



MicroVision

2019 Annual Report
and
Proxy Statement for 2020 Annual Meeting of Shareholders

Certain statements contained in this annual report, including, but not limited to, those relating to projections of revenues, income or loss, payment of royalties, capital expenditures, capabilities of future products, plans for product development and cooperative arrangements, value of our technology to potential customers, technology development by third parties, future operations, financing needs or plans of MicroVision, Inc. and those using words such as “anticipate,” “could,” “would,” “believe,” “estimate,” “expect,” “goal,” “may,” “plan,” “project,” “will,” “convinced,” and other similar expressions 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 forward-looking statements include the following: the risk that the company may not succeed in finding licensing or other strategic solutions with acceptable timing, benefits or costs, the company may be unable to evidence compliance with Nasdaq criteria within the period of time that was granted by the Nasdaq panel, our ability to operate with limited cash or to raise additional capital when needed; market acceptance of our technologies and products, and for products incorporating our technologies; the failure of our commercial partners to perform as expected under our agreements; the impact of the COVID-19 (coronavirus); our ability to identify parties interested in paying any amounts or amounts we deem desirable for the purchase or license of intellectual property assets; 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 retain key employees; 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 and to develop partnership opportunities; 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 our SEC reports, including our 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 MicroVision Stockholder,

Last year started with much promise and we accomplished much in advancing our technology. Unfortunately, developments in early 2020 caused us to reprioritize our focus. Let me share with you a quick recap of 2019 and discuss what's ahead.

In the first half of 2019 we completed the development portion of the April 2017 contract with a leading technology company and in the second half of the year we began producing components for the customer under the supply portion of that contract. The production of components ran well from the start, but the volume of customer orders was below our expectations. As a result, in March 2020 we entered into an agreement with the customer to have them take over production of the components and pay MicroVision a royalty for each component they ship. The amount of the royalty is equal to the amount of gross profit we would have made on each unit if we produced the components.

The COVID-19 virus impacted production of components for our April 2017 customer at our contract manufacturer in the first quarter of 2020. Since we transferred production to the customer in March 2020, we no longer have direct manufacturing exposure related to COVID-19. However, if ongoing production of the component by the April 2017 customer is affected by the virus, the royalty we expect to collect could be lower. In addition, as a result of the COVID-19 virus, our employees are currently working from home or at the office based on the nature of the work they're doing. While we are continuing to advance other projects, it is likely the timeframe for those projects could be affected by the virus' impact in the community.

We also began discussions in 2019 with several top tier automotive manufacturers and their suppliers about our ability to support up to ADAS Level 3 autonomy. We believe a vehicle with a MicroVision 200-plus meter LiDAR module as part of its safety system would be very competitive and have the ability to predict the intent of other cars around it with high accuracy and low latency at highway speeds.

Finally, we spent much of 2019 working with a leading North American AI platform owner on developing a Class 1 Interactive Display solution that is truly unique, meeting laser safety requirements while still producing a large bright image. In February 2020, after a prolonged negotiation process, we were advised, and frankly disappointed, that the potential customer had decided not to introduce a product in the second half of 2020 as we expected. As a result of that decision we are evaluating our options for moving forward in 2020.

Looking ahead, we believe our technologies, including Class 1 Interactive Display, Augmented and Mixed Reality, Consumer LiDAR and Automotive LiDAR, can offer significant value to potential customers and we are exploring licensing of our various technologies and designs as well as other strategic alternatives. As we reprioritize our focus we have also reduced operating expenses. In the first quarter of 2020, we significantly reduced our headcount and other expenses, while retaining a core team and competency to support the potential opportunities that we are exploring.

I want to thank you – our fellow MicroVision stockholders, customers, suppliers and employees – for your support as we move forward.



Sumit Sharma
Chief Executive Officer

Notice of Annual Meeting
of Shareholders
and
Proxy Statement

MICROVISION, INC.
NOTICE OF 2020 ANNUAL MEETING
May 19, 2020

Dear MicroVision Shareholder:

Please take notice that the Annual Meeting of Shareholders of MicroVision, Inc. (the "Company") will be held virtually on May 19, 2020 at 9:00 a.m. Pacific Time. You will be able to attend the Annual Meeting, vote and submit your questions during the Annual Meeting via live webcast by visiting www.virtualshareholdermeeting.com/MVIS2020. Prior to the Annual Meeting, you will be able to vote at www.proxyvote.com for the following purposes:

1. To elect the seven director nominees named in the accompanying proxy statement to serve until the next annual meeting;
2. To approve an amendment to the Company's Amended and Restated Certificate of Incorporation, as amended (the "Certificate of Incorporation") to amend the total number of shares of the Company's authorized common stock;
3. To approve an amendment to the Company's Certificate of Incorporation to effect a reverse stock split of the Company's common stock;
4. To approve the 2020 MicroVision, Inc. Incentive Plan;
5. To ratify the selection of Moss Adams LLP as the Company's independent registered public accounting firm for the current fiscal year;
6. To hold a non-binding advisory vote on the compensation of the Company's named executive officers; and
7. 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 March 25, 2020 (the "Record Date"), 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 185th Avenue NE, Suite 100, Redmond, Washington 98052, during ordinary business hours, from May 9, 2020 to the date of the Annual Meeting.

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 May 19, 2020. The proxy materials and the annual report to shareholders for the fiscal year ended December 31, 2019 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 director named in this proxy statement, a vote **FOR** the approval of an amendment to the Company's Certificate of Incorporation to amend the total number of shares of the Company's authorized common stock, a vote **FOR** the approval of an amendment to the Company's Certificate of Incorporation to effect a reverse stock split of the Company's common stock, a vote **FOR** the approval of the proposed 2020 MicroVision, Inc. Incentive Plan, a vote **FOR** the ratification of the selection of Moss Adams LLP as the Company's independent registered public accounting firm and 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").

At the Annual Meeting, you will have an opportunity to ask questions about the Company and its operations. You may attend the Annual 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 via the Internet and vote during the meeting.

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

Sincerely,



David J. Westgor
Secretary

April 3, 2020
Redmond, Washington

MICROVISION, INC.

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

PROXY STATEMENT FOR ANNUAL MEETING OF SHAREHOLDERS May 19, 2020

TABLE OF CONTENTS

INFORMATION ABOUT THE ANNUAL MEETING AND VOTING	1
DISCUSSION OF PROPOSALS RECOMMENDED BY THE BOARD	4
Proposal One—Election of Directors	4
Board Meetings and Committees	6
Shareholder Communication with the Board of Directors	10
Code of Ethics	10
Employee, Officer and Director Hedging	10
Proposal Two—Amendment to the Company’s Certificate of Incorporation to Amend the Authorized Number of Shares of Common Stock	12
Rationale for Increase in Authorized Number of Shares of Common Stock	12
Effects of the Increase in Authorized Common Stock	12
Potential Anti-takeover Effects of Increase in Authorized Common Stock	13
No Appraisal Rights	13
No Interests of Directors and Executive Officers	13
Vote Required	13
The Proposed Amendment	13
Proposal Three—Amendment to the Company’s Certificate of Incorporation to Effect a Reverse Stock Split	15
Rationale for the Reverse Stock Split	15
Potential Advantages of the Reverse Stock Split	15
Risks Associated with the Reverse Stock Split	16
Principal Effects of the Reverse Stock Split	17
Procedure for Effecting Reverse Stock Split and Exchange of Stock Certificates	17
Fractional Shares	18
Accounting Matters	18
Discretionary Authority of the Board of Directors to Abandon Reverse Stock Split	18
No Dissenter’s Rights	18
No Interests of Directors and Executive Officers	18
Vote Required	18
The Proposed Amendment	19
Proposal Four—Approval of the 2020 MicroVision, Inc. Incentive Plan	20
Summary of the Incentive Plan	20
Federal Income Tax Consequences	22
Proposal Five—Ratification of the Selection of Independent Registered Public Accounting Firm	24
Proposal Six—Advisory Vote on Executive Compensation	25
OTHER BUSINESS	25

EXECUTIVE COMPENSATION	26
Executive Compensation Overview	26
Summary Compensation Table for 2019	28
Outstanding Equity Awards at Year End 2019	29
Potential Payments upon Termination or Change in Control	30
Severance and Employment Agreements	30
Pay Ratio	32
Director Compensation for 2019	33
INFORMATION ABOUT MICROVISION COMMON STOCK OWNERSHIP	35
Security Ownership of Certain Beneficial Owners and Management	35
CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE	36
AUDIT COMMITTEE REPORT	36
Review of the Company's Audited Financial Statements	36
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	37
Accountant Fees and Services	37
Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditor	37
INFORMATION ABOUT SHAREHOLDER PROPOSALS	38
ADDITIONAL INFORMATION	39
Annual Report	39
Incorporation by Reference	39
Householding	39
Voting by Telephone or the Internet	39
Appendix A 2020 MicroVision, Inc. Incentive Plan	A-1

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 2020 Annual Meeting of Shareholders (the “Annual Meeting”). The Annual Meeting will be held virtually on May 19, 2020 at 9:00 a.m. Pacific Time, at www.virtualshareholdermeeting.com/MVIS2020. You will be able to attend the Annual Meeting, vote and submit your questions during the Annual Meeting via live webcast through the link. You will need the 16-digit control number provided on the Notice of Internet Availability of Proxy Materials or your proxy card (if applicable).

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 March 25, 2020 (the “Record Date”) there were 130,177,628 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 3, 2020 to all shareholders entitled to vote their shares at the Annual Meeting.

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 named in this proxy statement;
- “**FOR**” approval of an amendment to the Company’s Certificate of Incorporation to amend the total number of shares of the Company’s authorized common stock;
- “**FOR**” approval of an amendment to the Company’s Certificate of Incorporation to effect a reverse stock split of common stock;

“**FOR**” approval of the 2020 MicroVision, Inc. Incentive Plan;

“**FOR**” ratification of the selection of Moss Adams LLP as the Company’s independent registered public accounting firm; and

“**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”).

If any other matter is presented, your proxy will vote in accordance with his or her 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 2, Proposal 3 and Proposal 5, 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: You may attend the meeting via the Internet and vote during the meeting. Shareholders may participate in the Annual Meeting by visiting the www.virtualshareholdermeeting.com/MVIS2020. You will need the 16-digit control number included on your Notice, on your proxy card or on the instructions that accompanied your proxy materials. Shares held in your name as the shareholder of record may be voted electronically during the meeting. Shares for which you are the beneficial owner but not the shareholder of record also may be voted electronically during the meeting. However, even if you plan to attend the Annual Meeting virtually, the Company recommends that you vote your shares in advance, so that your vote will be counted if you later decide not to attend 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 (Proposal 1)?

A: The seven nominees for director who receive the most votes at the 2020 Annual Meeting 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 Company’s Certificate of Incorporation to amend the total number of shares of the Company’s authorized common stock (Proposal 2)?

A: The affirmative vote of a majority of the outstanding shares of the Company’s common stock is required to approve the amendment to the Company’s Certificate of Incorporation to amend the total number of shares

of the Company's authorized common stock. As a result, abstentions and broker non-votes will have the same effect as a vote "against" the proposal.

Q: What vote is required to approve the proposed amendment to the Company's Certificate of Incorporation to effect a reverse stock split of common stock (Proposal 3)?

A: The affirmative vote of a majority of the outstanding shares of the Company's common stock is required to approve the amendment to the Company's Certificate of Incorporation to effect a reverse stock split of common stock. As a result, abstentions and broker non-votes will have the same effect as a vote "against" the proposal.

Q: What vote is required to approve the 2020 MicroVision, Inc. Incentive Plan (Proposal 4)?

A: The affirmative vote of a majority of the votes properly cast on the proposal at the 2020 Annual Meeting is required to approve the 2020 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 5)?

A: The affirmative vote of a majority of the votes properly cast on the proposal at the 2020 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 the vote.

Q: What vote is required to approve the vote on the compensation of the Company's named executive officers (Proposal 6)?

A: For Proposal 6, you may vote "FOR", "AGAINST", or "ABSTAIN". Because Proposal 6 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 the vote.

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, employees or proxy solicitor also may solicit proxies by telephone, fax or other electronic means of communication, or in person. The Company will also reimburse banks, brokers, nominees, fiduciaries and solicitors, 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.

DISCUSSION OF PROPOSALS RECOMMENDED BY THE BOARD

Proposal One—Election of Directors

The Board oversees the Company's business affairs and monitors the performance of management. In accordance with corporate governance principles, the Board does not directly 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 director and 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 director and nominee as of March 25, 2020 is set forth on page 35 of this Proxy Statement.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Simon Biddiscombe(1)(2)(3)*	52	Director
Robert P. Carlile(1)(2)*	64	Director
Yalon Farhi	58	Director
Perry M. Mulligan	62	Director
Berne D.L. Strom(1)(2)(3)*	72	Director
Brian Turner(2)(3)*	60	Chairman of the Board and Lead Independent Director
Sumit Sharma	46	Director and Chief Executive Officer

* Independent Director

- (1) Member of the Compensation Committee
- (2) Member of the Audit Committee
- (3) Member of the Nominating Committee

Perry M. Mulligan has served as a director of the Company since January 2010 and Chief Executive Officer of the Company from November 2017 to February 2020. Mr. Mulligan has over 30 years of experience in

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

Simon Biddiscombe joined the Company's board in December 2018. Mr. Biddiscombe is Chief Executive Officer and a board member at MobileIron, the security backbone for the digital enterprise protecting corporate data across apps, networks, and clouds. Since October 2017 he has led MobileIron's overall business strategy and is responsible for MobileIron's day-to-day-operations. Prior to being CEO of MobileIron, Simon was CFO from May 2015 to October 2017 and CFO at ServiceSource International from September 2014 to April 2015. Simon has over 20 years of management and financial experience. He began his career at PricewaterhouseCoopers LLP where he spent nine years, including the firm's Silicon Valley technology accounting and audit practice. He previously has served in several executive leadership roles including Chief Financial Officer and Chief Executive Officer at QLogic, Chief Financial Officer at Mindspeed Technologies, and Chief Financial Officer at Wyle Electronics. Mr. Biddiscombe holds a BA in business studies from the University of Glamorgan and is a Fellow of the Institute of Chartered Accountants in England and Wales. Mr. Biddiscombe brings expertise in finance, accounting, operations, business strategy and leadership.

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

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

Sumit Sharma, was appointed Chief Executive Officer in February 2020, and served as Chief Operating Officer from June 2018 to February 2020, after serving as Vice President of Product Engineering and Operations since February 2017 and Vice President and Senior Director of Operations since September 2015. Prior to MicroVision, from April 2015 to September 2015, he was a Product Development and Operations consultant at BlueMadison Consulting. From November 2013 to March 2015, he was the Senior Director, Advanced Manufacturing Operations and Technology Development at Jawbone. From March 2011 to October 2013, he was the Head of Manufacturing Operations for project GLASS at Google. Mr. Sharma has extensive experience in

optics, wearable technology, product development and qualification for automotive industry. Mr. Sharma also has deep experience in global operations and developing strategic partnerships. A patent holder, Mr. Sharma received his baccalaureate degree in engineering from New Jersey Institute of Technology.

Berne D.L. Strom has served as a director of the Company since October 2017. Ms. Strom has over 25 years of experience in executive management, marked by advisory roles and board memberships at Polaroid Corporation, Hughes Electronics/DirecTV, Benchmark Electronics and other public and privately held companies. Since April 2015, Ms. Strom has served as a Senior Advisor to Seattle-based investment bank Cascadia Capital and SkyLIFE Technologies. From 2008 to 2014 Ms. Strom was Chairman and CEO of WebTuner Corp., continuing as Chairman until 2015. Ms. Strom has also served as Chairman and CEO of Strom Group, an investment, management consulting, and business advisory firm focused on high technology companies. Prior to that, Ms. Strom founded or ran Gemstar/TV Guide International (now part of TIVO), Priceline.com, and USA Digital Radio (now HD Radio). Further, she was a founding partner of Revitalization Partners, a Seattle-based business advisory firm. In July 2019 Ms. Strom became Chairman of the Board of the Center for Ethics and Social Responsibility at the Leeds School of Business at the University of Colorado at Boulder. Ms. Strom was named one of the leading business women of the State of Washington with its Lead Where You Land award and is the recipient of many other awards and recognition for her mentorship, entrepreneurship and leadership in both commercial and civic organizations. Ms. Strom brings business management and leadership expertise and knowledge to the Board.

Brian Turner has served as a director of the Company since July 2006 and currently serves as Chairman of the Board and Lead Independent Director. Mr. Turner was the Chief Financial Officer of Coinstar Inc. from 2003 until June 2009. Prior to Coinstar, from 2001 to 2003, he served as Senior Vice President of Operations, Chief Financial Officer and Treasurer of Real Networks, Inc., a digital media and technology company. Prior to Real Networks, from 1999 to 2001, Mr. Turner was employed by BSquare Corp., a software company, where he initially served as Senior Vice President of Operations, Chief Financial Officer and Secretary, before being promoted to President and Chief Operating Officer. From 1995 to 1999, Mr. Turner was Chief Financial Officer and Vice President of Administration of Radisys Corp., an embedded software company. Mr. Turner's experience also includes 13 years at PricewaterhouseCoopers LLP where he held several positions including Director, Corporate Finance. Mr. Turner sits on various private company boards and was a member of the Board, audit and compensation committee of Cray, Inc., a public company until 2019. Mr. Turner also served on Symetra Material Fund ("SMF") from 2012 to 2015 where he was Lead Director and on the Audit and Compensation Committee. SMF was a registered Investment Company. Mr. Turner brings financing expertise and knowledge of operational finance and accounting to the Board.

Board Meetings and Committees

Our Board of Directors met eight times during 2019. All directors attended at least 75% of the meetings of the Board and meetings of the Board committees on which they served. We have adopted a policy that each of our continuing directors be requested to attend our annual meeting each year. All directors then in office attended our annual meeting in 2019.

Independence Determination

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

In its annual review of director independence, the Board considers all commercial, banking, consulting, legal, accounting, charitable, or other business relationships any director may have with us. As a result of its annual review, the Board has determined that all of the directors, with the exception of Mr. Mulligan, Mr. Farhi

and Mr. Sharma, are independent (the “Independent Directors”). The Independent Directors are identified by an asterisk in the table above.

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

In addition to the Board-level standards for director independence, the directors who serve on the Audit Committee each satisfy standards established by the 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 Chief Executive Officer and Chairman and Lead Independent Director currently well serve the interests of us and our

shareholders. Our Chief Executive Officer can devote his attention to leading the Company and focus on our business strategy. The Board believes that our separate Chairman and Lead Independent Director provides an appropriate level of independence in the Company's leadership through his review and approval of meeting agendas and his leadership of the Board.

Committees

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

The Audit Committee

The Board has an Audit Committee which assists the Board by monitoring and overseeing: (1) our accounting and financial reporting processes and the audits of our financial statements, (2) the integrity of our financial statements, (3) our compliance with legal and regulatory requirements, and (4) the performance of our internal finance and accounting personnel and our independent auditors. The Audit Committee conducts discussions related to our earnings announcements and periodic filings, as well as numerous other informal meetings and communications among the Chair, various Audit Committee members, the independent auditors and/or members of our management. Robert P. Carlile, Brian Turner and Thomas M. Walker served on the Audit Committee, with Mr. Carlile serving as Chairman. On February 24, 2020 Simon Biddiscombe and Bernee Strom were appointed to the Audit Committee to replace Thomas M. Walker who resigned from the Board on February 19, 2020. The Audit Committee met four times during 2019.

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 Robert P. Carlile and Brian Turner, each an independent director. Mr. Carlile has thirty-nine years of experience in various roles in Public Accounting at KPMG and Arthur Andersen. Mr. Turner has thirteen years of experience as a chief financial officer of four public companies and has thirteen years of experience in various roles at PricewaterhouseCoopers LLP, including Director, Corporate Finance.

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's charter provides the Compensation Committee with the authority to retain a compensation consulting firm in its discretion. In 2019 the Compensation Committee retained Meridian Compensation Partners, LLC ("Meridian") to provide independent compensation consulting services after assessing the independence and determining that there was no conflict of interest. Meridian advised the Compensation Committee on a variety of matters including executive and director compensation, pay philosophy, compensation peer group, competitive market information,

incentive plan design for annual and long-term incentive compensation, emerging best practices in compensation matters and alignment of executive and director compensation with shareholder interests.

The Compensation Committee also serves as the Plan Administrator for our stock option plans pursuant to authority delegated by the Board. Bernee D.L. Strom, Robert P. Carlile and Simon Biddiscombe currently serve as members of the Compensation Committee, with Ms. Strom serving as Chairperson. The Compensation Committee met six times during 2019.

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.

Berne D.L. Strom, Brian Turner and Simon Biddiscombe currently serve as members of the Nominating Committee, with Mr. Turner serving as Chairman. The Nominating Committee met once during 2019.

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

- The name, address, and number of shares of common stock beneficially owned by the nominating shareholder and each participant in a nominating shareholder group (including the name and address of all beneficial owners of more than 5% of the equity interests of a nominating shareholder or participant in a nominating shareholder group);
- A representation that the nominating shareholder, or nominating shareholder group, has been the beneficial owner of more than 5% of our outstanding shares of common stock for at least one year and will continue to beneficially own at least 5% of our outstanding shares of common stock through the date of the annual meeting;
- A description of all relationships, arrangements, or understandings between or among the nominating shareholder (or any participant in a nominating shareholder group) and the candidate or any other person or entity regarding the candidate, including the name of such person or entity;

- All information regarding the candidate that we would be required to disclose in a proxy statement filed pursuant to the rules and regulations of the SEC with respect to a meeting at which the candidate would stand for election;
- Confirmation that the candidate is independent, with respect to the Company, under the independence requirements established by us, the SEC, and Nasdaq listing requirements, or, if the candidate is not independent with respect to the Company under all such criteria, a description of the reasons why the candidate is not independent;
- The consent of the candidate to be named as a nominee and to serve as a member of the Board if nominated and elected;
- A representation signed by the candidate that if elected he or she will: (1) represent all shareholders of the Company in accordance with applicable laws, and our Certificate of Incorporation, by-laws, and other policies; (2) comply with all rules, policies, or requirements generally applicable to non-employee directors; and (3) upon request, complete and sign customary Directors and Officers Questionnaires.

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

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

Shareholder Communication with the Board of Directors

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

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.

Employee, Officer and Director Hedging

The Company considers it improper and inappropriate for any director, officer or other employee of the Company to engage in speculative transactions in the Company's securities. It therefore is the Company's policy

that directors, officers and other employees may not engage in any of the following transactions with respect to the Company's securities:

Short Sales: Short sales of the Company's securities portray an expectation on the part of the seller that the securities will decline in value and could signal to the market that the seller has no confidence in the Company or its short-term prospects. For these reasons, short sales of the Company's securities are prohibited by the Company's policy.

Publicly Traded Options: Transactions in options also may focus the person's attention on short-term performance at the expense of the Company's long-term objectives. Accordingly, transactions in puts, calls or other derivative securities, on an exchange or in any other organized market, are prohibited by the Company's policy.

Hedging Transactions: The Company strongly discourages hedging transactions of the Company's securities, such as zero-cost collars and forward sale contracts. Any requests to engage in hedging transactions of the Company's stock must be submitted to the General Counsel (or the Board of Directors for the CEO, CFO and General Counsel). No such transactions were approved during the fiscal year ended December 31, 2019.

