



***MicroVision***

2013 Annual Report  
and  
Proxy Statement for 2014 Annual Meeting of Shareholders

## **Forward-Looking Statements**

Certain statements contained in this annual report, including those relating to business strategy, future commercial agreements, supply chain capabilities and relationships, operating results, products and technology development, industry and consumer demand and those using words such as “goals,” “aims,” “potential,” “positioned,” “expected,” “should,” “build,” “outlook,” “forecasts,” “opportunity,” and “will” are forward-looking statements that involve a number of risks and uncertainties. Factors that could cause actual results to differ materially from those projected in the company’s forward-looking statements include the following: our ability to raise additional capital when needed; products incorporating our PicoP display engine may not achieve market acceptance, commercial partners may not enter into or perform under agreements as anticipated, our or our customers failure to perform under open purchase orders; our financial and technical resources relative to those of our competitors; our ability to keep up with rapid technological change; government regulation of our technologies; our ability to enforce our intellectual property rights and protect our proprietary technologies; the ability to obtain additional contract awards; the timing of commercial product launches and delays in product development; the ability to achieve key technical milestones in key products; dependence on third parties to develop, manufacture, sell and market our products; potential product liability claims; and other risk factors identified from time to time in the company’s SEC reports, including the company’s most recent Annual Report on Form 10-K filed with the SEC. Except as expressly required by federal securities laws, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changes in circumstances or any other reason.

Dear Fellow Shareowner:

2013 was a pivotal year for MicroVision in commercializing PicoP® display technology under our “Image by PicoP®” ingredient brand business model. We set a path in April 2012 to transition to a licensing strategy with the availability of the PicoP® Gen2 platform and direct green laser technology, plus MicroVision’s strong intellectual property portfolio and the growing market interest in pico projection applications in several sectors. Having established the framework for the licensing business model and implementing a restructuring aimed at reducing operating and working capital needs, MicroVision articulated the following goals for 2013:

- Securing design wins and enlisting customers to license revolutionary PicoP display technology and supporting them through development cycles
- Strengthening the supply chain for key components of PicoP display technology to offer multiple sources to OEMs
- Aggressively managing cash used in operations.

The significant progress made in 2013 on these goals has built a strong foundation for future growth.

#### Securing Design Wins and Enlisting Customers

The primary markets MicroVision is targeting for PicoP display technology are consumer electronics and automotive. We saw traction in both sectors in 2013.

In April 2013, we secured a \$4.6 million development agreement with a Fortune Global 100 electronics brand. This partner recently announced that it is developing a pico projection module which incorporates MicroVision’s PicoP display technology. The electronics company also announced that it aims to bring the module to market for use in pico projectors and to add projection functionality to other devices. The development program is still ongoing and we are simultaneously engaged in commercial negotiations.

We are currently in detailed, confidential discussions and negotiations with other prospective customers in the consumer electronics space. These prospects range from large brand names to smaller niche consumer electronics OEMs that are interested in a variety of consumer electronics products utilizing PicoP display technology.

In the automotive market, we have two programs in place. We are supporting a leading global Tier-One automotive supplier in its testing and evaluation of PicoP display technology as part of the Tier-One’s embedded Head Up Display (HUD) application. MicroVision is supplying multiple prototype Scanned Engine Subsystems (SES) as part of the Tier-One’s reliability testing and characterization for potential use of PicoP display technology in an embedded HUD application for at least one major automotive OEM.

In addition, late in the fourth quarter 2013, MicroVision signed an agreement with a leading global vehicle OEM to deliver a HUD prototype for evaluation and testing as part of a program to develop a HUD system for its vehicles.

#### Strengthening the Supply Chain

In 2013 we developed new supply sources for our patented, proprietary MEMS to facilitate high volume production for multiple customers. We also engaged a manufacturing resource for production of opto-mechanical engines based on our reference design for PicoP display technology. We recognize that some OEMs want a quick time to market for products and prefer a standard display module they could buy and design into products rather than building the display engine themselves.

The enhanced supply chain we assembled in 2013 is expected to meet our goal of providing significantly higher volume capabilities at significantly lower costs for key components. These advantages should greatly facilitate the adoption of MicroVision's PicoP display technology by the companies interested in a variety of pico projection applications and products in 2014 and beyond.

### Aggressively Managing Cash Used in Operations

We reduced cash used in operations by 39 % in 2013 versus the previous year. It represents a significant achievement as it is the third year in a row that we reduced our operating cash use averaging 35 % per year. We also reduced our year over year operating expenses by 21 % in 2013 and had a 33 % reduction in operating loss and 42 % reduction in net losses in 2013 compared to 2012.

### Outlook for 2014

As we continue to progress on our course, our goals in 2014 are to build on our progress of the previous year:

- Complete development with our Fortune Global 100 customer, support its commercialization efforts and supply key components
- Build a pipeline of consumer and automotive OEM opportunities for MicroVision's go-to-market partners that are providing display engines incorporating PicoP display technology
- Ramp supply chain for high volume production of MicroVision components by the second half of 2014.

The progress we have made since the transition to our licensing business model and the introduction of PicoP Gen2 technology in 2012 is a result of the unyielding belief in the market opportunity for our disruptive technology, ingenuity and the perseverance of our employees. MicroVision is now positioned to benefit from the rapidly changing dynamics in consumers' behavior and expectation related to viewing and sharing information.

MicroVision believes that the outlook for pico projection technology is stronger than ever with the swift changes in consumer behavior driving ever increasing amounts of video viewing to mobile devices. According to You Tube, 40 percent of global watch time comes on hundreds of millions of mobile devices around the world. That represents billions of hours of video viewing on mobile devices from just this one source.

We believe that the automobile industry continues to incorporate information technology into vehicles at a rapid rate. Events such as the Consumer Electronics Show (CES) and Mobile World Congress are now major platforms for car makers and suppliers. Forecasts for the connected car market show significant opportunity in the coming years for adoption of PicoP display technology. In fact, GSMA, producers of the Mobile World Congress tradeshow, reported in February 2013 "over the next five years, there will be an almost sevenfold increase in the number of new cars equipped with factory-fitted mobile connectivity designed to meet demand among regulators and consumers for safety and security features, as well as infotainment and navigation services."

MicroVision continues to put into place the customer and supplier relationships to capitalize on the changing market dynamics that create a tremendously positive growth opportunity for PicoP display technology in 2014 and beyond.

As always we appreciate the support of our shareholders and the belief in PicoP display technology's revolutionary approach to bringing enhanced visibility to the world of mobility.

Alexander Tokman  
Chief Executive Officer  
April 21, 2014

Notice of Annual Meeting  
of Shareholders  
and  
Proxy Statement



**MICROVISION, INC.**  
**NOTICE OF 2014 ANNUAL MEETING**  
**June 3, 2014**

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Dear MicroVision Shareholder:

The Annual Meeting of Shareholders of MicroVision, Inc. (the "Company"), will be held at Courtyard Marriott Bellevue/Redmond, 14615 NE 29<sup>th</sup> Place, Bellevue, WA 98007 on June 3, 2014 at 9:00 a.m. for the following purposes:

1. To elect seven directors to serve until the next annual meeting;
2. To approve an amendment to the 2013 MicroVision, Inc. Incentive Plan;
3. To ratify the selection of Moss Adams LLP as the Company's independent registered public accounting firm for the current fiscal year;
4. To hold a non-binding advisory vote on the compensation of the Company's named executive officers;
5. To approve the underwritten offering of common stock and warrants to purchase common stock that the Company completed on March 18, 2014.
6. To conduct any other business that may properly come before the meeting and any adjournment or postponement of the meeting.

Details of the business to be conducted at the meeting are more fully described in the accompanying Proxy Statement. Please read it carefully before casting your vote.

If you were a shareholder of record on April 9, 2014, you will be entitled to vote on the above matters. A list of shareholders as of the record date will be available for shareholder inspection at the headquarters of the Company, 6244 185<sup>th</sup> Avenue NE, Suite 100, Redmond, Washington 98052, during ordinary business hours, from May 23, 2014 to the date of the Annual Meeting. The list also will be available for inspection at the Annual Meeting.

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**Important!**

Whether or not you plan to attend the Annual Meeting, your vote is very important.

After reading the Proxy Statement, you are encouraged to vote by (1) toll-free telephone call, (2) the Internet or (3) completing, signing and dating the printable proxy card and returning it as soon as possible. If you are voting by telephone or the Internet, please follow the instructions on the proxy card. You may revoke your proxy at any time before it is voted by following the instructions provided below.

**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders To Be Held on June 3, 2014. The proxy materials and the annual report to shareholders are available at <http://www.microvision.com/investors/proxy.html>.**

If you need assistance voting your shares, please call Investor Relations at (425) 882-6629.

The Board of Directors recommends a vote **FOR** the election of the seven nominees for directors, a vote **FOR** approval of the proposed amendment to the 2013 MicroVision, Inc. Incentive Plan, a vote **FOR** the approval, on an advisory basis, of the compensation of the Company's named executive officers, as such information is disclosed in this Proxy Statement under the heading Executive Compensation (commonly referred to as "say-on-pay"), a vote **FOR** the proposal to approve the underwritten offering of common stock and warrants to purchase common stock that we completed on March 18, 2014, and a vote **FOR** ratification of the selection of Moss Adams LLP as the Company's independent registered public accounting firm.

At the meeting, you will have an opportunity to ask questions about the Company and its operations. You may attend the meeting and vote your shares in person, even if you previously voted by telephone or the Internet or returned your proxy card. Your proxy (including a proxy granted by telephone or the Internet) may be revoked by sending in another signed proxy card with a later date, sending a letter revoking your proxy to the Company's Secretary in Redmond, Washington, voting again by telephone or Internet, or attending the Annual Meeting and voting in person.

We look forward to seeing you. Thank you for your ongoing support of and interest in MicroVision, Inc.

Sincerely,

David J. Westgor  
Secretary

April 21, 2014  
Redmond, Washington

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# MICROVISION, INC.

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

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## PROXY STATEMENT FOR ANNUAL MEETING OF SHAREHOLDERS June 3, 2014

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## INFORMATION ABOUT THE ANNUAL MEETING AND VOTING

**Q: Why did you send me this Notice of Internet Availability of Proxy Materials?**

**A:** We sent you the Notice of Internet Availability of Proxy Materials because the Board of Directors of the Company (the “Board of Directors” or the “Board”) is soliciting your proxy to vote at the 2014 Annual Meeting of Shareholders (the “Annual Meeting”). The Annual Meeting will be held at the Courtyard Marriott Bellevue/Redmond, 14615 NE 29<sup>th</sup> Place, Bellevue, WA 98007 on June 3, 2014, at 9:00 a.m.

This Proxy Statement summarizes the information regarding the matters to be voted upon at the Annual Meeting. You do not need to attend the Annual Meeting, however, to vote your shares. You may simply vote your shares by telephone or over the Internet in accordance with the instructions contained on the proxy card. You may also print, complete, sign, and return the proxy card to the address in the instructions.

On April 9, 2014 there were 42,971,079 shares of common stock of the Company outstanding. If you owned shares of our common stock at the close of business on the record date, you are entitled to one vote for each share of common stock you owned as of that date. We made this Proxy Statement available on or about April 21, 2014 to all shareholders entitled to vote their shares at the Annual Meeting. All share-related information in this proxy Statement has been adjusted for the 1-for-8 reverse stock split, which became effective February 17, 2012.

**Q: How many votes do I have?**

**A:** You have one vote for each share of common stock that you owned on the record date. The proxy card will indicate the number of shares.

**Q: How do I vote by proxy?**

**A:** If you properly cast your vote by either voting your proxy by telephone or via the Internet or executing and returning the proxy card, and your vote is not subsequently revoked by you, your vote will be voted in accordance with your instructions. If you sign the proxy card but do not make specific choices, your proxy will vote your shares as recommended by the Board as follows:

- “**FOR**” the election of each of the nominees for director;
- “**FOR**” approval of the proposed amendment to the 2013 MicroVision, Inc. Incentive Plan;
- “**FOR**” ratification of the selection of Moss Adams LLP as the Company’s independent registered public accounting firm;
- “**FOR**” the approval, on an advisory basis, of the compensation of the Company’s named executive officers, as such information is disclosed in this Proxy Statement under the heading Executive Compensation (commonly referred to as “say-on-pay”).
- “**FOR**” approval of the underwritten offering of common stock and warrants to purchase common stock that we completed on March 18, 2014.

If any other matter is presented, your proxy will vote in accordance with his best judgment. At the time we printed this Proxy Statement, we knew of no matters that needed to be acted on at the Annual Meeting other than those discussed in this Proxy Statement.

**Q: May my broker vote for me?**

**A:** Under the rules of the Financial Industry Regulatory Authority, if your broker holds your shares in its “street” name, the broker may vote your shares on routine matters even if it does not receive instructions from you. At the Annual Meeting your broker may, without instructions from you, vote on Proposal 3, but not on any of the other proposals.

**Q: What are abstentions and broker non-votes?**

**A:** An abstention represents the action by a shareholder to refrain from voting “for” or “against” a proposal. “Broker non-votes” represent votes that could have been cast on a particular matter by a broker, as a shareholder of record, but that were not cast because the broker (i) lacked discretionary voting authority on the matter and did not receive voting instructions from the beneficial owner of the shares or (ii) had discretionary voting authority but nevertheless refrained from voting on the matter.

**Q: May I revoke my proxy?**

**A:** Yes. You may change your mind after you send in your proxy card or vote your shares by telephone or via the Internet by following these procedures. To revoke your proxy:

- Vote again by telephone or Internet;
- Send in another signed proxy card with a later date;
- Send a letter revoking your proxy to MicroVision’s Secretary at the Company’s offices in Redmond, Washington; or
- Attend the Annual Meeting and vote in person.

**Q: How do I vote in person?**

**A:** If you plan to attend the Annual Meeting and vote in person, we will give you a ballot when you arrive. If your shares are held in a brokerage account or by another nominee, the Notice of Internet Availability of Proxy Materials is being forwarded to you. Follow the instructions on the Notice of Internet Availability of Proxy Materials in order to vote your shares by proxy or in person. Alternatively, you may contact the person in whose name your shares are registered and obtain a proxy from that person and bring it to the Annual Meeting.

**Q: What is the quorum requirement for the meeting?**

**A:** The quorum requirement for holding the meeting and transacting business is one-third of the outstanding shares entitled to be voted. The shares may be present in person or represented by proxy at the meeting. Both abstentions and broker non-votes are counted as present for the purpose of determining the presence of a quorum.

**Q: What vote is required to approve the election of directors?**

**A:** The seven nominees for director who receive the most votes will be elected. So, if you do not vote for a nominee, or you “withhold authority to vote” for a nominee, your vote will not count either “for” or “against” the nominee. Abstentions and broker non-votes will have no effect on the outcome of voting for directors.

**Q: What vote is required to approve the proposed amendment to the 2013 MicroVision, Inc. Incentive Plan (Proposal 2)?**

**A:** The affirmative vote of a majority of the votes properly cast on the proposal at the 2014 Annual Meeting is required to approve the amendment to the 2013 MicroVision, Inc. Incentive Plan. Abstentions and broker non-votes will not be counted “for” or “against” the proposal and will have no effect on the outcome of the vote.

**Q: What vote is required to ratify the selection of Moss Adams LLP as the Company’s independent registered public accounting firm (Proposal 3)?**

**A:** The affirmative vote of a majority of the votes properly cast on the proposal at the 2014 Annual Meeting is required to ratify the appointment of Moss Adams LLP as the Company’s independent registered public accounting firm. Abstentions and broker non-votes will have no effect on the outcome of Proposal 3.

**Q: What vote is required to approve the vote on the compensation of the Company's named executive officers (Proposal 4)?**

**A:** Because Proposal 4 is an advisory vote, there is technically no minimum vote requirement for that Proposal. Abstentions and broker non-votes will have no effect on the outcome of Proposal 4.

**Q: What vote is required to approve the offering of common stock and warrants to purchase common stock that we completed on March 18, 2014 (Proposal 5)?**

**A:** The affirmative vote of a majority of the votes properly cast on the proposal at the 2014 Annual Meeting is required to approve the underwritten offering of common stock and warrants, provided that the number of votes cast in favor of the proposal must exceed the number of votes cast against the proposal by at least the number of shares of common stock issued pursuant to the underwritten offering, including shares issued on exercise of the warrants since we completed the offering, as of the record date. Abstentions and broker non-votes will have no effect on the outcome of Proposal 5.

**Q: Is voting confidential?**

**A:** We keep all the proxies and ballots private as a matter of practice.

**Q: Who pays the costs of soliciting these proxies?**

**A:** The Company will pay all the costs of soliciting these proxies. In addition to the solicitation of proxies by mail, our officers and employees also may solicit proxies by telephone, fax or other electronic means of communication, or in person. We will reimburse banks, brokers, nominees, and other fiduciaries for the expenses they incur in forwarding the proxy materials to you.

**Q: Who should I call if I have any questions?**

**A:** If you have any questions about the Annual Meeting, voting or your ownership of MicroVision common stock, please call us at (425) 882-6629 or send an e-mail to [ir@microvision.com](mailto:ir@microvision.com).

## DISCUSSION OF PROPOSALS RECOMMENDED BY THE BOARD

### Proposal One—Election Of Directors

The Board oversees the Company's business and affairs and monitors the performance of management. In accordance with corporate governance principles, the Board does not involve itself in day-to-day operations of the Company. The directors keep themselves informed through discussions with the Chief Executive Officer, other key executives, and the Company's principal advisers by reading the reports and other materials that the Company sends them regularly and by participating in Board and committee meetings. The Company's directors hold office until their successors have been elected and duly qualified unless the director resigns or by reason of death or other cause is unable to serve. Until any vacancy is filled, the Board will consist of the members who are elected at the Annual Meeting. Proxies cannot be voted for a greater number of persons than the number of nominees named.

If any nominee is unable to stand for election, the shares represented by all valid proxies will be voted for the election of such substitute nominee as the Board may recommend. All of the nominees are currently directors of the Company. The Company is not aware that any nominee is or will be unable to stand for election.

Proxies received from shareholders, unless directed otherwise, will be voted FOR the election of the nominees listed below.

