MICROVISION, INC.
Form 10-Q
August 01, 2018

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

FORM 10-Q

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

For the quarterly period ended June 30, 2018

OR

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

For the transition period from _____to _____

Commission file number 001-34170

MicroVision, Inc.

(Exact name of Registrant as Specified in its Charter)

Delaware	**91-1600822**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

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

(Address of Principal Executive Offices, including Zip Code)

(425) 936-6847

(Registrant's Telephone Number, including Area Code)

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

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

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

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

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

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

The number of shares of the registrant's common stock outstanding as of July 27, 2018 was 93,073,343.

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PART I

ITEM 1. FINANCIAL STATEMENTS

MicroVision, Inc.
Condensed Consolidated Balance Sheets

(In thousands, except per share data)
(Unaudited)

	June 30, 2018	December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	$ 20,993	$ 16,966
Accounts receivable, net of allowances of $0 and $26, respectively	2,672	15
Costs and estimated earnings in excess of billings on uncompleted contracts	-	680
Inventory	4,505	4,541
Other current assets	1,221	1,015
Total current assets	29,391	23,217
Property and equipment, net	3,122	3,251
Restricted cash	435	435
Intangible assets, net	544	602
Other assets	2,498	2,262
Total assets	$ 35,990	$ 29,767
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable	$ 2,275	$ 3,063
Accrued liabilities	6,155	5,864
Deferred revenue	5,000	-
Billings on uncompleted contracts in excess of related costs	446	5
Other current liabilities	10,063	10,142
Total current liabilities	23,939	19,074
Deferred rent, net of current portion	416	302
Other long-term liabilities	21	305
Total liabilities	24,376	19,681
Commitments and contingencies (Note 8)		
Shareholders' equity		
Preferred stock, par value $0.001; 25,000 shares authorized; zero and zero shares issued and outstanding	-	-
Common stock, par value $0.001; 150,000 shares authorized; 93,073 and 78,597 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	93	79
Additional paid-in capital	545,978	528,873
Accumulated deficit	(534,457)	(518,866)
Total shareholders' equity	11,614	10,086
Total liabilities and shareholders' equity	$ 35,990	$ 29,767

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Product revenue	$ -	$ 45	$ -	$ 45
Royalty revenue	-	106	11	203
Contract revenue	2,014	1,188	4,191	1,659
Total revenue	2,014	1,339	4,202	1,907
Cost of product revenue	326	181	564	394
Cost of contract revenue	1,355	812	2,990	1,215
Total cost of revenue	1,681	993	3,554	1,609
Gross profit	333	346	648	298
Research and development expense	6,691	3,672	11,519	6,990
Sales, marketing, general and administrative expense	2,093	2,325	4,700	4,905
Total operating expenses	8,784	5,997	16,219	11,895
Loss from operations	(8,451)	(5,651)	(15,571)	(11,597)
Other expenses, net	(8)	(5)	(20)	(8)
Net loss	$ (8,459)	$ (5,656)	$ (15,591)	$ (11,605)
Net loss per share - basic and diluted	$ (0.10)	$ (0.08)	$ (0.19)	$ (0.17)
Weighted-average shares outstanding - basic and diluted	81,321	69,373	79,973	68,747

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

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

	Six Months Ended June 30,	
	2018	2017
Cash flows from operating activities		
Net loss	$ (15,591)	$ (11,605)
Adjustments to reconcile net loss to net cash used in operations:		
Depreciation	852	172
Amortization of intangible assets	58	58
Share-based compensation expense	539	703
Inventory write-downs	4	37
Other non-cash adjustments	(23)	(31)
Change in:		
Accounts receivable, net	(2,657)	(604)
Costs and estimated earnings in excess of billings on uncompleted contracts	680	-
Inventory	32	(1,438)
Other current and non-current assets	(293)	(3,289)
Accounts payable	(1,215)	(277)
Accrued liabilities	283	956
Deferred revenue	5,000	-
Billings on uncompleted contracts in excess of related costs	441	3,284
Other current liabilities	(79)	9,892
Other long-term liabilities	(284)	(17)
Net cash used in operating activities	(12,253)	(2,159)
Cash flows from investing activities		
Purchases of property and equipment	(502)	(2,000)
Net cash used in investing activities	(502)	(2,000)
Cash flows from financing activities		
Net proceeds from issuance of common stock and warrants	16,782	6,764
Net cash provided by financing activities	16,782	6,764
Change in cash, cash equivalents, and restricted cash	4,027	2,605
Cash, cash equivalents, and restricted cash at beginning of period	17,401	15,574
Cash, cash equivalents, and restricted cash at end of period	$ 21,428	$ 18,179
Supplemental schedule of non-cash investing and financing activities		
Non-cash additions to property and equipment	$ 386	$ 285

