position of such products. If revenues are less than anticipated, if the mix of revenues vary from anticipated amounts or if expenses exceed the amounts budgeted, we may require additional capital earlier than expected to further the development of our technologies, for expenses associated with product development, and to respond to competitive pressures or to meet unanticipated development difficulties. In addition, our operating plan provides for the development of strategic relationships with systems and equipment manufacturers that may require additional investments by us.

We have received a report from our independent registered public accounting firm regarding the consolidated financial statements for the year ended December 31, 2013 that includes an explanatory paragraph expressing substantial doubt about our ability to continue as a going concern. These consolidated financial statements are prepared assuming the Company will continue as a going concern.





## Principles of Consolidation

Our condensed consolidated financial statements include the accounts of MicroVision, Inc. and MicroVision Innovations Singapore Pte. Ltd. ("MicroVision Singapore"), a wholly owned foreign subsidiary. MicroVision Singapore was incorporated in April 2011 and was engaged in advanced research and development activities and operation support functions for MicroVision, Inc. There were no material intercompany accounts and transactions during the three months ended March 31, 2014.

## 2. NET LOSS PER SHARE

Basic net loss per share is calculated using the weighted-average number of common shares outstanding during the reporting periods. Diluted net loss per share is calculated using the weighted-average number of common shares outstanding and taking into account the dilutive effect of all potentially dilutive securities, including common stock equivalents and convertible securities outstanding. Potentially dilutive common stock equivalents primarily consist of warrants, employee stock options and nonvested equity shares. Diluted net loss per share for the three months ended March 31, 2014 and 2013 is equal to basic net loss per share because the effect of all potential common stock outstanding during the periods, including options, warrants and nonvested equity shares is anti-dilutive. The components of basic and diluted net loss per share were as follows (in thousands, except loss per share data):

|  | <b>Three Months Ended</b> |             |
|--|---------------------------|-------------|
|  | <b>March 31,</b>          |             |
|  | <b>2014</b>               | <b>2013</b> |
| Numerator:   |                           |             |
| Net loss available for common shareholders - basic and diluted | \$ (8,018)                | \$ (3,654)  |
| Denominator:   |                           |             |
| Weighted-average common shares outstanding - basic and diluted | 34,842                    | 25,240      |
| Net loss per share - basic and diluted                         | \$ (0.23)                 | \$ (0.14)   |

On March 31, 2014 and 2013, we excluded the following convertible securities from diluted net loss per share, as the effect of including them would have been anti-dilutive: publicly traded warrants exercisable for 0 and 753,000 shares of common stock, respectively, options and private warrants exercisable into a total of 8,388,000 and 5,657,000 shares of common stock, respectively, and 108,000 and 176,000 nonvested equity shares, respectively.

## 3. CONCENTRATION OF SALES TO MAJOR CUSTOMERS

For the three months ended March 31, 2014, one commercial customer accounted for 98% of our total revenue and one commercial customer accounted for 83% of our net accounts receivable balance at March 31, 2014. For the three months ended March 31, 2013, two commercial customers accounted for approximately 84% of our total revenue. The accounts receivable balance from these customers was approximately 95% of our net accounts receivable balance at March 31, 2013.

#### 4. INVENTORY

Inventory consists of the following:

|                | March 31,<br>2014 | December 31,<br>2013 |
|----------------|-------------------|----------------------|
| Raw materials  | \$ 23,000         | \$ 23,000            |
| Finished goods | 26,000            | 26,000               |
|                | \$ 49,000         | \$ 49,000            |

The inventory at March 31, 2014 and December 31, 2013 consisted of components and finished goods primarily composed of our accessory pico projectors. Inventory is stated at the lower of cost or market. Management periodically assesses the need to provide for obsolescence of inventory and adjusts the carrying value of inventory to its net realizable value when required. In addition, we reduce the value of our inventory to its estimated scrap value when management determines that it is not probable that the inventory will be consumed through the normal course of business during the next twelve months. In 2013, we recorded inventory write-downs of \$303,000. At March 31, 2014 and December 31, 2013, we have recorded aggregate write-downs of \$7,761,000 and \$7,964,000, respectively, offsetting inventory deemed to be obsolete or scrap inventory. From time to time, we may enter into arrangements to sell the obsolete or scrap inventory, or enter into consignment agreements with third-parties to sell the units, resulting in a gain in the period such transactions are realized.