### THE BOARD RECOMMENDS A VOTE "FOR" ALL OF THE NOMINEES NAMED BELOW AS DIRECTORS OF THE COMPANY.

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 nominees for director of the Company. The principal occupation and recent employment history of each nominee is described below, and the number of shares of common stock beneficially owned by each nominee as of April 9, 2014 is set forth on page 24.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Richard A. Cowell (2) (3)* .....	66	Director
Slade Gorton (1) (3)* .....	86	Director
Jeanette Horan (1)* .....	58	Director
Perry Mulligan (2) (3)* .....	56	Director
Alexander Tokman .....	52	Director, President and Chief Executive Officer
Brian Turner (1) (2)* .....	54	Chairman of the Board and Lead Independent Director
Thomas M. Walker .....	49	Director

\* Independent Director

(1) Member of the Compensation Committee

(2) Member of the Audit Committee

(3) Member of the Nominating Committee

Alexander Tokman has served as President, Chief Executive Officer and a director of MicroVision since January 2006. Mr. Tokman served as MicroVision's President and Chief Operating Officer from July 2005 to January 2006. Mr. Tokman, a former GE executive, joined MicroVision after a 10-year tenure at GE Healthcare,

a subsidiary of General Electric, where he led several global businesses, most recently as General Manager of its Global Molecular Imaging and Radiopharmacy multi-technology business unit from 2003 to 2005. Prior to that, between 1995 and 2003, Mr. Tokman served in various cross-functional and cross-business leadership roles at GE where he led the definition and commercialization of several medical modalities product segments including PET/CT, which added over \$500 million of revenue growth to the company within the first three years of its commercial introduction. Mr. Tokman is a certified Six Sigma and Design for Six Sigma (DFSS) Black Belt and Master Black Belt and as one of GE's Six Sigma pioneers, he drove the quality culture change across GE Healthcare in the late 1990s. From November 1989 to March 1995 Mr. Tokman served as new technologies programs lead and a head of I&RD office at Tracor Applied Sciences a subsidiary of then Tracor, Inc. Mr. Tokman has both an M.S. and B.S. in Electrical Engineering from the University of Massachusetts, Dartmouth. As President and Chief Executive Officer of the Company, Mr. Tokman has a deep understanding of the Company and broad executive experience.

Colonel Richard A. Cowell, USA, (Ret.) has served as a director of the Company since August 1996. Colonel Cowell is a retired Principal at Booz Allen Hamilton, Inc. ("BAH") where he was involved in advanced concepts development and technology transition, joint and service experimentation, and the interoperability and integration of command and control systems for Department of Defense and other agencies. Prior to joining BAH in March of 1996, Colonel Cowell served in the United States Army for 25 years. Immediately prior to his retirement from the Army, Colonel Cowell served as Director of the Louisiana Maneuvers Task Force reporting directly to the Chief of Staff, Army. Colonel Cowell has authored a number of articles relating to the potential future capabilities of various services and agencies. Colonel Cowell is a former Director of Immunocellular Therapeutics Ltd. Colonel Cowell's senior position at BAH with involvement in advanced concepts development and technology transition, leadership in the Army and prior history as a director of the Company have given him extensive experience and expertise in government contracts, financial matters and the Company's business and technology evolution.

Slade Gorton has served as a director of the Company since September 2003. Mr. Gorton was formerly 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 evolution.

Jeanette Horan has served as a director of the Company since June 2006. Ms. Horan is currently Chief Information Officer for IBM, a position she has held since May 2011. Prior to her current position, she was Vice President, Enterprise Business Transformation, where she led IBM's transformation to a globally integrated enterprise. Prior to that, she was Vice President, Business Process and Architecture Integration from July 2006 to April 2007 where she led IBM's internal business process transformation and information technology portfolio. Ms. Horan was Vice President, Information Management from January 2004 to July 2006 and Vice President Strategy, IBM Software Group from January 2003 to January 2004, where she was responsible for strategic alliances with key platform partners and led strategic and operational planning processes. From May 1998 to December 2002, Ms. Horan was also Vice President, Development for the Lotus brand and led worldwide product management, development and technical support. Ms. Horan has substantial breadth and depth of technology leadership experience and a demonstrated ability to translate novel technologies into products spanning various markets and segments.

Perry Mulligan has served as a director of the Company since January 2010. Mr. Mulligan has over 30 years of experience in operations and supply chain management. Since July 2013 Mr. Mulligan serves as the Senior Vice President of Operations for Emulex Corporation where he oversees Emulex operations, including IT, facilities, supplier management, test engineering and logistics. 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.

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 is lead director at Symmetra Mutual Fund. 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 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 13 times during 2013. All directors attended at least 75% of the meetings of the Board and meetings of the Board committees on which they served. The Board also approved certain actions by unanimous written consent. 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 2013.

### ***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. Tokman and

Mr. Walker, 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, except for Mr. Walker, 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 Securities and Exchange Commission (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 two 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. Tokman as Chief Executive Officer and Mr. Turner as Chairman and Lead Independent Director currently

well serve the interests of us and our shareholders. Mr. Tokman can devote his attention to leading the Company and focus on our business strategy. 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 these Committees. 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. Messrs. Cowell, Mulligan and Turner currently serve on the Audit Committee, with Mr. Cowell serving as Chairman. The Audit Committee met 5 times during 2013.

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 Col. Richard A. Cowell (Ret.) and Brian Turner, each an independent director. Col. Cowell holds a degree in accounting and has served for ten years as Chair of our Audit Committee. During his twenty-five years of service in the United States Army, Col. Cowell oversaw and actively supervised various complex governmental projects that involved government accounting with a breadth and level of complexity comparable to accounting issues raised by our financial statements, including issues relating to estimates, accruals, and reserves. Since retiring from the Army, Col. Cowell served as a Principal at Booz Allen Hamilton, Inc., where he provided consulting services relating to significant government projects and grants which involve significant and complex accounting issues. Mr. Turner has eight years 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. Messrs. Gorton and Turner and Ms. Horan currently serve as members of the Compensation Committee, with Mr. Turner serving as chairman. The Compensation Committee met 5 times during 2013.



### *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.

Messrs. Cowell, Gorton and Mulligan currently serve as members of the Nominating Committee, with Mr. Mulligan serving as Chairman. The Nominating Committee met once during 2013.

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 an 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 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 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 2013, except that one report on Form 4 covering two transactions was filed by Mr. Thomas M. Walker after the filing deadline.

### **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).

## Proposal Two—Amendment of the 2013 MicroVision, Inc. Incentive Plan

The Board of Directors has authorized an amendment to the 2013 MicroVision, Inc. Incentive Plan (as amended, the “Incentive Plan”), subject to shareholder approval. The amendment will increase the number of shares of common stock reserved for issuance upon exercise of options granted under the Incentive Plan by 1,200,000 to a total of 5,550,000 shares.

### THE BOARD OF DIRECTORS RECOMMENDS A VOTE “FOR” THE FOREGOING AMENDMENT OF THE 2013 MICROVISION, INC. INCENTIVE PLAN.

#### Summary of the Incentive Plan

The Incentive Plan amended, restated and renamed our 2006 Incentive Plan. The Incentive Plan was originally adopted by the Board in 2013 and approved by the shareholders in June of 2013. The Incentive Plan will terminate on the tenth anniversary of the date of approval by the shareholders, unless earlier terminated by the Board. If the proposed amendment to the Incentive Plan is approved, a maximum of 5,550,000 shares of common stock may be delivered in satisfaction of awards made under the Incentive Plan. The maximum number of shares of common stock for which stock options may be granted to any person in any calendar year and the maximum number of shares of common stock subject to stock appreciation rights, or “SARs,” granted to any person in any calendar year will each be 250,000. The maximum benefit that will be paid to any person under other awards in any calendar year will be, to the extent paid in shares, 250,000 shares, and, to the extent paid in cash, \$3,000,000. In the event of a stock dividend, stock split or other change in our capital structure, the Administrator will make appropriate adjustments to the limits described above and will also make appropriate adjustments to the number and kind of shares of stock or securities subject to awards, any exercise prices relating to awards and any other provisions of awards affected by the change. The Administrator may also make similar adjustments to take into account other distributions to stockholders or any other event, if the Administrator determines that adjustments are appropriate to avoid distortion in the operation of the Incentive Plan and to preserve the value of awards.

**Administration.** The Board of Directors administers the Incentive Plan. The term “Administrator” is used in this proxy statement to refer to the person (the Board and its delegates) charged with administering the Incentive Plan. The Administrator has full authority to determine who will receive awards and to determine the types of awards to be granted as well as the amounts, terms, and conditions of any awards. Awards may be in the form of options, SARs, restricted or unrestricted stock, deferred stock, other stock-based awards, or cash awards, and any such award may be a performance-based award. The Administrator has the right to determine any questions that may arise regarding the interpretation and application of the provisions of the Incentive Plan and to make, administer, and interpret such rules and regulations as it deems necessary or advisable. Determinations of the Administrator made under the Incentive Plan are conclusive and bind all parties.

**Eligibility.** Participation is limited to employees, non-employee directors, as well as consultants and advisors who are selected by the Administrator to receive an award. The group of persons from which the Administrator will select participants consisted of approximately 75 individuals as of April 4, 2014.

**Stock Options.** The Administrator may, from time to time, award options to any participant subject to the limitations described above. Stock options give the holder the right to purchase shares of common stock of the Company within a specified period of time at a specified price. Two types of stock options may be granted under the Incentive Plan: incentive stock options, or “ISOs”, which are subject to special tax treatment as described below, and nonstatutory options, or “NSOs.” Eligibility for ISOs is limited to employees of the Company and its subsidiaries.

The exercise price of an ISO cannot be less than the fair market value of the common stock at the time of grant. In addition, the expiration date of an ISO cannot be more than ten years after the date of the original grant. In

the case of NSOs, the exercise price and the expiration date are determined in the discretion of the Administrator. The Administrator also determines all other terms and conditions related to the exercise of an option, including the consideration to be paid, if any, for the grant of the option, the time at which options may be exercised and conditions related to the exercise of options.

***Stock Appreciation Rights.*** The Administrator may grant SARs under the Incentive Plan. An SAR entitles the holder upon exercise to receive an amount in cash or common stock or a combination thereof (as determined by the Administrator) computed by reference to appreciation in the value of a share of common stock above a base amount which may not be less than fair market value on the date of grant.

***Stock Awards; Deferred Stock.*** The Incentive Plan provides for awards of nontransferable shares of restricted common stock, as well as unrestricted shares of common stock. Awards of restricted stock and unrestricted stock may be made in exchange for past services or other lawful consideration. Generally, awards of restricted stock are subject to the requirement that the shares be forfeited or resold to the Company unless specified conditions are met. Subject to these restrictions, conditions and forfeiture provisions, any recipient of an award of restricted stock will have all the rights of a stockholder of the Company, including the right to vote the shares and to receive dividends. Other awards under the Incentive Plan may also be settled with restricted stock. The Incentive Plan also provides for deferred grants (“deferred stock”) entitling the recipient to receive shares of common stock in the future on such conditions as the Administrator may specify. Any stock award or award of deferred stock resulting in a deferral of compensation subject to Section 409A of the Code will be construed to the maximum extent possible consistent with the requirements of Section 409A of the Code.

***Performance Awards.*** The Administrator may also make awards subject to the satisfaction of specified performance criteria. Performance awards may consist of common stock or cash or a combination of the two. The performance criteria used in connection with a particular performance award will be determined by the Administrator. In the case of performance awards intended to qualify for exemption under Section 162(m) of the Internal Revenue Code, the Administrator will use objectively determinable measures of performance in accordance with Section 162(m) that are based on any or any combination of the following (determined either on a consolidated basis or, as the context permits, on a divisional, subsidiary, line of business, project or geographical basis or in combinations thereof): sales; revenues; assets; expenses; earnings before or after deduction for all or any portion of interest, taxes, depreciation, or amortization, whether or not on a continuing operations or an aggregate or per share basis; return on equity, investment, capital or assets; one or more operating ratios; borrowing levels, leverage ratios or credit rating; market share; capital expenditures; cash flow; stock price; stockholder return; sales of particular products or services; customer acquisition or retention; acquisitions and divestitures (in whole or in part); joint ventures and strategic alliances; spin-offs, split-ups and the like; reorganizations; or recapitalizations, restructurings, financings (issuances of debt or equity) or refinancings. The Administrator will determine whether the performance targets or goals that have been chosen for a particular performance award have been met.

***General Provisions Applicable to All Awards.*** Neither ISOs nor, except as the Administrator otherwise expressly provides, other awards may be transferred other than by will or by the laws of descent and distribution. During a recipient’s lifetime an ISO and, except as the Administrator may provide, other non-transferable awards requiring exercise may be exercised only by the recipient. Shares delivered under the Incentive Plan may consist of either authorized but unissued or treasury shares. The number of shares delivered upon exercise of a stock option is determined net of any shares transferred by the optionee to the Company (including through the holding back of shares that would otherwise have been deliverable upon exercise) in payment of the exercise price or tax withholding.

***Mergers and Similar Transactions.*** In the event of a consolidation or merger in which the Company is not the surviving corporation or which results in the acquisition of substantially all of the Company’s stock by a person or entity or by a group of persons or entities acting together, or in the event of a sale of substantially all of

the Company's assets or a dissolution or liquidation of the Company, the following rules will apply except as otherwise provided in an Award:

- If the transaction is one in which there is an acquiring or surviving entity, the Administrator may provide for the assumption of some or all outstanding awards or for the grant of new awards in substitution therefor by the acquiror or survivor.
- If the transaction is one in which holders of common stock will receive a payment (whether cash, non-cash or a combination), the Administrator may provide for a "cash-out", with respect to some or all awards, equal in the case of each affected award to the excess, if any, of (A) the fair market value of one share of common stock times the number of shares of common stock subject to the award, over (B) the aggregate exercise or purchase price, if any, under the award (in the case of an SAR, the aggregate base price above which appreciation is measured), in each case on such payment terms and other terms, and subject to such conditions, as the Administrator determines.
- If there is no assumption or substitution of any award requiring exercise, each such outstanding award will become fully exercisable prior to the completion of the transaction on a basis that gives the holder of the award a reasonable opportunity to exercise the award and participate in the transaction as a stockholder.
- Each award, other than outstanding shares of restricted stock, unless assumed will terminate upon consummation of the transaction.
- Any share of common stock delivered pursuant to the "cash-out" or acceleration of an award, as described above, may, in the discretion of the Administrator, contain such restrictions, if any, as the Administrator deems appropriate to reflect any performance or other vesting conditions to which the award was subject. In the case of restricted stock, the Administrator may require that any amounts delivered, exchanged or otherwise paid in respect of such stock in connection with the transaction be placed in escrow or otherwise made subject to such restrictions as the Administrator deems appropriate to carry out the intent of the Incentive Plan.

**Amendment.** The Administrator may at any time or times amend the Incentive Plan or any outstanding Award for any purpose which may at the time be permitted by law, and may at any time terminate the Incentive Plan as to any future grants of awards. The Administrator may not, however, alter the terms of an Award so as to affect adversely the Participant's rights under the Award without the Participant's consent, unless the Administrator expressly reserved the right to do so at the time of the Award.

### **Federal Income Tax Consequences**

The following discussion summarizes certain federal income tax consequences of the grant and exercise of stock options under the Incentive Plan under the law as in effect on the date of this proxy statement. The summary does not purport to cover federal employment tax or other federal tax consequences that may be associated with stock options or federal tax consequences associated with other awards under the Incentive Plan, nor does it cover state, local or non-U.S. taxes.

**ISOs.** In general, an optionee realizes no taxable income for regular income tax purposes upon the grant or exercise of an ISO. However, the exercise of an ISO may result in an alternative minimum tax liability to the optionee. With certain exceptions, a disposition of shares purchased under an ISO within two years from the date of grant or within one year after exercise (a "disqualifying disposition") produces ordinary income to the optionee equal to the value of the shares at the time of exercise less the exercise price. A corresponding deduction is available to the Company. Any additional gain recognized in the disqualifying disposition is treated as a capital gain for which the Company is not entitled to a deduction. In general, if the disqualifying disposition is an arm's length sale at less than the fair market value of the shares at time of exercise, the optionee's ordinary income, and the Company's corresponding deduction, are limited to the excess, if any, of the amount realized on the sale over the amount paid by the optionee for the stock. If the optionee does not dispose of the shares until

after the expiration of these one- and two-year holding periods, any gain or loss recognized upon a subsequent sale is treated as a long-term capital gain or loss for which the Company is not entitled to a deduction.

*NSOs.* In general, in the case of a NSO, the optionee has no taxable income at the time of grant but realizes income in connection with exercise of the option in an amount equal to the excess (at the time of exercise) of the fair market value of the shares acquired upon exercise over the exercise price; a corresponding deduction is available to the Company; and upon a subsequent sale or exchange of the shares, any recognized gain or loss after the date of exercise is treated as a capital gain or loss for which the Company is not entitled to a deduction.

In general, an ISO that is exercised by the optionee more than three months after termination of employment is treated as an NSO. ISOs are also treated as NSOs to the extent they first become exercisable by an individual in any calendar year for shares having a fair market value (determined as of the date of grant) in excess of \$100,000.

The Administrator may award stock options that are exercisable for restricted stock. Under Section 83 of the Code, an optionee who exercises an NSO for restricted stock will generally have income only when the stock vests. The income will equal the fair market value of the stock at that time less the exercise price. However, the optionee may make a so-called “83(b) election” in connection with the exercise to recognize taxable income at that time. Assuming no other applicable limitations, the amount and timing of the deduction available to the Company will correspond to the income recognized by the optionee. If an ISO is exercised for restricted stock, a timely 83(b) election will have the effect, in general, of fixing the amount taken into account for alternative minimum tax purposes at the excess of the fair market value of the shares at time of exercise over the exercise price. However, for regular income tax purposes the ordinary income and corresponding Company deduction associated with a disqualifying disposition of stock acquired upon exercise of an ISO, where the stock was restricted at time of exercise but vested prior to the disposition, would be determined by reference to the fair market value of the shares on the date of vesting whether or not the optionee made an 83(b) election.