The following table provides a reconciliation of the cash, cash equivalents, and restricted cash balances as of June 30, 2018 and December 31, 2017:

	June 30, 2018	December 31, 2017
Cash and cash equivalents	$ 20,993	$ 16,966
Restricted cash	435	435
Cash, cash equivalents and restricted cash	$ 21,428	$ 17,401

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

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

1. MANAGEMENT'S STATEMENT

The Condensed Consolidated Balance Sheets as of June 30, 2018, the Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2018 and 2017, and Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2018 and 2017, have been prepared by MicroVision, Inc. ("we" or "our") and have not been audited. In the opinion of management, all adjustments necessary to state fairly the financial position at June 30, 2018 and the results of operations and cash flows for all periods presented have been made and consist of normal recurring adjustments. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules of the Securities and Exchange Commission (SEC). The year-end condensed balance sheet data was derived from audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America. You should read these condensed consolidated financial statements in conjunction with the financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017. The results of operations for the six months ended June 30, 2018 are not necessarily indicative of the operating results that may be attained for the entire fiscal year.

We have incurred significant losses since inception. We have funded our operations to date primarily through the sale of common stock, convertible preferred stock, warrants, the issuance of convertible debt and, to a lesser extent, from development contract revenues, product sales and licensing activities. At June 30, 2018, we had $21.0 million in cash and cash equivalents.

Based on our current operating plan that includes expected proceeds from a development contract signed in April 2017 with a major technology company and including the $5.0 million due to us in October 2018 under a licensing agreement that was executed with a customer in May 2018, we anticipate that we have sufficient cash and cash equivalents to fund our operations through June 2019. Our receipt of proceeds under our April 2017 development contract is subject to our completion of certain milestones, and we can provide no assurance that such milestones will be completed. We will require additional capital to fund our operating plan past that time. We plan to obtain additional capital through the issuance of equity or debt securities, product sales and/or licensing activities. There can be no assurance that additional capital will be available to us or, if available, will be available on terms acceptable to us or on a timely basis. If adequate capital resources are not available on a timely basis, we intend to consider limiting our operations substantially. This limitation of operations could include reducing investments in our production capacities, research and development projects, staff, operating costs, and capital expenditures.

We are introducing new technology and products into an emerging market which creates significant uncertainty about our ability to accurately project revenue, costs and cash flows. Our capital requirements will depend on many factors, including, but not limited to, the commercial success of our laser beam scanning (LBS) engines, the rate at which original design manufacturers (ODMs) or original equipment manufacturers (OEMs) introduce products incorporating our PicoP® scanning technology and the market acceptance and competitive position of such products. If revenues are less than we anticipate, if we fail to meet milestones for future payments or have to repay amounts already received under our April 2017 development contract, if the mix of revenues and the associated margins vary from anticipated amounts or if expenses exceed the amounts budgeted, we may require additional capital earlier than expected to fund our operations. In addition, our operating plan provides for the development of strategic relationships with suppliers of components and systems and equipment manufacturers that may require additional investments by us.

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

2. NET LOSS PER SHARE

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Numerator:				
Net loss available for common shareholders - basic and diluted	$ (8,459)	$ (5,656)	$ (15,591)	$ (11,605)
Denominator:				
Weighted-average common shares outstanding - basic and diluted	81,321	69,373	79,973	68,747
Net loss per share - basic and diluted	$ (0.10)	$ (0.08)	$ (0.19)	$ (0.17)

For the three and six months ended June 30, 2018 and 2017, we excluded the following securities from net loss per share as the effect of including them would have been anti-dilutive: options outstanding and warrants exercisable into a total of 6,738,000 and 7,217,000 shares of common stock, respectively, and 125,000 and 60,000 nonvested restricted stock units, respectively.

3. 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 customer is required to make a second payment of $5.0 million in October 2018. The contract includes requirements that must be met in order to maintain exclusivity. In addition to the up-front license fees, we expect payments for non-recurring engineering expenses associated with process and product transfer and qualification milestones, and component sales.