Margin Accounts and Pledges: Because a margin sale or foreclosure sale may occur at a time when the pledgor is aware of material, nonpublic information or otherwise is not permitted to trade in the Company's securities, directors, officers and other employees are prohibited from holding Company securities in a margin account or pledging Company securities as collateral for a loan, except to the Company.

Limit Orders: The General Counsel must review the effective period and timing of any limit order in advance of placing such an order. In general, limit orders will not be approved that begin before or extend after the trading window guidelines discussed above. Despite prior approval an employee must cancel any limit order if the employee later learns material, nonpublic information before the execution of the trade.

Proposal Two—Amendment to the Company’s Certificate of Incorporation to Amend the Authorized Number of Shares of Common Stock

Our Board of Directors has approved, subject to shareholder approval, an amendment to our Certificate of Incorporation, increasing our authorized shares of common stock from 150,000,000 shares to 250,000,000 shares. The amendment to our authorized shares of common stock will become effective upon the filing of the amendment with the Secretary of State of Delaware. **If Proposal Three (Reverse Stock Split) is also approved (and our Board does not determine to abandon such proposal), then we would also proportionately reduce the number of authorized shares of common stock.** For example, if this Proposal Two were approved and Proposal Three were also approved, and the Board fixed a reverse stock split ratio of 10:1, then the number of authorized shares of common stock upon effectiveness of the reverse stock split would be 25,000,000 shares.

Rationale for Increase in Authorized Number of Shares of Common Stock

As of March 25, 2020, there were approximately 130,177,628 shares of the Company’s common stock issued and outstanding and approximately 5,792,963 shares of common stock reserved for future issuance under the Company’s outstanding options and convertible securities. Thus, approximately 14,029,409 authorized shares of common stock currently remain available for issuance.

The Board of Directors would like to increase the number of authorized shares of common stock to provide the Company with flexibility to issue shares of common stock for general corporate purposes, which could include, among other uses, financings, strategic partnering arrangements, equity incentive plans, acquisitions of assets or businesses, stock splits or stock dividends. The availability of additional authorized shares of common stock would allow the Company to accomplish these goals, and other business and financial objectives, in the future without shareholder approval, except as may be required in particular cases by the Company’s charter documents, applicable law or the rules of any stock exchange or other system on which the Company’s securities may then be listed.

The Board of Directors believes it would be in the best interests of the Company and its shareholders to have shares of common stock available for any of these purposes if needed. Although the Company expects to require raising additional capital to fund its operations, which may involve the issuance of common stock, it currently has no transaction pending and does not have plans currently for authorizing any other issuance of common stock other than pursuant to the Incentive Plan discussed in Proposal Four below.

If this proposal is not approved, the Company will be severely limited in its ability to engage in various transactions involving issuances of common stock, such as financings, strategic partnering arrangements, equity incentive plans and acquisitions of assets or businesses. 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.

Effects of the Increase in Authorized Common Stock

Approving the amendment to increase the authorized number of shares of the Company’s common stock will not result in any dilution to current shareholders unless and until the Company issues such shares in the future. The Board of Directors selected the size of the increase to provide the company with sufficient authorized shares for use in any needed financing transactions, as well as to provide it the ability to take advantage of other opportunities that may be available to it that would require the use of shares of common stock without the cost and time that would be needed to seek further amendments to its Certificate of Incorporation.

If this proposal is approved, the newly authorized shares of common stock would have the same rights as the presently authorized shares, including the right to cast one vote per share of common stock. Although the authorization of additional shares would not, in itself, have any effect on the rights of any holder of the

Company's common stock, the future issuance of additional shares of common stock (other than a stock split or dividend) would have the effect of diluting the voting rights and could have the effect of diluting earnings per share and book value per share of existing shareholders.

Potential Anti-takeover Effects of Increase in Authorized Common Stock

In addition to the more traditional uses described above, the Company could issue shares of its stock as a defense against efforts to obtain control of the Company. The Board of Directors does not intend or view the increase in authorized shares of stock as an anti-takeover measure, nor is the Company aware of any effort by any third party to accumulate our securities or obtain control of the Company by means of a merger, tender offer, solicitation in opposition to management or otherwise.

No Appraisal Rights

Our shareholders are not entitled to dissenters' or appraisal rights under the General Corporation Law of the State of Delaware with respect to the proposed amendment to our Certificate of Incorporation to increase the authorized number of shares, and we will not independently provide the shareholders with any such right.

No Interests of Directors and Executive Officers

Our directors and executive officers have no substantial interests, directly or indirectly, in the matters set forth in this proposal except to the extent of their ownership of shares of our common stock.

Vote Required

The affirmative vote of a majority of the outstanding shares of the Company's common stock is required to approve the amendment to the Company's Certificate of Incorporation to amend the total number of shares of the Company's authorized common stock. As a result, abstentions and broker non-votes will have the same effect as a vote "against" the proposal. Your vote is therefore extremely important.

The Proposed Amendment

This general description of Proposal Two is qualified in its entirety by reference to the text of the amendment set forth in this Proposal Two for the increase of the total number of authorized shares of common stock. If Proposal Two is approved by shareholders, it will become effective upon the filing of a Certificate of Amendment with the State of Delaware, which MicroVision would intend to file promptly following the shareholder vote on Proposals 2 and 3 during the Annual Meeting. If Proposal Two is not approved, the Certificate of Incorporation will continue to allow for the authorization of 150,000,000 shares of common stock (or 15,000,000 shares of common stock, as adjusted for the reverse stock split set forth in Proposal 3, if approved and not abandoned by the Board (assuming a reverse stock split ratio of 10:1)).

The first paragraph of ARTICLE IV of the Certificate of Incorporation shall be amended and restated to read in its entirety as follows if our shareholders vote to approve this Proposal Two (with the following language not reflecting any amendments effected pursuant to Proposal Three):

The total number of shares of capital stock which this corporation shall have the authority to issue is two hundred seventy-five million (275,000,000) shares, consisting of (i) two hundred fifty million (250,000,000) shares of common stock, \$.001 par value ("Common Stock") and (ii) twenty-five million (25,000,000) shares of preferred stock, \$.001 par value ("Preferred Stock").

However, if Proposal Three (Reverse Stock Split) is also approved (and not abandoned by the Board) then we would also proportionately reduce the number of authorized shares of common stock. For example, if this

Proposal Two were approved and Proposal Three were also approved, and the Board fixed a reverse stock split ratio of 10:1, then the number of authorized shares of common stock upon effectiveness of the reverse stock split would be 25,000,000 shares.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE “FOR” THE APPROVAL OF THE AMENDMENT TO THE COMPANY’S CERTIFICATE OF INCORPORATION TO AMEND THE AUTHORIZED NUMBER OF SHARES OF COMMON STOCK DESCRIBED ABOVE.

Proposal Three—Amendment to the Company’s Certificate of Incorporation to Effect a Reverse Stock Split

Our Board of Directors has unanimously adopted a resolution approving, declaring advisable and recommending to the shareholders for their approval a proposal to amend our Certificate of Incorporation to effect a reverse stock split (the “Reverse Stock Split”) at any whole number ratio between, and inclusive of, one for five (every five shares would be combined into one) and one for twenty (every twenty shares would be combined into one). Approval of this proposal will grant the Board of Directors the authority, without further action by the shareholders, to carry out the amendment to the Certificate of Incorporation at any time within ninety days after the date shareholder approval for the amendment is obtained, with the exact exchange ratio and timing of the Reverse Stock Split to be determined at the discretion of the Board of Directors. The decision whether and when to effect the Reverse Stock Split, and at what whole number ratio to effect the Reverse Stock Split, will be based on a number of factors, including market conditions, existing and anticipated trading prices for our common stock and the continued listing requirements of The Nasdaq Global Market.

If this proposal is approved and becomes effective, then we would proportionally reduce the number of authorized shares of common stock. The Reverse Stock Split will not change the number of authorized shares of preferred stock. The Reverse Split will not change the par value of the common stock or the preferred stock.

Rationale for the Reverse Stock Split

Our common stock trades on The Nasdaq Global Market, which we believe helps support and maintain stock liquidity and company recognition for our shareholders. Companies listed on The Nasdaq Global Market, however, are subject to various continued listing standards imposed by Nasdaq. One of these standards is the “minimum bid price” requirement, which requires that the bid price of the common stock of listed companies be at least \$1.00 per share. A listed company risks being delisted and removed from The Nasdaq Global Market if the closing bid price of its stock remains below \$1.00 per share for an extended period of time.

As previously disclosed, on December 12, 2019, we received written notice from the Nasdaq Listing Qualifications Staff (the “Staff”) indicating that, due to our continued non-compliance with Nasdaq Listing Rule 5450(a), the Staff had determined to delist our securities from Nasdaq unless we timely requested a hearing before the Nasdaq Hearings Panel (the “Panel”). Following our hearing before the Panel on January 23, 2020, we received formal notification from the Panel on February 4, 2020 that it had granted us an extension through June 9, 2020 to evidence compliance with the minimum \$1.00 bid price requirement. In order to evidence compliance with the bid price requirement, we must evidence a closing bid price of at least \$1.00 per share for a minimum of ten consecutive business days.

Effecting the Reverse Stock Split would reduce our total shares of common stock outstanding, which we believe will increase the price per share of our common stock. For example, a hypothetical company with a market value of \$50 million and 100 million shares outstanding would have a trading price of \$0.50 per share, while a company with the same market value and only 25 million shares outstanding would have a trading price of \$2.00 per share.

We are asking shareholders to approve this proposal because we believe the Reverse Stock Split will result in a higher price per share for outstanding shares of our common stock. This, we believe, could provide a number of potential advantages. We describe each of these below.

Potential Advantages of the Reverse Stock Split

Maintain Nasdaq Global Market Listing. We believe that having our common stock delisted from The Nasdaq Global Market would be undesirable for our shareholders and potentially detrimental to our business. Among other things, being delisted could reduce the liquidity of our common stock. We also deem valuable our

ticker symbol, which is easily recognized as “MVIS” and which we could lose if we were delisted by The Nasdaq Global Market. Moreover, being listed on The Nasdaq Global Market carries with it certain prestige, and we believe it improves the recognition of our company.

Our Board of Directors believes that a Reverse Stock Split, at a whole number exchange ratio ranging from one for five to one for twenty, would result in an increase in the price per share, and thereby help us meet the \$1.00 per share minimum bid price requirement. While our stock price could trade above \$1.00 on its own accord over the next few months, our Board believes that it is in our best interests and in the interests of our shareholders to seek approval of the proposed amendment to our Certificate of Incorporation to effect the Reverse Stock Split in order to increase the likelihood that we regain compliance by June 9, 2020, the end of our compliance period. Even if our common stock’s closing bid price were to satisfy the minimum closing bid price requirements prior to approval of this proposal, we may still effect the Reverse Stock Split if our shareholders approve this proposal and our Board of Directors determines that effecting the Reverse Stock Split would be in the best interests of the company and its shareholders.

Facilitate Potential Future Financings. By preserving our Nasdaq listing, we can continue to consider and pursue a wide range of future financing options to support our business. We believe being listed on a national securities exchange, such as The Nasdaq Global Market, is valued highly by many long-term investors. A listing on a national securities exchange also has the potential to create better liquidity and reduce volatility for buying and selling shares of our stock, which benefits our current and future shareholders.

Increase Our Common Stock Price to a Level More Appealing for Investors. We believe that the Reverse Stock Split could enhance the appeal of our common stock to the financial community, including institutional investors, and the general investing public. We believe that a number of institutional investors and investment funds are reluctant to invest in lower-priced securities and that brokerage firms may be reluctant to recommend lower-priced stock to their clients, which may be due in part to a perception that lower-priced securities are less promising as investments, are less liquid, or are less likely to be followed by institutional securities research firms. We believe that the reduction in the number of issued and outstanding shares of our common stock caused by the Reverse Stock Split, together with the anticipated increased stock price immediately following and resulting from the Reverse Stock Split, may encourage further interest in our common stock.

Risks Associated with the Reverse Stock Split

The proposed Reverse Stock Split carries with it several significant risks. We cannot assure you, for example, that the market price per share of our common stock after the Reverse Stock Split will rise or remain constant in proportion to the reduction in the number of shares of common stock outstanding before the Reverse Stock Split. For instance, using the closing price of our common stock on February 28, 2020 of \$0.25 per share as an example, if our Board of Directors were to implement the Reverse Stock Split at a one for ten ratio, we cannot assure you that the post-split market price of our common stock would be or would remain at a price of ten times greater than \$0.25, or \$2.50. In many cases, the market price of a company’s shares declines after a reverse stock split. Thus, while our stock price might meet the continued listing requirements for The Nasdaq Global Market initially, we cannot assure you that it would continue to do so.

The market price of our common stock will also be affected by our performance and other factors, some of which are unrelated to the number of shares outstanding. If the Reverse Stock Split is effected and the market price of our common stock declines, the decline as a percentage of our overall market capitalization may be greater than would occur in the absence of a Reverse Stock Split. Furthermore, the liquidity of our common stock could be adversely affected by the reduced number of shares that would be outstanding after the Reverse Stock Split.

While we expect that the Reverse Stock Split will be sufficient to maintain our listing on Nasdaq, it is possible that, even if the Reverse Stock Split results in our common stock trading at a level in compliance with

Nasdaq’s listing rules, another reverse split may be necessary in the future and we may not be able to continue to satisfy the other criteria for continued listing of the common stock on Nasdaq.

Principal Effects of the Reverse Stock Split

Reduction of Shares Held by Our Shareholders. After the effective date of the Reverse Stock Split, each shareholder will own fewer shares of our common stock. However, the Reverse Stock Split will affect all of our shareholders uniformly and will not affect any shareholder’s percentage ownership interest in the Company. For example, a holder of two percent of the voting power of the outstanding shares of common stock immediately prior to the Reverse Stock Split would continue to hold two percent of the voting power of the outstanding shares of common stock immediately after the Reverse Stock Split. The number of shareholders of record will not be affected by the Reverse Stock Split.

Change in Number and Exercise Price of Outstanding Options. Under the terms of our 2020 Incentive Plan, the administrator will make appropriate adjustments to the maximum number of shares that may be issued under the plan, the number of shares subject to outstanding awards and the exercise prices relating to awards.

Reduction in Number of Outstanding Shares. The Reverse Stock Split will reduce the total number of outstanding shares of common stock by the exchange ratio determined by the Board in its discretion and it will apply automatically to all shares of our common stock, including shares issuable upon the exercise of outstanding stock options.

PLEASE NOTE THAT UNLESS SPECIFICALLY INDICATED TO THE CONTRARY, THE DATA CONTAINED IN THIS PROXY STATEMENT, INCLUDING BUT NOT LIMITED TO SHARE NUMBERS, DOES NOT REFLECT THE IMPACT OF THE REVERSE STOCK SPLIT THAT MAY BE EFFECTUATED.

The following table sets forth the approximate number of shares of the common stock that would be outstanding immediately after the Reverse Stock Split at various exchange ratios, based on 130,177,628 shares of common stock outstanding as of March 25, 2020.

<u>Ratio of Reverse Stock Split</u>	<u>Approximate Shares of Common Stock Outstanding After Reverse Stock Split</u>
None	—
1:5	26,035,526
1:10	13,017,763
1:15	8,678,509
1:20	6,508,882

Although not reflected in the table above, if this proposal is approved, then we would proportionally reduce the number of authorized shares of common stock.

Procedure for Effecting Reverse Stock Split and Exchange of Stock Certificates

If this proposal is approved by our shareholders and if our Board of Directors concludes that the Reverse Stock Split is in the best interests of the Company and its shareholders on a date within ninety days after shareholder approval is obtained, our Board of Directors will cause the Reverse Stock Split to be implemented at the whole number ratio between one for five and one for twenty as selected by our Board of Directors in its sole discretion. We will file an amendment to our Certificate of Incorporation with the Delaware Secretary of State at such time as our Board of Directors deems appropriate. The amendment will become effective on the date that it is filed (the “Effective Date”).

As soon as practicable after the Effective Date, shareholders will be notified that the Reverse Stock Split has been effected. We will retain an exchange agent (the “Exchange Agent”) for purposes of implementing the

exchange of stock certificates. Holders of pre-reverse split shares will be asked to surrender to the Exchange Agent certificates representing pre-reverse split shares in exchange for certificates representing post-reverse split shares in accordance with the procedures to be set forth in a letter of transmittal that will be delivered to the Company's shareholders. No new certificates will be issued to a shareholder until the shareholder has surrendered to the Exchange Agent his, her or its outstanding certificate(s) together with the properly completed and executed letter of transmittal.

SHAREHOLDERS SHOULD NOT DESTROY ANY STOCK CERTIFICATES AND SHOULD NOT SUBMIT ANY CERTIFICATES UNTIL REQUESTED TO DO SO. Shareholders whose shares are held in book-entry form do not need to submit old share certificates for exchange. These shares will automatically reflect the new quantity of shares based on the Reverse Stock Split. Beginning on the Effective Date, each certificate representing pre-reverse split shares will be deemed for all corporate purposes to evidence ownership of post-reverse split shares.

Fractional Shares

No fractional shares will be issued in connection with the Reverse Stock Split. Shareholders of record who otherwise would be entitled to receive fractional shares will be entitled to rounding up of their fractional share to the nearest whole share.

Accounting Matters

The Reverse Stock Split will not affect the common stock capital account on our balance sheet. As of the Effective Date, the stated capital on our balance sheet attributable to our common stock will be reduced proportionately based on the selected exchange ratio, and the additional paid-in capital account will be credited with the amount by which the stated capital is reduced. In future financial statements, we will restate net income or loss per share and other per share amounts for periods ending before the Reverse Stock Split to give retroactive effect to the Reverse Stock Split. The per share net income or loss and net book value of our common stock will be increased because there will be fewer shares of our common stock outstanding.

Discretionary Authority of the Board of Directors to Abandon Reverse Stock Split

The Board of Directors reserves the right to abandon the Reverse Stock Split without further action by our shareholders at any time before the effectiveness of the amendment to the Certificate of Incorporation, even if the Reverse Stock Split has been authorized by our shareholders at the Annual Meeting. By voting in favor of the Reverse Stock Split, you are expressly also authorizing our Board of Directors to determine not to proceed with, and abandon, the Reverse Stock Split if it should so decide.

No Dissenter's Rights

Under applicable Delaware law, our shareholders are not entitled to dissenter's or appraisal rights with respect to the Reverse Stock Split, and we will not independently provide shareholders with any such right.

No Interests of Directors and Executive Officers

Our directors and executive officers have no substantial interests, directly or indirectly, in the matters set forth in this proposal except to the extent of their ownership of shares of our common stock.

Vote Required

The approval of an amendment to the Certificate of Incorporation to effect a reverse stock split requires the affirmative vote of a majority of the votes properly cast on the proposal at the 2020 Annual Meeting. As a result,

abstentions and broker non-votes will have the same effect as a vote “against” the proposal. Your vote is therefore extremely important.

The Proposed Amendment

This general description of Proposal Three is qualified in its entirety by reference to the text of the amendment set forth in this Proposal Three to effect a reverse stock split of common stock. If Proposal Three is approved by shareholders, our Board of Directors may determine in its sole discretion to effect the Reverse Stock Split. If the Board of Directors determines to effect the Reverse Stock Split, the amendment will be filed with the Secretary of State of the State of Delaware. The amendment is subject to additional modification as may be required by the office of the Secretary of State of the State of Delaware or as the Board of Directors or the Company deems necessary and advisable to effect the Reverse Stock Split. If Proposal Three is not approved, the Certificate of Incorporate will not allow for the effecting of the Reverse Stock Split.

The Certificate of Incorporation shall be amended and restated such that:

(i) the following paragraph shall be added after the first paragraph of ARTICLE IV if our shareholders vote to approve this Proposal Three:

As of 5:00 p.m. (eastern time) on [●], 2020 (the “Effective Time”), each [●] shares of Common Stock issued and outstanding at such time shall be combined into one (1) share of Common Stock (the “Reverse Stock Split”). The par value of the Common Stock following the Reverse Stock Split shall remain \$.001 per share. No fractional shares will be issued in connection with the Reverse Stock Split. Stockholders of record who otherwise would be entitled to receive fractional shares, will be entitled to rounding up of their fractional share to the nearest whole share. Each certificate that immediately prior to the Effective Time represented shares of Common Stock (an “Old Certificate”) shall thereafter represent that number of shares of Common Stock into which the shares of Common Stock represented by the Old Certificate shall have been combined, subject to the elimination of fractional share interests as described above.

and (ii) the first paragraph of ARTICLE IV shall be amended and restated to read in its entirety as follows (with the following language not reflecting any amendments effected pursuant to Proposal Two):

The total number of shares of capital stock which this corporation shall have the authority to issue is [●] ([●]) shares, consisting of (i) [●] ([●]) shares of common stock, \$.001 par value (“Common Stock”) and (ii) twenty-five million (25,000,000) shares of preferred stock, \$.001 par value (“Preferred Stock”).

THE BOARD OF DIRECTORS RECOMMENDS A VOTE “FOR” THE APPROVAL OF THE AMENDMENT TO THE COMPANY’S CERTIFICATE OF INCORPORATION TO EFFECT THE REVERSE STOCK SPLIT DESCRIBED ABOVE.

Proposal Four—Approval of the 2020 MicroVision, Inc. Incentive Plan

The Board of Directors has authorized the 2020 MicroVision, Inc. Incentive Plan (the “Incentive Plan”), subject to shareholder approval. The number of shares of common stock that may be delivered in satisfaction of awards made under the Incentive Plan will be increased, compared to the number of shares of common stock that may be delivered in satisfaction of awards under the Company’s existing incentive plan, by 5,000,000 to a total of 17,300,000 shares. **If Proposal Three (Reverse Stock Split) is also approved, then we would also proportionately reduce the number of shares of common stock reserved for issuance under the Incentive Plan.** For example, if this Proposal Four were approved and Proposal Three were also approved, and the Board fixed a reverse stock split ratio of 10:1, then the number of shares of common stock that may be delivered in satisfaction of awards made under the Incentive Plan would be 1,730,000 shares.

The Company believes that the approval of Proposal Four will enable the Company to have adequate shares in the 2020 Incentive Plan to be able to retain and attract key employees in a competitive market for technology talent. Below is a summary of the material features of the Incentive Plan. It may not contain all of the information important to you. We urge you to read the entire Incentive Plan which appears as Appendix A to this Proxy Statement.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE “FOR” THE FOREGOING 2020 MICROVISION, INC. INCENTIVE PLAN.

Summary of the Incentive Plan

The Incentive Plan amends, restates in its entirety and renames our 2013 Incentive Plan. This amendment and restatement of the Plan shall become effective as of the Date of Adoption. 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 Incentive Plan is approved, a maximum of 17,300,000 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 500,000 (which amount will be proportionately reduced if Proposal Three (Reverse Stock Split) is also approved). 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, 500,000 shares (which amount will be proportionately reduced if Proposal Three (Reverse Stock Split) is also approved), 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 shareholders 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 40 individuals as of March 25, 2020.

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 shareholder 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. 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 of the 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 shareholder.
- 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.

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 Five—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 shareholders 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 shareholder 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 shareholders 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, 2020. Should the selection of Moss Adams LLP not be ratified by the shareholders, 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 shareholders.

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 Six—Advisory Vote on Executive Compensation

The Executive Compensation section beginning on page 26 of this Proxy Statement shows 2019 compensation information for our named executive officers.