#### 5. 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 following table shows the amount of share-based compensation expense included in the consolidated statements of operations:

| Share-based compensation                             | Three Months Ended<br>March 31, |            |
|--|---------------------------------|------------|
|  | 2014                            | 2013       |
| Cost of contract revenue                             | \$ -                            | \$ 4,000   |
| Cost of product revenue                              | -                               | 1,000      |
| Research and development expense                     | 114,000                         | 160,000    |
| Sales, marketing, general and administrative expense | 191,000                         | 220,000    |
| Total share-based compensation expense               | \$ 305,000                      | \$ 385,000 |

#### Options Activity and Positions

The following table summarizes shares, weighted average exercise price, weighted average remaining contractual term and aggregate intrinsic value of options outstanding and options exercisable as of March 31, 2014:

|  | Shares    | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term<br>(years) | Aggregate<br>Intrinsic<br>Value |
|--|-----------|--|--|---------------------------------|
| Options Outstanding as of March 31, 2014 | 1,860,000 | \$ 8.78                                  | 7.4  | \$ 85,000                       |
| Exercisable as of March 31, 2014         | 903,000   | \$ 15.38                                 | 5.6  | \$ 46,000                       |

As of March 31, 2014, our unamortized share-based employee compensation related to stock options was \$1.0 million which we plan to amortize over the next 2.1 years and our unamortized share-based compensation related to the restricted stock units was \$82,000 which we plan to amortize over the next 0.3 years.

## 6. 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 are defending against the claim. An adverse outcome of these proceedings could materially and adversely affect our financial condition. At this stage, we cannot predict the likelihood of an unfavorable outcome or the range of potential loss.

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

### Adverse purchase commitments

We have periodically entered into noncancelable purchase contracts in order to ensure the availability of materials to support production of our PicoP based products. We periodically assess the need to provide for impairment on these purchase contracts and record a loss on purchase commitments when required. As of March 31, 2014 and December 31, 2013 we had approximately \$500,000 and \$500,000, respectively, accrued for adverse purchase commitments related to these purchase contracts.

## 7. COMMON STOCK AND WARRANTS

In March 2014, we raised \$13.9 million before issuance costs of approximately \$1.0 million through an underwritten offering of 7.2 million shares of our common stock and warrants to purchase 2.1 million shares of our common stock. Each unit was sold to investors for \$1.94 and consisted of one share of common stock and one warrant to purchase 0.3 shares of common stock. The warrants have an exercise price of \$2.47 per share, are exercisable beginning six months from the date of issuance, and expire on the fifth anniversary of the date of issuance.

In September 2013, we raised \$6.6 million before issuance costs of approximately \$452,000 from the sale of 3.5 million shares of common stock and warrants to purchase up to an aggregate of 2.1 million shares of our common stock in a registered direct offering.

In May 2013, we raised \$5.85 million before issuance costs of approximately \$362,000 from the sale of 2.6 million shares of common stock and warrants to purchase up to an aggregate of 2.0 million shares of our common stock in a registered direct offering.

In February 2014, we issued 3,713,309 shares of our common stock under the warrant exchange provisions of our May and September 2013 registered direct offerings. Under the warrant exchange provisions, the holders could elect to exchange the warrants for a variable number of shares of common stock as determined by a formula included in the warrants. We did not receive additional cash consideration in the exchange transaction. During the three months ended March 31, 2014, we recognized a loss of \$5.0 million on the exchange as the fair market value of the common stock issued was greater than the obligation recorded due to an increase in our stock price since December 31, 2013.

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

### Forward-Looking Statements

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

### Overview

We are developing our proprietary PicoP® display technology which can be used by our customers to create high-resolution miniature laser display and imaging engines. Our PicoP display technology uses our widely patented expertise in two dimensional Micro-Electrical Mechanical Systems (MEMS), lasers, optics, and electronics to create a high quality video or still image from a small form factor device with lower power needs than conventional display technologies. Our strategy is to develop and supply PicoP display technology directly or through licensing arrangements to original device manufacturers (ODMs) and original equipment manufacturers (OEMs) in various market segments, including consumer electronics and automotive, for integration into their products.

During 2012, we aligned our operations to our ingredient brand strategy. Our strategy is to focus our efforts on licensing our technology and selling display engine components to partners who will produce display engines based on PicoP display technology and either sell those display engines to OEMs, or incorporate the engines into their own products.