In April 2017, we signed a contract with a major technology company to develop an LBS display system. Under this agreement, we are working to develop a new generation of MEMS, ASICs and related firmware for a high resolution, LBS-based product that the technology company is planning to produce. Under the agreement, we received an upfront payment of $10.0 million in 2017 and may receive up to $14.0 million in fees for development work that is expected to span through the first quarter of 2019. Our receipt of the development fees is contingent on completion of milestones in 2017 and 2018. As of June 30, 2018, we have received $6.5 million in fees for development work and our balance sheet includes $446,000 of billings in excess of costs incurred on this contract. Upon successful completion of the development program, if the major technology company decides to manufacture the product with the MicroVision display components, the $10.0 million upfront payment would be applied as a discount to future component purchases from us. If the contract is terminated by the technology company for our failure to meet milestones, the $10.0 million upfront payment is subject to repayment. We are recognizing revenue on the $14.0 million in development fees 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 three and six months ended June 30, 2018, we have recognized $2.0 million and $4.0 million, respectively, of contract revenue from development fees on this agreement. We have an amount equal to the $10.0 million upfront payment classified as an other current liability on the balance sheet.

4. REVENUE RECOGNITION

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2014-09 (ASU 2014-09), Revenue from Contracts with Customers (Topic 606), an updated standard on revenue recognition. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard also will result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively, and improve guidance for multiple-element arrangements. We implemented ASU 2014-09 as of January 1, 2018 using the full retrospective approach, meaning

we will restate each prior reporting period presented.

We performed a review of our revenue generating contracts with customers subject to ASU 2014-09, and implementation of this standard has the following material impacts on our financial statements:

i. Timing of revenue recognition under the PicoP® scanning technology license agreement we signed with Sony in March 2015. Under previous guidance, we had been recognizing the upfront license fee payment of $8.0 million on a straight-line basis over a period of eight years. Under the new guidance, the entire $8.0 million upfront license fee payment was recognized

in the first quarter of 2015. The result of this change in timing resulted in a decrease of $7.2 million in our beginning 2016 accumulated deficit balance and a reduction in our short-term deferred revenue balance of $1.0 million and long-term deferred revenue balance of $6.1 million. Royalty revenue for each of the years ended December 31, 2016 and 2017 was reduced by approximately $1.0 million.

ii. Timing of revenue recognition on product sales. Previously, we recognized revenue after expiration of the contractual acceptance period. Under the new guidance, we recognize revenue when control of the product transfers to the buyer, which may occur before the expiration of the contractual acceptance period. The result of this change was a net decrease in our beginning 2016 accumulated deficit of $527,000, as well as a shift in revenue and cost recognition to earlier quarters in 2016 and 2017.

Accounting policy as a result of adopting Topic 606

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.

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.

Disaggregation of revenue

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

	Three Months Ended June 30, 2018			
	Product revenue	**Royalty revenue**	**Contract revenue**	**Total**
Timing of revenue recognition:				
Products transferred at a point in time	$ -	$ -	$ 57	$ 57
Product and services transferred over time	-	-	1,957	1,957
Total	$ -	$ -	$ 2,014	$ 2,014

	Six Months Ended June 30, 2018			
	Product revenue	**Royalty revenue**	**Contract revenue**	**Total**
Timing of revenue recognition:				
Products transferred at a point in time	$ -	$ 11	$ 156	$ 167
Product and services transferred over time	-	-	4,035	4,035
Total	$ -	$ 11	$ 4,191	$ 4,202

	Three Months Ended June 30, 2017			
	Product revenue	**Royalty revenue**	**Contract revenue**	**Total**
Timing of revenue recognition:				
Products transferred at a point in time	$ 45	$ 106	$ 200	$ 351
Product and services transferred over time	-	-	988	988
Total	$ 45	$ 106	$ 1,188	$ 1,339

	Six Months Ended June 30, 2017			
	Product revenue	Royalty revenue	Contract revenue	Total
Timing of revenue recognition:				
Products transferred at a point in time	$ 45	$ 203	$ 457	$ 705
Product and services transferred over time	-	-	1,202	1,202
Total	$ 45	$ 203	$ 1,659	$ 1,907

Contract balances

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

	June 30, 2018	December 31, 2017
Accounts receivable, net	$ 2,672	$ 15
Costs and estimated earnings in excess of billings on uncompleted contracts	-	680
Other current assets	-	70
Billings on uncompleted contracts in excess of related costs	446	5
Other current liabilities	10,000	10,000
Deferred revenue	5,000	-

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 are 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, and sales-based royalties are included in "Other current assets". This does not represent a change in presentation for contract fulfillment costs; however, for sales-based royalty revenue, this revenue was previously not recognized until quarterly royalty reporting had been received from our customer. Under Topic 606, once quarterly royalty reporting has been received, the related contract assets will be transferred to accounts receivable.

Significant changes in the contract assets and the contract liabilities balances during the period are as follows (in thousands, except percentages):

	June 30, 2018	December 31, 2017	$ Change	% Change
Contract assets	$ -	$ 680	$ (680)	(100.0)
Contract liabilities	(446)	(5)	(441)	8,820.0
Net contract assets (liabilities)	$ (446)	$ 675	$ (1,121)	(166.1)

During the six months ended June 30, 2018, we billed $5.2 million on our development contracts. Of this amount, $680,000 was included in contract assets at December 31, 2017. We also recognized revenue of $4.0 million during the six months ended June 30, 2018, resulting in a contract liability of $446,000.