Under the so-called “golden parachute” provisions of the Code, the accelerated vesting of awards in connection with a change in control of the Company may be required to be valued and taken into account in determining whether a participant has received compensatory payments, contingent on the change in control, in excess of certain limits. If these limits are exceeded, a substantial portion of amounts payable to the participant, including the payment consisting of accelerated vesting of awards, may be subject to an additional 20% federal tax and may be nondeductible to the Company.

Under Section 162(m) of the Code, certain remuneration in excess of \$1 million may be nondeductible if paid to any “covered employee” of a publicly held corporation (generally the corporation’s chief executive officer and its next three most highly compensated executive officers, excluding the chief financial officer, in the year that the compensation is paid). Stock options issued under the Incentive Plan are intended to qualify for exemption from the Section 162(m) deduction limit.

Stock options awarded under the Incentive Plan are intended to be exempt from the rules of Section 409A of the Code and guidance issued thereunder and will be administered accordingly. However, neither the Company nor the Administrator, nor any person affiliated with or acting on behalf of the Company or the Administrator, will be liable to any participant or to the estate or beneficiary of any participant by reason of any acceleration of income, or any additional tax or interest penalties, resulting from the failure of an award to satisfy the requirements of Section 409A of the Code.

### **Proposal Three—Ratification of the Selection of Independent Registered Public Accounting Firm**

The Audit Committee of the Board has selected Moss Adams LLP as the Company’s independent registered public accounting firm for the current fiscal year, subject to ratification by the Company’s stockholders at the Annual Meeting. The Company has been advised by Moss Adams LLP that it is a registered public accounting firm with the Public Company Accounting Oversight Board (the “PCAOB”) and complies with the auditing, quality control, and independence standards and rules of the PCAOB and the SEC. A representative of Moss Adams LLP is expected to be present at the Annual Meeting to respond to appropriate questions and to make a statement if he or she so desires.

Although stockholder ratification of the selection of Moss Adams LLP as the Company’s independent registered public accounting firm is not required, the Board is nevertheless submitting the selection of Moss Adams LLP to the stockholders for ratification. Unless contrary instructions are given, shares represented by proxies solicited by the Board will be voted for the ratification of the selection of Moss Adams LLP as the independent registered public accounting firm of the Company for the year ending December 31, 2014. Should the selection of Moss Adams LLP not be ratified by the stockholders, the Audit Committee will reconsider the matter. Even in the event the selection of Moss Adams LLP is ratified, the Audit Committee, in its discretion, may direct the appointment of a different independent registered public accounting firm at any time during the year if it determines that such a change is in the best interests of the Company and its stockholders.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE “FOR” THE RATIFICATION OF THE SELECTION OF MOSS ADAMS LLP AS THE COMPANY’S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.**

### **Proposal Four—Advisory Vote on Executive Compensation**

The Executive Compensation section beginning on page 19 of this proxy statement shows 2013 compensation information for our named executive officers.

The Board of Directors is asking shareholders to cast a non-binding, advisory vote **FOR** the approval of the compensation paid to the Company's named executive officers, as disclosed in the Executive Compensation section.

Our executive compensation program embodies a pay-for-performance philosophy that is intended to support MicroVision's business strategy and align the interests of our executives with our shareholders.

For these reasons, the Board is asking shareholders to support this proposal. Although the vote we are asking you to cast is non-binding, the Compensation Committee and the Board value the views of our shareholders and will consider the outcome of the vote when determining future compensation arrangements for our named executive officers.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE APPROVAL, ON AN ADVISORY BASIS, OF THE COMPENSATION OF THE COMPANY'S NAMED EXECUTIVE OFFICERS.**



## Proposal Five—Approval of Underwritten Offering of Shares and Warrants

On March 18, 2014, the Company completed an underwritten offering of (i) an aggregate of 7,160,000 shares of common stock, par value \$0.001 per share, and (ii) warrants to purchase an aggregate of 2,148,000 shares of common stock. The shares of common stock and warrants were sold as units consisting of one share of common stock and one warrant to purchase 0.3 shares of common stock, at a public offering price of \$1.94 per unit, less the underwriting discounts and commissions payable by the Company. Oppenheimer & Co. Inc., the underwriter for the offering, purchased the units at a discounted price of \$1.8236 per unit.

### Why We Are Seeking Your Approval

We will require additional capital to fund our operating plan. We plan to obtain additional cash through the issuance of equity or debt securities from one or more potential investment sources. We may be presented with a financing transaction that would be beneficial to us and our shareholders; however this future financing transaction may be combined by NASDAQ with the Offering for purposes of determining whether we would exceed share issuance limitations under NASDAQ Listing Rule 5635(d)(2). See below for more detailed information about this NASDAQ Rule. Most potential investors negotiate with a publicly traded company of our financial stature for an effective discount to the then trading price of an issuer's securities. We believe your approval on this matter will give us greater flexibility to respond to financing opportunities such as these as they are presented to us. Having the ability to sell our securities in future transactions without being limited as a result of combination or "integration" with the Offering affords us greater flexibility in structuring future financings.

#### *NASDAQ Listing Rule and the Potential Limitation if Integrated with the Offering*

NASDAQ Listing Rule 5635(d)(2) requires, with limited exceptions, stockholder approval prior to the sale or issuance or potential issuance of shares equal to 20% or more of our common stock, or 20% or more of our voting power, outstanding before the issuance, if the effective sale price of our common stock is less than the greater of the book or market value of our common stock on the date of such issuance (a "below-market issuance"). Shares of our common stock issuable upon the exercise or conversion of warrants, options, debt instruments, preferred stock or other equity securities issued or granted in such capital raising transactions are considered shares issued in the transaction in determining whether the 20% limit has been reached. NASDAQ may in certain circumstances "integrate" a later transaction with an earlier transaction for purposes of determining compliance with such listing rule, in which case the integrated transactions collectively must comply with the listing rule.

The Offering involved the issuance of 7,160,000 shares of common stock. Prior to the Offering, we had 35,800,933 shares outstanding. Because the Offering is considered a "below-market issuance" under Rule 5635(d)(2), in the event that NASDAQ were to "integrate" a future below-market issuance with the Offering, we would be limited in the amount of shares of common stock that could potentially be issued in that future offering to 186 shares, or the difference between 20% of our shares outstanding immediately before the Offering and the number of shares potentially issuable in the Offering.

We are seeking stockholder approval of the Offering so that the stockholder approval requirements of Rule 5635(d)(2) would not be triggered solely as a result of the integration by Nasdaq of a potential future issuance of shares with the Offering, as the need to obtain such stockholder approval could limit our ability to consummate certain potential issuances. If you vote for the proposal to approve the Offering, the shares issued in future transactions would not be integrated with the Offering for purposes of determining compliance with the 20% limit provided in Rule 5635(d)(2). Any potential future issuance that is considered a below-market issuance under Rule 5635(d)(2) would nonetheless be subject to the 20% limit provided in Rule 5635(d)(2), meaning we could not issue more than 20% of our shares outstanding immediately before such future offering of shares in a below market issuance without stockholder approval.

**Vote Required**

The proposal to approve the Offering requires approval by a majority of the votes cast at the meeting, provided that (i) the number of votes cast in favor of the proposal must exceed the number of votes cast against the proposal by at least 7,160,000 shares, which is the number of shares of common stock issued pursuant to the Offering, including shares issued on exercise of the warrants since we completed the offering, as of the record date and (ii) we will not treat the proposal to approve the Offering as approved unless the number of shares present at the meeting in person or by proxy is at least 19,097,027, which is equal to the sum of (i) one third (1/3) of the total number of shares of common stock outstanding as of the record date including shares issued on exercise of the warrants since we completed the Offering, minus the number of shares issued in the Offering as of the record date, plus (ii) the number of shares issued in the Offering as of the record date including shares issued on exercise of the warrants since we completed the Offering. We are requiring more than a simple majority of votes cast at the meeting and more than a simple quorum because NASDAQ IM-5635-2 indicates that shares issuable in the first part of a private placement transaction (in this case, the Offering), must not be entitled to vote to approve the remainder of the transaction. Although we believe that this NASDAQ guidance is not directly applicable, we understand that NASDAQ will require us to demonstrate nevertheless that this proposal would have been approved whether or not we give effect to the votes cast on the shares issued in the Offering and whether or not we would have obtained a quorum whether or not shares were issued in the Offering and are represented at the Annual Meeting.

**Dissenters' Rights**

Under Delaware law, you are not entitled to dissenters' or appraisal rights in connection with this proposal.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE APPROVAL OF THE UNDERWRITTEN OFFERING OF SHARES AND WARRANTS****OTHER BUSINESS**

The Company knows of no other matters to be voted on at the Annual Meeting or any adjournment or postponement of the meeting. If, however, other matters are presented for a vote at the meeting, the proxy holders (the individuals designated on the proxy card) will vote your shares according to their judgment on those matters.

## EXECUTIVE COMPENSATION

### Summary Compensation Table for 2013

This table shows certain information about the compensation we paid our Chief Executive Officer and our two other most highly compensated executive officers who were serving as executive officers as of December 31, 2013, and one other individual who would have been among the two other most highly compensated executive officers but for the fact that he was not serving as an executive officer as of December 31, 2013. These officers are referred to as named executive officers.

<u>Name and Principal Position</u>	<u>Fiscal Year</u>	<u>Salary (\$)</u>	<u>Bonus (\$)(3)</u>	<u>Stock Awards (\$)(4)</u>	<u>Option Awards (\$)(4)</u>	<u>All Other Compensation (\$)(5)(6)</u>	<u>Total (\$)</u>
Alexander Y. Tokman . . . . .	2013	359,443	—	138,501	348,112	—	846,056
President and Chief Executive Officer and Director	2012	359,443	—	—	104,888	2,247	466,578
Michael J. Franzi(1) . . . . .	2013	205,000	—	—	58,790	117,810	381,600
Vice President, Marketing and Business Development	2012	10,252	—	—	—	—	10,252
Thomas M. Walker(2) . . . . .	2013	278,143	—	56,029	158,026	—	492,197
Former Executive Vice President, General Counsel and Secretary	2012	177,877	—	—	52,444	—	230,321
Dale E. Zimmerman . . . . .	2013	203,000	300	47,424	99,327	—	350,051
Vice President, Research and Development	2012	189,167	28,988	—	52,444	—	270,599

- (1) Mr. Franzi was appointed Vice President, Marketing and Business Development effective December 13, 2012.
- (2) On November 12, 2013, Mr. Walker was elected a Director and his employment as Executive Vice President, Corporate and Secretary of the Company ceased effective November 19, 2013. Amounts for Mr. Walker include \$24,000 for salary and \$28,137 for option awards earned as a director.
- (3) Bonus amounts exclude \$85,000 and \$31,000 for Mr. Tokman and Mr. Zimmerman, respectively, for 2013 performance bonuses approved but not yet paid.
- (4) Reflects the fair value of stock and option awards on the grant date in accordance with FASB ASC Topic 718.
- (5) Perquisites and other personal benefits are valued on an aggregate incremental cost basis. All figures shown below in footnote 6 represent the direct dollar cost incurred in providing these perquisites and other personal benefits to the named executive officers.
- (6) The table below shows all other amounts under All Other Compensation for fiscal 2012 and 2013:

<u>Name and Principal Position</u>	<u>Fiscal Year</u>	<u>Perquisites and Personal Benefits (7)</u>	<u>Employer contribution to 401(k) account (8)</u>
Alexander Y. Tokman . . . . .	2013	—	—
	2012	—	2,247
Michael J. Franzi . . . . .	2013	117,810	—
	2012	—	—
Thomas M. Walker . . . . .	2013	—	—
	2012	—	1,477
Dale E. Zimmerman . . . . .	2013	—	—
	2012	—	—

- (7) The amount for Mr. Franzi represents \$86,127 and \$31,683 in actual amounts reimbursed for relocation expenses and gross-up for payment of taxes, respectively.
- (8) This column represents the amount of matching contributions made to our qualified 401(k) retirement plan for each of our named executive officers.

## Outstanding Equity Awards at Year-End 2013

The following table shows outstanding equity awards for our named executive officers as of December 31, 2013:

Name		Option Awards				Stock Awards	
		Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date	Number of Shares of Stock That Have Not Vested (#)	Market Value of Shares of Stock That Have Not Vested (\$)
Alexander Y. Tokman . . . . .	1	37,500	—	22.16	7/7/2015		
	2	47,500	—	27.44	4/13/2016		
	2	37,500	—	35.68	4/13/2016		
	2	26,969	—	35.12	4/19/2017		
	2	18,509	—	17.84	3/25/2018		
	4	8,594	—	17.84	3/25/2018		
	2	16,714	—	14.88	4/23/2019		
	4	8,750	—	14.88	4/23/2019		
	2	10,446	3,482	27.28	4/26/2020		
	4	5,878	—	27.28	4/26/2020		
	6	53,334	26,666	1.80	8/3/2022		
	3	—	2,807	2.28	8/8/2023		
	3	—	225,000	2.28	8/8/2023	5	43,750
Michael J. Franzi . . . . .	2	—	35,000	1.85	1/30/2023		
	3	—	10,000	2.28	8/8/2023		
	3	—	10,000	2.28	8/8/2023		
Thomas M. Walker . . . . .	2	5,000	—	27.44	4/5/2016		
	2	12,500	—	35.12	4/19/2017		
	2	1,001	—	35.12	4/19/2017		
	2	5,057	—	17.84	3/25/2018		
	4	3,532	—	17.84	3/25/2018		
	2	4,515	—	14.88	4/23/2019		
	4	3,557	—	14.88	4/23/2019		
	4	2,388	—	27.28	4/26/2020		
	2	2,821	941	27.28	4/26/2020		
	6	26,667	13,333	1.80	8/3/2022		
	3	—	85,000	2.28	8/8/2023		
7	—	30,000	1.27	11/20/2023	5	13,750	10.40
Dale E. Zimmerman . . . . .	2	1,874	1,876	7.62	8/04/2021		
	6	26,667	13,333	1.80	8/03/2022		
	3	—	65,000	2.28	8/08/2023		

- (1) The indicated option vested 20% on the grant date and 20% on each subsequent annual anniversary of the grant date.
- (2) The indicated option vests 25% on each anniversary of the grant date.
- (3) The indicated option vests 33% on each anniversary of the grant date.
- (4) The indicated options vested 100% on the date of grant.
- (5) The indicated stock award vests based on satisfying both a service condition and a milestone achievement related to the sales of direct green laser PicoP display engine technology.
- (6) The indicated options vested 34% on 8/15/2012, 33% on 8/15/2013 and 33% on 8/15/2014.
- (7) The indicated options were granted upon Mr. Walker's election to the Board of Directors and vest on the earlier of one year from the grant date or the day prior to the next regularly scheduled annual meeting of shareholders.

## Potential Payments upon Termination or Change in Control

All of our named executive officers, except for Alexander Tokman, are employed at will and do not have employment agreements. Mr. Tokman'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 officers restricted stock units will become fully vested upon a change of control at the Company.

## Severance and Employment Agreements

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

*Payment upon Termination.* Under Mr. Tokman's employment agreement with the Company dated April 7, 2009, 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, 18 months of certain group and medical benefits for Mr. Tokman'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 18-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. Tokman'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 material 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. Tokman 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 substantial 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. Tokman 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. Tokman 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. Tokman's employment "other than for cause" by us within two years following a change of control or if Mr. Tokman terminates his employment for "good reason" within six months following a change of control, we must pay Mr. Tokman an amount equal to two times the sum of 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. Tokman'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 options, restricted stock or other equity 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. Tokman signing an employee release. Also, Mr. Tokman must comply with certain confidential information and assignment of intellectual property obligations. Further, Mr. Tokman is subject to a non-compete and non-solicit obligation for 12 months following his termination.

### ***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, 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.

### **Director Compensation for 2013**

The following table provides information concerning our non-employee directors during 2013. 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 report. Mr. Walker’s compensation for his services as an executive and as a director is fully reflected in the other tables contained in this report.

<u>Name</u>	<u>Fees Earned or Paid in Cash (\$)</u>	<u>Option Awards (\$)(1)(2)</u>	<u>Total (\$)</u>
Richard A. Cowell .....	58,000	31,200	89,200
Slade Gorton .....	44,000	31,200	75,200
Jeanette Horan .....	44,000	31,200	75,200
Perry Mulligan .....	52,000	31,200	83,200
Brian Turner .....	68,000	31,200	99,200

- (1) Reflects the fair value of option awards on the grant date in accordance with FASB ASC Topic 718.
- (2) 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, 2013:

<u>Name</u>	<u>Option Awards (#)</u>	<u>Stock Awards (#)(3)</u>
Richard A. Cowell .....	30,000	11,974
Slade Gorton .....	30,000	11,974
Jeanette Horan .....	30,000	11,974
Perry Mulligan .....	20,625	11,087
Brian Turner .....	30,000	11,974

- (3) 10,000 shares vest the earlier of one year from the June 6, 2013 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 of Directors. These options are fully vested and immediately exercisable upon the date of grant. Each of our non-employee director also receives, upon his or her initial appointment or election and upon each subsequent reelection to the Board of Directors, 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.

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 of Directors, 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 of Directors.

## INFORMATION ABOUT MICROVISION COMMON STOCK OWNERSHIP

### Security Ownership of Certain Beneficial Owners and Management

The following table shows as of April 9, 2014, 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.