Our development efforts are focused on improving the performance of display engines through the improvement of engine system, hardware and software design, and the performance of various components of the display engine. We also provide engineering support to our customers as they prepare to manufacture display engines as well as providing support to ODMs and OEMs during the integration and optimization of PicoP display technology for specific products.

The primary objective for consumer applications is to provide users of mobile devices such as smartphones, tablets and other consumer electronics products with a large screen viewing experience produced by a small projector either embedded in the device or via a companion product. These potential products would allow users to watch movies and videos, play games, and display images and other data onto a variety of surfaces, freeing users from the limitations of a small screen.

PicoP display technology could also be combined with other components and systems to be embedded into a vehicle or integrated into a portable standalone head-up display (HUD). HUD technology allows for important information, such as safety warnings or navigation instructions, to be projected so that it appears in front of vehicle operators where the information can be accessed without taking their eyes off the road.

We also see potential for PicoP display technology in other areas, although we are not currently working with customers. PicoP display technology could be combined with other components and systems to be incorporated into a

pair of glasses to provide the mobile user with a see-through or occluded personal display to view movies, play games or access other content. Devices enabled by PicoP display technology could be used in field-based professions such as service repair or sales to view and share information such as schematics for equipment repair, sales data, orders or contact information on a larger, more user-friendly display. We also see potential for embedding PicoP display technology in industrial products where our displays could be used for 3D measuring and digital signage, enhancing the overall user experience of these applications.

We develop and procure intellectual property rights relating to our technology as a key aspect of our business strategy. We generate intellectual property from our internal research and development activities and our ongoing performance on development contracts. We also have acquired exclusive rights to various technologies under licensing and acquisition agreements.

We have incurred substantial losses since inception and expect to incur a substantial loss during the fiscal year ending December 31, 2014.

### Results of Operations

#### Development revenue

| (in thousands)              | 2014     | 2013   | \$ change | % change |
|-----------------------------|----------|--------|-----------|----------|
| Three months ended March 31 | \$ 1,193 | \$ 300 | \$ 893    | 297.7    |

We earn development revenue from performance on collaborative research and development agreements with commercial customers researching and developing commercial applications for our technology. Our contributions under the collaborative agreements generally include research services, components, and prototype devices and fixtures. Our development revenue from such agreements in a particular period is dependent upon the values and timing of agreements, the availability of technical resources to perform the work, and achievement of mutually agreed upon contractual milestones. We evaluate the performance criteria and terms of our collaborative research and development agreements to determine whether revenue should be recognized under a performance-based method or milestone method.

In March 2013, we entered into a \$4.6 million collaborative research and development agreement with a prominent electronics company to incorporate our PicoP display technology into a display engine that could enable a variety of new products. During the three months ended March 31, 2014 and 2013, \$1.2 million and \$300,000 of revenue, respectively, was recognized on this agreement. As of March 31, 2014, we have recognized cumulative revenue for work performed under the collaborative research and development agreement of \$4.1 million.

Based on the terms of this agreement, we recognize development revenue as work progresses on the agreement and as our customer accepts the deliverables using a proportional method based on the lesser of the cumulative proportion of total planned costs to be incurred under the agreement versus the cash payments received plus outstanding billings for work accepted by the customer. Since collaborative agreements generally require some level of technology development, the actual costs required to complete a contract can vary from estimates. The proportional revenue recognition method we use for collaborative research and development agreements includes adjustments for revisions to estimated total agreement costs. Each period, we evaluate the total estimated costs for each agreement. Any adjustments that result from revisions to the estimated costs are recognized in the period we become aware of changes. In the future, revisions in these estimates could significantly impact recognized revenue in any one reporting period.

Our backlog of collaborative research and development agreements at March 31, 2014 was \$498,000 compared to \$4.3 million at March 31, 2013. The backlog is scheduled for completion during the next twelve months.

#### Product revenue

| (in thousands)              | 2014 | 2013     | \$ change  | % change |
|-----------------------------|------|----------|------------|----------|
| Three months ended March 31 | \$ 9 | \$ 1,219 | \$ (1,210) | (99.3)   |

Product revenue during the three months ended March 31, 2013 primarily included sales of components to Pioneer.

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. Provisions are made for warranties at the time revenue is recorded. Warranty expense was not material for any periods presented.

Product revenue was lower during the three months ended March 31, 2014 than the same period in 2013, as a result of not having component sales to Pioneer. The backlog of product orders at March 31, 2014 was approximately \$147,000, compared to \$744,000 at March 31, 2013. The product backlog is scheduled for delivery within the next twelve months.