Contract acquisition costs

Regarding the adoption of Topic 606, 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 June 30, 2018.

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 estimated revenue does not include the $10.0 million upfront payment received from a major technology company to develop an LBS display system due to uncertainty around the timing of recognition. Additionally, the estimated revenue does not include amounts of variable consideration attributable to royalties or unexercised contract renewals (in thousands):

	Remainder of 2018	2019
Product revenue	$ 4,308	$ -
Royalty revenue	10,000	-
Contract revenue	4,699	997

Impacts to Previously Reported Results

In accordance with Topic 606, the disclosure of the impact of adoption to our condensed consolidated statements of operations and balance sheets was as follows (in thousands, except per share data):

	Three Months Ended June 30, 2017		
	As previously reported	New revenue standard adjustment	As restated
Product revenue	$ -	$ 45	$ 45
Royalty revenue	346	(240)	106
Contract revenue	1,107	81	1,188
Cost of product revenue	135	46	181
Cost of contract revenue	810	2	812
Net loss	(5,494)	(162)	(5,656)
Net loss per share - basic and diluted	(0.08)	-	(0.08)

	Six Months Ended June 30, 2017		
	As previously reported	New revenue standard adjustment	As restated
Product revenue	$ -	$ 45	$ 45
Royalty revenue	881	(678)	203
Contract revenue	1,364	295	1,659
Cost of product revenue	348	46	394
Cost of contract revenue	1,135	80	1,215
Net loss	(11,141)	(464)	(11,605)
Net loss per share - basic and diluted	(0.16)	(0.01)	(0.17)

	December 31, 2017		
	As previously reported	New revenue standard adjustment	As restated
Costs and estimated earnings incurred on uncompleted contracts	$ 680	$ -	$ 680
Other current assets	945	70	1,015
Billings on uncompleted contracts	5	-	5
Deferred revenue - current	999	(999)	-
Deferred revenue - noncurrent	4,151	(4,151)	-
Shareholders' equity:			
Accumulated deficit	(524,086)	5,220	(518,866)

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.

5. CONCENTRATION OF CREDIT RISK AND MAJOR CUSTOMERS AND SUPPLIERS

Concentration of credit risk

Financial instruments that potentially subject us to a concentration of credit risk are primarily cash equivalents and accounts receivable. We typically do not require collateral from our customers. As of June 30, 2018, our cash and cash equivalents are comprised of short-term highly rated money market savings accounts.

Concentration of major customers and suppliers

For the three and six months ended June 30, 2018, one commercial customer accounted for $2.0 million and $4.0 million in revenue, representing 97% and 96% of our total revenue, respectively. For the three and six months ended June 30, 2017, one commercial customer accounted for $769,000 and $973,000 in revenue, representing 57% and 51% of our total revenue, respectively. Additionally, a second commercial customer accounted for $227,000 and $442,000 in revenue, representing 17% and 23% of our total revenue for the three and six months ended June 30, 2017, respectively. A third commercial customer accounted for $107,000 and $204,000 in revenue, representing 8% and 11% of our total revenue for the three and six months ended June 30, 2017, respectively. One commercial customer accounted for $2.7 million, or 100% of our accounts receivable balance at June 30, 2018.

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

6. INVENTORY

Inventory consists of the following:

(*in thousands*)	March 31, 2018	December 31, 2017
Raw materials	$ 53	$ 53
Finished goods	4,452	4,488
	$ 4,505	$ 4,541

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.

7. SHARE-BASED COMPENSATION

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

The following table summarizes the amount of share-based compensation expense by line item in the statements of operations:

Share-based compensation expense	**Three Months Ended June 30,**		**Six Months Ended June 30,**	
(in thousands)	**2018**	**2017**	**2018**	**2017**
Cost of product revenue	$ -	$ 10	$ -	$ 19
Research and development expense	88	158	267	263
Sales, marketing, general and administrative expense	131	225	272	421
	$ 219	$ 393	$ 539	$ 703

Options activity and positions

The following table summarizes shares, weighted-average exercise price, weighted-average remaining contractual term and aggregate intrinsic value of options outstanding and options exercisable as of June 30, 2018:

Options	**Shares**	**Weighted-Average Exercise Price**	**Weighted-Average Remaining Contractual Term (years)**	**Aggregate Intrinsic Value**
Outstanding as of June 30, 2018	4,765,000	$ 2.71	5.9	$ 2,000
Exercisable as of June 30, 2018	3,111,000	$ 3.15	4.5	$ -

As of June 30, 2018, our unrecognized share-based employee compensation related to stock options was $1.7 million which we plan to amortize over the next 2.4 years, and our unamortized share-based compensation related to RSUs was $170,000 which we plan to amortize over the next 3.4 years.