<u>Name of Beneficial Owner</u>	<u>Number of Shares (1)</u>	<u>Percent of Common Stock (2)</u>
Alexander Y. Tokman (3) . . . . .	390,460	*
Michael J. Franz (4) . . . . .	8,750	*
Dale E. Zimmerman (5) . . . . .	43,839	*
Richard A. Cowell (6) . . . . .	44,436	*
Slade Gorton (7) . . . . .	45,349	*
Jeanette Horan (8) . . . . .	42,411	*
Perry Mulligan (9) . . . . .	32,962	*
Brian Turner (10) . . . . .	43,224	*
Thomas M. Walker (11) . . . . .	105,818	*
Ben Lawrence Farhi (12) . . . . .	2,711,443	6.3%
Capital Ventures International (13) . . . . .	3,580,000	8.3%
Crede CG III, Ltd. (14) . . . . .	3,713,309	8.6%
All executive officers and directors as a group (11 persons) (15) . . . .	803,765	1.8%

\* 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 42,971,079 shares of common stock outstanding as of April 9, 2014.
- (3) Includes 275,176 shares issuable upon exercise of options.
- (4) Includes 8,750 shares issuable upon exercise of options.
- (5) Includes 28,541 shares issuable upon exercise of options.
- (6) Includes 30,000 shares issuable upon exercise of options.
- (7) Includes 30,000 shares issuable upon exercise of options.
- (8) Includes 30,000 shares issuable upon exercise of options.
- (9) Includes 20,625 shares issuable upon exercise of options.
- (10) Includes 30,000 shares issuable upon exercise of options.
- (11) Includes 82,979 shares issuable upon exercise of options.
- (12) Based on information set forth in a Form SC 13G/A filed with the SEC on February 27, 2014.
- (13) Based on information set forth in a Form SC 13G/A filed with the SEC on March 21, 2014.
- (14) Based on information set forth in a Form SC 13G/A filed with the SEC on February 14, 2014 and the subsequent issuance by the Company of shares of common stock on the exchange of warrants held by such person.
- (15) Includes 570,272 shares issuable upon exercise of options.



## **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.

### **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 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 Company’s financial statements, as well as for 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 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, 2013 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, 2013, the matters required to be discussed by the Public Company Accounting Oversight Board (PCAOB) Auditing Standard No. 16, 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, 2013 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 Proxy Statement 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

Richard A. Cowell, Chairman  
Perry M. Mulligan  
Brian Turner

## INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

### **Accountant Fees and Services**

Our independent auditors, Moss Adams LLP, billed the following fees to us for audit and other services for the fiscal year 2013:

#### **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 \$184,980.

#### **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 \$13,230 in 2013.

#### **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 \$31,630 in 2013.

#### **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 \$3,516 billed by Moss Adams LLP for 2013.

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.

## INFORMATION ABOUT SHAREHOLDER PROPOSALS

In order for a shareholder proposal to be considered for inclusion in the Company's proxy statement for the 2014 Annual Meeting, the written proposal must be received by the Company 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. Shareholder proposals must comply with SEC regulations regarding the inclusion of shareholder proposals in company sponsored proxy materials and must contain the information required in the Company's bylaws for shareholder proposals. If you wish to obtain a free copy of the Company's bylaws, please contact Investor Relations, MicroVision, Inc., 6244 185<sup>th</sup> Avenue NE, Suite 100, Redmond, Washington 98052.

If a shareholder proposal is not included in the Company's proxy statement for the 2014 Annual Meeting, it may be raised from the floor during the meeting if written notice of the proposal is received by the Company not less than 60 nor more than 90 days prior to the meeting or, if less than 60 days' notice of the date of the meeting is given, by the close of business on the 10th business day following the first public announcement of the meeting.

You also may propose candidates for consideration by the Nominating Committee for nomination as directors by writing to us. In order to nominate a director for election at next year's annual meeting of shareholders, you must comply with the Director recommendation procedures described on pages 9 and 10.

## ADDITIONAL INFORMATION

### Annual Report

The Company's Annual Report for the fiscal year ended December 31, 2013, was first made available to the shareholders of the Company with this Proxy Statement on or about April 21, 2014. The Annual Report is not to be treated as part of the proxy solicitation material or as having been incorporated by reference herein.

### Incorporation by Reference

To the extent that this Proxy Statement is incorporated by reference into any other filing by the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934, the sections of this Proxy Statement entitled "Compensation Committee Report" and "Audit Committee Report" will not be deemed incorporated, unless otherwise specifically provided in such filing.

**A copy of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013, as filed with the SEC may be obtained by shareholders without charge by written or oral request to Investor Relations, MicroVision, Inc., 6244 185<sup>th</sup> Avenue NE, Suite 100, Redmond, Washington 98052, telephone (425) 882-6629, or may be accessed on the Internet at [www.sec.gov](http://www.sec.gov).**

### Householding

Only one copy of the Notice of Internet Availability of Proxy Materials is being delivered to shareholders residing at the same address, unless such shareholders have notified the Company of their desire to receive multiple copies. The Company will promptly deliver, upon oral or written request, a separate copy of the Notice of Internet Availability of Proxy Materials to any shareholder residing at an address to which only one copy was mailed. Requests for additional copies should be directed to Investor Relations. Shareholders residing at the same address and currently receiving only one copy of the Notice of Internet Availability of Proxy Materials may contact Investor Relations to request multiple copies of the proxy statement in the future. Shareholders residing at the same address and currently receiving multiple copies of the Notice of Internet Availability of Proxy Materials may contact Investor Relations to request that only a single copy of the Notice of Internet Availability of Proxy Materials be mailed in the future. Contact Investor Relations by phone at (425) 882-6629, by fax at (425) 936-4403, by mail to Investor Relations, MicroVision, Inc., 6244 185<sup>th</sup> Avenue NE, Suite 100, Redmond, Washington 98052, or by e-mail to [ir@microvision.com](mailto:ir@microvision.com).

### Voting by Telephone or the Internet

Provision has been made for you to vote your shares of common stock by telephone or via the Internet. You may also vote your shares by mail. Please see the proxy card or voting instruction form accompanying this Proxy Statement for specific instructions on how to cast your vote by any of these methods.

Votes submitted by telephone or via the Internet must be received by 5:00 p.m., Seattle, Washington time, on June 2, 2014. Submitting your vote by telephone or via the Internet will not affect your right to vote in person should you decide to attend the Annual Meeting.

The telephone and Internet voting procedures are designed to authenticate shareholders' identities, to allow shareholders to give their voting instructions and to confirm that shareholders' instructions have been recorded properly. The Company has been advised that the Internet voting procedures that have been made available to you are consistent with the requirements of applicable law. Shareholders voting via the Internet should understand that there may be costs associated with electronic access, such as usage charges from Internet access providers and telephone companies, which must be borne by the shareholder.

# Annual Report



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

**FORM 10-K**

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
for the fiscal year ended December 31, 2013
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 001-34170

**MICROVISION, INC.**

(Exact name of Registrant as specified in its charter)

**Delaware** **91-1600822**  
(State or Other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification Number)  
**6244 185<sup>th</sup> Ave NE, Suite 100, Redmond, WA 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 Exchange Act:**

Title of each class	Name of each exchange on which registered
Common Stock, \$.001 par value	NASDAQ Global Market

**Securities registered pursuant to Section 12(g) of the Exchange Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the 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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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, 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  (Do not check if a smaller reporting company)

Smaller reporting company

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, 2013 was approximately \$70.4 million (based on the closing price for the registrant's Common Stock on the NASDAQ Global Market of \$2.52 per share).

The number of shares of the registrant's common stock outstanding as of March 3, 2014 was 35,801,000.

**Documents Incorporated by Reference**

Portions of the registrant's definitive Proxy Statement to be filed with the Commission pursuant to Regulation 14A in connection with the registrant's 2014 Annual Meeting of Shareholders are incorporated herein by reference into Part III of this report.

**MicroVision, Inc.**  
**2013 ANNUAL REPORT ON FORM 10-K**

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## PART I

### Preliminary Note Regarding Forward-Looking Statements

*This 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, 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

We are developing our proprietary PicoP® display technology which can be used by our customers to create high-resolution miniaturized 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, simplifying our operations and resulting in a significant reduction to our 2013 cash usage relative to 2012. 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 both 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 and we provide 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.

## Technology

Our patented PicoP® display technology includes a single-mirror MEMS scanner, laser light sources, electronics, and optics combined using our proprietary system control expertise, gained through years of internal research and development. Our bi-directional MEMS scanning mirror is a key component of our technology platform and is one of our core competencies. Our MEMS design is a silicon device with a tiny mirror at the center. This mirror is connected to small flexures which allow it to oscillate vertically and horizontally to capture (imaging) or reproduce (display) an image pixel-by-pixel. PicoP display technology creates a brilliant, full color, high contrast, uniform display over the entire field of view, from a small and thin package. We believe that our proprietary PicoP display technology offers significant advantages over traditional display and imaging systems. Depending on the specific product application, these advantages may include:

- Focus free operation
- HD resolution
- Low power requirements to enable battery operated devices and applications
- Large screen size up to 200 inches from short distances
- Small and thin package size
- High brightness, contrast and brightness uniformity
- Rich, saturated color reproduction
- Small text readability

PicoP display technology currently uses red, blue and green laser diodes as the light source for the projector. Historically, the availability of green lasers has been constrained due to their complexity and a limited number of manufacturers. While the manufacturing complexity of the green laser has improved, there continues to be a limited number of suppliers.

## Business Strategy

Our business model is to commercialize our technology by providing a reference design and display engine components to display engine manufacturers, and by licensing our technology to OEMs and ODMs for them to integrate and embed PicoP display technology across a broad range of display and imaging product applications. The key elements of our business strategy include the following:

- Continue to improve the performance of our PicoP display technology platform by advancing the system design, hardware and software.
- Partner with leading consumer and automotive OEMs to integrate our PicoP display technology into their products or to help them to develop their engines based on our technology.

- Partner with ODMs to ensure broader availability of high quality pico display engines in quantities to support the consumer electronics market.
- Supply key components for the display engine being developed by OEMs and ODMs who license PicoP display technology.
- Maintain a position of leadership with our intellectual property around PicoP display technology.

**Marketing Focus:  
Mobile Device Displays**

The use of mobile devices worldwide has grown significantly and consumers’ awareness and willingness to use mobile devices for data services has increased dramatically over the last few years. Applications such as email, texting, web-browsing, downloading and playing of videos, social networking and mobile gaming are driving the demand for more capable smartphones and other mobile devices such as tablets. Typically, these devices have small screens which limit the utility and enjoyment of the content, especially in small group settings. We believe that pico projectors can free mobile device users from the limitations of a palm-sized or tablet-sized screen and provide a large screen viewing experience to increase the usefulness and enjoyment of watching movies and videos, playing games, and displaying and sharing images and many other applications.

**Vehicle Displays**

We believe an automotive head-up display (HUD) improves driver safety by eliminating the driver’s need to look away from the road to read information such as GPS mapping images, audio controls and other automobile instrumentation. Working independently and with Tier 1 automotive suppliers, we have produced prototypes that demonstrate the ability of PicoP display technology to project high-resolution images onto the windshield of an automobile, providing the driver with a variety of information related to the car’s operation. We believe that an automotive HUD based on our PicoP display technology offers three distinct advantages over competing head-up displays:

- **Size** — Our prototype display is less than half the size of current competitive offerings. This smaller form factor can accommodate a wider variety of vehicle configurations.
- **Contrast Ratio** — Our prototype has a contrast ratio an order of magnitude higher than current competitive offerings. The high contrast ratio allows the driver to see the display clearly day or night, in any ambient lighting conditions.
- **Installation Cost** — Our prototype can be electronically customized to match the unique curvature of a particular automobile’s windshield, thereby reducing installation time and cost. The current competitive offerings must be manually adjusted to match the curvature of a windshield.

We are working independently and with a Tier 1 supplier to market PicoP display technology to automotive sector OEM customers. Our PicoP display technology subsystem could be integrated by a Tier 1 supplier into their HUD product package for sale to automobile manufacturers or by a product integrator into an aftermarket product for direct sale to their customers for use in automobiles, specialty vehicles, trucks, buses and motor coaches.

**Go-To-Market Strategy**

We are currently marketing our PicoP® display technology to leading OEMs and ODMs. We expect our vertically integrated customers may act as OEMs and may integrate our PicoP display technology into their end products. We expect other customers may act as ODMs and develop display engines for sale to OEMs.

Certain applications using PicoP display technology, such as an automotive HUD or pico projection for tablets and mobile phones, will require integration of an engine based on our technology into the products. Also,

in cases where a customer requires such assistance, we plan on providing designs for components, subsystems and systems under licensing agreements.

We expect that some customers will require unique designs for their products. We expect that such relationships will generally involve a period of co-development during which our customer's engineering, manufacturing and marketing teams would work with our technical staff to customize the PicoP display technology for their targeted market and application. We may charge fees to our customers to fund the costs of the engineering effort incurred on such development projects. The nature of these relationships may vary from partner to partner depending on the proposed specifications for the display engine, the product to be developed, and the customers' design, manufacturing and distribution capabilities. We believe this strategy allows us to limit our own direct manufacturing investment for components, reducing our capital requirements and the risks inherent in taking PicoP display technology to market.

To date, the majority of our revenue from pico projection products has been generated primarily through sales of PicoP display engine components, development revenue and sales of our SHOWWX line of accessory projectors through distributors and OEM customers, and to a lesser extent directly to end users through our online store. If we are successful in getting ODMs and OEMs to launch products enabled by PicoP display technology into markets, our revenue may come from the sales of components, licensing fees, and/or royalties, depending on the needs of each ODM or OEM.

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

We conduct ongoing research on safety factors that must be addressed by products incorporating our technology, including such issues as the maximum permissible laser exposure limits established by International Electrotechnical Commission (IEC) and others. Independent experts have concluded that laser exposure to the eye resulting from use of the light scanning displays under normal operating conditions would be below the calculated maximum permissible exposure level set by IEC. In addition, we work with and commission third party independent experts in the field of laser safety to assist in meeting safety specifications as requested by our customers.

### **Competitive Conditions**

The information display industry is highly competitive. Potential display products incorporating our technology will compete with established manufacturers of mature display technologies such as miniaturized cathode ray tube and flat panel display devices, as well as companies developing new display technologies. Our competitors include companies such as Texas Instruments Incorporated, Micron Technology, ST Micro, and Syndiant, most of which have much greater financial, technical and other resources than we do. Many of our competitors are developing alternative miniature display technologies. Our competitors may succeed in developing information display technologies and products that could render our technology or our proposed products commercially infeasible or technologically obsolete.

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

The information display industry has been characterized by rapid and significant technological advances. Our technology 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 display products could deliver images of a substantially better quality and resolution from a smaller form factor device than those of commercially available miniaturized liquid crystal displays and

cathode ray tube based display products, manufacturers of liquid crystal displays and cathode ray tubes may develop further improvements of screen display technology that could reduce or eliminate the anticipated advantages of our proposed products.

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

We generate intellectual property from our ongoing performance on development contracts, our internal research and development activities and technology acquisitions. The inventions covered by our patent applications generally relate to component miniaturization, 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 technologies at the system, component and process levels.

We believe our extensive and highly-rated patent portfolio is the largest, broadest and earliest filed laser pico projection and display portfolio and includes applications such as automotive head-up display, range finding, portable media devices, image capture and laptop applications. MicroVision has over 500 issued patents, pending patents and licensed patents worldwide.

Since our inception in 1993, we have acquired under license agreements exclusive rights to various technologies, including, among others, rights related to the ability to superimpose images on the user's field of view with a retinal display, and rights related to the design and fabrication of micro miniature devices using semiconductor fabrication techniques. In some cases, the licensors have retained limited, non-commercial rights with respect to the technology, including the right to use the technology for non-commercial research and for instructional purposes.

Our ability to compete effectively in the display and image capture market 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.

Among the marks we have registered are "PicoP," "MicroHud" and the "tri-curve" logo with the United States Patent and Trademark Office. We have filed for registration of various other marks with the United States Patent and Trademark Office.

### **Additional Information**

We perform research and development to design and develop our technology platform and modifications to PicoP<sup>®</sup> display technology that will be required for specific applications. Research and development expense for the fiscal years ended December 31, 2013 and 2012 was \$10.3 million and \$12.9 million, respectively. In 2013, 50% of our revenue was generated from performance on collaborative research and development agreements, 40% of our revenue was generated from product sales, and 9% and 1% of revenue was derived from performance on development contracts with commercial customers and the U.S government, respectively. Two commercial customers accounted for 86% of our revenue in 2013. In 2012, 81% of our revenue was generated from product sales, and 17% and 2% of revenue was derived from performance on development contracts with commercial customers and the U.S government, respectively. One commercial customer accounted for 61% of our revenue in 2012. Prior to 2012, most of our revenue was generated from development contracts to develop our technology to

meet customer specifications for both the U.S. government and commercial enterprises and, to a lesser extent, product sales. See Management's Discussion and Analysis of Financial Condition and Results of Operations.

We had a backlog of \$2.1 million at December 31, 2013 compared to a backlog of \$1.8 million at December 31, 2012. The backlog at December 31, 2013 is composed of \$1.7 million in collaborative research and development agreements, \$285,000 in development contracts and orders for prototype units and evaluation kits, and \$147,000 in orders for components and accessory pico projectors. We plan to complete all of the backlog within one year.

## **Employees**

As of March 3, 2014, we had approximately 64 employees.

## **Further Information**

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

Our Internet address is [www.microvision.com](http://www.microvision.com). We make available free of charge our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities and Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Investors can access this material by visiting our website, clicking on "Investors" and then on "SEC Filings."

## **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 December 31, 2013, we had an accumulated deficit of \$450.7 million.
- We incurred consolidated net losses of \$414.8 million from inception through 2011, \$22.7 million in 2012, and \$13.2 million in 2013.

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 March 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, our 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 capital 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<sup>®</sup> 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 the PicoP display engine 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<sup>®</sup> 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 components 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 product sales to a limited number of customers and distribution partners. In 2012, one commercial customer accounted for 61% 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 \$2.1 million as of December 31, 2013. 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. On December 17, 2013, we received a deficiency notice from NASDAQ advising us that for 30 consecutive trading days preceding the date of the notice we were not in compliance with the \$50,000,000 minimum market value of listed securities required for continued listing on The NASDAQ Global Market pursuant to NASDAQ's listing requirements. Market value of listed securities is calculated by multiplying our daily closing bid price by our total outstanding shares of common stock. In accordance with NASDAQ's listing rules, we have 180 calendar days, or until June 16, 2014, to regain compliance with this requirement. During this initial 180-day compliance period, we can regain compliance if the market value of our listed securities closes at \$50,000,000 or more for a minimum of 10 consecutive business days. As of the date of filing of this Annual Report on Form 10-K, we believe that the market value of our listed securities closed at \$50,000,000 or more for 10 consecutive business days, though we do not yet have confirmation from NASDAQ as to whether we have regained compliance with its continued listing requirements.

If we are unable 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 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 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 mostly traded below \$5.00 per share during 2013 and 2012. On March 3, 2014, the closing price of our stock was \$2.30.

