

MICROVISION, INC.
Form 10-Q
April 27, 2016

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

FORM 10-Q

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

For the quarterly period ended March 31, 2016

OR

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

For the transition period from _____ to _____

Commission file number 001-34170

MicroVision, Inc.

(Exact name of Registrant as Specified in its Charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

91-1600822

(I.R.S. Employer Identification Number)

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

(Address of Principal Executive Offices, including Zip Code)

(425) 936-6847

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(Registrant's Telephone Number, including Area Code)

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

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

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

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

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

The number of shares of the registrant's common stock outstanding as of April 22, 2016 was 51,494,000.

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PART I

ITEM 1. FINANCIAL STATEMENTS

MicroVision, Inc.
Condensed Consolidated Balance Sheets

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

	March 31, 2016	December 31, 2015
Assets		
Current assets		
Cash and cash equivalents	\$ 11,209	\$ 7,888
Accounts receivable, net of allowances of \$38 and \$38, respectively	996	1,687
Inventory	906	862
Other current assets	590	638
Total current assets	13,701	11,075
Property and equipment, net	1,537	1,669
Restricted cash	435	435
Intangible assets, net	813	845
Other assets	18	18
Total assets	\$ 16,504	\$ 14,042
Liabilities and Shareholders' Equity (Deficit)		
Current liabilities		
Accounts payable	\$ 2,354	\$ 2,183
Accrued liabilities	3,882	3,399
Deferred revenue	1,203	2,122
Total current liabilities	7,439	7,704
Deferred revenue, net of current portion	5,903	6,149
Deferred rent, net of current portion	304	342
Total liabilities	13,646	14,195
Commitments and contingencies (Note 6)		
Shareholders' equity (deficit)		
Preferred stock, par value \$0.001; 25,000 shares authorized; zero and zero shares issued and outstanding	-	-
Common stock, par value \$0.001; 100,000 shares authorized; 51,494 and 47,423 shares issued and outstanding	51	47
Additional paid-in capital	489,734	483,171
Accumulated deficit	(486,927)	(483,371)
Total shareholders' equity (deficit)	2,858	(153)
Total liabilities and shareholders' equity (deficit)	\$ 16,504	\$ 14,042

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	
	March 31,	
	2016	2015
Product revenue	\$ 3,155	\$ 741
Royalty revenue	542	144
Contract revenue	4	16
Total revenue	3,701	901
Cost of product revenue	2,588	1,037
Cost of contract revenue	1	7
Total cost of revenue	2,589	1,044
Gross profit	1,112	(143)
Research and development expense	2,597	1,898
Sales, marketing, general and administrative expense	2,068	1,921
Total operating expenses	4,665	3,819
Loss from operations	(3,553)	(3,962)
Other income, net	(3)	-
Net loss	\$ (3,556)	\$ (3,962)
Net loss per share - basic and diluted	\$ (0.07)	\$ (0.09)
Weighted-average shares outstanding - basic and diluted	47,566	44,963

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

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

	Three Months Ended	
	March 31,	
	2016	2015
Cash flows from operating activities		
Net loss	\$ (3,556)	\$ (3,962)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	187	83
Amortization of intangible assets	32	32
Non-cash share-based compensation expense	300	190
Inventory write-downs	122	139
Other non-cash adjustments	1	(15)
Change in:		
Accounts receivable, net	691	191
Inventory	(166)	(455)
Other current and non-current assets	48	(46)
Accounts payable	141	381
Accrued liabilities	383	207
Deferred revenue	(1,165)	8,126
Billings on uncompleted contracts in excess of related costs	-	179
Net cash provided by (used in) operating activities	(2,982)	5,050
Cash flows from investing activities		
Purchases of property and equipment	(82)	(69)
Net cash used in investing activities	(82)	(69)
Cash flows from financing activities		
Net proceeds from issuance of common stock and warrants	6,385	3,355
Net cash provided by financing activities	6,385	3,355
Change in cash and cash equivalents	3,321	8,336
Cash and cash equivalents at beginning of period	7,888	8,349
Cash and cash equivalents at end of period	\$ 11,209	\$ 16,685
Supplemental schedule of non-cash investing and financing activities		
Non-cash additions to property and equipment	\$ 154	\$ 246

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 March 31, 2016, the Condensed Consolidated Statements of Operations for the three months ended March 31, 2016 and 2015, and Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2016 and 2015, 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 March 31, 2016 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, 2015. The results of operations for the three months ended March 31, 2016 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, licensing activities and product and component sales. At March 31, 2016, we had \$11.2 million in cash and cash equivalents.