8. COMMITMENTS AND CONTINGENCIES

Lease commitments

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

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

Litigation

On March 31, 2014, Asia Optical Co., Inc. (Asia Optical), a supplier pursuant to an agreement entered into in 2008, filed a complaint for arbitration with the American Arbitration Association, claiming that we ordered products from them and failed to take delivery of and pay for such products. We settled all related claims with Asia Optical during the quarter ended June 30, 2018 for less than related reserves. 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 June 30, 2018, we had $4.5 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.

9. COMMON STOCK AND WARRANTS

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.

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

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

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

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

During the second quarter of 2017, we received proceeds of $2.2 million from the sale of 1.2 million shares of our common stock as part of the Common Stock Purchase agreement we entered into with Lincoln Park Capital Fund, LLC (Lincoln Park) in September 2016. The agreement was terminated in August 2017 at our election without penalty.

10. RECENT ACCOUNTING PRONOUNCEMENTS

In June 2018, the FASB issued Accounting Standards Update 2018-07 (ASU 2018-07) Compensation - Stock Compensation (Topic 718), Improvements to Nonemployee Share-Based Payment Accounting. Currently, Topic 718 only includes share-based payments to employees. ASU 2018-07 expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. The new guidance will be effective for fiscal years beginning after December 31, 2018, including interim periods within that fiscal year. We do not expect the adoption of ASU 2018-07 to have a material impact on our financial statements.

In February 2016, the FASB issued Accounting Standards Update 2016-02 (ASU 2016-02), Leases (Topic 842). ASU 2016-02 requires lessees to recognize a right-of-use asset and lease liability in the balance sheet for all leases, including operating leases, with terms of more than twelve months. Recognition, measurement and presentation of

expenses and cash flows from a lease by a lessee have not significantly changed from previous guidance. The amendments also require qualitative disclosures along with specific quantitative disclosures. The new guidance will be effective for fiscal years beginning after December 15, 2018, and interim periods within those years, with early adoption permitted. The amendments must be applied on a modified retrospective basis. We anticipate the adoption of this standard will have a material impact on our financial statements. While we are continuing to assess all the potential impacts of the standard, we currently believe the most significant impact relates to our accounting for our office lease. Under the new guidance, the net present value of the obligation for our office lease will appear on the balance sheet. Currently, it is classified as an operating lease and payments are expensed in the period incurred.

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

Forward-looking statements

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

Overview

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

Our strategy includes selling LBS engines to original design manufacturers (ODMs) and original equipment manufacturers (OEMs). We plan to offer three scanning engines to support a wide array of applications: a small form factor display engine for consumer products, an interactive scanning engine for smart Internet of Things (IoT) products, and a light detection and ranging (LiDAR) engine for consumer electronic applications. We also are developing LiDAR for automotive collision avoidance systems.

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

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

Key accounting policies and estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the

United States. The preparation of these financial statements requires us to make estimates and judgments that materially affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent liabilities. We evaluate our estimates on a continuous basis. We base our estimates on historical data, terms of existing contracts, our evaluation of trends in the information display and 3D sensing industries, information provided by our current and prospective customers and strategic partners, information available from other outside sources and on various other assumptions we believe to be reasonable under the circumstances. The results form the basis for making judgments regarding the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Except for policy changes in accounting for revenues associated with our adoption of Topic 606 (see Note 4 "Revenue Recognition" in the Notes to Condensed Consolidated Financial Statements in Item 1), there have been no significant changes to our critical accounting judgments, policies, and estimates as described in our Annual Report on Form 10-K for the year ended December 31, 2017.

Results of operations

Product revenue

(*in thousands*)	2018	2017	$ change	% change
Three Months Ended June 30,	$ -	$ 45	$ (45)	(100.0)
Six Months Ended June 30,	-	45	(45)	(100.0)

Product revenue is revenue from sales of our products which are LBS engines, MEMS and ASICs. 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. Our quarterly product revenue may vary substantially due to the timing of product orders from customers, product shipments, production constraints and availability of components and raw materials.

We did not recognize any product revenue during the three and six months ended June 30, 2018. Product revenue backlog at June 30, 2018 and 2017 was $4.3 million and $6.7 million, respectively.