## Contract revenue.

| (in thousands)              | 2014  | 2013   | \$ change | % change |
|-----------------------------|-------|--------|-----------|----------|
| Three months ended March 31 | \$ 17 | \$ 282 | \$ (265)  | (94.0)   |

We earn contract revenue from the sale of prototype units and evaluation kits based on our PicoP display engine and sales of test equipment built specifically for use in PicoP display engine production. 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 upon acceptance of the deliverables by the customer or expiration of the contractual acceptance period, after which there are no rights of return.

Our contract backlog at March 31, 2014 was \$939,000 compared to \$45,000 at March 31, 2013. The backlog is scheduled for completion during the next twelve months.

## Cost of product revenue

| (in thousands)              | 2014    | % of product revenue | 2013   | % of product revenue | \$ change | % change |
|-----------------------------|---------|----------------------|--------|----------------------|-----------|----------|
| Three months ended March 31 | \$ (10) | (111.1)              | \$ 664 | 54.5                 | \$ (674)  | (101.5)  |

Cost of product revenue includes the direct and allocated indirect cost of manufacturing products sold to customers. Direct costs include labor, materials and other costs incurred directly 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, and facility and depreciation costs, and is allocated to cost of product revenue based on the proportion of direct material purchased to support production.

Cost of product revenue was lower during the three months ended March 31, 2014 than the same period in 2013 primarily because of the reduced product sales. During the three months ended March 31, 2014, we recorded a credit of \$19,000 to cost of product revenue related to the expiration of the warranty period on prior period product sales.

The cost of product revenue as a percentage of product revenue can fluctuate significantly from period to period, depending on the product mix and volume, the level of overhead expense and the volume of direct material purchased. It decreased substantially during the three months ended March 31, 2014 from the same period in 2013 due to decreased unit volume and the release of the warranty reserve in 2014.

## Cost of contract revenue

| (in thousands)              | 2014 | % of contract revenue | 2013   | % of contract revenue | \$ change | % change |
|-----------------------------|------|-----------------------|--------|-----------------------|-----------|----------|
| Three months ended March 31 | \$ 9 | 52.9                  | \$ 137 | 48.6                  | \$ (128)  | (93.4)   |

Cost of contract revenue includes both the direct and allocated indirect costs of producing prototype units, evaluation kits, and test equipment. 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 cost of revenue as a percentage of revenue can fluctuate significantly from period to period, depending on the contract cost mix and the levels of direct and indirect costs incurred.



## Research and development expense.

| (in thousands)              | 2014     | 2013     | \$ change | % change |
|-----------------------------|----------|----------|-----------|----------|
| Three months ended March 31 | \$ 2,543 | \$ 2,252 | \$ 291    | 12.9     |

Research and development expense consists of compensation related costs of employees and contractors engaged in internal research and product development activities, direct material to support development programs, laboratory operations, outsourced development and processing work, and other operating expenses. Research and development expense includes costs associated with our work under collaborative research and development arrangements. We allocate 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 customers.

We believe that a substantial level of continuing research and development expense will be required to further develop our technology and to support our customers to integrate our technology into their products under the ingredient brand business model. Accordingly, we anticipate our level of research and development spending will continue to be substantial.

The increase in research and development expense during the three months ended March 31, 2014, compared to the same period in 2013, is primarily attributable to reduced allocation of overhead costs to cost of contract revenue and cost of product revenue and higher direct material and equipment purchases associated with our collaborative research and development arrangement.

## Sales, marketing, general and administrative expense.

| (in thousands)              | 2014     | 2013     | \$ change | % change |
|-----------------------------|----------|----------|-----------|----------|
| Three months ended March 31 | \$ 1,959 | \$ 2,403 | \$ (444)  | (18.5)   |

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 decrease in sales, marketing, general and administrative expense during the three months ended March 31, 2014, compared to the same period in 2013, is primarily due to decreased payroll costs and reduced purchased services.

## Gain on sale of previously reserved inventory.

| (in thousands)              | 2014     | 2013   | \$ change | % change |
|-----------------------------|----------|--------|-----------|----------|
| Three months ended March 31 | \$ (227) | \$ (5) | \$ (222)  | 4,440.0  |

Gain on sale of previously reserved inventory includes the sales of excess component inventory for discontinued products which was fully reserved in prior periods. The increase during 2014, compared to 2013, is due to increased sales volume.