***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 1B. UNRESOLVED STAFF COMMENTS**

None

#### **ITEM 2. PROPERTIES**

We currently lease approximately 23,900 square feet of combined use office, laboratory and manufacturing space at our headquarters facility in Redmond, Washington. The 65 month lease expires in January 2019.

#### **ITEM 3. LEGAL PROCEEDINGS**

We are 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. Mr. Tokman also serves as a director of MicroVision. The following persons serve as executive officers of MicroVision:

Alexander Tokman, age 52, has served as President, Chief Executive Officer and a director of MicroVision since January 2006. Mr. Tokman served as MicroVision's President and Chief Operating Officer from July 2005 to January 2006. Mr. Tokman, a former GE executive, joined MicroVision after a 10-year tenure at GE Healthcare, a subsidiary of General Electric, where he led several global businesses, most recently as General Manager of its Global Molecular Imaging and Radiopharmacy multi-technology business unit from 2003 to 2005. Prior to that, between 1995 and 2003, Mr. Tokman served in various cross-functional and cross-business leadership roles at GE where he led the definition and commercialization of several medical modalities product segments including PET/CT, which added over \$500 million of revenue growth to the company within the first three years of its commercial introduction. Mr. Tokman is a certified Six Sigma and Design for Six Sigma

(DFSS) Black Belt and Master Black Belt and as one of GE's Six Sigma pioneers, he drove the quality culture change across GE Healthcare in the late 1990s. From November 1989 to March 1995 Mr. Tokman served as new technologies programs lead and a head of I&RD office at Tracor Applied Sciences a subsidiary of then Tracor, Inc. Mr. Tokman has both an M.S. and B.S. in Electrical Engineering from the University of Massachusetts, Dartmouth.

Michael Franzi, age 58, joined MicroVision in December 2012 as Vice President, Marketing and Business Development. Prior to MicroVision, from August 2009 to December 2012, he served as the principal of MJF Group, a consulting firm that assists companies in monetizing technology assets, including licensing of intellectual property and the development of strategic and tactical sales and marketing plans. From September 2010 to July 2011, he was Vice President and General Manager of Synopsis, Inc., a supplier of electronic design automation solutions, systems and intellectual property to global semiconductor and electronic OEM companies. He served as Vice President Global Marketing of ARC International from June 2008 until its acquisition by Synopsis in September 2010. From August 2005 to April 2008, Mr. Franzi served as Vice President Global Licensing and Business Development of SRS Labs, Inc. an audio technology engineering company that specialized in licensing of audio enhancement technology solutions for global electronic companies. Mr. Franzi received a B.S. degree in electrical engineering from the Swanson School of Engineering, University of Pittsburgh.

Stephen Holt, age 51, 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 Bachelor of Science from California State University, Chico and an M.B.A. from Santa Clara University.

David Westgor, age 60, 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. In his current role, Mr. Westgor oversees the legal department, advises the Board of Directors and executive team on corporate governance matters and provides support for the company's business activities. 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 a broadband telecommunications company. Mr. Westgor also has a Master of Fine Arts degree from the Art Institute of Chicago and a B.A. from St. Olaf College.

Dale Zimmerman, age 54, has served as Vice President of Research and Development since June 2012 and Director of Systems Engineering of MicroVision 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 received many awards including 3 Emmys and CES Innovation Best of Show. He received B.S. and M.S. degrees in electrical and electronics engineering from Massachusetts Institute of Technology (MIT) and a second M.S. in electrical engineering in 2011 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 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.

A 1:8 reverse stock split became effective on February 17, 2012. All of the per share prices shown in the table below have been adjusted to reflect the effect of this reverse split.

As of March 3, 2014, there were approximately 75 holders of record of 35,801,000 shares of common stock outstanding. As many of our shares of common stock are held by brokers and other 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 the year to date as reported by The NASDAQ Global Market, as adjusted for the reverse stock split, are as follows:

<u>Quarter Ended</u>	<u>Common Stock</u>	
	<u>HIGH</u>	<u>LOW</u>
<b>2012</b>		
March 31, 2012 .....	\$5.36	\$2.28
June 30, 2012 .....	3.63	1.11
September 30, 2012 .....	2.94	1.46
December 31, 2012 .....	2.72	1.84
<b>2013</b>		
March 31, 2013 .....	\$2.28	\$1.52
June 30, 2013 .....	3.49	1.58
September 30, 2013 .....	2.71	1.70
December 31, 2013 .....	1.84	1.03
<b>2014</b>		
January 1, 2014 to March 3, 2014 .....	\$3.38	\$1.12

## ITEM 6. SELECTED FINANCIAL DATA

A summary of selected financial data as of and for the five years ended December 31, 2013 is set forth below. It should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this Form 10-K. A 1:8 reverse stock split of MicroVision's common stock became effective on February 17, 2012. All of the share and per share amounts discussed and shown in the statements and tables below have been adjusted to reflect the effect of this reverse split.

	YEARS ENDED DECEMBER 31,				
	2013	2012	2011	2010	2009
	(in thousands, except per share data)				
<b>Statement of Operations Data:</b>					
Revenue	\$ 5,852	\$ 8,365	\$ 5,617	\$ 4,740	\$ 3,833
Net loss available for common shareholders	(13,178)	(22,693)	(35,808)	(47,460)	(39,529)
Basic and diluted net loss per share	(0.47)	(1.05)	(2.57)	(4.17)	(4.29)
Weighted average shares outstanding basic and diluted	28,025	21,595	13,919	11,379	9,220
<b>Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 5,375	\$ 6,850	\$ 13,075	\$ 19,413	\$ 43,025
Investments available-for-sale	—	—	—	13	2,710
Working capital (deficit)	(3,878)	1,831	5,913	15,618	38,221
Total assets	8,447	12,938	23,870	35,233	53,536
Long-term liabilities	481	20	326	1,394	1,471
Total shareholders' equity (deficit)	(1,696)	5,054	10,802	21,833	41,891



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

### 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, simplifying our operations and resulting in a significant reduction to our 2013 cash usage relative to 2012. 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 both 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.

### **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 affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent liabilities. We evaluate our estimates on an on-going basis. We base our estimates on historical experience, terms of existing contracts, our evaluation of trends in the display and image capture 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 about 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 more significant judgments and estimates used in the preparation of our consolidated financial statements:

*Revenue Recognition.* 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. Significant items included in our evaluation are the following:

- the nature of our obligation under the agreement,
- whether provisions leading to variable revenues exist
- whether any payments are refundable,
- whether the deliverables should be treated as one unit of accounting or separated into multiple units,
- whether substantive milestones exist,
- whether milestone payments are commensurate with either our level of effort or the increase in value of the customer's rights, and
- whether a licensing agreement exists.

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 or the cash payments received plus outstanding billings for work accepted by the customer. Since our collaborative agreements generally require some level of technology development, the actual costs required to complete a contract can vary from our 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 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. The costs for work performed under collaborative research and development agreements are expensed in the periods incurred and included in the Statement of Operations in research and development expense.

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. We have entered into agreements with resellers and distributors, as well as selling directly to the public. Sales made to resellers and distributors are recognized using either the sell-through method or upon expiration of the contractually agreed-upon acceptance period, depending on our ability to reasonably estimate returns. Some of the agreements with resellers and distributors contain price-protection clauses, and revenue is

recognized net of these amounts. Sales made directly to the public are recognized either upon expiration of the contractual acceptance period after which there are no rights of return, or net of estimated returns and allowances. Provisions are made for warranties at the time revenue is recorded. Our quarterly revenue may vary substantially due to the timing of product orders from customers, production constraints and availability of components and raw materials.

We recognize contract revenue as work progresses on long-term, cost plus fixed fee, and fixed price contracts using the percentage-of-completion method, which relies on estimates of total expected contract revenue and costs. We have developed processes that allow us to make reasonable estimates of the cost to complete a contract. When we begin work on the contract, and at the end of each accounting period, we estimate the labor, material and other costs required to complete the contract using information 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 revisions as actual cost becomes certain. Revisions in revenue estimates are reflected in the period in which the facts that give rise to the revision become known. Historically, we have made only immaterial revisions in the estimates to complete the contract at each reporting period. In the future, revisions in these estimates could significantly impact recognized revenue in any one reporting period. We recognize contract revenue on 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 establish an allowance for estimated losses if the estimated cost to complete a contract exceeds the remaining contract value. The entire estimated loss is recorded in the period in which the loss is first determined. We determine the estimated cost to complete a contract through a detailed review of the work to be completed, the resources available to complete the work and the technical difficulty of the remaining work. If the revised estimated cost to complete the contract is higher than the total contract revenue, the entire contract loss is recognized. The actual cost to complete a contract can vary significantly from the estimated cost, due to a variety of factors including availability of technical staff, availability of materials and technical difficulties that arise during a project.

*Cost of Revenue.* Cost of product revenue includes the direct and allocated indirect costs 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 and other costs associated with operating our manufacturing capabilities and capacity.

Cost of contract revenue includes both the direct and allocated indirect costs of performing on development contracts and producing prototype units and evaluation kits. Direct costs include labor, materials and other costs incurred directly in performing on a contract or producing prototype units and evaluation kits. 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.

*Allowance for uncollectible receivables.* We maintain allowances for uncollectible receivables, including accounts receivable, cost and estimated earnings in excess of billings on uncompleted contracts and receivables from related parties. We review several factors in determining the allowances including the customer's and related party's past payment history and financial condition. If the financial condition of our customers or the related parties with whom we have receivables were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances could be required.

*Intangible Assets.* Our intangible assets consist entirely of purchased patents. The patents are amortized using the straight-line method over their estimated period of benefit, ranging from one to 17 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.* We value inventory at the lower of cost or market with cost determined on a net-realizable value basis. We make significant 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.

*Warrant liability.* In combination with our registered direct offerings of common stock in May and September 2013, we issued warrants to purchase common stock. Based on the terms of the warrants we issued, we have determined that they should be classified as a liability given that the warrants could result in the issuance of a variable number of shares of common stock based on a conditional exchange provision that is outside of our control at any point when the share price of our common stock is equal to or less than the warrant exercise prices. At the dates of issuance, and as of December 31, 2013, our common stock was trading at a value less than the exercise prices. As such, the holders may elect to exchange the warrants for a variable number of shares of common stock as determined by a formula included in the warrants. However, the warrants limit the number of shares that may be issued under this exchange provision to one share of common stock for each warrant exchanged. Changes in the market value of our common stock may increase or decrease the number of shares to be issued under this exchange feature.

At each balance sheet date, we evaluate the fair value of the warrants and any change in value is recorded as a non-operating gain or loss on the statement of operations. Due to the features of the warrants, the determination of the fair value of the warrant liability may vary depending on our common stock price. If the price of our common stock is less than the exercise price of the warrant, we will calculate the fair value of the warrant liability as the fair value of the common stock that would be required to be issued to settle the exchange feature of the warrant. If the price of our common stock is greater than the exercise price of the warrant, we will use a binomial option pricing model to estimate the fair value of the warrant as the exchange feature provided per the agreement will no longer be available to the holder. If and when the exchange feature is exercised by the holder, we will recognize a gain or loss on the exchange based on the fair market value of the common stock issued by us to the holder to satisfy the exchange provision.

*Employee Share-Based Compensation.* We issue share-based compensation to employees in the form of options exercisable into our common stock and restricted or unrestricted shares of our common stock. We account for equity instruments issued to employees using the straight-line attribution method of allocating the fair value of share-based compensation expense over the requisite service period of the related award. The value of restricted or unrestricted shares is determined using the fair value method, which is based on the number of shares granted and the closing price of our common stock on the NASDAQ Global Market on the date of grant. The value of options is determined using the Black-Scholes option pricing model with estimates of option lives, stock price volatilities and interest rates, then expensed over the periods of service allowing for pre-vest forfeitures. Changes in the estimated inputs or using other option valuation methods could result in materially different option values and share-based compensation expense.

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, 2013 COMPARED TO YEAR ENDED DECEMBER 31, 2012

#### Product Revenue.

(in thousands)	<u>2013</u>	<u>% of product revenue</u>	<u>2012</u>	<u>% of product revenue</u>	<u>\$ change</u>	<u>% change</u>
Product revenue . . . . .	\$2,341	100.0	\$6,782	100.0	\$(4,441)	(65.5)

Product revenue during 2013 primarily included sales of components to Pioneer under our “Image by PicoP” ingredient brand business model. Product revenue during 2012 included sales of components to Pioneer, sales of our SHOWWX™ line of accessory pico projectors and sales of our PicoP display engines.

Our quarterly and annual revenue may vary substantially due to the timing of orders from customers, production constraints and availability of components and raw materials. In 2012, we reduced our sales and marketing effort on our sales of our SHOWWX™ line of accessory pico projectors.

Product revenue was lower during the year ended December 31, 2013 than the same period in 2012, due to lower sales of components to Pioneer and decreased sales of our PicoP display engines and finished units. We have fulfilled all open orders from Pioneer, and do not expect to receive additional follow-on orders. The backlog of product orders at December 31, 2013 was approximately \$147,000, compared to \$1.7 million at December 31, 2012. The product backlog is scheduled for delivery within one year.

#### Contract Revenue.

(in thousands)	<u>2013</u>	<u>% of contract revenue</u>	<u>2012</u>	<u>% of contract revenue</u>	<u>\$ change</u>	<u>% change</u>
Government revenue . . . . .	\$ 80	13.3	\$ 156	9.9	\$ (76)	(48.7)
Commercial revenue . . . . .	<u>522</u>	86.7	<u>1,427</u>	90.1	<u>(905)</u>	<u>(63.4)</u>
Total contract revenue . . . . .	<u>\$602</u>		<u>\$1,583</u>		<u>\$(981)</u>	<u>(62.0)</u>

We earn contract revenue from performance on development contracts with commercial customers and the U.S. government and from the sale of prototype units and evaluation kits and sales of test equipment built specifically for use in display engine production. Our contract revenue from development contracts 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. Our contract revenue from sales of prototype units and evaluation kits may vary substantially due to the timing of orders from customers and potential constraints on resources.

Contract revenue was lower during the year ended December 31, 2013 than the same period in 2012 primarily due to lower sales of test equipment and reduced activity on government contracts in 2013 compared to the prior year.

Our backlog of development contracts, including orders for prototype units and evaluation kits, at December 31, 2013 was \$285,000 compared to \$100,000 at December 31, 2012, all of which is scheduled for completion during the next twelve months.

*Development Revenue.*

(in thousands)	<u>2013</u>	<u>% of development revenue</u>	<u>2012</u>	<u>% of development revenue</u>	<u>\$ change</u>	<u>% change</u>
Development revenue .....	\$2,909	100.0	\$—	—	\$2,909	—

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<sup>®</sup> display technology into a display engine that could enable a variety of new products. During the twelve months ended December 31, 2013, \$2.9 million of revenue was recognized on this agreement.

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 our collaborative agreements generally require some level of technology development, the actual costs required to complete a contract can vary from our 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 December 31, 2013 was \$1.7 million compared to zero at December 31, 2012. The backlog is scheduled for completion during the next twelve months and subject to the successful achievement of contractual milestones and customer acceptance.

*Cost of Product Revenue.*

(in thousands)	<u>2013</u>	<u>% of product revenue</u>	<u>2012</u>	<u>% of product revenue</u>	<u>\$ change</u>	<u>% change</u>
Cost of product revenue .....	\$1,518	64.8	\$6,085	89.7	\$(4,567)	(75.1)

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 and other costs associated with operating our manufacturing capabilities and capacity. In the event that we maintain production capacity in excess of production requirements, cost of product revenue may also include manufacturing overhead associated with the excess capacity.

Cost of product revenue was lower during 2013 compared to 2012 primarily because of the change in product mix from lower margin SHOWWX™ products to sales of higher margin components, decreased inventory write downs and lower manufacturing overhead associated with excess production capacity compared to the prior year. During 2013 and 2012, cost of product revenue included inventory write downs of \$303,000 and \$1.1 million, respectively. During 2013, cost of product revenue did not include any manufacturing overhead associated with production capacity in excess of production requirements, compared to \$523,000 in 2012.

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. The decrease in the percentage during 2013 compared to 2012 was due to costs incurred in 2012 associated with aligning our operations to our ingredient brand strategy per above.

*Cost of Contract Revenue.*

(in thousands)	<u>2013</u>	<u>% of contract revenue</u>	<u>2012</u>	<u>% of contract revenue</u>	<u>\$ change</u>	<u>% change</u>
Cost of contract revenue . . . . .	\$283	47.0	\$839	53.0	\$(556)	(66.3)

Cost of contract revenue includes both the direct and allocated indirect costs of producing prototype units and evaluation kits and performing on long-term, cost plus fixed fee, and fixed price contracts. 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 contract revenue was lower in 2013 than in 2012 as a result of the decreased sales of test equipment and reduced activity on government contracts.

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)	<u>2013</u>	<u>2012</u>	<u>\$ change</u>	<u>% change</u>
Research and development . . . . .	\$10,267	\$12,851	\$(2,584)	(20.1)

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.

The decrease in research and development expense during 2013, compared to 2012, is primarily attributable to decreased payroll costs associated with reductions in staffing levels, lower subcontracted services and lower non-cash compensation expense.

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.

*Sales, Marketing, General and Administrative Expense.*

(in thousands)	<u>2013</u>	<u>2012</u>	<u>\$ change</u>	<u>% change</u>
Sales, marketing, general and administrative . . . . .	\$8,792	\$11,252	\$(2,460)	(21.9)

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 2013, compared to 2012, is primarily due to decreased payroll costs associated with reductions in staffing levels compared to the prior year and lower non-cash compensation expense.

*Impairment of intangible assets.*

(in thousands)	<u>2013</u>	<u>2012</u>	<u>\$ change</u>	<u>% change</u>
Impairment of intangible assets . . . . .	\$277	\$284	\$(7)	(2.5)

Impairment of intangible assets includes losses recognized when the carrying value of the assets exceeds their fair value. In 2013, we recorded an impairment amounting to \$277,000 on 42 patents that were abandoned in prosecution. In 2012, we recorded an impairment amounting to \$284,000 on 35 patents that were abandoned in prosecution.