Based on our current operating plan, and assuming no additional funds from our existing At-the-Market (ATM) facility discussed in Note 7, we anticipate that we have sufficient cash and cash equivalents to fund our operations through December 2016. We will require additional cash to fund our operating plan past that time. We plan to obtain additional cash through the issuance of equity or debt securities and/or product sales and licensing activities. There can be no assurance that additional cash will be available or that, if available, it will be available on terms acceptable to us on a timely basis. If adequate funds are not available on a timely basis, we intend to consider limiting our operations substantially. This limitation of operations could include reducing our planned investment in our production capacities or research and development projects, staff, operating costs, or capital expenditures.

We are introducing new technology into an emerging market which creates significant uncertainty about our ability to accurately project revenue, costs and cash flows. Our capital requirements will depend on many factors, including, but not limited to, the rate at which original 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 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.

We have received a report from our independent registered public accounting firm regarding the consolidated financial statements for the year ended December 31, 2015 that includes an explanatory paragraph expressing substantial doubt about our ability to continue as a going concern. The consolidated financial statements are prepared assuming we will 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 periods. Diluted net loss per share 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. Diluted net loss per share is equal to basic net loss per share because the effect of dilutive securities outstanding during the periods, including options and warrants computed using the treasury stock method, is anti-dilutive.

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

	Three Months Ended	
	March 31,	
	2016	2015
Numerator:		
Net loss available for common shareholders - basic and diluted	\$ (3,556)	\$ (3,962)
Denominator:		
Weighted-average common shares outstanding - basic and diluted	47,566	44,963
Net loss per share - basic and diluted	\$ (0.07)	\$ (0.09)

On March 31, 2016 and 2015, we excluded the following convertible securities from diluted net loss per share, as the effect of including them would have been anti-dilutive: options and warrants exercisable into a total of 8,172,000 and 7,885,000 shares of common stock, respectively, and 60,000 and 60,000 nonvested equity shares, respectively.

3. 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 March 31, 2016, 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 months ended March 31, 2016, one commercial customer accounted for 90% of our total revenue and 100% of our net accounts receivable balance at March 31, 2016. For the three months ended March 31, 2015, the same commercial customer accounted for approximately 97% of our total revenue and approximately 99% of our net accounts receivable balance at March 31, 2015.

A significant concentration of our components and the products we sell are currently manufactured and obtained from single or limited-source suppliers, which are primarily located in foreign countries. The loss of any single or limited-source supplier, the failure of any of these suppliers to perform as expected, or the disruption in the supply chain of components from these suppliers could subject us to risks and uncertainties 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.

4. INVENTORY

Inventory consists of the following:

<i>(in thousands)</i>	March 31,	December 31,
	2016	2015
Raw materials	\$ 639	\$ 232
Finished goods	267	630
	\$ 906	\$ 862

Our inventory consists of raw materials and finished goods assemblies. Inventory 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.

In addition, we reduce the value of our inventory to its estimated scrap value when management determines that it is not probable that the inventory will be consumed through the normal course of business during the next twelve months. At March 31, 2016 and December 31, 2015, we recorded aggregate write-downs of \$7.1 million and \$6.9 million, respectively, offsetting inventory deemed to be obsolete or scrap inventory. From time to time, we may enter into arrangements to sell the obsolete or scrap inventory, or enter into consignment agreements with third parties to sell the units, resulting in a gain in the period such transactions are realized.