The Board 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 the Company'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 Company is providing a vote on this proposal pursuant to Section 14A of the Exchange Act and has determined that it will hold advisory votes on executive compensation each year.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE “FOR” THE APPROVAL, ON AN ADVISORY BASIS, OF THE COMPENSATION OF THE COMPANY’S NAMED EXECUTIVE OFFICERS.

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

Executive Compensation Overview

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

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

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

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

Salaries for 2019 were based on the compensation objectives mentioned above and, in the case of Mr. Mulligan, his employment agreement. Base salary rates in 2019 for Messrs. Mulligan, Holt and Sharma were \$350,000, \$255,905 and \$280,000, respectively.

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

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

In 2019, the Compensation Committee approved 65% as a target bonus award (as a percentage of base salary) for Mr. Mulligan, 50% for Mr. Sharma and 40% for Mr. Holt. The amount of the bonus actually awarded to executives is determined solely in the discretion of the Compensation Committee for all executive officers. The Compensation Committee has not determined amount, timing or form of payment with respect to the 2019 annual incentive bonus.

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

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

Believing that it is important that our CEO and other executive officers have interests that are aligned with the long-term interests of the Company and its shareholders, we have adopted a stock retention policy that requires the CEO and other executive officers to obtain over time and then retain equity with a minimum value of five times base salary in the case of the CEO and three times base salary in the case of other executives.

In 2019, Messrs. Sharma and Holt were awarded (i) 75,000 and 60,000 of performance based stock units ("PBSUs"), respectively, that are eligible to vest annually over three years subject to meeting the continuous service requirement as well as the performance criteria based on appreciation of the Company's publicly traded common stock price and (ii) 175,000 and 150,000 of stock options, respectively, that vest annually over three years. In 2019, the Compensation Committee reviewed information regarding compensation of the Company's peer group identified by an independent compensation consultant and additional compensation information about other similar publicly traded companies. The Board believes that a switch from stock options to RSUs is necessary to continue to attract and retain talent in the years ahead and directly aligns our executive's interests and shareholder interests. To further align the interests of our executives with those of our shareholders, the Compensation Committee added the performance vesting criteria to the PBSUs that would require significant appreciation of the Company's stock price.

Summary Compensation Table for 2019

The following table provides information regarding the compensation we paid to each of our executive officers named below (our “named executive officers”) during the last two fiscal years.

<u>Name and Principal Position</u>	<u>Fiscal Year</u>	<u>Salary (\$)</u>	<u>Bonus (\$)(2)</u>	<u>Stock Awards (\$)(3)</u>	<u>Option Awards (\$)(3)</u>	<u>All Other Compensation (\$)(4)(5)</u>	<u>Total (\$)</u>
Perry M. Mulligan(1) Chief Executive Officer and Director	2019	350,000	227,500	—	—	7,807	585,307
	2018	350,000	25,000	105,950	—	6,423	487,373
Stephen P. Holt Chief Financial Officer	2019	255,905	—	1,896	66,525	6,935	331,261
	2018	255,905	72,500	84,760	—	8,250	421,415
Sumit Sharma(1) Chief Operating Officer	2019	280,000	140,000	2,370	77,612	7,678	507,660
	2018	266,895	70,600	95,355	—	8,882	441,132

- (1) On February 24, 2020 Mr. Mulligan resigned as Chief Executive Officer and Mr. Sharma was named Chief Executive Officer and member of the Board of Directors.
- (2) Bonuses payable in year presented, earned in prior year. Bonuses earned in 2018 have been paid as follows: Mr. Mulligan received 310,411 shares of immediately vested common stock with a value equal to the Target Bonus of \$227,500 based on the share price on the grant date instead of cash. Mr. Sharma received 195,258 shares of immediately vested common stock with value equal to Target Bonus of \$140,000 based on the share price on the grant date instead of cash. The bonus amount for Mr. Holt is \$102,362 but the timing of the payment and the form (cash or equity awards) have not been determined.
- (3) Reflects the fair value of stock and option awards on the grant date in accordance with FASB ASC Topic 718 and as described in Footnote 10 of the Company’s 2019 10K filed March 11, 2020.
- (4) Perquisites and other personal benefits are valued on an aggregate incremental cost basis. All figures shown below represent the direct dollar cost incurred in providing these perquisites and other personal benefits to the named executive officers.
- (5) The table below shows all other amounts under All Other Compensation for fiscal 2018 and 2019:

<u>Name and Principal Position</u>	<u>Fiscal Year</u>	<u>Employer Contribution to 401(k) Account(6)</u>
Perry M. Mulligan Chief Executive Officer and Director	2019	—
	2018	—
Stephen P. Holt Chief Financial Officer	2019	—
	2018	—
Sumit Sharma Chief Operating Officer	2019	—
	2018	—

- (6) This column represents the amount of matching contributions made to our qualified 401(k) retirement plan for each of our named executive officers. The Company makes contributions to our qualified 401(k) retirement plan for all employees.

Outstanding Equity Awards at Year End 2019

Name		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 (\$)(10)
Perry M. Mulligan	(3)(5)	1,875	—	22.64	7/30/2020		
	(4)(5)	1,875	—	22.64	7/30/2020		
	(4)(5)	1,875	—	9.20	6/9/2021		
	(4)(5)	15,000	—	3.08	6/7/2022		
	(1)	62,500	62,500	1.57	11/13/2027		
							62,500(6)
						166,667(7)	120,000
						55,556(9)	40,000
Stephen P. Holt	(1)	40,000	—	2.20	5/7/2023		
	(2)	40,000	—	2.28	8/8/2023		
	(1)	50,000	—	1.76	6/3/2024		
	(1)	50,000	—	3.26	6/2/2025		
	(1)	37,500	12,500	1.89	6/1/2026		
	(1)	32,500	32,500	1.67	2/8/2027		
	(2)		150,000	0.73	5/22/2029		
							133,333(7)
						44,445(9)	32,000
						60,000(8)	43,200
Sumit Sharma	(1)	20,000	—	3.16	10/7/2025		
	(1)	37,500	12,500	1.89	6/1/2026		
	(1)	65,000	65,000	1.67	2/8/2027		
	(2)		175,000	0.73	5/22/2029		
							150,000(7)
						50,000(9)	36,000
						75,000(8)	54,000

- (1) The indicated option vests 25% on each anniversary of the grant date.
- (2) The indicated option vests 33% on each anniversary of the grant date.
- (3) The indicated options vested 100% on the date of grant.
- (4) The indicated option vests on the earlier of the day prior to the date of the Company's annual meeting of shareholders next following the date of grant, or one year from the date of grant.
- (5) The indicated option was awarded to Mr. Mulligan as a member of the Board of Directors.
- (6) The indicated restricted stock units granted on November 13, 2017 vest 25% on 11/13/2018, 25% on 11/13/2019, 25% on 11/13/2020 and 25% on 11/13/2021.
- (7) The performance criteria is the achievement of the Company's share price of \$2.50 sustained for 60 of trailing 90 days before the PSUs are earned ("Earned PSUs"). To the extent the PSUs become Earned PSUs they shall be eligible to vest as to one-third (1/3) of the PSUs subject to the Award on the each of the first three (3) anniversaries of June 5, 2018, subject to the executive's continuous employment on the applicable vesting date. If there are outstanding but unearned PSUs as of a vesting date and the PSUs become Earned PSUs prior to the next vesting date the Earned PSUs that would have vested on any earlier vesting date shall become immediately vested and deliverable.
- (8) The performance criteria is the achievement of the Company's share price of \$2.50 sustained for 60 of trailing 90 days before the PSUs are earned ("Earned PSUs"). To the extent the PSUs become Earned PSUs they shall be eligible to vest as to one-third (1/3) of the PSUs subject to the Award on the each of the first three (3) anniversaries of May 22, 2019, subject to the executive's continuous employment on the applicable vesting date. If there are outstanding but unearned PSUs as of a vesting date and the PSUs become Earned PSUs prior to the next vesting date the Earned PSUs that would have vested on any earlier vesting date shall become immediately vested and deliverable.

- (9) The indicated restricted stock units granted on September 30, 2018 vest 33% on 6/5/2019, 33% on 6/5/2020 and 34% on 6/5/2021.
- (10) The market value of shares of stock that have not vested is based on a price per share of \$0.7200, the closing sale price of the Company's common stock as of December 31, 2019 as reported by Nasdaq.

Potential Payments upon Termination or Change in Control

All of our named executive officers are employed at will and do not have employment agreements. Under the 2013 Incentive Plan, 100% of each of the named executive officers' options which have not been exercised will become fully vested and immediately exercisable upon a change of control of the Company that does not result in an assumption, substitution or pay off of such award by the acquiring company. In addition, 100% of each named executive officer's restricted stock units will become fully vested upon a change of control at the Company. With respect to PBSUs issued to the named executive officers in 2018 and 2019, in the event a change of control occurs before the performance criteria is met, the PBSUs would vest in part based on the fair market value of the Company as common stock as determined by the Compensation Committee in connection with the change of control on a straight line basis between \$1.75 and \$2.50, with 40% vesting at \$1.75 and 100% at \$2.50.

Severance and Employment Agreements

Mr. Mulligan's Employment Agreement

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

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

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

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

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

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

Mr. Mulligan resigned as Chief Executive Officer on February 24, 2020. Mr. Mulligan was paid his salary and accrued vacation through February 24, 2020 and one month of COBRA. He did not receive any severance.

Executive Compensation Recoupment Policy

In March 2020 the Company adopted an Executive Compensation Recoupment Policy ("The Recoupment Policy"). Under the policy if there is a restatement of the Company's financial statements due to material noncompliance with financial reporting requirements and where an executive engaged in intentional misconduct that caused or partially caused the need for the restatement, with respect to any cash or equity-based bonus or other cash or equity-based incentive compensation that was awarded, paid, earned or became vested wholly or in part upon the attainment of any financial reporting measure preceding the financial restatement date, the Board may, in its discretion, seek reimbursement of any such compensation awarded or paid to the executive or effect the cancellation of unvested and vested equity awards previously granted, if and to the extent such bonus or incentive compensation was based on the erroneous financial data and was in excess of what would have been paid to the Executive under the accounting restatement. If the achievement of a certain financial result was considered in determining the bonus or incentive compensation awarded or paid to an Executive, but the bonus or incentive compensation was not awarded or paid on a formulaic basis, the Board will determine in its sole discretion the amount, if any, by which the payment or award should be reduced or reimbursed.

The Board has sole discretion to determine whether, and from whom, to seek recovery, as well as the form and timing of any recovery, which may include, among other forms of recovery, repayment or an adjustment to future incentive-based compensation payouts or grants. In determining whether to seek recovery of compensation, the Board may take into account any considerations it deems appropriate, including whether the assertion of a claim may violate applicable law or adversely impact the interests of the Company in any related proceeding or investigation and the extent to which the executive was responsible for the error that resulted in the restatement. The determination of the Board need not be uniform with respect to any or all executives.

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

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

Pay Ratio

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

We determined our median employee based on base salary (annualized in the case of full- and part-time employees who joined the Company during 2019) of each of our 77 employees (excluding Mr. Mulligan) as of December 31, 2019.

The annual total compensation of our median employee (other than Mr. Mulligan) for 2019 including base salary, bonus and equity grant was \$157,058. Mr. Mulligan’s total compensation for 2019, including base salary, bonus and equity grant was \$585,307.

Based on the foregoing, our estimate of the ratio of the annual total compensation of the Chief Executive Officer to the median of the annual total compensation of all other employees was 3.7 to 1. Given the different methods that other public companies may use to determine an estimated pay ratio, the estimated ratio reported above should not be used as a basis for comparison between companies.

Director Compensation for 2019

The following table provides information concerning our non-employee directors during the year ended December 31, 2019. Mr. Mulligan's compensation information is provided with the other named executive officers in the "Executive Compensation" section above.

<u>Name</u>	<u>Fees Earned or Paid in Cash (\$)</u>	<u>Stock Awards (\$)(2)(3)</u>	<u>Total (\$)</u>
Simon Biddiscombe	33,250	41,963	75,213
Robert P. Carlile	30,000	41,963	71,963
Yalon Farhi	17,750	41,963	59,713
Berne D.L. Strom	25,000	41,963	66,963
Brian Turner	29,500	41,963	71,463
Thomas M. Walker(1)	22,500	41,963	64,463

- (1) Thomas M. Walker resigned on February 19, 2020.
- (2) Reflects the fair value of stock awards granted in 2019 in accordance with FASB ASC Topic 718.
- (3) 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, 2019:

<u>Name</u>	<u>Option Awards</u>	<u>Stock Awards (4)(5)</u>
Simon Biddiscombe	30,000	57,289
Robert P. Carlile	30,000	97,289
Yalon Farhi	30,000	97,289
Berne D.L. Strom	30,000	87,289
Brian Turner	18,750	139,263
Thomas M. Walker	161,150	79,128

- (4) 30,000 shares vest on the date that is the earlier of one year from the May 22, 2019 grant date, or the day before the next scheduled annual meeting of shareholders.
- (5) Each director was awarded 27,289 shares of immediately vested common stock in lieu of such director's annual cash compensation for 2019.

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

Notwithstanding the terms of the aforementioned director compensation plan, in each of our last five fiscal years prior to 2019, the Board approved the issuance of 10,000 shares of the Company's restricted stock to each of our non-employee directors upon his or her reelection to the Board, in lieu of the option award described in the foregoing paragraph. In 2019, the Board approved the issuance of 30,000 shares of the Company's restricted

stock to each of our non-employee directors who was reelected at our 2019 annual meeting. In addition, the annual fee of \$20,000 was paid in the form of shares of common stock of equal value at the grant date of November 11, 2019 in order to conserve cash

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

- A fee of \$20,000 that accrues as of the date of appointment or election to the Board, and as of the date of each subsequent reelection; as indicated above in 2019 this fee was paid by awarding 27,289 shares of immediately vested common stock in lieu of each director's annual cash fee.
- 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.

INFORMATION ABOUT MICROVISION COMMON STOCK OWNERSHIP

Security Ownership of Certain Beneficial Owners and Management

The following table shows as of March 25, 2020, 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>
Perry M. Mulligan(3)	545,999	*
Stephen P. Holt(4)	341,229	*
Sumit Sharma(5)	378,634	*
Simon Biddiscombe(6)	87,289	*
Robert P. Carlile(6)	127,289	*
Yalon S. Farhi(6)	127,289	*
Berne D.L. Strom(6)	117,289	*
Brian Turner(7)	232,627	*
All executive officers and directors as a group (8 persons)(8)	1,957,645	1.5%

* 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 130,177,628 shares of common stock outstanding as of March 25, 2020.
- (3) Includes 83,125 shares issuable upon exercise of options.
- (4) Includes 316,250 shares issuable upon exercise of options.
- (5) Includes 213,333 shares issuable upon exercise of options.
- (6) Includes 30,000 shares issuable upon exercise of options.
- (7) Includes 18,750 shares issuable upon exercise of options.
- (8) Includes 751,458 shares issuable upon exercise of options.

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

Based solely on a review of the copies of such forms in our possession, and on written representations from reporting persons, we believe that all of these reporting persons complied with their filing requirements during 2019.

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 the Company’s financial accounting and reporting, systems of internal control, audit process, and monitoring compliance with laws and regulations and standards of business conduct. Management is responsible for the Company’s internal controls and the financial reporting process. Moss Adams LLP, acting as an independent registered public accounting firm is responsible for performing an independent audit of the Company’s consolidated financial statements, and internal control over financial reporting, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”) and for issuing reports thereon.

The Audit Committee has reviewed and discussed the audited consolidated financial statements of the Company for the fiscal year ended December 31, 2019 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, 2019, the matters required to be discussed by the SEC and the PCAOB.

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, 2019 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

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

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 2019 and 2018, respectively:

Audit Fees

The aggregate fees billed for professional services rendered by Moss Adams LLP for the audit of our annual financial statements and the review of the financial statements included in our Quarterly Reports on Form 10-Q were \$316,376 for 2019 and \$351,870 for 2018.

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 \$16,000 in 2019 and \$21,000 in 2018.

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 \$20,250 in 2019 and \$15,500 in 2018.

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 \$6,262 and \$5,857 billed by Moss Adams LLP for 2019 and 2018, respectively.

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

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

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

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

INFORMATION ABOUT SHAREHOLDER PROPOSALS

In order for a shareholder proposal to be considered for inclusion in the Company's Proxy Statement for the 2021 Annual Meeting, our shareholders must adhere to the following procedures as prescribed in Rule 14a-8 under the Exchange Act ("Rule 14a-8").

Under Rule 14a-8, a shareholder who intends to present a proposal at the 2021 annual meeting of shareholders and who wishes the proposal to be included in the proxy materials for that meeting must submit the proposal in writing to us so that it is received by our Corporate Secretary no later than November 25, 2020. Please refer to Rule 14a-8 for the requirements that apply to these proposals. Any proposals received after this date will be considered untimely under Rule 14a-8. Written proposals may be mailed in care of our Corporate Secretary, MicroVision, Inc., 6244 185th Avenue NE, Suite 100, Redmond, Washington 98052.

In addition, a shareholder may nominate a director or present any other proposal at the 2021 annual meeting of shareholders by complying with the requirements set forth in Section 1.11 and Section 1.12 of our bylaws. You 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 of this Proxy Statement. To be timely, a shareholder's notice must be delivered to or mailed by first class United States mail, postage prepaid, and received by our Corporate Secretary at MicroVision, Inc., 6244 185th Avenue NE, Suite 100, Redmond, Washington 98052 not less than 60 calendar days nor more than 90 calendar days prior to the annual meeting of shareholders. If less than sixty 60 days' notice or prior public disclosure of the date of the annual meeting is given or made to our shareholders, then for the notice by the shareholder to be timely it must be received not later than the close of business on the tenth business day following the date on which the notice of the meeting was mailed or such public disclosure was made, whichever occurs first.

We reserve the right to reject, rule out of order, or take other appropriate action with respect to any proposal that does not comply with these and other applicable requirements. Our bylaws describe the requirements for submitting proposals at the Annual Meeting. If you wish to obtain a free copy of the Company's bylaws, please contact Investor Relations, MicroVision, Inc., 6244 185th Avenue NE, Suite 100, Redmond, Washington 98052.

ADDITIONAL INFORMATION

Annual Report

The Company's Annual Report for the fiscal year ended December 31, 2019 was first made available to the shareholders of the Company with this Proxy Statement on or about April 3, 2020. 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, as amended or the Securities Exchange Act of 1934, as amended, the section of this Proxy Statement entitled "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, 2019, as filed with the SEC, may be obtained by shareholders without charge by written or oral request to Investor Relations, MicroVision, Inc., 6244 185th Avenue NE, Suite 100, Redmond, Washington 98052, telephone (425) 882-6629, or may be accessed on the Internet at 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 this 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) 867-9992, by mail to Investor Relations, MicroVision, Inc., 6244 185th Avenue NE, Suite 100, Redmond, Washington 98052, or by e-mail to 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 8:59 p.m., Seattle, Washington time, on May 18, 2020. Submitting your vote by telephone or via the Internet will not affect your right to vote during the virtual meeting via the Internet.

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.

2020 MICROVISION, INC. INCENTIVE PLAN**1. DEFINED TERMS**

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

2. EFFECTIVE DATE

This 2020 MicroVision, Inc. Incentive Plan amends, restates in its entirety and renames the 2013 MicroVision, Inc. Incentive Plan. This amendment and restatement of the Plan shall become effective as of the Date of Adoption.

3. PURPOSE

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

4. ADMINISTRATION

The Administrator has discretionary authority, subject only to the express provisions of the Plan, to interpret the Plan; determine eligibility for and grant Awards; determine, modify or waive the terms and conditions of any Award; prescribe forms, rules and procedures; and otherwise do all things necessary to carry out the purposes of the Plan. Determinations of the Administrator made under the Plan will be conclusive and will bind all parties.

5. LIMITS ON AWARDS UNDER THE PLAN

- a. **Number of Shares.** Subject to adjustment as provided in Section 8(b), the number of shares of Stock that may be delivered in satisfaction of Awards under the Plan is (i) 5,000,000 shares of Stock, plus (ii) the number of shares of Stock available for issuance under the Prior Plan as of the Date of Adoption (which will not exceed 3,485,805 shares) plus (iii) the number of shares of Stock underlying awards under the Prior Plan that on or after the Date of Adoption are forfeited, expired or are cancelled without the delivery of shares of Stock or otherwise become available again for grant under the Prior Plan in accordance with its terms (which will not exceed 5,822,963 shares) (collectively, the “Share Pool”). The number of shares of Stock delivered in satisfaction of Awards shall, for purposes of the preceding sentence, be determined net of shares of Stock withheld by the Company in payment of the exercise price or purchase price of the Award or, solely with respect to Stock Options or SARs granted under the Plan, in satisfaction of tax withholding requirements with respect to the Award. Any shares of Stock withheld by the Company in payment of the exercise price or purchase price of an award issued under the Prior Plan or in satisfaction of tax withholding requirements with respect to an award under the Prior Plan shall also be available for issuance under the Plan. Further, any shares of Stock underlying any portion of an Award that is settled in cash or that expires, becomes unexercisable, terminates or is forfeited to or repurchased by the Company without the issuance (or retention, in the case of Restricted Stock or Unrestricted Stock) of Stock shall again be available for issuance under the Plan. For the avoidance of doubt, the Share Pool will not be increased by any shares of Stock delivered under the Plan that are subsequently repurchased using proceeds directly attributable to

Stock Option exercises. Up to 100% of the shares of Stock from the Share Pool may be issued in satisfaction of ISOs, but nothing in this Section 5(a) will be construed as requiring that any, or any fixed number of, ISOs be granted under the Plan. The limit set forth in this Section 5(a) shall be construed to comply with Section 422 of the Code and regulations thereunder. To the extent consistent with the requirements of Section 422 of the Code and regulations thereunder, and with other applicable legal requirements (including applicable stock exchange requirements), Stock issued under awards of an acquired company that are converted, replaced, or adjusted in connection with the acquisition shall not reduce the number of shares available for Awards under the Plan.

- b. **Type of Shares.** Stock delivered by the Company under the Plan may be authorized but unissued Stock or previously issued Stock acquired by the Company. No fractional shares of Stock will be delivered under the Plan.
- c. **Award Limits.** The maximum number of shares of Stock for which Stock Options may be granted to any person in any calendar year and the maximum number of shares of Stock subject to SARs granted to any person in any calendar year will each be 500,000. The maximum number of shares subject to other Awards granted to any person in any calendar year will be 500,000 shares. The maximum amount payable to any person in any year under Cash Awards will be \$3,000,000.