Royalty revenue

(*in thousands*)	2018	2017	$ change	% change
Three Months Ended June 30,	$ -	$ 106	$ (106)	(100.0)
Six Months Ended June 30,	11	203	(192)	(94.6)

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 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

(*in thousands*)	2018	2017	$ change	% change
Three Months Ended June 30,	$ 2,014	$ 1,188	$ 826	69.5
Six Months Ended June 30,	4,191	1,659	2,532	152.6

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

In April 2017, we signed a contract with a major technology company to develop an LBS display system. Under the terms of this agreement, we may receive $14.0 million in fees for development work contingent on completion of milestones. As of June 30, 2018, we have received $6.5 million in fees for development work. We are recognizing revenue on the $14.0 million in development fees over time, utilizing the input method of total costs expended to total cost expected to complete the performance obligation. As of June 30, 2018, we have recognized $8.7 million of contract revenue from development fees on this agreement.

The increase in contract revenue during the three and six months ended June 30, 2018 compared to the same periods in 2017 was attributed to increased contract activity. Our contract backlog, including orders for prototype units and evaluation kits, at June 30, 2018 and 2017 was approximately $5.7 million and $14.8 million, respectively. The April 2017 development contract represents all of the June 30, 2018 contract backlog and is scheduled for completion during the first quarter of 2019.

Cost of product revenue

(*in thousands*)	**2018**	**% of product revenue**	**2017**	**% of product revenue**	**$ change**	**% change**
Three Months Ended June 30,	$ 326	N/A	$ 181	402.2	$ 145	80.1
Six Months Ended June 30,	564	N/A	394	875.6	170	43.1

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

Cost of product revenue can fluctuate significantly from period to period, depending on the product mix and volume, the level of manufacturing overhead expense and the volume of direct material purchased. Cost of product revenue was higher during the three and six months ended June 30, 2018 due to higher depreciation.

During the three and six months ended June 30, 2018, we did not expense manufacturing overhead associated with production capacity in excess of production requirements. During the three and six months ended June 30, 2017, we expensed $155,000 and $400,000 of manufacturing overhead associated with production capacity in excess of production requirements.

Cost of contract revenue

(*in thousands*)	**2018**	**% of contract revenue**	**2017**	**% of contract revenue**	**$ change**	**% change**
Three Months Ended June 30,	$ 1,355	67.3	$ 812	68.4	$ 543	66.9
Six Months Ended June 30,	2,990	71.3	1,215	73.2	1,775	146.1

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

The increase in the cost of contract revenue during the three and six months ended June 30, 2018 was primarily attributed to the direct and indirect costs incurred related to the April 2017 development contract.

Research and development expense

(*in thousands*)	**2018**	**2017**	**$ change**	**% change**
Three Months Ended June 30,	$ 6,691	$ 3,672	$ 3,019	82.2
Six Months Ended June 30,	11,519	6,990	4,529	64.8

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

The increase in research and development expense during the three and six months ended June 30, 2018 compared to the same period in 2017 was attributable to higher costs related to subcontractors and increased headcount and personnel-related compensation and benefits expenses related to our LBS engine development.

Sales, marketing, general and administrative expense

(*in thousands*)	**2018**	**2017**	**$ change**	**% change**
Three Months Ended June 30,	$ 2,093	$ 2,325	$ (232)	(10.0)
Six Months Ended June 30,	4,700	4,905	(205)	(4.2)

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

The decrease in sales, marketing, general and administrative expense during the three and six months ended June 30, 2018 compared to the same period in 2017 was attributed to the reversal of approximately $563,000 of reserves in connection with the settlement of certain claims that were offset partially by increased headcount and personnel-related compensation and benefits expenses to support sales activities as well as increased rent expense.

Liquidity and capital resources

We have incurred significant losses since inception. We have funded operations to date primarily through the sale of common stock, convertible preferred stock, warrants, the issuance of convertible debt and, to a lesser extent, from development contract revenues, product sales, and licensing activities. At June 30, 2018, we had $21.0 million in cash and cash equivalents.

Based on our current operating plan that includes expected proceeds from a development contract signed in April 2017 with a major technology company and including the $5.0 million payment due to us in October 2018 under a licensing agreement that was executed with a customer in May 2018, we anticipate that we have sufficient cash and cash equivalents to fund our operations through June 2019. Our receipt of proceeds under our April 2017 development contract is subject to our completion of certain milestones, and we can provide no assurance that such milestones will

be completed. We will require additional capital to fund our operating plan past that time. We plan to obtain additional capital through the issuance of equity or debt

securities, product sales and/or licensing activities. There can be no assurance that additional capital will be available to us or, if available, will be available on terms acceptable to us or on a timely basis. If adequate capital resources are not available on a timely basis, we intend to consider limiting our operations substantially. This limitation of operations could include reducing investments in our production capacities, research and development projects, staff, operating costs, and capital expenditures.