*Gain on sale of previously reserved inventory.*

(in thousands)	<u>2013</u>	<u>2012</u>	<u>\$ change</u>	<u>% change</u>
Gain on sale of previously reserved inventory . . . . .	\$(156)	\$(212)	\$56	(26.4)

Gain on sale of previously reserved inventory includes the sales of excess component inventory for discontinued products and was fully reserved in prior periods. The decrease during 2013, compared to 2012, is due to decreased sales volume.

*Change in warrant liability.*

(in thousands)	<u>2013</u>	<u>2012</u>	<u>\$ change</u>	<u>% change</u>
Change in warrant liability . . . . .	\$1,801	\$—	\$1,801	—

Based on the terms of the warrants we issued in May and September, 2013, we have determined that they should be classified as a liability given that the warrants could result in the issuance of a variable number of shares of common stock based on a conditional exchange provision that is outside of our control at any point when the share price of our common stock is equal to or less than the stated exercise prices of \$2.886 and \$2.444 per share. At the dates of issuance, and as of December 31, 2013, our common stock was trading at a value less than the stated exercise price. As such, the holders may elect to exchange the warrants for a variable number of shares of common stock as determined by a formula included in the warrants. However, the warrants limit the number of shares that may be issued under this exchange provision to one share of common stock for each warrant exchanged. The maximum number of shares that we could be required to issue under the terms of the warrants is 4,071,552. As of December 31, 2013, 358,243 shares of common stock have been issued on a one-for-one basis under the warrant exchange provisions of the May and September agreements. As of



December 31, 2013, based upon the terms of the then outstanding warrants and the quoted market price of our common stock, if the exchange feature had been exercised, we would have been required to issue 3,713,309 shares of common stock to satisfy the obligation without receiving any additional cash consideration, equal to an estimated fair market value of \$4,902,000, which we believe is the best indication of the fair value of the warrant obligation as of December 31, 2013. Changes in the market value of our common stock may decrease the number of shares to be issued under this exchange feature.

At each balance sheet date, we evaluate the fair value of the warrants and any change in value will be recorded as a non-operating gain or loss on the statement of operations. During 2013, we recorded gains of \$1.8 million related to the change in value of the warrants. If and when the exchange feature is exercised by the holder, we will recognize a gain or loss on the exchange based on the fair market value of the common stock issued by us to the holder to satisfy the exchange provision.

*Other Income and Expense.*

<u>(in thousands)</u>	<u>2013</u>	<u>2012</u>	<u>\$ change</u>	<u>% change</u>
Other income and expense .....	\$115	\$(38)	\$153	(402.6)

The increase in other income and expense in 2013 from 2012 results primarily from realized gains recorded upon issuance of common stock under the warrant exchange provisions of the May and September agreements.

*Income Taxes.*

No provision for income taxes has been recorded because we have experienced net losses from inception through December 31, 2013. At December 31, 2013, we had net operating loss carry-forwards of approximately \$326.0 million for federal income tax reporting purposes. In addition, we have research and development tax credits of \$6.3 million. The net operating loss carry-forwards and research and development credits available to offset future taxable income, if any, will expire in varying amounts from 2017 to 2033 if not previously used. The research and development tax credits and the remaining net operating losses are scheduled to expire between 2018 and 2033. 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 carry-forwards.

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, 2013 or at December 31, 2012.

**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 and product sales. At December 31, 2013, we had \$5.4 million in cash and cash equivalents and a working capital deficit of \$3.9 million. Included in the working capital deficit is a \$4.9 million non-cash liability associated with our warrants as described above.

Based on our current operating plan, we anticipate that we have sufficient cash and cash equivalents to fund our operations through March 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, capital expenditures and investment in research and development.

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 financial statements are prepared assuming we will continue as a going concern.

Cash used in operating activities totaled \$12.7 million during 2013, compared to \$20.6 million during 2012. During 2013, the decrease in net cash used in operating activities was primarily driven by lower personnel costs and increased margins on product sales, as well as savings resulting from steps taken to lower our cash usage.

### ***Investing Activities***

Cash used in investing activities totaled \$340,000 in 2013 compared to \$92,000 in 2012. Purchases of property and equipment during 2013 totaled \$376,000 compared to \$533,000 during 2012. Prior year activity also included a \$350,000 decrease of our restricted cash.

### ***Financing Activities***

Cash provided by financing activities totaled \$11.5 million in 2013, compared to \$14.5 million in 2012. The following is a list of our financing activities during 2013 and 2012. All share amounts have been adjusted for the 1:8 reverse stock split discussed in this annual report.

- 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. The warrants have an exercise price of \$2.444 per share, a five year term, and are exercisable beginning on the date of issuance. Each warrant to purchase a share of common stock may also be exchanged during its term for a number of shares of common stock (but not more than one share of common stock for each warrant so exchanged) with a value determined by a formula if, among other things, our common stock is then trading at a price at or lower than the warrant exercise price per share. Subject to limitations in the warrants, we may require the warrants be exercised for cash if the closing bid price of our stock is over \$3.055 for 20 consecutive trading days and the average daily dollar volume over that period is equal to or exceeds \$300,000.
- 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. The warrants have an exercise price of \$2.886 per share, a five year term, and are exercisable beginning on the date of issuance. Each warrant to purchase a share of common stock may also be exchanged during its term for a number of shares of common stock (but not more than one share of common stock for each warrant so exchanged) with a value determined by a formula if, among other things, our common stock is then trading at a price at or lower than the warrant exercise price per share. Subject to limitations in the warrants, we may require the warrants be exercised for cash if the closing bid price of our stock is over \$3.61 for 20 consecutive trading days and the average daily dollar volume over that period is equal to or exceeds \$300,000.
- In June 2012, we raised \$10.5 million before issuance costs of approximately \$823,000 through an underwritten public offering of 4.2 million shares of our common stock and warrants to purchase 2.1 million shares of our common stock. The warrants have an exercise price of \$2.65 per share, a five year term, and are exercisable beginning one year from the date of issuance.
- In May 2012, we raised approximately \$5.0 million before issuance costs of approximately \$71,000 from the sale of 3.3 million shares of common stock and warrants to purchase 1.0 million shares of our common stock to private investors. The warrants have an exercise price of \$2.12 per share, a three year term, and are exercisable beginning on the date of issuance.

Our cash requirements will depend on many factors, including, but not limited to, the rate at which OEMs and ODMs introduce products incorporating our technology and the market acceptance and competitive position of such products.

Future operating expenditures and capital requirements will depend on numerous factors, including the following:

- 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;
- 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.

In order to maintain our exclusive rights under our license agreement with the University of Washington, we are obligated to make royalty payments to the University of Washington with respect to the Virtual Retinal Display technology. If we are successful in establishing original equipment manufacturer 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 cash requirements to remain high as we expand our activities and operations with the objective of commercializing our light scanning technology.

#### **New 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, 2013, all of our total 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, 2013, our cash and cash equivalents are comprised of short-term highly rated money market savings accounts.

The values of cash equivalents and investment securities, available-for-sale by maturity date as of December 31, 2013, are as follows:

	<u>Amount</u>	<u>Percent</u>
Cash and cash equivalents .....	\$5,375,000	100.0%
Less than one year .....	<u>—</u>	<u>—</u>
	<u>\$5,375,000</u>	<u>100.0%</u>

**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 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders  
MicroVision, Inc.

We have audited the accompanying consolidated balance sheets of MicroVision, Inc. (the “Company”) as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive loss, shareholders’ equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of MicroVision, Inc. as of December 31, 2013 and 2012, and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming 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 a net capital deficiency 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.

Moss Adams LLP

Seattle, Washington  
March 6, 2014

**MicroVision, Inc.**  
**Consolidated Balance Sheets**  
(in thousands, except per share information)

	<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents .....	\$ 5,375	\$ 6,850
Accounts receivable, net of allowances of \$373 and \$332 .....	24	1,115
Costs and estimated earnings in excess of billings on uncompleted contracts .....	—	12
Inventory .....	49	497
Other current assets .....	336	1,221
Total current assets .....	5,784	9,695
Property and equipment, net .....	1,065	1,205
Restricted cash .....	435	436
Intangible assets .....	1,145	1,580
Other assets .....	18	22
Total assets .....	\$ 8,447	\$ 12,938
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Accounts payable .....	\$ 1,610	\$ 3,035
Accrued liabilities .....	2,455	4,007
Deferred revenue .....	—	609
Billings in excess of costs and estimated earnings on uncompleted contracts .....	680	98
Warrant liability .....	4,902	—
Current portion of capital lease obligations .....	15	48
Current portion of long-term debt .....	—	67
Total current liabilities .....	9,662	7,864
Capital lease obligations, net of current portion .....	—	20
Deferred rent, net of current portion .....	481	—
Total liabilities .....	10,143	7,884
Commitments and contingencies (Note 11)		
Shareholders' (Deficit) Equity		
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; 32,069 and 25,237 shares issued and outstanding at December 31, 2013 and 2012, respectively .....	32	25
Additional paid-in capital .....	448,981	442,560
Accumulated deficit .....	(450,709)	(437,531)
Total shareholders' (deficit) equity .....	(1,696)	5,054
Total liabilities and shareholders' (deficit) equity .....	\$ 8,447	\$ 12,938

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

**MicroVision, Inc.**  
**Consolidated Statements of Operations**  
**(in thousands, except per share information)**

	<u>Years Ended December 31,</u>	
	<u>2013</u>	<u>2012</u>
Product revenue .....	\$ 2,341	\$ 6,782
Contract revenue .....	602	1,583
Development revenue .....	2,909	—
Total revenue .....	<u>5,852</u>	<u>8,365</u>
Cost of product revenue .....	1,518	6,085
Cost of contract revenue .....	283	839
Total cost of revenue .....	<u>1,801</u>	<u>6,924</u>
Gross margin .....	<u>4,051</u>	<u>1,441</u>
Research and development expense .....	10,267	12,851
Sales, marketing, general and administrative expense .....	8,792	11,252
Impairment of intangible assets .....	277	284
Gain on disposal of fixed assets .....	(35)	(79)
Gain on sale of previously reserved inventory .....	(156)	(212)
Total operating expenses .....	<u>19,145</u>	<u>24,096</u>
Loss from operations .....	(15,094)	(22,655)
Change in warrant liability .....	1,801	—
Other income, net .....	<u>115</u>	<u>(38)</u>
Net loss .....	<u>\$(13,178)</u>	<u>\$(22,693)</u>
Net loss per share basic and diluted .....	<u>\$ (0.47)</u>	<u>\$ (1.05)</u>
Weighted-average shares outstanding basic and diluted .....	<u>28,025</u>	<u>21,595</u>

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



**MicroVision, Inc.**  
**Consolidated Statements of Comprehensive Loss**  
**(in thousands)**

	<b>Years Ended December 31,</b>	
	<b>2013</b>	<b>2012</b>
Net loss .....	\$(13,178)	\$(22,693)
Other comprehensive gain (loss)		
Unrealized gain (loss) on investment securities, available-for-sale:		
Unrealized holding gain (loss) arising during period .....	—	3
Less: reclassification adjustment for losses realized in net income .....	—	32
Comprehensive loss .....	\$(13,178)	\$(22,658)

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

**MicroVision, Inc.**

**Consolidated Statements of Shareholders' Equity  
(in thousands)**

	Shareholders' Equity (Deficit)					
	Common Stock		Additional paid-in capital	Accumulated other comprehensive loss	Accumulated deficit	Total Shareholders' equity (deficit)
	Shares	Par value				
<b>Balance at December 31, 2011</b> .....	17,019	\$ 17	\$425,658	\$ (35)	\$(414,838)	\$ 10,802
Share-based compensation expense .....	648	—	2,286	—	—	2,286
Exercise of warrants and options .....	16	—	23	—	—	23
Sales of common stock and warrants .....	7,554	8	14,593	—	—	14,601
Other comprehensive gain .....	—	—	—	35	—	35
Net loss .....	—	—	—	—	(22,693)	(22,693)
<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)

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

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

	Years Ended December 31,	
	2013	2012
<b>Cash flows from operating activities</b>		
Net loss .....	\$(13,178)	\$(22,693)
Adjustments to reconcile net loss to net cash used in operations:		
Depreciation .....	923	1,445
Amortization of intangible assets .....	158	184
Impairment of intangible assets .....	277	284
Gain on disposal of property and equipment .....	(35)	(79)
Realized loss on sale of short-term investments .....	—	32
Non-cash share-based compensation .....	1,606	2,269
Change in warrant liability .....	(1,801)	—
Realized gain on warrant exchange .....	(99)	—
Inventory write-downs .....	303	1,094
Non-cash deferred rent .....	(31)	(118)
Change in:		
Accounts receivable .....	1,091	(652)
Costs and estimated earnings in excess of billings on uncompleted contracts ..	12	58
Inventory .....	145	2,663
Other current assets .....	868	(419)
Other assets .....	4	12
Accounts payable .....	(1,486)	(4,077)
Accrued liabilities .....	(1,387)	(1,175)
Deferred revenue .....	(609)	609
Billings in excess of costs and estimated earnings on uncompleted contracts ..	582	(58)
Net cash used in operating activities .....	(12,657)	(20,621)
<b>Cash flows from investing activities</b>		
Sales of investment securities .....	—	11
Decrease in restricted investment .....	1	350
Proceeds on sale of property and equipment .....	35	80
Purchases of property and equipment and intangible assets .....	(376)	(533)
Net cash used in investing activities .....	(340)	(92)
<b>Cash flows from financing activities</b>		
Principal payments under capital leases and long-term debt .....	(120)	(136)
Net proceeds from issuance of common stock and warrants .....	11,642	14,624
Net cash provided by financing activities .....	11,522	14,488
Net decrease in cash and cash equivalents .....	(1,475)	(6,225)
Cash and cash equivalents at beginning of period .....	6,850	13,075
Cash and cash equivalents at end of period .....	\$ 5,375	\$ 6,850
<b>Supplemental disclosure of cash flow information</b>		
Cash paid for interest .....	\$ 12	\$ 30
<b>Supplemental schedule of non-cash investing and financing activities</b>		
Other non-cash additions to property and equipment .....	\$ 407	\$ —
Issuance of common stock for exchange of warrants .....	\$ 536	\$ —

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

## MicroVision, Inc.

### Notes to Consolidated Financial Statements

#### 1. The Company and liquidity

MicroVision, Inc. (the “Company”) is developing its 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, simplifying our operations and resulting in a significant reduction to our 2013 cash usage relative to 2012. 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 both 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.

Based on our current operating plan, we anticipate that we have sufficient cash and cash equivalents to fund our operations through March 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, capital expenditures and investment in research and development.

Our capital requirements will depend on many factors, including, but not limited to, the rate at which OEMs or 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.

A 1:8 reverse stock split of MicroVision's common stock became effective on February 17, 2012. All of the share and per share amounts discussed and shown in the consolidated financial statements and notes have been adjusted to reflect the effect of this reverse split.

## **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 those estimates. We have identified the following areas where significant estimates and assumptions have been made in preparing the financial statements: revenue recognition, valuation of share-based compensation, allowance for uncollectible receivables and inventory valuation.

### ***Principles of consolidation***

Our 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 years ended December 31, 2013 and 2012.

### ***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. The hierarchy is summarized below.

Level 1 — Observable inputs such as quoted prices in active markets for identical assets or liabilities.

Level 2 — Observable inputs such as quoted prices for similar assets or liabilities in markets that are not sufficiently active to qualify as Level 1 or, other inputs that are observable by market data.

Level 3 — Unobservable inputs for which there is little or no market data, which requires us to develop our own assumptions, which are significant to the measurement of the fair values.

Our financial instruments include cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, long-term debt and warrant liabilities. Excluding the long term debt and warrant liabilities, the carrying value of our financial instruments approximates fair value due to their short maturities. The carrying amount of long-term debt at December 31, 2013 and 2012 was not materially different from the fair value based on rates available for similar types of arrangements. At each balance sheet date, we evaluate the warrant liability and any change in value is recorded as a non-operating gain or loss on the statement of operations. Due to the features of the warrants, the determination of the fair value of the warrant liability may vary depending on our common stock price. If the price of our common stock is less than the exercise price of the warrant, we will calculate the fair value of the warrant liability as the fair value of the common stock that would be required to be issued to settle the exchange feature of the warrant. If the price of our common stock is greater than the exercise price of the warrant, we will use a binomial option pricing model to estimate the fair value of the warrant as the exchange feature provided per the agreement will no longer be available to the holder.

The valuation inputs hierarchy classification for the warrant liability measured at fair value on a recurring basis is summarized below as of December 31, 2013.

<u>As of December 31, 2013:</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Liabilities				
Warrant liability . . . . .	\$—	\$4,902,000	\$—	\$4,902,000
	<u>—</u>	<u>\$4,902,000</u>	<u>\$—</u>	<u>\$4,902,000</u>

Our cash equivalents are comprised of money market savings accounts and equity securities. We classify investment securities available-for-sale purchased with 90 days or less remaining until contractual maturities as cash equivalents.

***Intangible assets***

Our intangible assets consist entirely of purchased patents. The patents are amortized using the straight-line method over their estimated period of benefit, ranging from one to 17 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***

Inventory consists of components, raw materials and finished goods for our pico projectors. Inventory is recorded at the lower of cost or market with cost determined on a net realizable value basis. We periodically assess the need to provide for obsolescence of inventory and adjust 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 we determine that it is not probable that the inventory will be consumed through normal production during the next twelve months.

### ***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. 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 investments***

As of December 31, 2013, restricted investments were in money market savings accounts and serve as collateral for \$435,000 in irrevocable letters of credit. The restricted investments balance includes two letters of credit which are outstanding in connection with a lease agreement for our corporate headquarters building in Redmond, WA. The balance is required over the term of the lease, which expires in January 2019. In January 2012, a \$350,000 letter of credit which was outstanding under the terms of a supplier agreement expired.

### ***Revenue recognition***

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. Significant items included in our evaluation are the following:

- the nature of our obligation under the agreement,
- whether provisions leading to variable revenues exist
- whether any payments are required to be repaid,
- whether the deliverables should be treated as one unit of accounting or separated into multiple units,
- whether substantive milestones exist,
- whether milestone payments are commensurate with either our level of effort or the increase in value of the customer's rights, and
- whether a licensing agreement exists.