6. ELIGIBILITY AND PARTICIPATION

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

7. RULES APPLICABLE TO AWARDS

a. **All Awards**

1. **Award Provisions.** The Administrator will determine the terms of all Awards, subject to the limitations provided herein. No term of an Award shall provide for automatic “reload” grants of additional Awards upon exercise of a Stock Option or SAR or otherwise as a term of an Award. By accepting (or being deemed to have accepted) any Award granted hereunder, the Participant agrees to the terms of the Award and the Plan. Notwithstanding any provision of this Plan to the contrary, awards of an acquired company that are converted, replaced or adjusted in connection with the acquisition may contain terms and conditions that are inconsistent with the terms and conditions specified herein, as determined by the Administrator.
2. **Term of Plan.** No Awards may be made after ten (10) years from the Date of Adoption, but previously granted Awards may continue beyond that date in accordance with their terms.
3. **Transferability.** Neither ISOs nor, except as the Administrator otherwise expressly provides, other Awards may be transferred other than by will or by the laws of descent and distribution, and during a Participant’s lifetime ISOs (and, except as the Administrator otherwise expressly provides, other non-transferable Awards requiring exercise) may be exercised only by the Participant.
4. **Vesting, Etc.** Except as provided in Section 7(a)(11) below, the Administrator may determine the time or times at which an Award will vest or become exercisable and the terms on which an Award requiring exercise will remain exercisable. Without limiting the foregoing, the Administrator may at any time accelerate the vesting or exercisability of an Award, regardless of any adverse or potentially adverse tax consequences resulting from such

acceleration. Unless the Administrator expressly provides otherwise, however, the following rules will apply: immediately upon the cessation of the Participant's Employment, each Award requiring exercise that is then held by the Participant or by the Participant's permitted transferees, if any, will cease to be exercisable and will terminate, and all other Awards that are then held by the Participant or by the Participant's permitted transferees, if any, to the extent not already vested will be forfeited, except that:

- A. subject to (B) and (C) below, all Stock Options and SARs held by the Participant or the Participant's permitted transferees, if any, immediately prior to the cessation of the Participant's Employment, to the extent then exercisable, will remain exercisable for the lesser of (i) a period of three months or (ii) the period ending on the latest date on which such Stock Option or SAR could have been exercised without regard to this Section 7(a)(4), and will thereupon terminate;
 - B. all Stock Options and SARs held by a Participant or the Participant's permitted transferees, if any, immediately prior to the Participant's death or Disability, to the extent then exercisable, will remain exercisable for the lesser of (i) the one year period ending with the first anniversary of the Participant's death or Disability or (ii) the period ending on the latest date on which such Stock Option or SAR could have been exercised without regard to this Section 7(a)(4), and will thereupon terminate; and
 - C. all Stock Options and SARs held by a Participant or the Participant's permitted transferees, if any, immediately prior to the cessation of the Participant's Employment will immediately terminate upon such cessation if the termination is for Cause or occurs in circumstances that the Administrator in its sole discretion determines would have constituted grounds for a termination for Cause.
5. **Taxes.** The Administrator will make such provision for the withholding of taxes as it deems necessary. The Administrator may, but need not, hold back shares of Stock from an Award or permit a Participant to tender previously owned shares of Stock in satisfaction of tax withholding requirements (but not in excess of the maximum withholding amount consistent with the Award being subject to equity accounting treatment under the Accounting Rules).
 6. **Dividend Equivalents, Etc.** The Administrator may provide for the payment of amounts in lieu of cash dividends or other cash distributions with respect to Stock subject to an Award; *provided, however*, that (a) dividends or dividend equivalents relating to an Award that, at the dividend payment date, remains subject to a risk of forfeiture (whether service-based or performance-based) shall be subject to the same risk of forfeiture as applies to the underlying Award and (b) no dividends or dividend equivalents shall be payable with respect to Stock Options or SARs. Any entitlement to dividend equivalents or similar entitlements shall be established and administered consistent either with exemption from, or compliance with, the requirements of Section 409A to the extent applicable.
 7. **Foreign Qualified Grants.** Awards under this Plan may be granted to officers and Employees of the Company and other persons described in Section 6 who reside in foreign jurisdictions as the Administrator may determine from time to time. The Administrator may adopt supplements to the Plan as needed to comply with the applicable laws of such foreign jurisdictions and to give Participants favorable treatment under such laws; *provided, however* that no award shall be granted under any such supplement on terms more beneficial to such Participants than those permitted by this Plan.
 8. **Corporate Mergers, Acquisitions, Etc.** The Administrator may grant Awards under this Plan having terms, conditions and provisions that vary from those specified in this Plan provided that such Awards are granted in substitution for, or in connection with the assumption of, existing Awards granted or issued by another corporation and assumed or

otherwise agreed to be provided for by the Company pursuant to or by reason of a transaction involving a corporate merger, consolidation, acquisition of property or stock, reorganization or liquidation to which the Company is a party.

9. **Rights Limited.** Nothing in the Plan will be construed as giving any person the right to continued Employment, or any rights as a stockholder except as to shares of Stock actually issued under the Plan. The loss of existing or potential profit in Awards will not constitute an element of damages in the event of termination of Employment for any reason, even if the termination is in violation of an obligation of the Company or Affiliate to the Participant.
10. **Recovery of Compensation.** The Administrator may provide in any case that any outstanding Award (whether or not vested or exercisable), the proceeds from the exercise or disposition of any Award or Stock acquired under any Award and any other amounts received in respect of any Award or Stock acquired under any Award will be subject to forfeiture and disgorgement to the Company, with interest and other related earnings, if the Participant to whom the Award was granted is not in compliance with any provision of the Plan or any applicable Award or any non-competition, non-solicitation, no-hire, non-disparagement, confidentiality, invention assignment or other restrictive covenant by which he or she is bound. Each Award shall be subject to any policy of the Company or any of its Affiliates that provides for forfeiture, disgorgement or clawback with respect to incentive compensation that includes Awards under the Plan and shall be further subject to forfeiture and disgorgement to the extent required by law or applicable stock exchange listing standards, including, without limitation, Section 10D of the Securities Exchange Act of 1934, as amended. Each Participant, by accepting or being deemed to have accepted an Award under the Plan, agrees (or will be deemed to have agreed) to the terms of this Section 7(a)(10) and to cooperate fully with the Administrator, and to cause any and all permitted transferees of the Participant to cooperate fully with the Administrator, to effectuate any forfeiture or disgorgement described in this Section 7(a)(10). Neither the Administrator nor the Company nor any other person, other than the Participant and his or her permitted transferees, if any, will be responsible for any adverse tax or other consequences to a Participant or his or her permitted transferees, if any, that may arise in connection with this Section 7(a)(10).
11. **Other Restrictions.** Except in the case of an Award that is granted to a Participant in exchange for, in lieu of the right to receive the payment of, or in settlement of, an equivalent amount of salary, bonus, or other cash compensation, no Award granted under the Plan shall be scheduled to vest, in whole or in part, prior to the date that is one (1) year following the date the Award is granted. Notwithstanding the foregoing, (i) the Administrator may grant Awards covering five percent (5%) or fewer of the total number of shares of Stock authorized for delivery under the Plan (as determined in accordance with the rules set forth under Section 5(a) above) without respect to the above-described minimum vesting requirement. Further, notwithstanding the foregoing, with respect to Awards granted to non-employee members of the Board, the vesting of such Awards will be deemed to satisfy the one (1) year minimum vesting requirement to the extent that the Awards vest on the earlier of the one (1) year anniversary of the date of grant and the next annual meeting of the stockholders of the Company.
12. **Section 409A**
 - A. Without limiting the generality of Section 12(b), each Award will contain such terms as the Administrator determines and will be construed and administered, such that the Award either qualifies for an exemption from the requirements of Section 409A or satisfies such requirements.

- B. Notwithstanding anything to the contrary in the Plan or any Award agreement, the Administrator may unilaterally amend, modify or terminate the Plan or any outstanding Award, including, but not limited to, changing the form of the Award, if the Administrator determines that such amendment, modification or termination is necessary or advisable to avoid the imposition of an additional tax, interest or penalty under Section 409A.
- C. If a Participant is determined on the date of the Participant's termination of Employment to be a "specified employee" within the meaning of that term under Section 409A(a)(2)(B) of the Code, then, with regard to any payment that is considered nonqualified deferred compensation under Section 409A, to the extent applicable, payable on account of a "separation from service", such payment will be made or provided on the date that is the earlier of (i) the first business day following the expiration of the six-month period measured from the date of such "separation from service" and (ii) the date of the Participant's death (the "Delay Period"). Upon the expiration of the Delay Period, all payments delayed pursuant to this Section 7(a)(12)(C) (whether they would have otherwise been payable in a single lump sum or in installments in the absence of such delay) will be paid, without interest, on the first business day following the expiration of the Delay Period in a lump sum and any remaining payments due under the Award will be paid in accordance with the normal payment dates specified for them in the applicable Award agreement.
- D. For purposes of Section 409A, each payment made under the Plan or any Award will be treated as a separate payment.
- E. With regard to any payment considered to be nonqualified deferred compensation under Section 409A, to the extent applicable, that is payable upon a change in control of the Company or other similar event, to the extent required to avoid the imposition of any additional tax, interest or penalty under Section 409A, no amount will be payable unless such change in control constitutes a "change in control event" within the meaning of Section 1.409A-3(i)(5) of the Treasury Regulations.

b. Awards Requiring Exercise

1. **Time And Manner Of Exercise.** Unless the Administrator expressly provides otherwise, an Award requiring exercise by the holder will not be deemed to have been exercised until the Administrator receives a notice of exercise (in a form acceptable to the Administrator) signed by the appropriate person and accompanied by any payment required under the Award. If the Award is exercised by any person other than the Participant, the Administrator may require satisfactory evidence that the person exercising the Award has the right to do so. Awards may be exercised in whole or in part.
2. **Exercise Price.** The exercise price (or the base value from which appreciation is to be measured) of each Award requiring exercise shall be 100% (in the case of an ISO granted to a ten-percent shareholder within the meaning of Section 422(b)(6) of the Code, 110%) of the fair market value of the Stock subject to the Award, determined as of the date of grant, or such higher amount as the Administrator may determine in connection with the grant. Fair market value shall be determined by the Administrator consistent with the requirements of Section 422 and Section 409A. Without the affirmative vote of holders of a majority of the shares of Stock cast in person or by proxy at a meeting of the stockholders of the Company at which a quorum representing a majority of all outstanding shares of Stock is present or represented by proxy, the Administrator shall not approve a program providing for either (a) the cancellation of outstanding Awards requiring exercise and the grant in substitution therefor of new Awards having a lower exercise price that has the effect of a repricing or a payment of cash or other consideration in respect of such cancelled Awards or (b) the

amendment of such Awards to reduce the exercise price thereof. The preceding sentence shall not be construed to apply to: (i) “issuing or assuming a stock option in a transaction to which section 424(a) applies,” within the meaning of Section 424 of the Code or (ii) the substitution or assumption of an Award by reason of or pursuant to a corporate transaction involving the Company or as otherwise contemplated by Section 8.

3. **Payment Of Exercise Price.** Where the exercise of an Award is to be accompanied by payment, the Administrator may determine the required or permitted forms of payment, subject to the following: all payments will be made by cash or check acceptable to the Administrator, or, if so permitted by the Administrator and if legally permissible, (i) through the delivery of shares of Stock that have a fair market value equal to the exercise price, (ii) through a broker-assisted exercise program acceptable to the Administrator, (iii) by other means acceptable to the Administrator, or (iv) by any combination of the foregoing permissible forms of payment. The delivery of shares in payment of the exercise price under clause (i) above may be accomplished either by actual delivery or by constructive delivery through attestation of ownership, subject to such rules as the Administrator may prescribe.

c. Awards Not Requiring Exercise

Restricted Stock and Unrestricted Stock, Awards of Stock Units or other Awards that do not require exercise, including Performance Awards, may be granted under the Plan, subject to the terms and conditions determined by the Administrator, and granted in exchange for such lawful consideration, including services, as the Administrator determines.

8. EFFECT OF CERTAIN TRANSACTIONS

- a. **Mergers, etc.** Except as otherwise provided in an Award, the following provisions shall apply in the event of a Covered Transaction:
 1. **Assumption or Substitution.** If the Covered Transaction is one in which there is an acquiring or surviving entity, the Administrator may provide for the assumption of some or all outstanding Awards or for the grant of new awards in substitution therefor by the acquiror or survivor or an affiliate of the acquiror or survivor.
 2. **Cash-Out of Awards.** If the Covered Transaction is one in which holders of Stock will receive a payment (whether cash, non-cash or a combination of the foregoing) upon consummation of the transaction, the Administrator may provide for payment (a “cash-out”), with respect to some or all Awards, equal in the case of each affected Award to the excess, if any, of (A) the fair market value of one share of Stock (as determined by the Administrator in its reasonable discretion) times the number of shares of Stock subject to the Award, over (B) the aggregate exercise or purchase price, if any, under the Award (in the case of an SAR, the aggregate base price above which appreciation is measured), in each case on such payment terms (which need not be the same as the terms of payment to holders of Stock) and other terms, and subject to such conditions, as the Administrator determines. For the avoidance of doubt, if the per share exercise or purchase price (or base value) of an Award or portion thereof is equal to or greater than the fair market value of a share of Stock, such Award or portion thereof may be cancelled with no payment due hereunder or otherwise in respect thereof.
 3. **Acceleration of Certain Awards.** If the Covered Transaction (whether or not there is an acquiring or surviving entity) is one in which there is no assumption, substitution or cash-out, each Award requiring exercise will become fully exercisable, and the delivery of shares of Stock deliverable under each outstanding Award of Stock Units (including Restricted Stock Units and Performance Awards to the extent consisting of Stock Units) will be accelerated and such shares will be delivered, prior to the Covered Transaction, in each case on a basis

that gives the holder of the Award a reasonable opportunity, as determined by the Administrator, following exercise of the Award or the delivery of the shares, as the case may be, to participate as a stockholder in the Covered Transaction.

4. **Termination of Awards Upon Consummation of Covered Transaction.** Each Award (unless assumed pursuant to Section 8(a)(1) above), other than outstanding shares of Restricted Stock (which shall be treated in the same manner as other shares of Stock, subject to Section 8(a)(5) below), will terminate upon consummation of the Covered Transaction.
5. **Additional Limitations.** Any share of Stock delivered pursuant to Section 8(a)(2) or Section 8(a)(3) above with respect to an Award may, in the discretion of the Administrator, contain such restrictions, if any, as the Administrator deems appropriate to reflect any performance or other vesting conditions to which the Award was subject. In the case of Restricted Stock, the Administrator may require that any amounts delivered, exchanged or otherwise paid in respect of such Stock in connection with the Covered Transaction be placed in escrow or otherwise made subject to such restrictions as the Administrator deems appropriate to carry out the intent of the Plan.

b. Change in and Distributions With Respect to Stock

1. **Basic Adjustment Provisions.** In the event of a stock dividend, stock split or combination of shares (including a reverse stock split), recapitalization or other change in the Company's capital structure, the Administrator will make appropriate adjustments to the maximum number of shares specified in Section 5(a) that may be delivered under the Plan and to the maximum share limits described in Section 5(c), and will also make appropriate adjustments to the number and kind of shares of stock or securities subject to Awards then outstanding or subsequently granted, any exercise prices relating to Awards and any other provision of Awards affected by such change.
2. **Certain Other Adjustments.** The Administrator may also make adjustments of the type described in Section 8(b)(1) above to take into account distributions to stockholders other than those provided for in Section 8(a) and 8(b)(1), or any other event, if the Administrator determines that adjustments are appropriate to avoid distortion in the operation of the Plan and to preserve the value of Awards made hereunder, having due regard for the qualification of ISOs under Section 422 of the Code and the requirements of Section 409A, where applicable.
3. **Continuing Application of Plan Terms.** References in the Plan to shares of Stock will be construed to include any stock or securities resulting from an adjustment pursuant to this Section 8.

9. LEGAL CONDITIONS ON DELIVERY OF STOCK

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

10. AMENDMENT AND TERMINATION

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

11. OTHER COMPENSATION ARRANGEMENTS

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

12. MISCELLANEOUS

- a. **Waiver of Jury Trial.** By accepting an Award under the Plan, to the maximum extent permitted by law, each Participant waives any right to a trial by jury in any action, proceeding or counterclaim concerning any rights under the Plan and any Award, or under any amendment, waiver, consent, instrument, document or other agreement delivered or which in the future may be delivered in connection therewith, and agrees that any such action, proceedings or counterclaim shall be tried before a court and not before a jury. By accepting (or being deemed to have accepted) an Award under the Plan, each Participant certifies that no officer, representative, or attorney of the Company has represented, expressly or otherwise, that the Company would not, in the event of any action, proceeding or counterclaim, seek to enforce the foregoing waivers.
- b. **Limitation of Liability.** Notwithstanding anything to the contrary in the Plan, neither the Company, any Affiliate, nor the Administrator, nor any person acting on behalf of the Company, any Affiliate, or the Administrator, shall be liable to any Participant or to the estate or beneficiary of any Participant or to any other holder of an Award by reason of any acceleration of income, or any additional tax, asserted by reason of the failure of an Award to satisfy the requirements of Section 422 or Section 409A or by reason of Section 4999 of the Code.

EXHIBIT A

Definition of Terms

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

“Accounting Rules”: Financial Accounting Standards Board Accounting Standards Codification Topic 718, or any successor provision.

“Administrator”: The Board, except that the Board may delegate (i) to one or more of its members such of its duties, powers and responsibilities as it may determine; *provided*, that with respect to any delegation described in this clause (i) only the Board may amend or terminate the Plan as provided in Section 10; (ii) to one or more officers of the Company the power to grant rights or options to the extent permitted by Section 157(c) of the Delaware General Corporation Law; (iii) to one or more officers of the Company the authority to allocate other Awards among such persons (other than officers of the Company) eligible to receive Awards under the Plan as such delegated officer or officers determine consistent with such delegation; *provided*, that with respect to any

delegation described in this clause (iii) the Board (or a properly delegated member or members of the Board) shall have authorized the issuance of a specified number of shares of Stock under such Awards and shall have specified the consideration, if any, to be paid therefor; and (iv) to such Employees or other persons as it determines such ministerial tasks as it deems appropriate. In the event of any delegation described in the preceding sentence, the term “Administrator” shall include the person or persons so delegated to the extent of such delegation.

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

“Award”: Any or a combination of the following:

(i) Stock Options.

(ii) SARs.

(iii) Restricted Stock.

(iv) Unrestricted Stock.

(v) Stock Units, including Restricted Stock Units.

(vi) Performance Awards.

(vii) Cash Awards.

(viii) Awards (other than Awards described in (i) through (vii) above) that are convertible into or otherwise based on Stock.

“Board”: The Board of Directors of the Company.

“Cash Award”: An Award denominated in cash.

“Cause”: The following, as determined by the Board in its reasonable judgment, shall constitute Cause for termination: (i) Participant’s repeated willful failure to perform, or gross negligence in the performance of duties and responsibilities to the Company or any of its Affiliates; (ii) fraud, embezzlement or other dishonesty with respect to the Company or any of its Affiliates; (iii) commission of a felony or other crime involving moral turpitude or (iv) other conduct by Participant that could be harmful to the business, interests, or reputation of the Company or any of its Affiliates.

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

“Company”: MicroVision, Inc.

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

“Date of Adoption”: The date the Plan was approved by the Company’s stockholders.

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

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

“Employment”: A Participant’s employment or other service relationship with the Company and its Affiliates. Employment will be deemed to continue, unless the Administrator expressly provides otherwise, so long as the Participant is employed by, or otherwise is providing services in a capacity described in Section 6 to the Company or its Affiliates. If a Participant’s employment or other service relationship is with an Affiliate and that entity ceases to be an Affiliate, the Participant’s Employment will be deemed to have terminated when the entity ceases to be an Affiliate unless the Participant transfers Employment to the Company or its remaining Affiliates. Notwithstanding the foregoing, in construing the provisions of any Award relating to the payment of “nonqualified deferred compensation” (subject to Section 409A) upon a termination or cessation of Employment, references to termination or cessation of employment, separation from service, retirement or similar or correlative terms will be construed to require a “separation from service” (as that term is defined in Section 1.409A-1(h) of the Treasury Regulations, after giving effect to the presumptions contained therein) from the Company and from all other corporations and trades or businesses, if any, that would be treated as a single “service recipient” with the Company under Section 1.409A-1(h)(3) of the Treasury Regulations. The Company may, but need not, elect in writing, subject to the applicable limitations under Section 409A, any of the special elective rules prescribed in Section 1.409A-1(h) of the Treasury Regulations for purposes of determining whether a “separation from service” has occurred. Any such written election will be deemed a part of the Plan.

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

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

“Performance Award”: An Award subject to Performance Criteria.

“Performance Criteria”: Specified criteria, other than the mere continuation of Employment or the mere passage of time, the satisfaction of which is a condition for the grant, exercisability, vesting or full enjoyment of an Award.

“Plan”: The 2020 MicroVision, Inc. Incentive Plan, as from time to time amended and in effect.

“Prior Plan”: The 2013 MicroVision, Inc. Incentive Plan, as amended.

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

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

“Section 409A”: Section 409A of the Code.

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

“Stock”: Common Stock of the Company, par value \$.001 per share.

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

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

“Unrestricted Stock”: Stock not subject to any restrictions under the terms of the Award.

Annual Report

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

FORM 10-K

(Mark one)

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

For the fiscal year ended December 31, 2019

OR

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

For the transition period from _____ to _____

Commission file number: 001-34170



MicroVision, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

91-1600822

(I.R.S. Employer Identification Number)

6244 185th Avenue NE, Suite 100

Redmond, Washington 98052

(Address of Principal Executive Offices, including Zip Code)

(425) 936-6847

(Registrant's Telephone Number, including Area Code)

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

Title of Each Class	Trading Symbol	Name of Each Exchange on Which Registered
Common Stock, \$0.001 par value per share	MVIS	The Nasdaq Stock Market LLC

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).

Yes No

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

The aggregate market value of common stock held by non-affiliates of the registrant as of June 28, 2019 was approximately \$88.8 million (based upon the closing price of \$0.8052 per share for the registrant’s common stock as reported by the Nasdaq Global Market on that date).

The number of shares of the registrant’s common stock outstanding as of March 6, 2020 was 128,077,628.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A in connection with the registrant's 2020 Annual Meeting of Shareholders (the "2020 Proxy Statement") are incorporated herein by reference in Part III of this Annual Report on Form 10-K to the extent stated herein.

MICROVISION, INC.
ANNUAL REPORT ON FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 2019

TABLE OF CONTENTS

	Page
Part I.	
Item 1. Business	5
Item 1A. Risk Factors	10
Item 1B. Unresolved Staff Comments	16
Item 2. Properties	17
Item 3. Legal Proceedings	17
Item 4. Mine Safety Disclosures	17
Item 4A. Executive Officers of the Registrant	17
Part II.	
Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	18
Item 6. Selected Financial Data	18
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations	18
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	25
Item 8. Financial Statements and Supplementary Data	27
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	49
Item 9A. Controls and Procedures	49
Item 9B. Other Information	52
Part III.	
Item 10. Directors, Executive Officers and Corporate Governance	52
Item 11. Executive Compensation	52
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	52
Item 13. Certain Relationships and Related Transactions and Director Independence	52
Item 14. Principal Accounting Fees and Services	52
Part IV.	
Item 15. Exhibits, Financial Statement Schedules	52
Item 16. Form 10-K Summary	54

PART I.

Preliminary Note Regarding Forward-Looking Statements

This Annual Report contains forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and is subject to the safe harbor created by those sections. Such statements may include, but are not limited to, projections of revenues, income or loss, capital expenditures, plans for product development and cooperative arrangements, technology development by third parties, future operations, financing needs or plans of MicroVision, Inc. ("we," "our," or "us"), as well as assumptions relating to the foregoing. The words "anticipate," "could," "would," "believe," "estimate," "expect," "goal," "may," "plan," "project," "will," and similar expressions identify forward-looking statements. Factors that could cause actual results to differ materially from those projected in our forward-looking statements include risk factors identified below in Item 1A.