## Loss on warrant exchange.

| (in thousands)              | 2014       | 2013 | \$ change  | % change |
|-----------------------------|------------|------|------------|----------|
| Three months ended March 31 | \$ (4,967) | \$ - | \$ (4,967) | -        |

In February 2014, we issued 3,713,309 shares of our common stock under the warrant exchange provisions of our May and September 2013 registered direct offerings. Under the warrant exchange provisions, the holders could elect to exchange the warrants for a variable number of shares of common stock as determined by a formula included in the warrants. We did not receive additional cash consideration in the exchange transaction. During the three months ended March 31, 2014, we recorded a loss of \$5.0 million on the exchange as the fair market value of the common stock issued was greater than the obligation recorded due to an increase in our stock price since December 31, 2013.

## 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 contract revenues, collaborative research and development agreements and product sales. At March 31, 2014, we had \$15.3 million in cash and cash equivalents.

Based on our current operating plan, we anticipate that we have sufficient cash and cash equivalents to fund our operations through the third quarter of 2014. We will require additional cash to fund our operating plan past that time. We plan to obtain additional cash through the issuance of equity or debt securities. There can be no assurance that additional cash will be available or that, if available, it will be available on terms acceptable to us on a timely basis. If adequate funds 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 development projects resulting in reductions in staff, operating costs, property and equipment expenditures and investment in research and development.

We received a report from our independent registered public accounting firm regarding the consolidated financial statements for the year ended December 31, 2013 that includes an explanatory paragraph expressing substantial doubt about our ability to continue as a going concern. These financial statements are prepared assuming we will continue as a going concern.

Cash used in operating activities totaled \$2.9 million during the three months ended March 31, 2014, compared to \$3.5 million during the same period in 2013. The decrease in net cash used in operating activities was primarily driven by lower inventory purchases in 2014 compared to 2013 and the timing of cash receipts from customers.

Net cash used in investing activities totaled \$77,000 for the three months ended March 31, 2014 compared to net cash used in investing activities of \$1,000 during the three months ended March 31, 2013. During the three months ended March 31, 2014, we used cash of \$77,000 for capital expenditures, compared to \$4,000 during the same period in 2013.

Net cash provided by financing activities totaled \$13.0 million for the three months ended March 31, 2014 compared to net cash used in financing activities of \$37,000 during the same period in 2013.

In March 2014, we raised \$13.9 million before issuance costs of approximately \$1.0 million through an underwritten offering of 7.2 million shares of our common stock and warrants to purchase 2.1 million shares of our common stock. Each unit was sold to investors for \$1.94 and consisted of one share of common stock and one warrant to purchase 0.3 shares of common stock. The warrants have an exercise price of \$2.47 per share, are exercisable beginning six months from the date of issuance, and expire on the fifth anniversary of the date of issuance.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### Interest Rate and Market Liquidity Risks

As of March 31, 2014, 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 March 31, 2014, our cash and cash equivalents are comprised of short-term highly rated money market savings accounts.

The values of cash and cash equivalents by maturity date as of March 31, 2014, are as follows:

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(amount in thousands)

|                           | <b>Amount</b> | <b>Percent</b> |
|---------------------------|---------------|----------------|
| Cash and cash equivalents | \$ 15,338     | 100.00 %       |
| Less than one year        | -             | - %            |

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## Foreign Exchange Rate Risk

All of our contract and collaborative research and development agreements 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 purchase orders and supply agreements in foreign currencies and may enter into such arrangements from time to time in the future. We believe our exposure to currency fluctuations related to these arrangements is not material. We may enter into foreign currency hedges to offset material exposure to currency fluctuations when we can adequately determine the timing and amounts of the exposure.

## ITEM 4.

### **CONTROLS AND PROCEDURES**

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

## PART II

### OTHER INFORMATION

## ITEM 1

### **- LEGAL PROCEEDINGS**

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

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

## ITEM 1A

### **- RISK FACTORS**

#### Risk Factors Relating to the MicroVision Business

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 March 31, 2014, we had an accumulated deficit of \$458.7 million.
- We incurred consolidated net losses of \$437.5 million from inception through 2012, \$13.2 million in 2013, and a net loss of \$8.0 million in the three months ended March 31, 2014.

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 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 substantial losses and negative cash flow at least through 2014 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, we anticipate that we have sufficient cash and cash equivalents to fund our operations through the third quarter of 2014. We will require additional cash to fund our operating plan past that time. We plan to obtain additional cash through the issuance of equity or debt securities.