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 or the cash payments received plus outstanding billings for work accepted by the customer. Since our collaborative agreements generally require some level of technology development, the actual costs required to complete a contract can vary from our 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 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. The costs for work performed under collaborative research and development agreements are expensed in the periods incurred and included in the Statement of Operations in research and development expense.

Product revenue is recognized when there is sufficient evidence of an arrangement, delivery has occurred, the fee is fixed or determinable, and collection is reasonably assured. We have entered into agreements with resellers and distributors, as well as selling directly to the public. Sales made to resellers and distributors are recognized using either the sell-through method or upon expiration of the contractually agreed-upon acceptance period, depending on the volume of the sale. Some of the agreements with resellers and distributors contain price-protection clauses, and revenue is recognized net of these amounts. Sales made directly to the public are recognized either upon expiration of the contractual acceptance period after which there are no rights of return, or net of estimated returns and allowances. Provisions are made for warranties at the time revenue is recorded.

Contract revenue has primarily been generated from contracts to develop the light scanning technology and to produce demonstration units for commercial enterprises and the U.S. government. We recognize contract revenue as work progresses on long-term cost plus fixed fee and fixed price contracts using the percentage-of-completion method, which relies on estimates of total expected contract revenue and costs. Our revenue contracts generally include a statement of the work we are to complete and the total fee we will earn from the contract. When we begin work on the contract and at the end of each accounting period, we estimate the labor, material, and other cost required to complete the statement of work compared to cost incurred to date. We use information provided by our technical team, project managers, vendors, outside consultants and others to develop our cost estimates. Since our contracts generally require some level of technology development to complete, the actual cost required to complete a statement of work can vary from our estimates. We have developed processes that allow us to reasonably estimate the cost to complete a contract. Historically, we have made only immaterial revisions in the estimates to complete the contract at each reporting period. Recognized revenues are subject to revisions as the contract progresses to completion and actual revenue and cost become certain. Revisions in revenue estimates are reflected in the period in which the facts that give rise to the revision become known. In the future, revisions in these estimates could significantly impact recognized revenue in any one reporting period.

We recognize losses, if any, as soon as identified. Losses occur when the estimated direct and indirect costs to complete the contract exceed unrecognized revenue. We evaluate the reserve for contract losses on a contract-by-contract basis.

We recognize contract revenue for prototype units and evaluation kits for development work upon acceptance or the expiration of the acceptance period, when there is sufficient evidence of an arrangement, the selling price is fixed or determinable and collection is reasonably assured.

### *Cost of revenue*

Cost of product revenue includes the direct and allocated indirect costs 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 and other costs associated with operating our manufacturing capabilities and capacity.

Cost of contract revenue includes both the direct and allocated indirect costs of performing on development contracts and producing prototype units and evaluation kits. Direct costs include labor, materials and other costs incurred directly in performing on a contract or producing prototype units and evaluation kits. 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 sales to major customers**

### **Concentration of Credit Risk**

Financial instruments that potentially subject us to concentrations of credit risk are primarily cash equivalents and accounts receivable. We typically do not require collateral from our customers. As of December 31, 2013, our cash and cash equivalents are comprised of short-term highly rated money market savings accounts.

### **Concentration of Sales to Major Customers**

During 2013, two commercial customers accounted for 86% of our total revenue. During 2012, one commercial customer accounted for 61% of our total revenue and 96% of our accounts receivable balance at December 31, 2012.

### **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.

As of December 31, 2013 and 2012, we excluded the following convertible securities from diluted 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.

	December 31,	
	2013	2012
Publicly traded warrants . . . . .	—	753,000
Options and private warrants . . . . .	9,996,000	5,696,000
Nonvested equity shares . . . . .	108,000	207,000
	<u>10,104,000</u>	<u>6,656,000</u>

### **Research and development**

Research and development expenses consist of costs incurred for internally funded research and product development activities as well as collaborative research and development activities that are funded by customers. These costs include compensation related costs of employees, share-based compensation, materials, subcontracted services, facility costs, and depreciation of facilities and lab equipment. Research and development costs are expensed as incurred.

### *Long-lived assets*

We evaluate the recoverability of our long-lived assets when an impairment is indicated based on expected undiscounted cash flows. We recognize impairment of the carrying value of long-lived assets, if any, based on the fair value of such assets.

### *Share-based compensation*

Our share-based incentive compensation plans are described in Note 10.

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 statements of operations for each period shown:

	Year Ended December 31,	
	2013	2012
Cost of contract revenue . . . . .	\$ 19,000	\$ 34,000
Cost of product revenue . . . . .	1,000	54,000
Research and development expense . . . . .	466,000	825,000
Sales, marketing, general and administrative expense . . . . .	1,120,000	1,356,000
	<u>\$1,606,000</u>	<u>\$2,269,000</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.

### *New accounting pronouncements*

In February 2013, the Financial Accounting Standards Board ("FASB") issued guidance that requires disclosure of amounts reclassified out of accumulated other comprehensive income in its entirety, by component, on the face of the statement of operations or in the notes thereto. Amounts that are not required to be reclassified in their entirety to net income must be cross-referenced to other disclosures that provide additional detail. This standard is effective prospectively for annual and interim reporting periods beginning after December 15, 2012. We adopted this guidance on January 1, 2013. The adoption did not have a material impact on our financial position, results of operations or cash flows.

### **3. Long-term contracts**

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. 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. During the twelve months ended December 31, 2013, \$2.9 million of revenue was recognized on this agreement.

Historically, our contracts with the U.S. government were primarily cost-plus-fixed-fee type contracts. Under the terms of a cost-plus-fixed-fee contract, the U.S. government reimbursed us for negotiated actual direct and indirect cost incurred in performing the contracted services. We were not obligated to spend more than the contract value to complete the contracted services. The period of performance was generally one year. As of December 31, 2013, we were not performing services on any U.S. government contracts.

The following table summarizes the costs incurred on our collaborative research and development agreements and revenue contracts (in thousands):

	December 31,	
	2013	2012
Costs and estimated earnings incurred on uncompleted contracts . . . . .	\$ 2,909	\$ 1,977
Billings on uncompleted contracts . . . . .	(3,589)	(2,063)
	<u>\$ (680)</u>	<u>\$ (86)</u>
<b>Included in accompanying consolidated balance sheets under the following captions:</b>		
Costs and estimated earnings in excess of billings on uncompleted contracts . . .	\$ —	\$ 12
Billings in excess of costs and estimated earnings on uncompleted contracts . . . .	(680)	(98)
	<u>\$ (680)</u>	<u>\$ (86)</u>

#### 4. Inventory

Inventory consists of the following:

	December 31,	
	2013	2012
Raw materials . . . . .	\$23,000	\$361,000
Finished goods . . . . .	26,000	136,000
	<u>\$49,000</u>	<u>\$497,000</u>

The inventory at December 31, 2013 and 2012 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 and 2012, we recorded inventory write-downs of \$303,000 and \$1,094,000, respectively. At December 31, 2013 and 2012, we have aggregate write-downs recorded of \$7,964,000 and \$9,916,000, respectively, offsetting inventory on hand deemed to be obsolete or scrap inventory.

#### 5. Accrued liabilities

Accrued liabilities consist of the following:

	December 31,	
	2013	2012
Bonuses . . . . .	\$ 725,000	\$ 724,000
Payroll and payroll taxes . . . . .	375,000	427,000
Compensated absences . . . . .	315,000	384,000
Deferred rent credit . . . . .	99,000	187,000
Warranty . . . . .	32,000	206,000
Adverse purchase commitments . . . . .	500,000	634,000
Accelerated rent expense . . . . .	—	109,000
Professional fees . . . . .	76,000	533,000
Other . . . . .	333,000	803,000
	<u>\$2,455,000</u>	<u>\$4,007,000</u>

## 6. Property and equipment, net

Property and equipment consists of the following:

	December 31,	
	2013	2012
Production equipment . . . . .	\$ 2,943,000	\$ 5,201,000
Leasehold improvements . . . . .	502,000	3,344,000
Computer hardware and software/lab equipment . . . . .	4,373,000	9,002,000
Office furniture and equipment . . . . .	1,100,000	1,485,000
	<u>8,918,000</u>	<u>19,032,000</u>
Less: Accumulated depreciation . . . . .	<u>(7,853,000)</u>	<u>(17,827,000)</u>
	<u>\$ 1,065,000</u>	<u>\$ 1,205,000</u>

Depreciation expense was \$923,000 and \$1,445,000 in 2013 and 2012, respectively.

## 7. Intangible assets

Our intangible assets consist entirely of technology-based purchased patents. The patents are amortized using the straight-line method over their estimated period of benefit, ranging from one to 17 years. The gross value of our intangible assets was \$1.7 million and \$2.3 million as of December 31, 2013 and 2012, respectively. Amortization expense was \$158,000 and \$184,000 in 2013 and 2012, respectively. In 2013, we recorded an impairment amounting to \$277,000 on 42 patents that were abandoned in prosecution. In 2012, we recorded an impairment amounting to \$284,000 on 35 patents that were abandoned in prosecution.

The following table outlines the estimated future amortization expense related to intangible assets held at December 31, 2013:

<u>Year ended December 31,</u>	<u>Amount</u>
2014 . . . . .	\$ 132,000
2015 . . . . .	132,000
2016 . . . . .	131,000
2017 . . . . .	120,000
2018 . . . . .	119,000
Thereafter . . . . .	<u>511,000</u>
Total . . . . .	<u>\$1,145,000</u>

## 8. Common stock

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. Details of the warrants are described below in Note 9.

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. Details of the warrants are described below in Note 9.

In June 2012, we raised \$10.5 million before issuance costs of approximately \$823,000 through an underwritten public offering of 4.2 million shares of our common stock and warrants to purchase 2.1 million shares of our common stock. Details of the warrants are described below in Note 9.

In May 2012, we raised approximately \$5.0 million before issuance costs of approximately \$71,000 from the sale of 3.3 million shares of common stock and warrants to purchase 1.0 million shares of our common stock to private investors. Details of the warrants are described below in Note 9.

## 9. Warrants

The warrants issued in September 2013 have an exercise price of \$2.444 per share, a five year term, and are exercisable beginning on the date of issuance. Each warrant to purchase a share of common stock may also be exchanged during its term for a number of shares of common stock (but not more than one share of common stock for each warrant so exchanged) with a value determined by a formula if, among other things, our common stock is then trading at a price at or lower than the warrant exercise price per share. Subject to limitations in the warrants, we may require the warrants be exercised for cash if the closing bid price of our stock is over \$3.055 for 20 consecutive trading days and the average daily dollar volume over that period is equal to or exceeds \$300,000.

The warrants issued in May 2013 have an exercise price of \$2.886 per share, a five year term, and are exercisable beginning on the date of issuance. Each warrant to purchase a share of common stock may also be exchanged during its term for a number of shares of common stock (but not more than one share of common stock for each warrant so exchanged) with a value determined by a formula if, among other things, our common stock is then trading at a price at or lower than the warrant exercise price per share. Subject to limitations in the warrants, we may require the warrants be exercised for cash if the closing bid price of our stock is over \$3.61 for 20 consecutive trading days and the average daily dollar volume over that period is equal to or exceeds \$300,000.

Based on the terms of the warrants we issued in May and September, 2013, we have determined that they should be classified as a liability given that the warrants could result in the issuance of a variable number of shares of common stock based on a conditional exchange provision that is outside of our control at any point when the share price of our common stock is equal to or less than the stated exercise prices of \$2.886 and \$2.444 per share. At the dates of issuance, and as of December 31, 2013, our common stock was trading at a value less than the stated exercise price. As such, the holders may elect to exchange the warrants for a variable number of shares of common stock as determined by a formula included in the warrants. However, the warrants limit the number of shares that may be issued under this exchange provision to one share of common stock for each warrant exchanged. The maximum number of shares that we could be required to issue is under the terms of the warrants is 4,071,552. As of December 31, 2013, 358,243 shares of common stock have been issued on a one-for-one basis under the warrant exchange provisions of the May and September agreements. As of December 31, 2013, based upon the terms of the then outstanding warrants and the quoted market price of our common stock, if the exchange feature had been exercised, we would have been required to issue 3,713,309 shares of common stock to satisfy the obligation without receiving any additional cash consideration, equal to an estimated fair market value of \$4,902,000, which we believe is the best indication of the fair value of the warrant obligation as of December 31, 2013. Changes in the market value of our common stock may decrease the number of shares to be issued under this exchange feature.

At each balance sheet date, we evaluate the fair value of the warrants and any change in value will be recorded as a non-operating gain or loss on the statement of operations. During 2013, we recorded non-operating gains of \$1.8 million related to the change in value of the warrants. If and when the exchange feature is exercised by the holder, we will recognize a gain or loss on the exchange based on the fair market value of the common stock issued by us to the holder to satisfy the exchange provision.

Subsequent to year end, the holders of the warrants we issued in May and September 2013 elected to exchange all of such remaining outstanding warrants for common stock under the exchange provision, see Note 15.

The warrants issued in June 2012 were issued with an exercise price of \$2.65 per share, a five year term, and are exercisable beginning one year from the date of issuance. The exercise price of the warrants is subject to anti-dilution adjustments. As a result of subsequent financing activities, the exercise price has been reduced to \$2.29.

The warrants issued in May 2012 have an exercise price of \$2.125 per share, a three year term, and are exercisable 60 days from the date of issuance.

The following summarizes activity with respect to MicroVision common stock warrants during the two years ended December 31, 2013:

	<u>Warrants to purchase common shares</u>	<u>Weighted average exercise price</u>
<b>Outstanding at December 31, 2011</b>	2,287,000	\$14.96
Granted:		
Exercise price greater than intrinsic value .....	3,100,000	2.48
Exercised .....	—	—
Canceled/expired .....	<u>(256,000)</u>	17.60
<b>Outstanding at December 31, 2012</b>	5,131,000	7.28
Granted:		
Exercise price less than intrinsic value .....	2,216,000	2.71
Exercise price greater than intrinsic value .....	1,855,000	2.44
Exercised .....	<u>(358,000)</u>	1.77
Canceled/expired .....	<u>(753,000)</u>	28.80
<b>Outstanding at December 31, 2013</b>	<u>8,091,000</u>	\$ 3.07
<b>Exercisable at December 31, 2013</b>	<u>8,091,000</u>	\$ 3.07

The following table summarizes information about the weighted-average fair value of MicroVision common stock warrants granted for the periods shown:

	<u>Year Ended December 31,</u>	
	<u>2013</u>	<u>2012</u>
Exercise price greater than fair value .....	\$—	\$0.97

With the exception of common stock warrants that include exchange provisions, we estimate the fair value of our common stock warrants using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 2012: dividend yield of zero percent; expected volatility of 100%; risk-free interest rates of 0.52% and expected lives of 4 years.

The following table summarizes information about our common stock warrants outstanding and exercisable at December 31, 2013:

<u>Range of exercise prices</u>	<u>Warrants outstanding</u>			<u>Warrants exercisable</u>	
	<u>Number outstanding at December 31, 2013</u>	<u>Weighted average remaining contractual life (years)</u>	<u>Weighted average exercise price</u>	<u>Number exercisable at December 31, 2013</u>	<u>Weighted average exercise price</u>
\$2.13 .....	1,000,000	1.39	\$2.13	1,000,000	\$2.13
\$2.29 .....	2,100,000	3.47	2.29	2,100,000	2.29
\$2.44 .....	1,855,000	4.72	2.44	1,855,000	2.44
\$2.89 .....	1,858,000	4.38	2.89	1,858,000	2.89
\$6.24 .....	<u>1,278,000</u>	2.88	6.24	<u>1,278,000</u>	6.24
\$2.13-\$6.24 .....	<u>8,091,000</u>			<u>8,091,000</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.

As part of our plan to conserve cash used in operations, we have implemented share-based compensation programs under which we issued shares of our common stock as compensation instead of cash. We have allocated the expense related to these programs to various financial statement lines consistent with the method used for allocating all share-based compensation.

In August 2013, we issued 201,000 shares of our common stock to employees for payment of 2012 performance bonuses. These shares were valued using our closing stock price on the date of grant. These shares vested in November 2013 and expense was recognized over the vesting period. During 2013, we expensed \$457,000 of share-based employee compensation for these awards.

In August 2012, we issued 440,000 shares of our common stock to non-executive employees for retention purposes. These shares were valued using our closing stock price on the date of grant. These shares vest 40% in August 2012, 30% in December 2012, and 30% in August 2013 and expense is recognized over the vesting period. During 2013 and 2012, we expensed \$175,000 and \$562,000, respectively, of share-based employee compensation for these awards.

In May 2012, we issued 227,000 shares of our common stock to non-executive employees as the remaining payment of 2010 bonuses in lieu of cash. These shares were valued using our closing stock price on the date of grant. We expensed \$345,000 of share-based employee compensation for these awards at grant.

### Description of Incentive Plans

The Company currently has two share-based incentive plans. The 2013 Incentive Plan described below is administered by the Board of Directors, or its designated committee (“Plan Administrator”), and provides for various awards as determined by the Plan Administrator. In June 2008, we determined not to issue additional options from a second share-based incentive plan, the Independent Director Stock Option Plan described below.

The 2013 Incentive Plan has 4.4 million shares authorized, of which 940,000 shares were available for awards as of December 31, 2013. The 2013 Incentive Plan permits granting non-qualified stock options (NSOs), incentive stock options (ISOs), stock appreciation rights, restricted or unrestricted stock, deferred stock, other share-based awards, or cash awards to employees, officers, directors and certain non-employees of the Company. Any award may be a performance-based award. Awards granted under the 2013 Incentive Plan have generally been to employees under non-qualified stock option agreements with the following provisions: exercise prices greater than or equal to the Company’s closing stock price on the date of grant; vesting periods ranging from three years to four years; expiration 10 years from the date of grant; and optionees who terminate their service after vesting have a limited time to exercise their options (typically three to twelve months).

The Independent Director Stock Option Plan (IDSOP) has 113,000 shares authorized, of which 62,000 are issued and outstanding as of December 31, 2013. The IDSOP permits granting NSOs to independent directors of the Company. Grants awarded under the IDSOP generally have the following terms: exercise price equal to the Company’s closing stock price on the date of grant, expiration 10 years from the date of grant, and vested grants remain exercisable until their expiration dates if a director leaves the Board. In June 2008, the Company shareholders approved an amendment to the 2013 Incentive Plan described above to allow non-employee directors to participate in the plan.