ITEM 1. BUSINESS

Overview

MicroVision, Inc. is a pioneer in laser beam scanning (LBS) technology that we market under our brand name PicoP®. We have developed our proprietary scanning technology that can be used in products for interactive projection, consumer light detection and ranging (LiDAR), automotive LiDAR, and augmented and mixed reality. Our PicoP® scanning technology is based on our patented expertise in systems that include micro-electrical mechanical systems (MEMS), laser diodes, opto-mechanics, and electronics and how those elements are packaged into a small form factor, low power scanning module that can display, interact and sense, depending on the needs of the application. These systems utilize edge computing and machine intelligence as part of the solutions.

For the past few years, our strategy has included selling LBS modules designed for original equipment manufacturers (OEMs) and original design manufacturers (ODMs). We planned to offer scanning modules to support a wide array of applications: an interactive scanning module for smart home speakers and other Internet of Things (IoT) products, a LiDAR module for consumer electronic applications, and solutions for augmented and mixed reality devices. We have also been developing our 200+ m range Perceptive automotive lidar module for OEM and Tier 1 acceptance for automotive active collision avoidance systems and autonomous driving vehicles. However, we have been unable to secure a customer to launch one of our module products in 2020. As a result, we plan to focus our attention in the near term on licensing our module products and related technology to other companies. We are also exploring licensing of technology and designs and other strategic alternatives for moving forward without orders from the OEM for 2020 delivery.

We currently sell components to a high definition display system that we developed for a customer under a development agreement. These components are in production, but the volume and associated revenue and gross profit are not sufficient to support our expenses. As a result, we are exploring transferring production to the customer and accepting a royalty for each unit shipped.

To date, we have primarily focused on the consumer electronics market. However, we believe that our LBS technology could support applications and markets including automotive and medical devices.

We have incurred substantial losses since inception and we expect to incur a significant loss during the fiscal year ending December 31, 2020.

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

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports are available free-of-charge from the investor page of our website, accessible at www.microvision.com, as soon as reasonably practicable after such material is electronically filed with the Securities and Exchange Commission (SEC). Copies of these filings may also be obtained by visiting the SEC's website, www.sec.gov, which contains current, quarterly and annual reports, proxy and information statements and other information regarding issuers that file electronically.

Technology

Our patented PicoP® scanning technology combines a MEMS scanning mirror, laser diode light sources, electronics, and optics that are controlled using our proprietary system control algorithms along with edge computing and machine learning in some systems. The MEMS scanning mirror is a key component of our technology system and is one of our core competencies. Our MEMS scanning mirror is a silicon device that oscillates to generate an image pixel-by-pixel for use in sensing and display. Scanning modules with our technology can be designed to operate in one of three different modes: sensing only, display and sensing combined, and display only. For applications that include a projected display, our PicoP® scanning technology creates a brilliant, full color, high-contrast, uniform image over the entire field-of-view from a small and thin module with low power consumption. Our 3D perceptive LiDAR scanning module is small with high resolution, low power and low latency which are features that are important for such applications. We believe that our proprietary technology offers significant advantages over traditional display and 3D Perceptive LiDAR sensing systems. Depending on the specific product application, these advantages may include:

- Ability to perform projection and three-dimensional sensing and image capture from a single device;
- Leveraging our custom MEMS and application-specific integrated circuits (ASICs) components across multiple module types for economies of scale;
- Focus-free operation;
- High resolution (up to 1440p);
- Low power requirements to enable battery operated devices and applications;
- Small and thin module size;
- High-brightness, high-dynamic range, and brightness uniformity;
- Rich, saturated color reproduction;
- Short throw projection with multi-mode operation for table top and wall mode;
- 3D Perceptive LiDAR sensing as a touch interface or point cloud;
- Dynamic, programmable resolution and frame rate 3D scanning; and
- Efficiency of edge computing and machine learning integrated within our solution.

Business Strategy

For the past few years, our business strategy has been to commercialize our PicoP® scanning technology by enabling OEMs and ODMs to produce end-user products via several go-to-market paths:

- License our LBS technology, module designs, component designs, and software to OEMs and ODMs to allow them to produce modules to either sell or incorporate in their own products.
- Design and sell LBS modules directly to OEMs and ODMs to incorporate inside their products;
- License our LBS technology and sell key components to OEMs and ODMs to create their own scanning modules; and
- License LBS technology to OEMs and ODMs who developed their own key components or subsystems.

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

As discussed above, we plan to focus our attention in the near term on licensing our module products and related technology to other companies.

Markets for Our Technology

We believe our PicoP® scanning technology can address the following market segments:

- Interactive and non-interactive projected displays;
- 3D Perceptive LiDAR sensing for consumer electronics;
- Augmented/Mixed Reality (AR/MR);and
- 3D Perceptive LiDAR sensing for automotive active collision avoidance

In interactive projection, our goal is to enable a capacitive touch-like experience on a variety of surfaces by AI devices such as smart speakers. Our module would augment the capabilities of these voice controlled devices making transactions more intuitive and easier to perform. By working on a variety of surfaces our modules provide the functionality of interactive displays while reducing the size requirements of display screens in the home.

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

Additionally, we have developed 3D Perceptive LiDAR sensors. The consumer 3D Perceptive LiDAR sensor is a small sensor able to process what is in front of the sensor with high accuracy and high fidelity for smart home and smart home security products and in commercial space management. We are also working on LiDAR modules for automotive active collision avoidance systems.

Another possible application area for our PicoP® scanning technology is eyewear displays, also known as AR/MR. We have a long history with this application, and we believe our technology is a good fit for this market.

Products and Services

In 2019, our revenue was derived from the sale of components, from development contracts, and from royalty fees for PicoP® scanning technology.

In May 2018, we signed a five-year license agreement with a customer granting them an exclusive license to our LBS technology for display-only applications. The license represents functional intellectual property which derives a substantial portion of its utility from its significant standalone functionality. The intellectual property is not expected to substantially change during the license period, nor are we contractually or practically required to use updated intellectual property during the license life. During the year ended December 31, 2018 we completed the performance obligations required by the contract. As a result, we recognized all of the \$10.0 million of license fees paid to us in 2018 as license revenue for the year ended December 31, 2018.

In April 2017, we signed a contract with a major technology company to develop an LBS display system. Under the agreement, we received an upfront payment of \$10.0 million in 2017 and, as of December 31, 2019, have also received \$15.0 million, net of early payment discounts, representing all payment due for development work. The original contract was for \$14.0 million in fees for development work, but we and our customer agreed to add \$1.1 million in additional work to total \$15.1 million. After applying early payment discounts, we recognized revenue of \$15.0 million in development fees over time based on the proportion of total cost expended (under Topic 606, the "input method") to the total cost expected to complete the contract performance obligation. For the year ended December 31, 2019, we recognized \$2.9 million of contract revenue from development fees on this agreement compared to \$7.4 million during the year ended December 31, 2018.

The \$10.0 million upfront payment will be recognized as revenue at the point in time future components are sold and transferred to the customer. Based on current pricing and cost estimates, the amount of the per unit upfront payment would be greater than our estimated per unit gross profit. At December 31, 2019 we had \$9.8 million of the \$10.0 million upfront payment classified as a contract liability on the balance sheet. We have received purchase orders from our customer under the product supply agreement signed in April 2017. We expect to apply an additional \$2.3 million over the first three quarters of 2020. To the extent that the component purchases do not fully expend the \$10.0 million upfront payment, there is no repayment provision to the customer. As mentioned above, the volume and associated revenue and gross profit from this business is not sufficient to support the company's expenses. As a result, we are exploring transferring production to the customer and accepting a royalty for each unit shipped. We expect any such royalties due would likely be applied against the \$9.8 million prepayment until it is exhausted.

We have been working to introduce an interactive display module that integrates display and 3D Perceptive LiDAR sensing to allow the user to interact with projected images and a consumer grade LiDAR module for consumer electronics (smart home and smart home security) applications. We have been unable to obtain a customer that will launch products incorporating our modules in 2020. As a result, we are currently focused on licensing these technologies to other companies that might launch products that include them in the future.

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

Research and Development

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

Our research and development team is located in Redmond, Washington and as of December 31, 2019, was comprised of 60 engineering and technical staff in optics, software engineering, electrical engineering, product engineering, and MEMS design. In February 2020, we reduced headcount by approximately 60% following an OEM's decision not to incorporate our technology into its products. As of March 6, 2020, our research and development team was comprised of 21 engineering and technical staff in optics, software engineering, electrical engineering, product engineering, and MEMS design.

Sales and Marketing

Our sales and marketing approach is account based, business-to-business targeting of OEMs and ODMs. Our business development efforts are headed by executive management and are supported by engineers that assist customers during the design cycles of products. The engineers are located in Redmond, Washington. We engage potential customers directly, participate in trade shows, and maintain a website.

Manufacturing

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

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

We provide forecasts that allow our contract manufacturers to stock component parts and other materials and plan capacity. Our contract manufacturers procure raw materials in volumes consistent with our forecasts, manufacture and/or assemble the products and perform tests according to our specifications. Products are shipped to our customers or shipped to our Redmond, Washington headquarters to be inventoried. We procure some specific components and either sell them or consign them to our contract manufacturers. We hold some inventories of these components. Our contract manufacturers procure additional raw materials we do not own until the finished goods are completed by our contract manufacturer. Title to the products transfers from our contract manufacturers to us and then to our customers when we complete our performance obligations. If raw materials are unused, or the products are not sold within specified periods of time, we may incur carrying charges or obsolete material charges for component parts that our contract manufacturers purchased to build products to meet our forecasts or customer orders.

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

Human Factors, Ergonomics and Safety

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

Competitive Conditions

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

The consumer display and 3D sensing industries have been characterized by rapid and significant technological advances. Our PicoP® scanning technology system and potential products may not be competitive with such advances, and we may not have sufficient funds to invest in new technologies, products or processes. Although we believe our technology system and proposed products could deliver images of a substantially higher performance from a smaller form factor device than those of commercially available LCOS and DLP based display products, LCD, OLED, and LCOS interactive panels or solid state LiDAR and CMOS sensing solutions, manufacturers of competing technologies may develop improvements to their technology that could reduce or eliminate the anticipated advantages of our proposed products.

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

Intellectual Property and Proprietary Rights

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

We believe our extensive patent portfolio is the largest, broadest, and earliest filed LBS technology portfolio. We have been granted over 450 issued patents, pending patents and licensed patents worldwide. As our technology develops, we periodically review our patent portfolio and eliminate patents that are deemed of low value. Due to this ongoing portfolio management practice, the number of patents in our portfolio will vary at any given time.

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

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

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

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

Employees

As of March 6, 2020, we had 30 full-time employees. None of our employees are represented by a labor union.

ITEM 1A. RISK FACTORS

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

Risk Factors Related to Our Business and Industry

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

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

- As of December 31, 2019, we had an accumulated deficit of \$572.6 million.
- We had an accumulated deficit of \$518.9 million from inception through December 31, 2017, a net loss of \$27.3 million in 2018, and a net loss of \$26.5 million in 2019.

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

We cannot be certain that we will succeed in obtaining additional development revenue or commercializing our technology or products. In light of these factors, we expect to continue to incur significant losses and negative cash flow at least through 2020 and likely thereafter. There is significant risk that we will not achieve positive cash flow at any time in the future.

We have been unable to secure a customer to launch one of our module products in 2020, as planned. As a result, we plan to focus our attention in the near term on licensing our module products and related technology to other companies. We are also exploring licensing of technology and designs and other strategic alternatives for moving forward without orders from the OEM for 2020 delivery. There is substantial risk that these efforts will be unsuccessful.

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

Based on our current operating plan that includes anticipated future proceeds from the sale of shares under our existing Purchase Agreement with Lincoln Park Capital Fund, LLC (Lincoln Park), we anticipate that we have sufficient cash and cash equivalents to fund our operations into the second quarter of 2020. We will require additional capital to fund our operating plan past that time. We plan to seek to obtain additional capital through the issuance of equity or debt securities, product sales and/or licensing activities. There can be no assurance that any such efforts to obtain additional capital will be successful.

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

with suppliers of components, products and systems, and equipment manufacturers that may require additional investments by us.

Additional capital may not be available to us or, if available, may not be available on terms acceptable to us or on a timely basis. Raising additional capital may involve issuing securities with rights and preferences that are senior to our common stock and may dilute the value of our current shareholders' shares. If adequate capital resources are not available on a timely basis, we may consider limiting our operations substantially and we may be unable to continue as a going concern. This limitation of operations could include reducing investments in our production capacities or research and development projects, staff, operating costs, and capital expenditures which could jeopardize our ability to achieve our business goals or satisfy our customer requirements. In February 2020, we reduced headcount by approximately 60% following an OEM's decision not to incorporate our technology into its products. As a result, further cost reduction efforts may be particularly difficult to implement.

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

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

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

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

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

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

We are dependent on third parties in order to develop, manufacture, sell and market products incorporating our PicoP® scanning technology, scanning modules, and the scanning module components.

Our business strategy for commercializing our technology in products incorporating PicoP® scanning technology includes entering into development, manufacturing, licensing, sales and marketing arrangements with OEMs, ODMs and other third parties. These arrangements reduce our level of control over production and distribution and may subject us to risks and uncertainties regarding, but not limited to, product warranty, product liability and quality control standards.

We cannot be certain that we will be able to negotiate arrangements on acceptable terms, if at all, or that these arrangements will be successful in yielding commercially viable products. If we cannot establish these arrangements, we would require additional capital to undertake such activities on our own and would require extensive manufacturing, sales and marketing expertise that we do not currently possess and that may be difficult to obtain.

In addition, we could encounter significant delays in introducing our PicoP® scanning technology or find that the development, manufacture or sale of products incorporating our technology would not be feasible. To the extent that

we enter into development, manufacturing, licensing, sales and marketing or other arrangements, our revenues will depend upon the performance of third parties. We cannot be certain that any such arrangements will be successful.

We cannot be certain that our technology system or products incorporating our PicoP® scanning technology will achieve market acceptance. If our technology system or products incorporating our technology do not achieve market acceptance, our revenues may not grow.

Our success will depend in part on customer acceptance of our PicoP® scanning technology. Our technology may not be accepted by manufacturers who use display and 3D sensing technologies in their products, by systems integrators, OEMs, and ODMs who incorporate the scanning module components into their products or by end users of these products. To be accepted, our PicoP® scanning technology must meet the expectations of our current and potential customers in the consumer electronics, automotive, and other markets. If our technology system or products incorporating our PicoP® scanning technology do not achieve market acceptance, we may not be able to continue to develop our technology.

Future products incorporating our PicoP® scanning technology and scanning modules are dependent on advances in technology by other companies.

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

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

In 2019, one customer accounted for \$7.7 million in revenue, representing 86% of our total revenue. A second customer accounted for \$1.2 million in revenue, representing 13% of our total revenue. In 2018, one customer accounted for \$10.0 million in revenue, representing 57% of our total revenue, and a second customer accounted for \$7.4 million in revenue, representing 42% of our total revenue. Our customers take time to obtain, and the loss of a significant customer could negatively affect our revenue. Our quarterly operating results may vary significantly based upon:

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

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

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

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

Our backlog under open orders and agreements totaled \$6.7 million as of December 31, 2019. We or our customers may be unable to meet the performance requirements and obligations under open orders or agreements, including

performance specifications, milestones or delivery dates, required by such purchase orders or agreements. Furthermore, our customers may be unable or unwilling to perform their obligations thereunder on a timely basis, or at all if, among other reasons, our products and technologies do not achieve market acceptance, our customers' products and technologies do not achieve market acceptance or our customers otherwise fail to achieve their operating goals. To the extent we are unable to perform under such purchase orders or agreements or to the extent customers are unable or unwilling to perform, our operating results and cash flows could be adversely affected.

We may not be able to maintain our listing on The Nasdaq Global Market and it may become more difficult to sell our stock in the public market.

Our common stock is listed on The Nasdaq Global Market. To maintain our listing on this market, we must meet Nasdaq's listing maintenance standards. If we are unable to continue to meet Nasdaq's listing maintenance standards for any reason, our common stock could be delisted from The Nasdaq Global Market.

We received formal notice from the Listing Qualifications Staff of The Nasdaq Stock Market LLC on December 12, 2019. We requested a hearing before the Nasdaq Hearings Panel (the "Panel"), which would stay any further action by the Staff pending the Panel's decision. At the hearing we presented our plan to regain compliance with all applicable criteria for continued listing. On February 4, 2020, we received formal notification from the Panel that it had granted us an extension through June 9, 2020 to evidence compliance with the minimum \$1.00 bid price requirement. In order to evidence compliance with the bid price requirement, we must evidence a closing bid price of at least \$1.00 per share for a minimum of 10 consecutive business days. We plan to take steps to timely evidence compliance, which may include effecting a reverse stock split if necessary; however, there can be no assurance that we will be able to evidence compliance before the deadline.

If our common stock were delisted, we may seek to list our common stock on a regional stock exchange, or, if one or more broker-dealer market makers comply with applicable requirements, the over-the-counter (OTC) market. Listing on such other market or exchange could reduce the liquidity of our common stock. If our common stock were to trade in the OTC market, an investor would find it more difficult to dispose of, or to obtain accurate quotations for the price of, the common stock.

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

On March 6, 2020, the closing price of our common stock was \$0.275 per share.

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

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

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

The consumer display and 3D sensing industries have been characterized by rapidly changing technology, accelerated product obsolescence and continuously evolving industry standards. Our success will depend upon our ability to further develop our PicoP® scanning technology system and to cost effectively introduce new products and features in a timely manner to meet evolving customer requirements and compete with competitors' product advances. We may not succeed in these efforts due to:

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

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

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

We are aware of several patents held by third parties that relate to certain aspects of light scanning displays and 3D sensing products. These patents could be used as a basis to challenge the validity, limit the scope or limit our ability to obtain additional or broader patent rights of our patents or patents we have licensed. A successful challenge to the validity of our patents or patents we have licensed could limit our ability to commercialize our technology or products incorporating our PicoP® scanning technology and, consequently, materially reduce our revenues. Moreover, we cannot be certain that patent holders or other third parties will not claim infringement by us with respect to current and future technology. Because U.S. patent applications are held and examined in secrecy, it is also possible that presently pending U.S. applications will eventually be issued with claims that will be infringed by our products or our technology.

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

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

Our ability to successfully offer products incorporating PicoP® scanning technology and implement our business plan in a rapidly evolving market requires an effective planning and management process. The growth in business and relationships with customers and other third parties has placed, and will continue to place, a significant strain on our management systems and resources. We will need to continue to improve our financial and managerial controls, reporting systems and procedures, and will need to continue to train and manage our work force. Following our substantial reduction in headcount in February 2020, the risks associated with strained resources are heightened.

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

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

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

Our technology and products incorporating our PicoP® scanning technology could become subject to future environmental, health and safety regulations or amendments that could negatively impact our ability to commercialize our technology and products incorporating our PicoP® scanning technology. Compliance with any such new regulations would likely increase the cost to develop and produce products incorporating our PicoP® scanning technology, and violations may result in fines, penalties or suspension of production. If we become subject to any environmental, health, or safety laws or regulations that require us to cease or significantly change our operations to comply, our business, financial condition and operating results could be adversely affected.

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

Our operating results may be adversely impacted by global economic and financial conditions, which may include slower economic activity, concerns about inflation, increased energy costs, decreased consumer confidence, reduced corporate profits and capital spending. Such adverse business conditions could materially adversely affect: (i) our ability to raise, or the cost of, needed capital, (ii) demand for our current and future products, and (iii) our ability to

commercialize products. We cannot predict the timing, strength, or duration of any economic slowdown or subsequent economic recovery, worldwide, regionally or in the display industry.

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

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

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

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

A major catastrophe, such as an earthquake, monsoon, flood, infectious disease including the 2019 novel coronavirus, or other natural disaster, labor strike, or work stoppage at our contract manufacturers' facilities, our suppliers, or our customers, could result in a prolonged interruption of our business. A disruption resulting from any one of these events could cause significant delays in product shipments and the loss of sales and customers, which could have a material adverse effect on our financial condition, results of operations, and cash flows.

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

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

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

Additionally, the scope of patents is subject to interpretation by courts and their validity can be subject to challenges and defenses, including challenges and defenses based on the existence of prior art. Consequently, we cannot be certain as to the extent to which we will be able to obtain patents for our new products and technology or the extent to which the patents that we already own, protect our products and technology. Reduction in scope of protection or invalidation of our licensed or owned patents, or our inability to obtain new patents, may enable other companies to develop products that compete directly with ours on the basis of the same or similar technology.

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

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

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

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

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

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

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

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

Our operations could be adversely impacted by information technology system failures, network disruptions, or cyber security breaches.

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

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

ITEM 3. LEGAL PROCEEDINGS

In March 2019, we filed a Notice of Arbitration in Hong Kong against Ragentek as a result of its failure to perform its obligations under a purchase order with us. The relief sought is \$4.0 million dollars plus interest and arbitration costs. At this time we cannot predict the likelihood of a favorable outcome.

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. The following persons serve as executive officers of MicroVision, Inc.:

Sumit Sharma, age 46, was appointed Chief Executive Officer in February 2020 and served as Chief Operating Officer from June 2018 to February 2020, after serving as Vice President of Product Engineering and Operations since February 2017 and Vice President and Senior Director of Operations since September 2015. Prior to MicroVision, from April 2015 to September 2015, he was a Product Development and Operations consultant at BlueMadison Consulting. From November 2013 to March 2015, he was the Senior Director, Advanced Manufacturing Operations and Technology Development at Jawbone. From March 2011 to October 2013, he was the Head of Manufacturing Operations for project GLASS at Google. Mr. Sharma has extensive experience in optics, wearable technology, product development and qualification for automotive industry. Mr. Sharma also has deep experience in global operations and developing strategic partnerships. A patent holder, Mr. Sharma received his baccalaureate degree in engineering from New Jersey Institute of Technology.

Stephen P. Holt, age 57, joined MicroVision in April 2013 as Chief Financial Officer. Prior to MicroVision, from May 2007 to May 2012, he served as Chief Financial Officer of PixelOptics, where he played a lead role in bringing the company's first electronic focusing eyewear product to market. At this venture capital-backed start-up, Mr. Holt raised capital and negotiated strategic partner agreements to license technology in addition to implementing policies and procedures to create an infrastructure capable of supporting rapid growth while maintaining a strong internal control environment. From March 2006 to April 2007, he was the Chief Financial Officer of Interstate Distributors, a trucking and transportation services company. From December 2003 to March 2006, he was the Chief Financial Officer of a group of companies consisting of Activelight, Boxlight, Cinelight and Projector Wholesale Supply. These companies were value-added resellers and distributors of audio-visual and projection equipment. Mr. Holt, a Certified Management Accountant, holds a B.S. from California State University, Chico and an M.B.A. from Santa Clara University.

David J. Westgor, age 66, was appointed Vice President, General Counsel and Secretary in November 2013, after serving as General Counsel since December 2012 and Deputy General Counsel since June 2007. Before joining MicroVision, Mr. Westgor was Senior Counsel at Medtronic Physio-Control, where he had primary responsibility for the legal affairs of its medical and informatics business units. Mr. Westgor graduated from Loyola Law School and practiced in the Los Angeles office of Pillsbury Winthrop. He moved to the Seattle area to become in-house counsel at Advanced Radio Telecom, a broadband telecommunications company. Mr. Westgor holds a B.A. from St. Olaf College and an M.F.A. degree from the Art Institute of Chicago.