We are introducing new technology into an emerging market which creates significant uncertainty about our ability to accurately project revenue, costs and cash flows. Our capital requirements will depend on many factors, including, but not limited to, the rate at which original equipment manufacturers and original device manufacturers introduce products incorporating PicoP display technology and the market acceptance and competitive position of such products. If revenues are less than we anticipate, if the mix of revenues 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, 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 current shareholders' shares. If adequate funds are not available on a timely basis we may consider limiting our operations substantially to extend out funds as we pursue other financing opportunities and business relationships. This limitation of operations could include delaying development projects and reductions in staff, operating costs, including research and development, and property and equipment expenditures. Reducing operations may jeopardize our ability to achieve our business goals or satisfy our customers.

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

Our strategy for commercializing our technology and products incorporating PicoP® display technology includes entering into development, manufacturing, sales and marketing arrangements with corporate partners, original equipment manufacturers and other third parties. 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 PicoP display technology or find that the development, manufacture or sale of products incorporating a display engine with PicoP technology would not be feasible. To the extent that we enter into development, manufacturing, sales and marketing or other joint venture 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 PicoP® display technology will achieve market acceptance. If products incorporating PicoP display technology do not achieve market acceptance, our revenues may not grow.

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



Future products based on our PicoP® display technology are dependent on advances in technology by other companies.

Our PicoP display technology will continue to rely on technologies, such as light sources, MEMS and optical components that are developed and produced by other companies. The commercial success of certain future products based on our 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 for us.

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.

Since 2010, most of our revenues have been generated from a limited number of customers. For the three months ended March 31, 2014, one commercial customer accounted for 98% of our revenue. In 2013, 86% of our revenue was generated from sales to two commercial companies. Our quarterly operating results may vary significantly based on:

- commercial acceptance of products based on PicoP display 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, which could adversely affect our operating results and cash flows.

Our backlog of open orders totaled \$1.6 million as of March 31, 2014. We may be unable to meet the performance requirements, including performance specifications or delivery dates, required by such purchase orders. Further, 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 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 for quotation on The NASDAQ Global Market. To keep 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 the common stock on The NASDAQ Capital Market, the NYSE MKT 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 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 over-the-counter 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 such other market or exchange would subject our securities 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. In addition, when the market price of our

common stock is less than \$5.00 per share, we become subject to penny stock rules even if our common stock is still listed on The NASDAQ Global Market. While the penny stock rules should not affect the quotation of our common stock on The NASDAQ Global Market, these rules may further limit the market liquidity of our common stock and the ability of investors to sell our common stock in the secondary market. The market price of our stock has traded below \$5.00 per share during 2014 and 2013. On May 5, 2014, the closing price of our stock was \$1.65.

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

Our current products and potential future products 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 are 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 industry has been characterized by rapidly changing technology, accelerated product obsolescence and continuously evolving industry standards. Our success will depend upon our ability to further develop our 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 because of:

- delays in product development;
- lack of market acceptance for our products; or
- lack of funds to invest in product development and marketing.

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

We could face lawsuits related to our use of PicoP® display 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 and products, reduce our revenues and increase our operating expenses.

We are aware of several patents held by third parties that relate to certain aspects of light scanning displays and image capture products. These patents could be used as a basis to challenge the validity, limit the scope or limit our ability to obtain additional or broader patent rights of our patents or patents we have licensed. A successful challenge to the validity of our patents or patents we have licensed could limit our ability to commercialize our technology or display engines enabled by PicoP display 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, to require others and us to cease selling products that incorporate PicoP display technology, to cease licensing our technology or to 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 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 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.

Our products may be subject to future health and safety regulations that could increase our development and production costs.

Products incorporating PicoP display technology could become subject to new health and safety regulations that would reduce our ability to commercialize PicoP display technology. Compliance with any such new regulations would likely increase our cost to develop and produce products using PicoP display technology and adversely affect our financial results.

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, 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 manufacturers and plan to continue to use foreign manufacturers to manufacture future products, where appropriate. These international operations are subject to inherent risks, which may adversely affect us, including:

- 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;
- foreign taxes;
- changes in tariff rates or other trade and monetary policies; and
- changes or volatility in currency exchange rates.