## 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, publications, comparable company estimates, and other factors 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:

	<u>Year Ended December 31,</u>	
	<u>2013</u>	<u>2012</u>
Assumptions (weighted average)		
Volatility . . . . .	96%	98%
Expected term (in years) . . . . .	4.1	4.5
Risk-free rate . . . . .	1.0%	0.6%
Expected dividends . . . . .	0.0%	0.0%
Pre-vest forfeiture rate . . . . .	8.5%	8.5%
Grant date fair value of options granted . . . . .	\$1.49	\$1.39

## Options Activity and Positions

The following table summarizes activity and positions with respect to options for the two years ended December 31, 2013:

<u>Options</u>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term (years)</u>	<u>Aggregate Intrinsic Value</u>
Outstanding as of December 31, 2011 . . . . .	964,000	\$24.00	5.8	\$ —
Granted . . . . .	671,000	1.97		
Exercised . . . . .	(16,000)	1.80		
Forfeited or expired . . . . .	<u>(301,000)</u>	21.20		
Outstanding as of December 31, 2012 . . . . .	1,318,000	13.71	6.8	—
Granted . . . . .	824,000	2.22		
Exercised . . . . .	(23,000)	1.80		
Forfeited or expired . . . . .	<u>(214,000)</u>	13.86		
Outstanding as of December 31, 2013 . . . . .	<u>1,905,000</u>	<u>\$ 8.86</u>	<u>7.4</u>	<u>\$1,500</u>
Vested and expected to vest as of December 31, 2013 . . . . .	<u>1,797,000</u>	<u>\$ 9.26</u>	<u>7.3</u>	<u>\$1,443</u>
Exercisable as of December 31, 2013 . . . . .	<u>934,000</u>	<u>\$15.41</u>	<u>5.6</u>	<u>\$ 750</u>

The total intrinsic value of options exercised during the years ended December 31, 2013 and 2012 were \$21,000 and \$13,000, respectively.



The total grant date fair value of options vested during the years ended December 31, 2013 and 2012 was \$1.7 million and \$2.5 million, respectively. As of December 31, 2013, our unamortized share-based compensation was \$1.2 million which we plan to amortize over the next 2.3 years.

In March 2011, we issued 85,000 restricted stock units of the Company's common stock to executive employees. These shares vest conditionally upon completion of certain service and performance objectives by June 30, 2014. The grant date fair value of the performance based restricted shares is recognized over the respective service periods based on an assessment of the probability that performance goals will be met.

As of December 31, 2013, our unamortized share-based compensation related to the restricted stock units was \$145,000 which we plan to amortize over the next six months.

## 11. Commitments and contingencies

### *Litigation*

We are 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 the Company's financial position, results of operations or cash flows.

### *Lease commitments*

We lease our office space and certain equipment under noncancelable capital and operating leases with initial or remaining terms in excess of one year.

We entered into a 65 month facility lease amendment that commenced in September 2013. The lease includes extension and rent escalation provisions over the 65 month term of the lease. Rent expense will be recognized on a straight-line basis over the lease term.

Future minimum rental commitments under capital and operating leases for years ending December 31 are as follows:

	<u>Capital leases</u>	<u>Operating leases</u>
2014 .....	\$ 15,000	\$ 254,000
2015 .....	—	430,000
2016 .....	—	442,000
2017 .....	—	434,000
2018 .....	—	446,000
Thereafter .....	—	38,000
Total minimum lease payments .....	<u>15,000</u>	<u>\$2,044,000</u>
Less: Amount representing interest .....	—	
Present value of capital lease obligations .....	15,000	
Less: Current portion .....	<u>(15,000)</u>	
Long-term obligation at December 31, 2013 .....	<u>\$ —</u>	

The 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 and \$704,000, respectively, at December 31, 2013 and \$987,000 and \$961,000, respectively, at December 31, 2012.

Net rent expense was \$636,000 and \$708,000 for 2013 and 2012, respectively.

### *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 and bar code scanners. We periodically assess the need to provide for impairment on these purchase contracts and record a loss on purchase commitments when required. During 2012, we recorded losses of \$500,000 to cost of product revenue as a result of commitments to purchase materials for the SHOWWX that were in excess of our estimated future proceeds from sale of the SHOWWX. During 2013, no losses on purchase commitments were recorded.

## **12. Income taxes**

A provision for income taxes has not been recorded for 2013 and 2012 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, 2013, we have net operating loss carry-forwards of approximately \$326.0 million, for federal income tax reporting purposes. In addition, we have research and development tax credits of \$6.3 million. The net operating loss carry-forwards and research and development credits available to offset future taxable income, if any, will expire in varying amounts from 2017 to 2033 if not previously utilized. The research and development tax credits and the remaining net operating losses are scheduled to expire between 2018 and 2033. In certain circumstances, as specified in the Internal Revenue Code, a 50% or more ownership change by certain combinations of our stockholders during any three-year period would result in limitations on our ability to utilize our net operating loss carry-forwards.

Deferred tax assets are summarized as follows:

	<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>
Deferred tax assets, current		
Reserves .....	\$ 2,994,000	\$ 3,804,000
Other .....	621,000	710,000
Total gross deferred tax assets, current .....	<u>3,615,000</u>	<u>4,514,000</u>
Deferred tax assets, noncurrent		
Net operating loss carryforwards .....	111,339,000	104,893,000
R&D credit carryforwards .....	6,277,000	6,032,000
Depreciation/amortization deferred .....	24,526,000	26,594,000
Other .....	<u>7,544,000</u>	<u>7,573,000</u>
Total gross deferred tax assets, noncurrent .....	<u>149,686,000</u>	<u>145,092,000</u>
Net deferred taxes before valuation allowance .....	153,301,000	149,606,000
Less: Valuation allowance .....	<u>(153,301,000)</u>	<u>(149,606,000)</u>
Deferred tax assets .....	<u>\$ —</u>	<u>\$ —</u>

The valuation allowance and the research and development credit carry forwards account for substantially all of the difference between our effective income tax rate and the Federal statutory tax rate of 34%.

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, 2013 and at December 31, 2012.

We recognize interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2013 and 2012, we recognized no interest or penalties.

We file income tax returns in the U.S. federal jurisdiction and various states. Due to our operating loss and credit carry-forwards, the U.S. federal statute of limitations remains open for 1997 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 by the Company are made at the discretion of the Board of Directors. In March 2012, the Company discontinued matching contributions. Prior to March 2012, we matched 50% of employee contributions to the plan, up to 6% of the employee's per pay period compensation. During 2013 and 2012, we contributed \$0 and \$44,000, respectively, to the plan under the matching program.

### 14. Quarterly financial information (Unaudited)

The following table presents our unaudited quarterly financial information for the years ending December 31, 2013 and 2012 (in thousands, except per share data):

	<b>Fiscal Year 2013</b>			
	<b>December 31,</b>	<b>September 30,</b>	<b>June 30,</b>	<b>March 31,</b>
Revenue .....	\$ 1,217	\$ 964	\$ 1,870	\$ 1,801
Gross margin (loss) .....	1,164	880	1,007	1,000
Net loss .....	(2,421)	(3,667)	(3,436)	(3,654)
Net loss per share basic and diluted .....	(0.08)	(0.13)	(0.13)	(0.14)
	<b>Fiscal Year 2012</b>			
	<b>December 31,</b>	<b>September 30,</b>	<b>June 30,</b>	<b>March 31,</b>
Revenue .....	\$ 2,727	\$ 2,613	\$ 1,295	\$ 1,730
Gross margin (loss) .....	1,238	1,475	1,328	(2,600)
Net loss .....	(4,074)	(3,845)	(4,971)	(9,803)
Net loss per share basic and diluted .....	(0.16)	(0.15)	(0.26)	(0.58)

### 15. Subsequent Event

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. We expect to record a loss of \$5.0 million during the first quarter of 2014 on the exchange, as the fair market value of the common stock issued was greater than the obligation recorded due to the increase in stock price subsequent to year end.

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

There have been no changes in or disagreements with accountants in accounting or financial disclosure matters during the Company's fiscal years ended December 31, 2013 and 2012.

### **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) and 15d-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 on that evaluation, our CEO and CFO concluded that, as of December 31, 2013, 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) and 15d-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 (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its evaluation under the framework in *Internal Control — Integrated Framework (1992)*, our management concluded that our internal control over financial reporting was effective as of December 31, 2013.

(c) *Changes in internal controls over financial reporting.* There have not been any changes in our internal control over financial reporting during the quarter ended December 31, 2013 which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## ITEM 9B. OTHER INFORMATION

None

## PART III

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

Information regarding executive officers is included in Part I of this Annual Report on Form 10-K in Item 4A. The information required by this Item and not provided in Item 4A will appear under the caption “Discussion of Proposals Recommended by the Board” in the Proxy Statement, which section is incorporated in this Item by reference. The Proxy Statement will be filed prior to our 2014 Annual Meeting of Shareholders.

### ITEM 11. EXECUTIVE COMPENSATION.

The information required by this Item will appear under the captions “Executive Compensation,” “Compensation Committee Interlocks and Insider Participation” and “Director Compensation for 2013” in the Proxy Statement, which sections are incorporated in this Item by reference.

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

Information as of December 31, 2013 regarding equity compensation plans approved and not approved by stockholders is summarized in the following table:

Plan Category	Equity Compensation Plan Information		
	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for further issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by shareholders .....	1,905,000	\$8.86	940,000
Equity compensation plans not approved by shareholders .....	—	—	—
Total .....	<u>1,905,000</u>	<u>\$8.86</u>	<u>940,000</u>

The other information required by this Item will appear under the caption “Information About MicroVision Common Stock Ownership” in the Proxy Statement, which section is incorporated in this Item by reference.

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

The information required by this Item will appear under the captions “Certain Relationships and Related Transactions” and “Board Meetings and Committees” in the Proxy Statement, which sections are incorporated in this Item by reference.

### ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The information required by this Item will appear under the caption “Independent Registered Public Accounting Firm” in the Proxy Statement, which section is incorporated in this Item by reference.

## PART IV

### ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of the report:

Financial Statements

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2013 and 2012

Consolidated Statements of Operations for the years ended December 31, 2013 and 2012

Consolidated Statements of Comprehensive Loss for the years ended December 31, 2013 and 2012

Consolidated Statements of Shareholders' Equity for the years ended December 31, 2013 and 2012

Consolidated Statements of Cash Flows for the years ended December 31, 2013 and 2012

Notes to Consolidated Financial Statements

(b) Exhibits

The following exhibits are referenced or included in this report.

- 3.1 Amended and Restated Certificate of Incorporation of MicroVision, Inc., as amended<sup>(8)</sup>
- 3.2 Certificate of Amendment to the Amended and Restated Certificate of Incorporation of MicroVision, Inc.<sup>(13)</sup>
- 3.3 Bylaws of MicroVision, Inc.<sup>(2)</sup>
- 4.1 Form of Specimen Stock Certificate for Common Stock.<sup>(2)</sup>
- 4.2 Warrant Agreement dated November 16, 2011 by and between MicroVision, Inc. and American Stock Transfer and Trust Company, LLC.<sup>(12)</sup>
- 4.3 Form of Warrant issued under the Securities Purchase Agreement dated as of May 9, 2012 by and between MicroVision, Inc. and the investors named therein, as amended.
- 4.4 Warrant Agreement dated June 20, 2012 by and between MicroVision, Inc. and American Stock Transfer and Trust Company, LLC<sup>(14)</sup>
- 4.5 Form of Warrant issued under the Securities Purchase Agreement dated as of May 17, 2013 by and between MicroVision, Inc. and the investors named therein<sup>(17)</sup>
- 4.6 Form of Warrant issued under the Securities Purchase Agreement dated as of September 19, 2013 by and between MicroVision, Inc. and the investors named therein<sup>(18)</sup>
- 10.1 Assignment of License and Other Rights between The University of Washington and the Washington Technology Center and the H. Group, dated July 25, 1993.<sup>(1)</sup>
- 10.2 Project II Research Agreement between The University of Washington and the Washington Technology Center and MicroVision, Inc., dated October 28, 1993.<sup>(1)†</sup>
- 10.3 Exclusive License Agreement between The University of Washington and MicroVision, Inc., dated October 28, 1993.<sup>(1)†</sup>

10.4	Exclusive License Agreement between the University of Washington and MicroVision, Inc. dated March 3, 1994. <sup>(4)</sup>
10.5	MicroVision, Inc. 2013 Incentive Plan, as amended. <sup>(6)*</sup>
10.6	Independent Director Stock Option Plan, as amended. <sup>(3)*</sup>
10.7	Employment Agreement between MicroVision, Inc. and Alexander Y. Tokman dated April 7, 2009. <sup>(9)</sup>
10.8	Lease Agreement between CarrAmerica Reality Operating Partnership, L.P. and MicroVision, Inc., dated July 15, 2005. <sup>(5)</sup>
10.9	Change of Control Severance Plan
10.10	Jeff T. Wilson Severance and General Release Agreement. <sup>(15)</sup>
16.1	Letter from PricewaterhouseCoopers LLP to the Securities and Exchange Commission dated October 2, 2012. <sup>(16)</sup>
23.1	Consent of Independent Registered Public Accounting Firm – Moss Adams LLP.
31.1	Principal Executive Officer certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Principal Financial Officer certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Principal Executive Officer certification pursuant to Rule 13a-14(b) or Rule 15d-14(b) and Section 1350, Chapter 63 of Title 18 United States Code (18 U.S.C. 1350), as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002.
32.2	Principal Financial Officer certification pursuant to Rule 13a-14(b) or Rule 15d-14(b) and Section 1350, Chapter 63 of Title 18 United States Code (18 U.S.C. 1350), as adopted pursuant to Section 906 of 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

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- (1) Incorporated by reference to the Company's Form SB-2 Registration Statement, Registration No. 333-05276-LA.
  - (2) Incorporated by reference to the Company's Post-Effective Amendment to Form S-3 Registration Statement, Registration No. 333-102244.
  - (3) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended June 30, 2002.
  - (4) Incorporated by reference to the Company's Current Report on Form 8-K filed on March 5, 2003.
  - (5) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended June 30, 2005.
  - (6) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended September 30, 2008.
  - (7) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended September 30, 2009.
  - (8) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended June 30, 2009.
  - (9) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended March 31, 2009.
  - (10) Incorporated by reference to the Company's Current Report on Form 8-K filed on May 6, 2011.

- (11) Incorporated by reference to the Company's Current Report on Form 8-K filed on September 13, 2011.
  - (12) Incorporated by reference to the Company's Current Report on Form 8-K filed on November 15, 2011.
  - (13) Incorporated by reference to the Company's Current Report on Form 8-K filed on February 17, 2012.
  - (14) Incorporated by reference to the Company's Current Report on Form 8-K filed on June 16, 2012.
  - (15) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended September 30, 2012.
  - (16) Incorporated by reference to the Company's Current Report on Form 8-K filed on October 3, 2012.
  - (17) Incorporated by reference to the Company's Current Report on Form 8-K filed on May 17, 2013.
  - (18) Incorporated by reference to the Company's Current Report on Form 8-K filed on September 19, 2013.
- † Subject to confidential treatment.
- \* Management contracts and compensatory plans and arrangements required to be filed as exhibits pursuant to Item 15(b) of this Report.



## SIGNATURES

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

MICROVISION, INC.

Date: March 6, 2014

By   /s/ ALEXANDER TOKMAN  
**Alexander Tokman**  
**President and Chief Executive Officer**

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 March 6, 2014.

<u>Signature</u>	<u>Title</u>
<u>/s/ ALEXANDER TOKMAN</u> <b>Alexander Tokman</b>	Chief Executive Officer and Director (Principal Executive Officer)
<u>/s/ STEPHEN HOLT</u> <b>Stephen Holt</b>	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)
<u>/s/ RICHARD A. COWELL</u> <b>Richard A. Cowell</b>	Director
<u>/s/ SLADE GORTON</u> <b>Slade Gorton</b>	Director
<u>/s/ JEANETTE HORAN</u> <b>Jeanette Horan</b>	Director
<u>/s/ PERRY MULLIGAN</u> <b>Perry Mulligan</b>	Director
<u>/s/ BRIAN TURNER</u> <b>Brian Turner</b>	Director
<u>/s/ THOMAS WALKER</u> <b>Thomas Walker</b>	Director

Annual Report



# Corporate Information

<b>Board of Directors</b>	Richard A. Cowell	Retired Principal, Booz Allen Hamilton, Inc.
	Slade Gorton	Former of Counsel, K&L Gates, LLP; Former U.S. Senator
	Jeanette Horan	Chief Information Officer, IBM
	Perry Mulligan	Senior Vice President, Operations, Emulex Corporation
	Alexander Y. Tokman	President and Chief Executive Officer, MicroVision, Inc.
	Brian Turner	Former Chief Financial Officer, Coinstar, Inc.
	Thomas M. Walker	Former Executive Vice President, MicroVision, Inc.
<b>Executive Officers</b>	Alexander Y. Tokman	President and Chief Executive Officer
	Stephen P. Holt	Chief Financial Officer
	David J. Westgor	Vice President, General Counsel & Secretary
	Dale Zimmerman	Vice President, Research and Development
<b>Transfer Agent</b>	American Stock Transfer and Trust Company 59 Maiden Lane, New York, NY 10038 Shareholder Services P: 800-937-5449	
<b>Stock Listing</b>	MicroVision, Inc. common stock is traded on the NASDAQ Stock Market under the Symbol MVIS	
<b>Investor Inquiries</b>	MicroVision, Inc. Attn: Investor Relations, 6244 185th Ave NE, Suite 100, Redmond, WA 98052 P: 425-936-6847 <a href="mailto:ir@microvision.com">ir@microvision.com</a>	
<b>Corporate Counsel</b>	Ropes & Gray LLP Prudential Tower, 800 Boylston St., Boston, MA 02199-3600	
<b>Independent Accountants</b>	Moss Adams LLP	



**MicroVision**

[www.microvision.com](http://www.microvision.com)

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