PART II.

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

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

As of March 6, 2020, there were approximately 116 holders of record of 128,077,628 shares of common stock outstanding. As many of our shares of common stock are held by brokerages and institutions on behalf of shareholders, we are unable to estimate the total number of beneficial holders of our common stock represented by these record holders.

ITEM 6. SELECTED FINANCIAL DATA

A summary of selected financial data as of and for the five years ended December 31, 2019 is set forth below. It should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this Annual Report on Form 10-K. Amounts shown for the year ended December 31, 2015 do not reflect the effects from our January 1, 2018 adoption of ASC Topic 606.

(In thousands, except per share data)

Statement of Operations Data	Year Ended December 31,				
	2019	2018	2017	2016	2015
Revenue	\$ 8,886	\$ 17,607	\$ 9,634	\$ 12,527	\$ 9,188
Net loss available for common shareholders	(26,483)	(27,250)	(25,486)	(17,981)	(14,542)
Basic and diluted net loss per share	(0.24)	(0.31)	(0.35)	(0.35)	(0.31)
Weighted-average shares outstanding basic and diluted	111,297	86,983	72,786	51,958	46,540
Balance Sheet Data					
Cash and cash equivalents	\$ 5,837	\$ 13,766	\$ 16,966	\$ 15,139	\$ 7,888
Working capital (deficit)	(6,619)	(539)	4,143	11,417	3,371
Total assets	11,836	23,033	29,767	20,395	14,042
Long-term liabilities	1,357	728	607	238	6,491
Total shareholders' equity (deficit)	(3,977)	4,117	10,086	13,937	(153)

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

Overview

For the past few years, our business strategy has been to commercialize our PicoP® scanning technology by enabling OEMs and ODMs to produce end-user products via several go-to-market paths:

1. License our LBS technology, module designs, component designs, and software to OEMs and ODMs to allow them to produce modules to either sell or incorporate in their own products.
2. Design and sell LBS modules directly to OEMs and ODMs to incorporate inside their products;
3. License our LBS technology and sell key components to OEMs and ODMs to create their own scanning modules; and
4. License LBS technology to OEMs and ODMs who developed their own key components.

As discussed above, we plan to focus our attention in the near term on licensing our module products and related technology to other companies.

In 2019, 47% of our revenue was generated from product shipments to a major technology company, 38% of our revenue was generated from development and support contracts, 13% of our revenue was generated from other product shipments, 1% was generated from performance on contracts for prototype units, and 1% was generated from ongoing

per unit royalties. In 2019, one customer accounted for \$7.7 million in revenue, representing 86% of our total revenue and a second customer accounted for \$1.2 million in revenue, representing 13% of our total revenue.

In 2018, 57% of our revenue was generated from the five-year license agreement we signed in May 2018, 42% of our revenue was generated from development contracts, and 1% was generated from performance on contracts for prototype units. In 2018, one customer accounted for \$10.0 million in revenue, representing 57% of our total revenue, and a second customer accounted for \$7.4 million in revenue, representing 42% of our total revenue.

We have incurred substantial losses since inception and expect to incur a significant loss during the fiscal year ending December 31, 2020. We have funded operations to date primarily through the sale of common stock, convertible preferred stock, warrants, the issuance of convertible debt and, to a lesser extent, from development contract revenues, product sales and licensing activities. There can be no assurance that additional capital will be available or that, if available, it will be available on terms acceptable to us on a timely basis. We cannot be certain that we will succeed in commercializing our technology or products. These factors raise substantial doubt regarding our ability to continue as a going concern. These financial statements were prepared assuming we will continue as a going concern and do not include any adjustments that might be necessary should we be unable to continue as a going concern.

Key accounting policies and estimates

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

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

Revenue recognition

Revenues are recognized when control of the promised goods or services are transferred to our customers, in an amount that reflects the consideration that we expect to receive in exchange for those goods or services. We generate all of our revenue from contracts with customers.

Our contract revenue in a particular period is dependent upon when we enter into a contract, the value of the contracts we have entered into, and the availability of technical resources to perform work on the contracts. We recognize contract revenue either at a point in time, or over time, depending upon the characteristics of the individual contract. If control of the deliverable(s) occur over time, the revenue is recognized in proportion to the transfer of control. If control passes to the customer only upon completion and transfer of the asset, revenue is recognized at the completion of the contract. In contracts that include significant customer acceptance provisions, we recognize revenue only upon acceptance of the deliverable(s).

We identify each performance obligation in our development contracts at contract inception. The contracts generally include product development and customization specified by the customer. In contracts with multiple performance obligations, we identify each performance obligation and evaluate whether the performance obligations are distinct within the context of the contract. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment. Performance obligations that are not distinct at contract inception are combined.

If we identify multiple distinct performance obligations, we evaluate each performance obligation to determine if there is a stand-alone selling price. In instances where stand-alone selling price is not directly observable, such as when we do not sell the product or service separately, we determine the stand-alone selling price using information that may include market conditions and other observable inputs. Judgment is required to determine the stand-alone selling price for each distinct performance obligation.

Our development contracts are primarily fixed-fee contracts. If control of deliverables occurs over time, we recognize revenue on fixed fee contracts on the proportion of total cost expended (under Topic 606, the 'input method') to the total cost expected to complete the contract performance obligation. For contracts that require the input method for revenue recognition, the determination of the total cost expected to complete the performance obligations on fixed fee contracts involves significant judgment. We incorporate revisions to hour and cost estimates when the causal facts become known.

Inventory valuation

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

Share-based compensation

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

Leases

Significant judgment may be required when determining whether a contract contains a lease, the length of the lease term, the allocation of the consideration in a contract between lease and non-lease components, and the determination of the discount rate included in our office lease. We review the underlying objective of each contract, the terms of the contract, and consider our current and future business conditions when making these judgments.

Income taxes

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

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

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

Results of Operations

YEAR ENDED DECEMBER 31, 2019 COMPARED TO YEAR ENDED DECEMBER 31, 2018.

Product revenue

	<u>2019</u>	<u>% of total revenue</u>	<u>2018</u>	<u>% of total revenue</u>	<u>\$ change</u>	<u>% change</u>
<i>(In thousands)</i>						
Product revenue	\$ 5,345	60.2	\$ -	-	\$ 5,345	-

Product revenue is revenue from sales of our products which are LBS modules and their components. Revenue is recognized when control of the goods passes to the customer.

The increase in product revenue for the year ended December 31, 2019 compared to the same period in 2018 was primarily due to product shipments to a major technology company. Product revenue includes \$1.2 million related to the sale of display modules that had been produced for Ragentek and delivered to our distributor in 2017. Our distributor made payments in excess of revenue recognized and Ragentek failed to meet their obligations under the March 2017 order. During 2019, the remaining units held by our distributor were sold to other customers and we reached an agreement with our distributor on the final transaction price of the units shipped to them. As part of the agreement, we have agreed to return \$432,000 of the original transaction price to our distributor.

Product revenue backlog at December 31, 2019 and 2018 was \$6.7 million and zero, respectively. The December 31, 2019 backlog is primarily due to the production orders received from a major technology company under the product supply agreement signed in April 2017. Product revenue backlog at December 31, 2019 does not include the \$9.8 million contract liability on our balance sheet.

License and royalty revenue

	<u>2019</u>	<u>% of total revenue</u>	<u>2018</u>	<u>% of total revenue</u>	<u>\$ change</u>	<u>% change</u>
<i>(In thousands)</i>						
License and royalty revenue	\$ 99	1.1	\$ 10,011	56.9	\$ (9,912)	(99.0)

License and royalty revenue is revenue under license agreements to our PicoP® scanning technology. We recognize revenue on upfront license fees at a point in time if the nature of the license granted is a right-to-use license, representing functional intellectual property with significant standalone functionality. If the nature of the license granted is a right-to-access license, representing symbolic intellectual property, which excludes significant standalone functionality, we recognize revenue over the period of time we have ongoing obligations under the agreement. We will recognize revenue from sales-based royalties based on information received by our customers. If such information is not received, we will estimate the number of royalty-bearing products consumed by our customers each quarter.

In May 2018, we signed a five-year license agreement with a customer granting them exclusive license to our LBS technology for display-only applications. The license represents functional intellectual property which derives a substantial portion of its utility from its significant standalone functionality. The intellectual property is not expected to substantially change during the license period, nor are we contractually or practically required to use updated intellectual property during the license life. During the year ended December 31, 2018 we completed the performance obligations required by the contract. As a result, we recognized all of the \$10.0 million in up-front license payments in license revenue during the year ended December 31, 2018.

Contract revenue

	<u>2019</u>	<u>% of total revenue</u>	<u>2018</u>	<u>% of total revenue</u>	<u>\$ change</u>	<u>% change</u>
<i>(In thousands)</i>						
Contract revenue	\$ 3,442	38.7	\$ 7,596	43.1	\$ (4,154)	(54.7)

Contract revenue includes revenue from performance on development contracts and the sale of prototype units and evaluation kits based on our PicoP® scanning module. Our contract revenue in a particular period is dependent upon when we enter into a contract, the value of the contracts we have entered into, and the availability of technical

resources to perform work on the contracts. We recognize contract revenue either at a point in time, or over time, depending upon the characteristics of the individual contract. If control of the deliverable(s) occur over time, the revenue is recognized in proportion to the transfer of control. If control passes to the customer only upon completion and transfer of the asset, revenue is recognized at the completion of the contract. In contracts that include significant customer acceptance provisions, we recognize revenue only upon acceptance of the deliverable(s).

In April 2017, we signed a contract with a major technology company to develop an LBS display system. As of December 31, 2019, we have received all payments due for development work. We have recognized revenue of \$15.0 million in development fees, net of early payment discounts, over time utilizing the input method of total costs expended to total cost expected to complete the performance obligation. The original contract was for \$14.0 million in fees for development, but we and the customer agreed to add \$1.1 million in additional work to total \$15.1 million.

The decrease in contract revenue during the year ended December 31, 2019 compared to the same period in 2018 was attributed to decreased contract activity. Our contract backlog, including orders for prototype units and evaluation kits, at December 31, 2019 and 2018 was approximately zero and \$2.5 million, respectively.

Cost of product revenue

	<u>2019</u>	<u>% of product revenue</u>	<u>2018</u>	<u>% of product revenue</u>	<u>\$ change</u>	<u>% change</u>
<i>(In thousands)</i>						
Cost of product revenue	\$ 6,692	125.2	\$ 5,468	-	\$ 1,224	22.4

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

Cost of product revenue can fluctuate significantly from period to period, depending on the product mix and volume, the level of manufacturing overhead expense and the volume of direct material purchased. The increase during the year ended December 31, 2019 compared to the same period in 2018 was attributed primarily to product shipments to a major technology company. Inventory write-downs of \$2.2 million and \$4.4 million were recorded in 2019 and 2018, respectively.

Cost of contract revenue

	<u>2019</u>	<u>% of contract revenue</u>	<u>2018</u>	<u>% of contract revenue</u>	<u>\$ change</u>	<u>% change</u>
<i>(In thousands)</i>						
Cost of contract revenue	\$ 1,872	54.4	\$ 5,170	68.1	\$ (3,298)	(63.8)

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

The decrease in the cost of contract revenue during the year ended December 31, 2019 compared to the same period in 2018 was attributed to reduced activity on the April 2017 development contract.

Research and development expense

	<u>2019</u>	<u>2018</u>	<u>\$ change</u>	<u>% change</u>
<i>(In thousands)</i>				
Research and development expense	\$ 18,661	\$ 24,666	\$ (6,005)	(24.3)

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

The decrease in research and development expense during the year ended December 31, 2019 compared to the same period in 2018 was attributable to lower subcontractor costs and personnel-related compensation and benefits expenses offset by higher allocation of resources to internal research and development activities that were previously allocated to a commercial contract and higher direct materials costs related to our LBS module development.

Sales, marketing, general and administrative expense

<i>(In thousands)</i>	<u>2019</u>	<u>2018</u>	<u>\$ change</u>	<u>% change</u>
Sales, marketing, general and administrative expense	\$ 8,133	\$ 9,523	\$ (1,390)	(14.6)

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

The decrease in sales, marketing, general and administrative expense during the year ended December 31, 2019 compared to the same period in 2018 was attributed to lower personnel-related compensation and benefits expenses and lower professional and outside services costs.

Income taxes

No provision for income taxes has been recorded because we have experienced net losses from inception through December 31, 2019. At December 31, 2019, we had net operating loss carryforwards of approximately \$405.8 million for federal income tax reporting purposes. In addition, we have research and development tax credits of \$9.0 million. During 2019, \$17.1 million federal net operating losses expired unused. A majority of the net operating loss carryforwards and research and development credits available to offset future taxable income, if any, will expire in varying amounts from 2020 to 2039, if not previously used.

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

We recognize interest accrued and penalties related to unrecognized tax benefits in tax expense. We did not have any unrecognized tax benefits at December 31, 2019 or at December 31, 2018.

Liquidity and Capital Resources

We have incurred significant losses since inception. We have funded operations to date primarily through the sale of common stock, convertible preferred stock, warrants, the issuance of convertible debt and, to a lesser extent, from development contract revenues, product sales, and licensing activities. At December 31, 2019, we had \$5.8 million in cash and cash equivalents.

Based on our current operating plan that includes anticipated future proceeds from the sale of shares under our existing Purchase Agreement with Lincoln Park, we anticipate that we have sufficient cash and cash equivalents to fund our operations into the second quarter of 2020. We will require additional capital to fund our operating plan past that time. We plan to obtain additional capital through the issuance of equity or debt securities, product sales and/or licensing activities. There can be no assurance that additional capital will be available to us or, if available, will be available on terms acceptable to us or on a timely basis. If adequate capital resources are not available on a timely basis, we intend to consider limiting our operations substantially. This limitation of operations could include reducing investments in our production capacities, research and development projects, staff, operating costs, and capital expenditures. Following our substantial reduction in headcount in February 2020, additional cost savings may be difficult to identify and achieve.

Under the April 2017 development contract, we received an upfront payment of \$10.0 million in 2017 with a major technology company. The \$10.0 million upfront payment will be applied as an upfront payment toward future component purchases from us. Based on current pricing and cost estimates, the amount of per unit upfront payment would be greater than our estimated per unit gross profit and therefore will have a negative impact on our reported cash flow from operating activities until the upfront payment has been earned.

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

Operating activities

Cash used in operating activities totaled \$24.0 million during 2019, compared to \$22.6 million in 2018. Cash used in operating activities resulted primarily from cash used to fund our net loss, after adjusting for non-cash charges such as share-based compensation, depreciation and amortization charges and changes in operating assets and liabilities. The changes in cash used in operating activities were primarily attributed to the timing of payments received from customers and payments made to suppliers during the year ended December 31, 2019 compared to the year ended December 31, 2018.

Investing activities

Cash used in investing activities totaled \$745,000 in 2019, compared to \$1.1 million in 2018 and was primarily attributed to purchases of equipment.

Financing activities

Cash provided by financing activities totaled \$16.9 million in 2019, compared to \$20.5 million in 2018. Principal payments under finance leases was \$20,000 in 2019 and \$12,000 in 2018.

The following is a list of our financing activities during 2019 and 2018.

- In December 2019, we entered into a Common Stock Purchase Agreement with Lincoln Park granting us the right to sell shares of our common stock having an aggregate value of up to \$16.0 million. Under the terms of the agreement, Lincoln Park made an initial purchase of 1.5 million shares of common stock for \$1.0 million at a purchase price of \$0.6531 per share. Subject to various limitations and conditions set forth in the agreement, we may sell up to an additional \$15.0 million in shares of common stock, from time to time, at our sole discretion to Lincoln Park over a 24-month period beginning December 2019. In consideration for entering into the agreement, we issued 375,000 shares of our common stock, having a value of \$277,000, based on the closing stock price at the date of grant, to Lincoln Park as a commitment fee. We incurred an additional \$90,000 in issuance costs.
- In July 2019, we raised \$2.0 million before issuance costs of approximately \$24,000 through a registered direct offering of 3.0 million shares of our common stock to a private investor.
- In April 2019, we raised \$2.0 million before issuance costs of approximately \$34,000 through a registered direct offering of 2.3 million shares of our common stock to a private investor.
- In April 2019, we entered into a Common Stock Purchase Agreement with Lincoln Park granting us the right to sell shares of our common stock having an aggregate value of up to \$11.0 million. Under the terms of the agreement, Lincoln Park made an initial purchase of \$1.0 million in shares of common stock at a purchase price of \$0.98 per share. Subject to various limitations and conditions set forth in the agreement, we may sell up to an additional \$10.0 million in shares of common stock, from time to time, at our sole discretion to Lincoln Park over a 24-month period beginning April 2019. In consideration for entering into the agreement, we issued 250,000 shares of our common stock, having a value of \$258,000, based on the closing stock price at the date of grant, to Lincoln Park as a commitment fee. We incurred an additional \$92,000 in issuance costs. As of December 31, 2019, we have issued 15.7 million shares and raised a total of \$11.0 million under this agreement. No further shares are available for sale under this agreement.
- In January 2019, we raised \$1.2 million before issuance costs of approximately \$26,000 through a registered direct offering of 2.0 million shares of our common stock to a private investor.
- In December 2018, we raised \$4.2 million before issuance costs of approximately \$524,000 through an underwritten public offering of 7.0 million shares of our common stock.

- In June 2018, we raised \$18.0 million before issuance costs of approximately \$1.4 million through an underwritten public offering of 14.4 million shares of our common stock.

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

- Perceptions of our ability to continue as a going concern;
- Market acceptance of products incorporating our PicoP® scanning technology;
- Changes in evaluations and recommendations by any securities analysts following our stock or our industry generally;
- Announcements by other companies in our industry;
- Changes in business or regulatory conditions;
- Announcements or implementation by our competitors of technological innovations or new products;
- The status of particular development programs and the timing of performance under specific development agreements;
- Economic and stock market conditions;
- The cost of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights;
- Our ability to establish cooperative development, joint venture and licensing arrangements; or
- Other factors unrelated to our company or industry.

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

Contractual obligations

The following table lists our contractual obligations as of December 31, 2019 (in thousands):

Contractual Obligations	Payments Due By Period				Total
	< 1 year	1-3 years	3-5 years	> 5 years	
Open purchase obligations *	\$ 8,235	\$ 184	\$ 46	\$ -	\$ 8,465
Minimum payments under finance leases	27	9	-	-	36
Minimum payments under operating leases	656	1,372	175	-	2,203
Minimum payments under long-term liabilities	-	-	-	-	-
Minimum payments under research, royalty and licensing agreements	12	24	24	- †	60
	<u>\$ 8,930</u>	<u>\$ 1,589</u>	<u>\$ 245</u>	<u>\$ -</u>	<u>\$ 10,764</u>

* Open purchase obligations represent commitments to purchase inventory, materials, capital equipment, maintenance agreements and other goods used in the normal operation of our business.

+ License and royalty obligations continue through the lives of the underlying patents, which is currently through at least 2024.

Recent accounting pronouncements

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate and Market Liquidity Risks

As of December 31, 2019, all of our cash and cash equivalents have variable interest rates. Therefore, we believe our exposure to market and interest rate risks is not material.

Our investment policy generally directs that the investment managers should select investments to achieve the following goals: principal preservation, adequate liquidity, and return. As of December 31, 2019, our cash and cash equivalents are comprised of short-term highly rated money market savings accounts. The values of cash and cash equivalents as of December 31, 2019, are as follows (in thousands):

	<u>Amount</u>	<u>Percent</u>
Cash and cash equivalents	\$ 5,837	100 %
Less than one year	-	-
	<u>\$ 5,837</u>	<u>100 %</u>

Foreign Exchange Rate Risk

Our major contract and collaborative research and development agreements, product sales, and licensing activity payments are currently made in U.S. dollars. However, in the future we may enter into contracts or collaborative research and development agreements in foreign currencies that may subject us to foreign exchange rate risk. We have entered into purchase orders and supply agreements in foreign currencies in the past and may enter into such arrangements, from time to time, in the future. We believe our exposure to currency fluctuations related to these arrangements is not material. We may enter into foreign currency hedges to offset material exposure to currency fluctuations when we can adequately determine the timing and amounts of the exposure.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
Report of Independent Registered Public Accounting Firm	28
Consolidated Balance Sheets as of December 31, 2019 and 2018	29
Consolidated Statements of Operations for the years ended December 31, 2019 and 2018	30
Consolidated Statements of Shareholders' Equity (Deficit) for the years ended December 31, 2019 and 2018	31
Consolidated Statements of Cash Flows for the years ended December 31, 2019 and 2018	32
Notes to Consolidated Financial Statements	33

Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of MicroVision, Inc. (the “Company”) as of December 31, 2019 and 2018, the related consolidated statements of operations, shareholders’ equity (deficit), and cash flows for the years then ended, and the related notes and schedule (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2019 and 2018, 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.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 11, 2020, expressed an unqualified opinion on the Company’s internal control over financial reporting.

Going Concern Uncertainty

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

Change in Accounting Principle

As discussed in Note 11 to the consolidated financial statements, the Company changed its method of accounting for leases in 2019.