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

Operating activities

Cash used in operating activities totaled $12.3 million during the six months ended June 30, 2018 compared to cash used in operating activities of $2.2 million during the same period in 2017. The change in cash flows from operating activities is primarily attributed to the higher net loss during the six months ended June 30, 2018 compared to the same period in 2017 as well as the timing of payments received from customers and payment made to suppliers.

Investing activities

During the six months ended June 30, 2018 and 2017, net cash used in investing activities was $502,000 and $2.0 million, respectively, and was primarily attributed to capital expenditures in manufacturing and production equipment.

Financing activities

During the six months ended June 30, 2018 and 2017, net cash provided by financing activities was $16.8 million and $6.8 million, respectively.

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.

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

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

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

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

During the second quarter of 2017, we received proceeds of $2.2 million from the sale of 1.2 million shares of our common stock as part of the Common Stock Purchase agreement we entered into with Lincoln Park in September 2016. The agreement was terminated in August 2017 at our election without penalty.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest rate and market liquidity risk

As of June 30, 2018, all of our cash and cash equivalents have variable interest rates. Therefore, we believe our exposure to market and interest rate risk is not material.

Our investment policy generally directs that the investment manager should select investments to achieve the following goals: principal preservation, adequate liquidity and return. As of June 30, 2018, we had $21.0 million in cash and cash equivalents, which are comprised of operating checking accounts and short-term, highly rated money market savings accounts.

Foreign exchange rate risk

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

ITEM 4.

CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) as of the end of the period covered by this report and, based on this evaluation, our Principal Executive Officer and Principal Financial Officer have concluded that these disclosure controls and procedures are effective. There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934) that occurred during the quarter ended June 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II.

ITEM 1.

LEGAL PROCEEDINGS

On March 31, 2014, Asia Optical Co., Inc. (Asia Optical), a supplier pursuant to an agreement entered into in 2008, filed a complaint for arbitration with the American Arbitration Association claiming that we ordered products from them and failed to take delivery of and pay for such products. We settled all related claims with Asia Optical during the quarter ended June 30, 2018 for less than related reserves.

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 management believes are reasonably possible to have a material adverse effect on our consolidated financial position, results of operations or cash flows.

ITEM 1A. RISK FACTORS

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

Risk Factors Related to Our Business and Industry

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

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

- As of June 30, 2018, we had an accumulated deficit of $534.5 million.
- We incurred consolidated net losses of $518.9 million from inception through 2017, and a net loss of $15.6 million during the six months ended June 30, 2018.

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

We cannot be certain that we will succeed in obtaining additional development revenue or commercializing our technology or products. In light of these factors, we expect to continue to incur significant losses and negative cash flow at least through 2018 and likely thereafter. We cannot be certain that we will achieve positive cash flow at any time in the future.

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

Based on our current operating plan that includes expected proceeds from a development contract signed in April 2017 with a major technology company and including the $5.0 million payment due to us in October 2018 under a licensing agreement that was executed with a customer in May 2018, we anticipate that we have sufficient cash and cash equivalents to fund our operations through June 2019. Our receipt of proceeds under our April 2017 development contract is subject to our completion of certain milestones, and we can provide no assurance that such milestones will be completed. We will require additional capital to fund our operating plan past that time. We plan to obtain additional capital through the issuance of equity or debt securities, product sales and/or licensing activities.

We are introducing new technology and products into an emerging market which creates significant uncertainty about our ability to accurately project revenue, costs and cash flows. Our capital requirements will depend on many factors, including, but not limited to, the commercial success of our LBS engines, the rate at which ODMs and OEMs introduce products incorporating our PicoP® scanning technology and the market acceptance and competitive position of such products. If revenues are less than we anticipate, if we fail to meet milestones for future payments or have to repay amounts already received under our April 2017 development contract, if the mix of revenues and the associated margins varies from anticipated amounts or if expenses exceed the amounts budgeted, we may require additional capital earlier than expected to fund our operations. In addition, our operating plan provides for the development of strategic relationships with suppliers of components, products and systems, and equipment manufacturers that may require additional investments by us.

Additional capital may not be available to us or, if available, may not be available on terms acceptable to us or on a timely basis. Raising additional capital may involve issuing securities with rights and preferences that are senior to our common stock and may dilute the value of our current shareholders' shares. If adequate capital resources are not available on a timely basis, we may consider limiting our operations substantially and we may be unable to continue as a going concern. This limitation of operations could include reducing investments in our production capacities or research and development projects, staff, operating costs, and capital expenditures which could jeopardize our ability to achieve our business goals or satisfy our customer requirements.