Qualifying a new 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 suppliers to manufacture our products, including our MEMS chips in wafer form. The lead time required to establish a relationship with a new contract manufacturer or foundry is long, and it takes time to adapt a product's design to a particular manufacturer's processes. Accordingly, there is no readily available alternative source of supply for these products and components in high volumes. Changing our source of supply and manufacture could cause significant delays in shipping products which may result in lost revenues and damaged customer relationships.

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

Our success depends, in part, on our ability to provide our components and future products in commercial quantities at competitive prices. 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. We cannot be certain that we will successfully obtain access to needed manufacturing resources. Future manufacturing limitations of our suppliers could result in a limitation on the number of products incorporating our technology that we are able to produce.

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

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

unpatented technology as trade secrets. We try to protect our proprietary technology by seeking to obtain United States and foreign patents in our name, or licenses to third-party patents, related to proprietary technology, inventions, and improvements that may be important to the development of our business. However, our patent position and the patent position of our licensors involve complex legal and factual questions. The standards that the United States Patent and Trademark Office and its foreign counterparts use to grant patents are not always applied predictably or uniformly and can change. Additionally, the scope of patents are subject to interpretation by courts and their validity can be subject to challenges and defenses, including challenges and defenses based on the existence of prior art. Consequently, we cannot be certain as to the extent to which we will be able to obtain patents for our new products and technology or the extent to which the patents that we already own or license from others protect our products and technology. Reduction in scope of protection or invalidation of our licensed or owned patents, or our inability to obtain new patents, may enable other companies to develop products that compete 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 materially harmed.

We could be exposed 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 may be subject to product liability claims if any of our product applications are alleged to be defective or cause harmful effects. For example, because some of our PicoP displays are designed to 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. Product liability claims or other claims related to our products, 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.

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

Our contracts and collaborative research and development agreements have lengthy sales cycles that involve numerous steps including determination of a product application, exploring the technical feasibility of a proposed product, evaluating the costs of manufacturing a product and manufacturing or contracting out the manufacturing of the product. Our long sales cycle, which can last several years, makes it difficult to predict the quarter in which contract signing and 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 quarterly period.

Our contracts and collaborative research and development agreements may not lead to any products or 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. These efforts may prove unsuccessful and these relationships may not result in the development of products that will be profitable.

If we lose our rights under our third-party technology licenses, our operations could be adversely affected.

Our business depends in part on technology rights licensed from third parties. We could lose our exclusivity or other rights to use the technology under our licenses if we fail to comply with the terms and performance requirements of the licenses. In addition, certain licensors may terminate a license upon our breach and have the right to consent to sublicense arrangements. If we were to lose our rights under any of these licenses, or if we were unable to obtain required consents to future sublicenses, we could lose a competitive advantage in the market, and may even lose the ability to commercialize certain products completely. Either of these results could substantially decrease our revenues.

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 reduce our revenues and adversely affect our business.

ITEM 6. Exhibits

- 31.1 Chief Executive Officer Certification Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Chief Financial Officer Certification Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Chief Executive Officer 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
- 32.2 Chief Financial Officer 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
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase
- 101.DEF XBRL Taxonomy Extension Definition Linkbase
- 101.LAB XBRL Taxonomy Extension Label Linkbase
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MICROVISION, INC.

Date: May 8, 2014

BY: /s/ Alexander Y. Tokman  
Alexander Y. Tokman  
Chief Executive Officer  
(Principal Executive Officer)

Date: May 8, 2014

BY: /s/ Stephen P. Holt  
Stephen P. Holt  
Chief Financial Officer  
(Principal Financial Officer)

## EXHIBIT INDEX

The following documents are filed herewith.

| <u>Exhibit<br/>Number</u> | <u>Description</u>  |
|---------------------------|---|
| 31.1                      | <u>Chief Executive Officer Certification Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>       |
| 31.2                      | <u>Chief Financial Officer Certification Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>       |
| 32.1                      | <u>Chief Executive Officer 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</u> |
| 32.2                      | <u>Chief Financial Officer 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</u> |
| 101.INS                   | XBRL Instance Document  |
| 101.SCH                   | XBRL Taxonomy Extension Schema  |
| 101.CAL                   | XBRL Taxonomy Extension Calculation Linkbase  |
| 101.DEF                   | XBRL Taxonomy Extension Definition Linkbase   |
| 101.LAB                   | XBRL Taxonomy Extension Label Linkbase  |
| 101.PRE                   | XBRL Taxonomy Extension Presentation Linkbase   |