Basis for Opinion

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

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

/s/ Moss Adams LLP

Seattle, Washington
March 11, 2020

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

MicroVision, Inc.
Consolidated Balance Sheets
(In thousands)

Assets	December 31,	
	2019	2018
Current assets		
Cash and cash equivalents	\$ 5,837	\$ 13,766
Accounts receivable, net of allowances of \$0 and \$0, respectively	1,079	476
Costs and estimated earnings in excess of billings on uncompleted contracts	-	987
Inventory	192	1,109
Other current assets	729	1,311
Total current assets	7,837	17,649
Property and equipment, net	1,849	2,993
Operating lease right-of-use asset	1,308	-
Restricted cash	435	435
Intangible assets, net	221	486
Other assets	186	1,470
Total assets	\$ 11,836	\$ 23,033
Liabilities and shareholders' equity (deficit)		
Current liabilities		
Accounts payable	\$ 1,871	\$ 2,411
Accrued liabilities	2,045	5,602
Deferred revenue	21	-
Contract liabilities	9,755	-
Other current liabilities	83	10,154
Current portion of operating lease liability	656	-
Current portion of finance lease obligations	25	21
Total current liabilities	14,456	18,188
Operating lease liability, net of current portion	1,348	-
Finance lease obligations, net of current portion	9	33
Deferred rent, net of current portion	-	695
Total liabilities	15,813	18,916
Commitments and contingencies (Note 12)		
Shareholders' equity (deficit)		
Preferred stock, par value \$0.001; 25,000 shares authorized; zero and zero shares issued and outstanding, respectively	-	-
Common stock, par value \$0.001; 150,000 shares authorized; 125,803 and 100,105 shares issued and outstanding at December 31, 2019 and 2018, respectively	126	100
Additional paid-in capital	568,496	550,133
Accumulated deficit	(572,599)	(546,116)
Total shareholders' equity (deficit)	(3,977)	4,117
Total liabilities and shareholders' equity (deficit)	\$ 11,836	\$ 23,033

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

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

	Year Ended December 31,	
	2019	2018
Product revenue	\$ 5,345	\$ -
License and royalty revenue	99	10,011
Contract revenue	3,442	7,596
Total revenue	8,886	17,607
Cost of product revenue	6,692	5,468
Cost of contract revenue	1,872	5,170
Total cost of revenue	8,564	10,638
Gross profit	322	6,969
Research and development expense	18,661	24,666
Sales, marketing, general and administrative expense	8,133	9,523
Total operating expenses	26,794	34,189
Loss from operations	(26,472)	(27,220)
Other expense, net	(11)	(30)
Net loss	\$ (26,483)	\$ (27,250)
Net loss per share - basic and diluted	\$ (0.24)	\$ (0.31)
Weighted-average shares outstanding - basic and diluted	111,297	86,983

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

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

	Common Stock		Additional	Accumulated	Total
	Shares	Par value	paid-in capital	deficit	shareholders' equity (deficit)
Balance at December 31, 2017	78,597	79	528,873	(518,866)	10,086
Share-based compensation expense	108	-	1,061	-	1,061
Sales of common stock	21,400	21	20,199	-	20,220
Net loss	-	-	-	(27,250)	(27,250)
Balance at December 31, 2018	100,105	100	550,133	(546,116)	4,117
Share-based compensation expense	822	1	1,613	-	1,614
Sales of common stock	24,876	25	16,750	-	16,775
Net loss	-	-	-	(26,483)	(26,483)
Balance at December 31, 2019	125,803	\$ 126	\$ 568,496	\$ (572,599)	\$ (3,977)

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

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

	Year Ended December 31,	
	2019	2018
Cash flows from operating activities		
Net loss	\$ (26,483)	\$ (27,250)
Adjustments to reconcile net loss to net cash used in operations:		
Depreciation and amortization	1,649	1,838
Impairment of intangible assets	160	-
Impairment of property and equipment	434	-
Share-based compensation expense	1,569	1,061
Inventory write-downs	2,203	4,414
Other non-cash adjustments	-	203
Change in:		
Accounts receivable, net	(603)	(461)
Costs and estimated earnings in excess of billings on uncompleted contracts	987	(307)
Inventory	(1,286)	(982)
Other current and non-current assets	1,911	663
Accounts payable	(268)	(1,079)
Accrued liabilities	(3,379)	(374)
Deferred revenue	21	-
Billings on uncompleted contracts in excess of related costs	-	(5)
Contract liabilities and other current liabilities	(316)	12
Operating lease liabilities	(642)	-
Other long-term liabilities	-	(305)
Net cash used in operating activities	(24,043)	(22,572)
Cash flows from investing activities		
Purchases of property and equipment	(745)	(1,118)
Net cash used in investing activities	(745)	(1,118)
Cash flows from financing activities		
Principal payments under finance leases	(20)	(12)
Increase in deferred rent	-	139
Net proceeds from issuance of common stock	16,879	20,363
Net cash provided by financing activities	16,859	20,490
Change in cash, cash equivalents, and restricted cash	(7,929)	(3,200)
Cash, cash equivalents, and restricted cash at beginning of period	14,201	17,401
Cash, cash equivalents, and restricted cash at end of period	\$ 6,272	\$ 14,201
Supplemental schedule of non-cash investing and financing activities		
Property and equipment acquired under finance leases	\$ -	\$ 66
Non-cash additions to property and equipment	\$ 37	\$ 445
Issuance of common stock for commitment fee	\$ 535	\$ -

The following table provides a reconciliation of the cash, cash equivalents, and restricted cash balances as of December 31, 2019 and December 31, 2018:

	Year Ended December 31,	
	2019	2018
Cash and cash equivalents	\$ 5,837	\$ 13,766
Restricted cash	435	435
Cash, cash equivalents and restricted cash	\$ 6,272	\$ 14,201

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

MicroVision, Inc.
Notes to Consolidated Financial Statements
For the year ended December 31, 2019

1. THE COMPANY AND LIQUIDITY

MicroVision, Inc. is a pioneer in LBS technology that we market under our brand name PicoP®. We have developed our proprietary PicoP® scanning technology that can be adopted by our customers to create high-resolution miniature projection and three-dimensional sensing and image capture solutions. PicoP® scanning technology is based on our patented expertise in MEMS, laser diodes, opto-mechanics, and electronics and how those elements are packaged into a small form factor, lower power scanning module that can display, interact and sense, depending on the needs of the application. For display, the module can project a high-quality image on any surface (pico projection), or a retina (AR). For sensing, we use IR lasers to capture three-dimensional data in the form of a point cloud. Interactivity uses the 3D sensing function and the display function to simultaneously project an image that the user can then interact with as one would a touch screen.

We have incurred significant losses since inception. We have funded our operations to date primarily through the sale of common stock, convertible preferred stock, warrants, the issuance of convertible debt and, to a lesser extent, from development contract revenues, product sales and licensing activities. At December 31, 2019, we had \$5.8 million in cash and cash equivalents.

Based on our current operating plan that includes anticipated future proceeds from the sale of shares under our existing Purchase Agreement with Lincoln Park, we anticipate that we have sufficient cash and cash equivalents to fund our operations into the second quarter of 2020. We will require additional capital to fund our operating plan past that time. We plan to obtain additional capital through the issuance of equity or debt securities, product sales and/or licensing activities. There can be no assurance that additional capital will be available to us or, if available, will be available on terms acceptable to us or on a timely basis. If adequate capital resources are not available on a timely basis, we intend to consider limiting our operations substantially. This limitation of operations could include reducing investments in our production capacities, research and development projects, staff, operating costs, and capital expenditures.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of estimates

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

Cash and cash equivalents and fair value of financial instruments

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be

determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the authoritative guidance establishes a three level fair value inputs hierarchy, and requires an entity to maximize the use of observable valuation inputs and minimize the use of unobservable inputs. We use market data, assumptions and risks we believe market participants would use in measuring the fair value of the asset or liability, including the risks inherent in the inputs and the valuation techniques.

Our financial instruments include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities. The carrying value of our financial instruments approximates fair value due to their short maturities. Our cash equivalents are comprised of short-term highly rated money market savings accounts.

Intangible assets

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

Inventory

Inventory consists of raw materials and finished goods assemblies. Inventory is computed using the first-in, first-out (FIFO) method and is stated at the lower of cost and net realizable value. Management periodically assesses the need to account for obsolescence of inventory and adjusts the carrying value of inventory to its net realizable value when required. Inventory that will not be consumed through the normal course of business during the next twelve months is classified as “other assets” on the balance sheet.

Property and equipment

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

Restricted cash

As of December 31, 2019 and 2018, restricted cash was in money market savings accounts and serve as collateral for \$435,000 in irrevocable letters of credit. The restricted cash balance includes a letter of credit which is outstanding in connection with a lease agreement for our corporate headquarters building in Redmond, Washington. The balance is required over the term of the lease, which expires in March 2023.

Leases

We determine if an arrangement is a lease at inception. On our balance sheet, our office lease is included in Operating lease right-of-use (ROU) asset, Current portion of operating lease liability and Operating lease liability, net of current portion. On our balance sheet, finance leases are included in Property and equipment, Current portion of finance lease obligations and Finance lease obligations, net of current portion.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. For leases that do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. We use the implicit rate when readily determinable. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Significant judgment may be required when determining whether a contract contains a lease, the length of the lease term, the allocation of the consideration in a contract between lease and non-lease components, and the determination of the discount rate included in our office lease. We review the underlying objective of each contract, the terms of the contract, and consider our current and future business conditions when making these judgments.

Revenue recognition

The following is a description of principal activities from which we generate revenue. Revenues are recognized when control of the promised goods or services are transferred to our customers, in an amount that reflects the consideration that we expect to receive in exchange for those goods or services. We generate all of our revenue from contracts with customers.

We evaluate contracts based on the 5-step model as stated in Topic 606 as follows: (i) identify the contract, (ii) identify the performance obligations, (iii) determine the transaction price, (iv) allocate the transaction price, and (v) recognize revenue when (or as) performance obligations are satisfied.

A contract contains a promise (or promises) to transfer goods or services to a customer. A performance obligation is a promise (or a group of promises) that is distinct, as defined in the revenue standard.

The transaction price is the amount of consideration an entity expects to be entitled to from a customer in exchange for providing the goods or services. A number of factors should be considered to determine the transaction price, including whether there is variable consideration, a significant financing component, noncash consideration, or amounts payable to the customer. The determination of variable consideration will require a significant amount of judgment. In estimating the transaction price we will use either the expected value method or the most likely amount method.

The transaction price is allocated to the separate performance obligations in the contract based on relative standalone selling prices. Determining the relative standalone selling price can be challenging when goods or services are not sold on a standalone basis. The revenue standard sets out several methods that can be used to estimate a standalone selling price when one is not directly observable. Allocating discounts and variable consideration must also be considered. Allocating the transaction price can require significant judgement on our part.

Revenue is recognized when (or as) the customer obtains control of the good or service/performance obligations are satisfied. Topic 606 provides guidance to help determine if a performance obligation is satisfied at a point in time or over time. Where a performance obligation is satisfied over time, the related revenue is also recognized over time.

Product revenue

We sell our products to customers under a contract or by purchase order. We consider the sale of each individual item to be one performance obligation. The transaction price is generally either at stated product price per quantity or at a fixed amount at contract inception. Revenue is recognized under Topic 606 when the product is shipped to the customer because control passes to the customer at the point of shipment. Our product sales generally include acceptance provisions, however, because we generally can objectively determine that we have met agreed-upon customer specifications prior to shipment, control of the item passes at the time of shipment.

License and royalty revenue

We recognize revenue on upfront license fees at a point in time if the nature of the license granted is a right-to-use license, representing functional intellectual property with significant standalone functionality. If the nature of the license granted is a right-to-access license, representing symbolic intellectual property, which excludes significant standalone functionality, we recognize revenue over the period of time we have ongoing obligations under the agreement. We will recognize revenue from sales-based royalties on the basis of the quarterly reports provided by our customer as to the number of royalty-bearing products sold or otherwise distributed. In the event that reports are not received, we will estimate the number of royalty-bearing products sold by our customers.

Contract revenue

Our contract revenue in a particular period is dependent upon when we enter into a contract, the value of the contracts we have entered into, and the availability of technical resources to perform work on the contracts. We recognize contract revenue either at a point in time, or over time, depending upon the characteristics of the individual contract. If control of the deliverable(s) occur over time, the revenue is recognized in proportion to the transfer of control. If control passes to the customer only upon completion and transfer of the asset, revenue is recognized at the completion of the contract. In contracts that include significant customer acceptance provisions, we recognize revenue only upon acceptance of the deliverable(s).

We identify each performance obligation in our development contracts at contract inception. The contracts generally include product development and customization specified by the customer. In contracts with multiple performance obligations, we identify each performance obligation and evaluate whether the performance obligations are distinct within the context of the contract. Performance obligations that are not distinct at contract inception are combined.

Our development contracts are primarily fixed-fee contracts. If control of deliverables occurs over time, we recognize revenue on fixed fee contracts on the proportion of total cost expended (under Topic 606, the 'input method') to the total cost expected to complete the contract performance obligation. For contracts that require the input method for revenue recognition, the determination of the total cost expected to complete the performance obligations on fixed fee contracts involves significant judgment. We incorporate revisions to hour and cost estimates when the causal facts become known.

Cost of product revenue

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

Cost of contract revenue

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

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

Concentration of credit risk and major customers and suppliers

Concentration of credit risk

Financial instruments that potentially subject us to a concentration of credit risk are primarily cash equivalents and accounts receivable. We typically do not require collateral from our customers. As of December 31, 2019, our cash and cash equivalents are comprised of short-term highly rated money market savings accounts.

Concentration of major customers and suppliers

In 2019, one customer accounted for \$7.7 million in revenue, representing 86% of our total revenue and a second customer accounted for \$1.2 million in revenue, representing 13% of our total revenue. In 2018, one customer accounted for \$10.0 million in revenue, representing 57% of our total revenue and a second customer accounted for \$7.4 million in revenue, representing 42% of our total revenue.

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

Income taxes

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

Net loss per share

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

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

	Year Ended December 31,	
	2019	2018
Numerator:		
Net loss available for common shareholders	\$ (26,483)	\$ (27,250)
Denominator:		
Weighted-average common shares outstanding	111,297	86,983
Net loss per share - basic and diluted	\$ (0.24)	\$ (0.31)

During each of the years ended December 31, 2019 and 2018, we excluded the following securities from net loss per share as the effect of including them would have been anti-dilutive. The shares shown represent the number of shares of common stock which would be issued upon conversion in the respective years shown below (in thousands):

	Year Ended December 31,	
	2019	2018
Options outstanding and warrants exercisable	5,104	6,619
Nonvested restricted stock units	1,215	1,149
	<u>6,319</u>	<u>7,768</u>

Research and development

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

Share-based compensation

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

The following table summarizes the amount of share-based compensation expense by line item on the Statement of Operations (in thousands):

	Year Ended December 31,	
	2019	2018
Cost of product revenue	\$ 26	\$ -
Research and development expense	379	439
Sales, marketing, general and administrative expense	1,209	622
	<u>\$ 1,614</u>	<u>\$ 1,061</u>

Reclassifications

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

Recent accounting pronouncements

In December 2019, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2019-12 (ASU 2019-12) Simplifying the Accounting for Income Taxes. The amendments in this update simplify the accounting for income taxes by removing certain exceptions to the general principles in Topic 740, Income Taxes. The amendments also improve consistent application of and simplify generally accepted accounting principles for other areas of Topic 740 by clarifying and amending existing guidance. The new guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Early adoption is permitted. We are currently evaluating the impact of implementation of this standard on our financial statements.

3. REVENUE RECOGNITION

The following is a description of principal activities from which we generate revenue. Revenues are recognized when control of the promised goods or services are transferred to our customers, in an amount that reflects the consideration that we expect to receive in exchange for those goods or services. We generate all of our revenue from contracts with customers.

We evaluate contracts based on the 5-step model as stated in Topic 606 as follows: (i) identify the contract, (ii) identify the performance obligations, (iii) determine the transaction price, (iv) allocate the transaction price, and (v) recognize revenue when (or as) performance obligations are satisfied.

A contract contains a promise (or promises) to transfer goods or services to a customer. A performance obligation is a promise (or a group of promises) that is distinct, as defined in the revenue standard.

The transaction price is the amount of consideration an entity expects to be entitled to from a customer in exchange for providing the goods or services. A number of factors should be considered to determine the transaction price, including whether there is variable consideration, a significant financing component, noncash consideration, or amounts payable to the customer. The determination of variable consideration will require a significant amount of judgment. In estimating the transaction price we will use either the expected value method or the most likely amount method.

The transaction price is allocated to the separate performance obligations in the contract based on relative standalone selling prices. Determining the relative standalone selling price can be challenging when goods or services are not sold

on a standalone basis. The revenue standard sets out several methods that can be used to estimate a standalone selling price when one is not directly observable. Allocating discounts and variable consideration must also be considered. Allocating the transaction price can require significant judgement on our part.

Revenue is recognized when (or as) the customer obtains control of the good or service/performance obligations are satisfied. Topic 606 provides guidance to help determine if a performance obligation is satisfied at a point in time or over time. Where a performance obligation is satisfied over time, the related revenue is also recognized over time.

Disaggregation of revenue

The following table provides information about disaggregated revenue by timing of revenue recognition, (in thousands):

	Year Ended December 31, 2019			
	Product revenue	License and royalty revenue	Contract revenue	Total
Timing of revenue recognition:				
Products transferred at a point in time	\$ 5,345	\$ 99	\$ 178	\$ 5,622
Product and services transferred over time	-	-	3,264	3,264
Total	<u>\$ 5,345</u>	<u>\$ 99</u>	<u>\$ 3,442</u>	<u>\$ 8,886</u>

	Year Ended December 31, 2018			
	Product revenue	License and royalty revenue	Contract revenue	Total
Timing of revenue recognition:				
Products transferred at a point in time	\$ -	\$ 10,011	\$ 189	\$ 10,200
Product and services transferred over time	-	-	7,407	7,407
Total	<u>\$ -</u>	<u>\$ 10,011</u>	<u>\$ 7,596</u>	<u>\$ 17,607</u>

Contract balances

The following table provides information about receivables, contract assets, and contract liabilities from contracts with customers (in thousands):

	December 31, 2019	December 31, 2018
Accounts receivable, net	\$ 1,079	\$ 476
Costs and estimated earnings in excess of billings on uncompleted contracts	-	987
Accrued liabilities	432	1,585
Deferred revenue	21	-
Contract liabilities	9,755	-
Other current liabilities	-	10,000

Under Topic 606, our rights to consideration are presented separately depending on whether those rights are conditional or unconditional. We present our unconditional rights to consideration as “accounts receivable” in our Consolidated Balance Sheet.

Contract assets represent rights to consideration that are subject to a condition other than the passage of time and will be comprised primarily of costs and estimated profits in excess of billings on uncompleted contracts and estimated accrued sales-based royalty revenue.

Contract costs in excess of billing are included in the “Costs and estimated earnings in excess of billings on uncompleted contracts” line of our Consolidated Balance Sheet. Contract liabilities in the table below are presented as contract liabilities, deferred revenue, and a portion of accrued liabilities on the balance sheet. Significant changes in the contract assets and the contract liabilities balances during the period are as follows (in thousands, except percentages):

	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>	<u>\$ Change</u>	<u>% Change</u>
Contract assets	\$ -	\$ 987	\$ (987)	(100.0)
Contract liabilities	(10,208)	(1,585)	(8,623)	(544.0)
Net contract assets (liabilities)	<u>\$ (10,208)</u>	<u>\$ (598)</u>	<u>\$ (9,610)</u>	(1,607.0)

During the year ended December 31, 2019, we billed \$4.5 million on our development support and prototype contracts. Of this amount, \$987,000 was included in contract assets at December 31, 2018. We also recognized revenue of \$3.4 million on our development support and prototype contracts during the year ended December 31, 2019, net of early payment discounts.

During the year ended December 31, 2019, we recognized \$1.2 million related to the sale of display modules that had been produced for Ragentek and delivered to our distributor in 2017 and was included in accrued liabilities at December 31, 2018. Our distributor made payments in excess of revenue recognized and Ragentek failed to meet their obligations under the March 2017 order. During 2019, the remaining units held by our distributor were sold to other customers and we reached an agreement with our distributor on the final transaction price of the units shipped to them. As part of the agreement, we have agreed to return \$432,000 of the original transaction price to our distributor.

Contract acquisition costs

We are required to capitalize certain contract acquisition costs consisting primarily of commissions paid when contracts are signed. We currently do not pay any commissions upon the signing of a contract; therefore, no commission cost has been incurred as of December 31, 2019.

Transaction price allocated to the remaining performance obligations

The following table includes estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The \$10.0 million upfront payment received from a major technology company is being recognized as revenue as component sales are transferred to the customer. We recognized \$245,000 of the \$10.0 million contract liability in December 2019. We expect to apply an additional \$2.3 million over the first three quarters of 2020, and this amount is included in revenue below. Because there is uncertainty about the timing of the application of the remainder of the contract liability, it has been excluded from future estimated revenue in the table below. The \$9.8 million contract liability is classified as a current liability on our balance sheet. Due to the uncertainty of the timing, it is possible that recognition of revenue may extend beyond the next twelve months. The following table provides information about the estimated timing of revenue recognition (in thousands):

	<u>2020</u>	<u>2021</u>
Product revenue	\$ 6,680	\$ -
License and royalty revenue	217	-

Adoption of the standards related to revenue recognition had no impact to cash from or used in operating, investing, or financing activities on our condensed consolidated statements of cash flows.

4. LONG-TERM CONTRACTS

In May 2018, we signed a five-year license agreement with a customer granting them exclusive license to our LBS technology for display-only applications. As part of the agreement, we received a first payment of \$5.0 million in June 2018 and the second payment of \$5.0 million in October 2018. The contract includes requirements that must be met in order to maintain exclusivity. If this licensee acquires a customer, the agreement requires the licensee to buy any needed components from us. During the year ended December 31, 2018 we completed the performance obligations required by the contract. As a result, we recognized \$10.0 million in license and royalty revenue during the year ended December 31, 2018.

In April 2017, we signed a contract with a major technology company to develop an LBS display system. Under the agreement, we received an upfront payment of \$10.0 million in 2017 and, as of December 31, 2019, have also received \$15.0 million, net of early payment discounts, representing all payment due for development work. The original contract was for \$14.0 million in fees for development work, but we and our customer agreed to add \$1.1 million in additional work to total \$15.1 million. After applying early payment discounts, we recognized revenue of \$15.0 million in development fees over time based on the proportion of total cost expended (under Topic 606, the "input method") to the total cost expected to complete the contract performance obligation. For the year ended December 31, 2019, we recognized \$2.9 million of contract revenue from development fees on this agreement compared to \$7.4 million during the year ended December 31, 2018.

The \$10.0 million upfront payment will be recognized as revenue at the point in time future component sales are transferred to the customer. Based on current pricing and cost estimates, the amount of the per unit upfront payment would be greater than our estimated per unit gross profit. At December 31, 2019 we had \$9.8 million of the \$10.0 million upfront payment classified as a contract liability on the balance sheet. We have received purchase orders from our customer under the product supply agreement signed in April 2017. We expect to apply \$2.3 million of the upfront payment over the first three quarters of 2020. To the extent that the component purchases do not fully expend the \$10.0 million upfront payment, there is no repayment provision to the customer.

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

	December 31,	
	2019	2018
Costs and estimated earnings incurred on uncompleted contracts	\$ 14,974	\$ 12,087
Billings on uncompleted contracts	(14,974)	(11,100)
	<u>\$ -</u>	<u>\$ 987</u>
Included in consolidated balance sheets under the following captions:		
Costs and estimated earnings incurred on uncompleted contracts	\$ -	\$ 987
Billings on uncompleted contracts in excess of related costs	-	-
	<u>\$ -</u>	<u>\$ 987</u>

5. INVENTORY

Inventory consists of the following (in thousands):

	December 31,	
	2019	2018
Raw materials	\$ -	\$ 32
Finished goods	192	1,077
	<u>\$ 192</u>	<u>\$ 1,109</u>

As of December 31, 2019 and 2018, \$168,000 and \$1.4 million, respectively, of materials that are not expected to be consumed during the next twelve months are classified as "other assets" on the balance sheet.

We recorded inventory write-downs of \$2.2 million in 2019 and \$4.4 million in 2018.

6. ACCRUED LIABILITIES

Accrued liabilities consists of the following (in thousands):

	December 31,	
	2019	2018
Bonuses	\$ 201	\$ 1,475
Payroll and payroll taxes	425	608
Compensated absences	448	493
Warranty	38	25
Relocation	-	22
Deferred rent credit	-	178
Separation agreement	-	241
Prepayments from customers	432	1,585
Other	501	975
	<u>\$ 2,045</u>	<u>\$ 5,602</u>

7. PROPERTY AND EQUIPMENT

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

	December 31,	
	2019	2018
Production equipment	\$ 6,969	\$ 7,124
Leasehold improvements	913	909
Computer hardware and software/lab equipment	6,165	6,082
Office furniture and equipment	1,345	1,342
	<u>15,392</u>	<u>15,457</u>
Less: Accumulated depreciation	(13,543)	(12,464)
	<u>\$ 1,849</u>	<u>\$ 2,993</u>

Depreciation expense was \$1.1 million in 2019 and \$1.7 million in 2018.