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

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

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

production milestones, which could have a material adverse effect on our financial condition, results of operations and cash flows.

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

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

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

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

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

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

In addition, we could encounter significant delays in introducing our PicoP® scanning technology or find that the development, manufacture or sale of products incorporating our technology would not be feasible. To the extent that we enter into development, manufacturing, sales and marketing or other arrangements, our revenues will depend upon the performance of third parties. We cannot be certain that any such arrangements will be successful.

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

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

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

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

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

For the six months ended June 30, 2018, one commercial customer accounted for $4.0 million in revenue, representing 96% of our total revenue. For the six months ended June 30, 2017, one commercial customer accounted for $973,000 in revenue, representing 51% of our total revenue, a second commercial customer accounted for $442,000 in revenue, representing 23% of our total revenue, and a third commercial customer accounted for $204,000 in revenue, representing 11% of our total revenue. Our customers take time to obtain, and the loss of a significant customer could negatively affect our revenue. Our quarterly operating results may vary significantly based upon:

- Market acceptance of products incorporating our PicoP® scanning technology;

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

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

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

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

Our backlog under open orders and agreements totaled $10.0 million as of June 30, 2018. We or our customers may be unable to meet the performance requirements and obligations under open orders or agreements, including performance specifications, milestones or delivery dates, required by such purchase orders or agreements. Furthermore, our customers may be unable or unwilling to perform their obligations thereunder on a timely basis, or at all if, among other reasons, our products and technologies do not achieve market acceptance, our customers' products and technologies do not achieve market acceptance or our customers otherwise fail to achieve their operating goals. To the extent we are unable to perform under such purchase orders or agreements or to the extent customers are unable or unwilling to perform, our operating results and cash flows could be adversely affected.

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

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

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

On July 27, 2018, the closing price of our common stock was $0.93 per share.

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

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

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

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

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

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

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

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

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

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

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

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

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

suffer.

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

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

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

In the recent past, general worldwide economic conditions have experienced a downturn due to slower economic activity, concerns about inflation, increased energy costs, decreased consumer confidence, reduced corporate profits and capital spending, and adverse business conditions. Any continuation or worsening of the current global economic and financial conditions could materially adversely affect: (i) our ability to raise, or the cost of, needed capital, (ii) demand for our current and future products, and (iii) our ability to commercialize products. We cannot predict the timing, strength, or duration of any economic slowdown or subsequent economic recovery, worldwide, regionally or in the display industry.

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

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

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

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

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

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

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

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

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

which the patents that we already own, protect our products and technology. Reduction in scope of protection or invalidation of our licensed or owned patents, or our inability to obtain new patents, may enable other companies to develop products that compete directly with ours on the basis of the same or similar technology.

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

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

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

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

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

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

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

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

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

We rely on information technology systems to process, transmit, store, and protect electronic data between our employees, our customers and our suppliers. Our systems are vulnerable to damage or interruptions due to events beyond our control, including, but are not limited to, natural disasters, power loss, telecommunications failures, computer viruses, hacking, or other cyber security issues. Our system redundancy may be inadequate and our disaster

recovery planning may be ineffective or insufficient to account for all eventualities. Additionally, we maintain insurance coverage to address certain aspects of cyber risks. Such insurance coverage may be insufficient to cover all losses or all claims that may arise, should such an event occur.

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

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

ITEM 6. EXHIBITS

Exhibit Number	Description
3.1	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of MicroVision, Inc. dated June 7, 2018. (1)
10.1	2013 MicroVision, Inc. Incentive Plan, as amended. (1)
31.1	Principal Executive Officer Certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Principal Financial Officer Certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Principal Executive Officer Certification pursuant to Rule 13a-14(b) or Rule 15d-14(b) and Section 1350, Chapter 63 of Title 18, United States Code (18 U.S.C. 1350), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Principal Financial Officer Certification pursuant to Rule 13a-14(b) or Rule 15d-14(b) and Section 1350, Chapter 63 of Title 18, United States Code (18 U.S.C. 1350), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	

XBRL Taxonomy Extension Definition Linkbase Document

101.LAB

XBRL Taxonomy Extension Label Linkbase Document

101.PRE

XBRL Taxonomy Extension Presentation Linkbase Document

(1) Incorporated by reference to the Company's Amendment No. 2 to Form S-1 Registration Statement, Registration No. 333222-857.

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: August 1, 2018

By: /s/ Perry M. Mulligan

Perry M. Mulligan

Chief Executive Officer and Director
(Principal Executive Officer)

Date: August 1, 2018

By: /s/ Stephen P. Holt

Stephen P. Holt

Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)