8. INTANGIBLE ASSETS

Our intangible assets consist exclusively of technology-based purchased patents. The gross book value of our intangible assets was \$951,000 and \$1.6 million in the years ended December 31, 2019 and 2018, respectively. Amortization expense was \$105,000 in 2019 and \$116,000 in 2018. In 2019, we recorded an impairment amounting to \$160,000 on 52 patents that we elected not to renew, and one patent abandoned in prosecution. In 2018, there were no impairments recorded and none of our patents were abandoned in prosecution. The following table outlines our estimated future amortization expense related to intangible assets held at December 31, 2019 (in thousands):

Years Ended December 31,	Amount
2020	\$ 57
2021	49
2022	40
2023	32
2024	22
Thereafter	21
	<u>\$ 221</u>

9. COMMON STOCK

In December 2019, we entered into a Common Stock Purchase Agreement with Lincoln Park granting us the right to sell shares of our common stock having an aggregate value of up to \$16.0 million. Under the terms of the agreement, Lincoln Park made an initial purchase of 1.5 million shares of common stock for \$1.0 million at a purchase price of \$0.6531 per share. Subject to various limitations and conditions set forth in the agreement, we may sell up to an additional \$15.0 million in shares of common stock, from time to time, at our sole discretion to Lincoln Park over a 24-

month period beginning December 2019. In consideration for entering into the agreement, we issued 375,000 shares of our common stock, having a value of \$277,000, based on the closing stock price at the date of grant, to Lincoln Park as a commitment fee. We incurred an additional \$90,000 in issuance costs.

In July 2019, we raised \$2.0 million before issuance costs of approximately \$24,000 through a registered direct offering of 3.0 million shares of our common stock to a private investor.

In April 2019, we raised \$2.0 million before issuance costs of approximately \$34,000 through a registered direct offering of 2.3 million shares of our common stock to a private investor.

In April 2019, we entered into a Common Stock Purchase Agreement with Lincoln Park granting us the right to sell shares of our common stock having an aggregate value of up to \$11.0 million. Under the terms of the agreement, Lincoln Park made an initial purchase of \$1.0 million in shares of common stock at a purchase price of \$0.98 per share. Subject to various limitations and conditions set forth in the agreement, we may sell up to an additional \$10.0 million in shares of common stock, from time to time, at our sole discretion to Lincoln Park over a 24-month period beginning April 2019. In consideration for entering into the agreement, we issued 250,000 shares of our common stock, having a value of \$258,000, based on the closing stock price at the date of grant, to Lincoln Park as a commitment fee. We incurred an additional \$92,000 in issuance costs. As of December 31, 2019, we have issued 15.7 million shares and raised a total of \$11.0 million under this agreement. No further shares are available for sales under this agreement.

In January 2019, we raised \$1.2 million before issuance costs of approximately \$26,000 through a registered direct offering of 2.0 million shares of our common stock to a private investor.

In December 2018, we raised \$4.2 million before issuance costs of approximately \$524,000 through an underwritten public offering of 7.0 million shares of our common stock.

In June 2018, we raised \$18.0 million before issuance costs of approximately \$1.4 million through an underwritten public offering of 14.4 million shares of our common stock.

10. SHARE-BASED COMPENSATION

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

Description of Incentive Plan

Our 2013 Incentive Plan has 12.3 million shares authorized, of which 3.0 million shares were available for awards as of December 31, 2019.

Options Valuation Methodology and Assumptions

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

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

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

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

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

Assumptions (weighted-average)	Year Ended December 31,	
	2019	2018
Volatility	78%	73%
Expected term (in years)	4.0	3.2
Risk-free rate	1.9%	2.8%
Expected dividends	0.0%	0.0%
Pre-vest forfeiture rate	8.5%	8.5%
Grant date fair value of options granted	\$ 0.37	\$ 0.58

Options Activity and Positions

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

Options	Shares	Weighted-average exercise price	Weighted-average remaining contractual term (in years)	Aggregate intrinsic value
Outstanding as of December 31, 2017	5,034	\$ 2.94	6.6	\$ 53
Granted	1,229	1.16	-	-
Exercised	-	-	-	-
Forfeited or expired	(1,617)	3.51	-	-
Outstanding as of December 31, 2018	4,646	2.27	7.0	-
Granted	1,636	0.65	-	-
Exercised	-	-	-	-
Forfeited or expired	(1,178)	2.66	-	-
Outstanding as of December 31, 2019	5,104	\$ 1.66	7.4	\$ 122
Vested and expected to vest as of December 31, 2019	4,807	\$ 1.71	7.3	\$ 106
Exercisable as of December 31, 2019	2,355	\$ 2.45	5.6	\$ 3

No options were exercised during the years ended December 31, 2019 and 2018.

The total grant date fair value of options vested during the years ended December 31, 2019 and 2018 was \$801,000 and \$958,000, respectively. As of December 31, 2019, our unrecognized share-based compensation was \$1.2 million related to options, which we plan to amortize over the next 2.0 years.

In the fourth quarter of 2019, we issued 384,751 vested RSUs to our executives in lieu of cash for payment of short-term incentive bonuses earned in 2018.

On May 22, 2019, we issued 195,000 PSUs to our executive officers. And on September 30, 2018, we issued 583,333 PSUs to our executives. The performance criteria for PSUs issued in both May and September is the achievement of the Company's share price of \$2.50 sustained for 60 of trailing 90 days before the PSUs are earned ("Earned PSUs"). To the extent the PSUs become Earned PSUs, the May PSUs shall be eligible to vest as to one-third (1/3) of the PSUs subject to the Award on the each of the first three (3) anniversaries of May 22, 2019. The September 2018 PSUs become Earned PSUs and shall be eligible to vest as to one-third (1/3) of the PSUs subject to the Award on the each of the first three (3) anniversaries of June 5, 2018. PSUs issued in May 2019 and September 2018 are subject to the executive's continuous employment on the applicable vesting date. If there are outstanding but unearned PSUs as of a vesting date and the PSUs become Earned PSUs prior to the next vesting date the Earned PSUs that would have vested on any earlier vesting date shall become immediately vested and deliverable. The PSUs are valued using a binomial option pricing model using the following inputs: stock price, volatility, and risk-free interest rates.

We also issued 475,000 stock options to our executives on May 22, 2019, that vest one-third on each of the first three anniversaries of May 22, 2019. And on September 30, 2018, we issued 291,667 RSUs to our executives that vest one-third on each of the first three anniversaries of June 5, 2018.

On November 11, 2019 we issued 163,734 RSUs to the members of the board in lieu of the annual cash fee. The members of the board vest ownership in the RSUs immediately. We also issued 180,000 RSUs to members of the

board on May 22, 2019, vesting ownership in the RSUs on the earlier of the day prior to the date of the Company's annual meeting of shareholders following the date of grant, or one year from the grant date, provided the member of the board continues to serve as a director on the vesting date.

As of December 31, 2019, our unrecognized share-based compensation related to the RSUs was \$318,000, which we plan to amortize over the next 1.4 years. As of December 31, 2019, our unrecognized share-based compensation related to the PSUs was \$14,000, which we plan to amortize over the next 1.8 years.

11. LEASES

In February 2016, the FASB issued Accounting Standards Update 2016-02 (ASU 2016-02), Leases (Topic 842). ASU 2016-02 requires lessees to recognize a ROU asset and lease liability in the balance sheet for all leases, including operating leases, with terms of more than twelve months. Recognition, measurement and presentation of expenses and cash flows from a lease by a lessee have not significantly changed from previous guidance. The amendments also require qualitative disclosures along with specific quantitative disclosures. We adopted this guidance using the cumulative-effect adjustment method on January 1, 2019, meaning we did not restate prior periods. Current year financial information is presented under the guidance in Topic 842, while prior year information will continue to be presented under Topic 840. Adoption of the standard resulted in the recognition of an operating ROU asset of approximately \$1.6 million, a lease liability of approximately \$2.5 million, and a reduction in other short-term and long-term liabilities of \$873,000. Adoption of the standard did not have a material impact on our Statement of Operations or Statement of Cash flows. Accounting for our finance leases remains substantially unchanged.

We lease our office space and certain equipment under finance and operating leases. Our leases have remaining lease terms of one to three years. Our office space lease contains an option to extend the lease for one period of five years. This extension period is not included in our ROU asset or lease liability amounts. Our office lease agreement includes both lease and non-lease components, which are accounted for separately. Our finance leases contain options to purchase the leased property. The depreciable life of assets and leasehold improvements are limited by the expected lease term, unless we are reasonably certain to exercise the purchase option.

The components of lease expense were as follows:

<i>(in thousands)</i>	Year Ended
	December 31, 2019
Operating lease expense	\$ <u>464</u>
Finance lease expense:	
Amortization of leased assets	15
Interest on lease liabilities	<u>6</u>
Total finance lease expense	<u>21</u>
Total lease expense	\$ <u><u>485</u></u>

Supplemental cash flow information related to leases was as follows:

<i>(in thousands)</i>	Year Ended
	December 31, 2019
Cash paid for amounts included in measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 642
Operating cash flows from finance leases	6
Financing cash flows from finance leases	20
Right-of-use assets obtained in exchange for new lease obligations:	
Operating leases	\$ 1,638
Finance leases	-

Supplemental balance sheet information related to leases was as follows:

<i>(in thousands)</i>	<u>December 31, 2019</u>
Operating leases	
Operating lease right-of-use assets	\$ <u><u>1,308</u></u>
Current portion of operating lease liability	656
Operating lease liability, net of current portion	<u>1,348</u>
Total operating lease liabilities	\$ <u><u>2,004</u></u>
Finance leases	
Property and equipment, at cost	\$ 66
Accumulated depreciation	<u>(25)</u>
Property and equipment, net	\$ <u><u>41</u></u>
Current portion of finance lease obligations	\$ 25
Finance lease obligations, net of current portion	<u>9</u>
Total finance lease liabilities	\$ <u><u>34</u></u>
Weighted Average Remaining Lease Term	
Operating leases	3 years
Finance leases	1 year
Weighted Average Discount Rate	
Operating leases	6.0%
Finance leases	13.8%

As of December 31, 2019, maturities of lease liabilities were as follows:

<i>(in thousands)</i>	Operating	Finance
Years Ended December 31,	leases	leases
2020	\$ 656	\$ 27
2021	676	9
2022	696	-
2023	175	-
Thereafter	<u>-</u>	<u>-</u>
Total minimum lease payments	2,203	36
Less: amount representing interest	<u>(199)</u>	<u>(2)</u>
Present value of lease liabilities	\$ <u><u>2,004</u></u>	\$ <u><u>34</u></u>

Lease commitments as of December 31, 2018 classified under ASC 840 were as follows:

<i>(in thousands)</i>	Operating leases	Finance leases
Years Ended December 31,		
2019	\$ 654	\$ 27
2020	656	27
2021	676	9
2022	696	-
2023	175	-
Thereafter	-	-
Total minimum lease payments	<u>\$ 2,857</u>	<u>63</u>
Less: amount representing interest		<u>(9)</u>
Present value of finance lease obligations		54
Less: current portion		<u>(21)</u>
Long-term portion at December 31, 2018		<u>\$ 33</u>

Net rent expense was \$834,000 in 2018.

12. COMMITMENTS AND CONTINGENCIES

Litigation

In March 2019, we filed a Notice of Arbitration in Hong Kong against Ragentek as a result of its failure to perform its obligations under a purchase order with us. The relief sought is \$4.0 million dollars plus interest and arbitration costs. At this time we cannot predict the likelihood of a favorable outcome.

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 our financial position, results of operations or cash flows.

Purchase commitments

At December 31, 2019, we have \$8.5 million in open purchase obligations that represent commitments to purchase inventory, materials, capital equipment, and other goods used in the normal operation of our business.

13. INCOME TAXES

A provision for income taxes has not been recorded for 2019 and 2018 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.

The effective tax rate of our provision (benefit) for income taxes differs from the Federal statutory rate as follows:

	Year Ended December 31,	
	<u>2019</u>	<u>2018</u>
Statutory rate	21.0%	21.0%
Net operating loss expiration	(14.7)%	(5.8)%
Tax credits	2.8%	3.7%
Change in valuation allowance	<u>(9.1)%</u>	<u>(18.9)%</u>
Total	<u>0.0%</u>	<u>0.0%</u>

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

	December 31,	
	2019	2018
Deferred tax assets		
Reserves	\$ 610	\$ 1,152
Net operating loss carryforwards	85,282	83,608
R&D credit carryforwards	9,047	8,593
Depreciation/amortization deferred	16,978	15,884
Other	5,808	6,076
Net deferred taxes before valuation allowance	117,725	115,313
Less: Valuation allowance	(117,725)	(115,313)
Deferred tax assets	\$ -	\$ -

At December 31, 2019, we have net operating loss carryforwards of approximately \$405.8 million for federal income tax reporting purposes. In addition, we have research and development tax credits of \$9.0 million. During 2019, \$17.1 million federal net operating losses and \$301,000 general business credits expired unused. A majority of the net operating loss carryforwards and research and development credits available to offset future taxable income, if any, will expire in varying amounts from 2020 to 2039, if not previously used.

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 an income tax benefit.

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

On December 22, 2017, legislation commonly known as the Tax Cuts and Jobs Act, or the Tax Act, was signed in to law. The Tax Act, among other changes, reduces the U.S. federal corporate tax rate from 35% to 21%, requires taxpayers to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and creates new taxes on certain foreign sourced earnings.

We did not have any unrecognized tax benefits at December 31, 2019 or 2018.

We recognize interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2019 and 2018 we did not recognize any interest or penalties.

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

14. RETIREMENT SAVINGS PLAN

We have a retirement savings plan that qualifies under Internal Revenue Code Section 401(k). The plan covers all qualified employees. Contributions to the plan are made at the discretion of our Board of Directors. During the years ended December 31, 2019 and 2018 we contributed \$393,000 and \$376,000 to the plan, respectively.

15. QUARTERLY FINANCIAL INFORMATION (Unaudited)

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

	Fiscal Year 2019			
	December 31,	September 30,	June 30,	March 31,
Revenue	\$ 4,605	\$ 1,190	\$ 1,240	\$ 1,851
Gross profit	1,179	(882)	(583)	608
Net loss	(3,284)	(6,141)	(8,990)	(8,068)
Net loss per share, basic and diluted	(0.03)	(0.05)	(0.08)	(0.08)

	Fiscal Year 2018			
	December 31,	September 30,	June 30,	March 31,
Revenue	\$ 1,833	\$ 11,572	\$ 2,014	\$ 2,188
Gross profit	(2,606)	8,927	333	315
Net income (loss)	(11,948)	289	(8,459)	(7,132)
Net loss per share, basic and diluted	(0.13)	-	(0.10)	(0.09)

For the quarter ended December 31, 2019, net loss included a reversal of previously accrued bonuses in the amount of \$770,000.

16. SUBSEQUENT EVENT

We had been in negotiations to sell our interactive display module to a top-tier North American OEM. In February 2020, we were informed by the OEM that products using the interactive display module will not be launched in 2020 as we planned. As a result, we reduced our headcount by approximately 60% and expect to record expense of approximately \$104,000 related to the severance agreements for these employees in the first quarter of 2020.

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

There have been no changes in or disagreements with accountants on accounting or financial disclosure matters during our fiscal years ended December 31, 2019 and 2018.

ITEM 9A. CONTROLS AND PROCEDURES

(a) *Evaluation of Disclosure Controls and Procedures.* Our Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) evaluated our disclosure controls and procedures (as defined in Rules 13a-15(e)) under the Securities and Exchange Act of 1934, as amended (the “Exchange Act”), prior to the filing of this Form 10-K. Based upon that evaluation, our CEO and CFO concluded that, as of December 31, 2019, our disclosure controls and procedures were effective.

(b) *Management’s Report on Internal Control Over Financial Reporting.* Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Our management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its evaluation under the framework in *Internal Control — Integrated Framework (2013)*, our management concluded that our internal control over financial reporting was effective as of December 31, 2019.

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

The effectiveness of our internal control over financial reporting as of December 31, 2019 has been audited by Moss Adams LLP, an independent registered public accounting firm, as stated in its report, which is included herein.

(d) *Changes in Internal Control Over Financial Reporting.* There was no change in our internal control over financial reporting during the quarter ended December 31, 2019 which has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

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

Opinion on Internal Control over Financial Reporting

We have audited Microvision Inc.'s (the "Company") internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of MicroVision Inc. as of December 31, 2019 and 2018, the related consolidated statements of operations, shareholders' equity (deficit), and cash flows for the years then ended, and the related notes and schedule (collectively referred to as the "consolidated financial statements") and our report dated March 11, 2020, expressed an unqualified opinion on those consolidated financial statements and included an explanatory paragraph relating to going concern uncertainty and change in accounting principle.

Basis for Opinion

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

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

Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ Moss Adams LLP

Seattle, Washington
March 11, 2020

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 10 of Form 10-K and not provided in Item 4A will be included under the caption "Discussion of Proposals Recommended by the Board" in our 2020 Proxy Statement and is incorporated herein by reference. Our 2020 Proxy Statement will be filed with the SEC prior to our 2020 Annual Meeting of Shareholders.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item 11 of Form 10-K will be included under the captions "Executive Compensation," "Compensation Committee Interlocks and Insider Participation," and "Director Compensation for 2019" in our 2020 Proxy Statement and are incorporated herein by reference.

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

Information as of December 31, 2019, regarding equity compensation plans approved and not approved by shareholders is summarized in the following table (in thousands, except per share data):

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	5,104	\$ 1.66	2,989
Equity compensation plans not approved by shareholders	-		-
Total	5,104		2,989

The other information required by this Item 12 of Form 10-K will be included under the caption "Information about MicroVision Common Stock Ownership" in our 2020 Proxy Statement and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this Item 13 of Form 10-K will be included under the captions "Certain Relationships and Related Transactions" and "Board Meetings and Committees" in our 2020 Proxy Statement and are incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item 14 of Form 10-K will be included under the caption "Independent Registered Public Accounting Firm" in our 2020 Proxy Statement and is incorporated herein by reference.

PART IV.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

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

1. Consolidated Financial Statements

- Report of Independent Registered Public Accounting Firm
- Consolidated Balance Sheets as of December 31, 2019 and 2018
- Consolidated Statements of Operations for the years ended December 31, 2019 and 2018
- Consolidated Statements of Shareholders' Equity (Deficit) for the years ended December 31, 2019 and 2018
- Consolidated Statements of Cash Flows for the years ended December 31, 2019 and 2018
- Notes to Consolidated Financial Statements

2. Financial Statement Schedules

Schedule II

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

Year Ended December 31,	Balance at beginning of fiscal period	Additions		Deductions	Balance at end of fiscal period
		Charges to costs and expenses	Charges to other accounts		
2018					
Tax valuation allowance	\$ 111,236	\$ 4,077	\$ -	\$ -	\$ 115,313
2019					
Tax valuation allowance	\$ 115,313	\$ 2,412	\$ -	\$ -	\$ 117,725

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

3. Exhibits

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

<u>Exhibit Number</u>	<u>Description</u>
3.1	Amended and Restated Certificate of Incorporation of MicroVision, Inc., as amended. ⁽²⁾
3.2	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of MicroVision, Inc. ⁽⁴⁾
3.3	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of MicroVision, Inc. dated June 7, 2018. ⁽⁶⁾
3.4	Bylaws of MicroVision, Inc. ⁽⁵⁾
4.1	Form of Specimen Stock Certificate for Common Stock. ⁽¹⁾
4.2	Registration Rights Agreement, dated as of December 27, 2019, by and between MicroVision, Inc. and Lincoln Park Capital Fund, LLC. ⁽⁹⁾
4.3	Description of Common Stock.
10.1	2013 MicroVision, Inc. Incentive Plan, as amended. ^{(8)*}
10.2	Third Amendment to Lease Agreement between BRE WA Office Owner, LLC and MicroVision, Inc., dated July 25, 2017. ⁽⁷⁾
10.3	Change of Control Severance Plan. ^{(3)*}
10.4	Employment Agreement between MicroVision, Inc. and Perry Mulligan dated November 21, 2017. ^{(7)*}
10.5	Purchase Agreement, dated as of December 27, 2019, by and between MicroVision, Inc. and Lincoln Park Capital Fund, LLC. ⁽⁹⁾
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 Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

- (1) Incorporated by reference to the Company's Post-Effective Amendment to Form S-3 Registration Statement, Registration No. 333-102244.
- (2) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended September 30, 2009.
- (3) Incorporated by reference to the Company's Form 10-K for the year ended December 31, 2011.
- (4) Incorporated by reference to the Company's Current Report on Form 8-K filed on February 17, 2012.
- (5) Incorporated by reference to the Company's Current Report on Form 8-K filed on November 27, 2013.
- (6) Incorporated by reference to the Company's Amendment No. 2 to Form S-1 Registration Statement, Registration No. 333-222857.
- (7) Incorporated by reference to the Company's Form 10-K for the year ended December 31, 2017.
- (8) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended June 30, 2019.
- (9) Incorporated by reference to the Company's Current Report on Form 8-K filed on December 27, 2019.

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

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

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

MicroVision, Inc.

Date: March 11, 2020

By /s/ Sumit Sharma
Sumit Sharma
Chief Executive Officer and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the following capacities on March 11, 2020.

Signature	Title
<u>/s/ Sumit Sharma</u> Sumit Sharma	Chief Executive Officer and Director (Principal Executive Officer)
<u>/s/ Stephen P. Holt</u> Stephen P. Holt	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)
<u>/s/ Simon Biddiscombe</u> Simon Biddiscombe	Director
<u>/s/ Robert P. Carlile</u> Robert P. Carlile	Director
<u>/s/ Yalon Farhi</u> Yalon Farhi	Director
<u>/s/ Perry M. Mulligan</u> Perry M. Mulligan	Director
<u>/s/ Bernee D.L. Strom</u> Bernee D.L. Strom	Director
<u>/s/ Brian V. Turner</u> Brian V. Turner	Director

Corporate Information

Board of Directors	Simon Biddiscombe	Chief Executive Officer, MobileIron Inc.
	Robert P. Carlile	Retired Partner at KPMG LLP
	Yalon Farhi	Business Owner and Security Consultant
	Perry M. Mulligan	Former Chief Executive Officer, MicroVision Inc.
	Sumit Sharma	Chief Executive Officer, MicroVision, Inc.
	Berneer D. L. Strom	Chief Executive Officer and Chairman for Strom Group
	Brian Turner	Former Chief Financial Officer, Coinstar, Inc.
Executive Officers	Sumit Sharma	Chief Executive Officer
	Stephen P. Holt	Chief Financial Officer
	David J. Westgor	Vice President, General Counsel & Secretary
Transfer Agent	American Stock Transfer and Trust Company LLC 6201 15th Ave., Brooklyn, NY 11219 Shareholder Services P: 800-937-5449	
Stock Listing	MicroVision, Inc. common stock is traded on the NASDAQ Stock Market under the Symbol MVIS	
Investor Inquiries	MicroVision, Inc. Attn: Investor Relations, 6244 185th Ave NE, Suite 100, Redmond, WA 98052 P: 425-936-6847 ir@microvision.com	
Corporate Counsel	Ropes & Gray LLP Prudential Tower, 800 Boylston St., Boston, MA 02199-3600	
Independent Accountants	Moss Adams LLP 999 Third Avenue, Seattle, WA 98104-4019	



MicroVision

www.microvision.com

MicroVision, Inc. 6244 185th Ave NE, Suite 100 Redmond, WA 98052 USA Tel 425.936.MVIS (6847) Fax 425-867-9992