5. SHARE-BASED COMPENSATION

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

The following table shows the amount of share-based compensation expense included in each line item of the statements of operations:

<i>(in thousands)</i>	Three Months Ended			
	March 31,			
Share-based compensation expense	2016		2015	
Cost of product revenue	\$	10	\$	4
Research and development expense		83		47
Sales, marketing, general and administrative expense		207		139
	\$	300	\$	190

Options activity and positions

The following table summarizes shares, weighted-average exercise price, weighted-average remaining contractual term and aggregate intrinsic value of options outstanding and options exercisable as of March 31, 2016:

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding as of March 31, 2016	3,133,000	\$ 5.51	7.1	\$ 120,000
Exercisable as of March 31, 2016	1,580,000	\$ 8.37	5.6	\$ 65,000

As of March 31, 2016, our unamortized share-based employee compensation related to stock options was \$2.1 million which we plan to amortize over the next 2.8 years and our unamortized share-based compensation related to the restricted stock units was \$36,000 which we plan to amortize over the next 0.2 years.

6. COMMITMENTS AND CONTINGENCIES

Litigation

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

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

Adverse purchase commitments

As of March 31, 2016, we had \$500,000 accrued for commitments to purchase materials for the SHOWWX™ that were in excess of our estimated future proceeds from the sale of that product.

7. COMMON STOCK AND WARRANTS

In March 2016, we raised \$6.9 million before issuance costs of approximately \$650,000 from the sale of 4.1 million shares of common stock in an underwritten public offering. The financing includes a provision that restricts us from selling additional equity until June 20, 2016 without the permission of the underwriter.

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

In May 2015, we entered into an ATM agreement with Meyers Associates, L.P. Under the terms of the agreement, we may, from time to time, at our discretion, offer and sell shares of our common stock having an aggregate value of up to \$6.0 million. During the three months ended March 31, 2016, there were no proceeds from our ATM facility. As of March 31, 2016, we have received gross proceeds of approximately \$2.3 million before issuance costs of approximately \$85,000 from the sale of 742,000 shares of our common stock.

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

8. RECENT ACCOUNTING PRONOUNCEMENTS

In March 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-09 (ASU 2016-09), Improvements to Employee Share-Based Payment Accounting. ASU 2016-09 simplifies several aspects of the accounting for share-based payment award transactions including a) income tax consequences; b) classification of awards as either equity or liabilities; and c) classification on the statement of cash flows. ASU 2016-09 is effective for public entities in the fiscal years beginning after December 15, 2016, and for interim periods within those fiscal years. Various elements of the amendments will be applied using either a modified retrospective transition method, retrospectively, or prospectively. Early adoption is permitted. We are currently evaluating the impact the adoption of this standard will have on our financial statements.

In February 2016, the FASB issued Accounting Standards Update No. 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 principal difference from previous guidance is that the lease assets and lease liabilities arising from operating leases should be recognized in the balance sheet. 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 are currently evaluating the impact that the adoption of this standard will have on our financial statements.

In November 2015, the FASB issued Accounting Standards Update No. 2015-17 (ASU 2015-17), Income Taxes: Balance Sheet Classification of Deferred Taxes. ASU 2015-17 eliminates the current requirement to present deferred tax liabilities and assets as current and non-current on the balance sheet and requires that all deferred tax liabilities and asset, and any related valuation allowance, be classified as non-current on the balance sheet. ASU 2015-17 is effective for public entities in fiscal years beginning after December 15, 2016, and for the interim periods within those fiscal years. The new guidance can be applied retrospectively or prospectively and early adoption is permitted. We do not expect the implementation of this standard to have a material effect on our financial statements.

In July 2015, the FASB issued Accounting Standards Update No. 2015-11 (ASU 2015-11), Inventory (Topic 330): Simplifying the Measurement of Inventory, which changes the measurement principle for inventory from the lower of cost or market to the lower of cost and net realizable value. ASU 2015-11 defines net realizable value as estimated selling prices in the ordinary course of business, less predictable costs of completion, disposal, and transportation. The new guidance must be applied on a prospective basis and is effective for fiscal years beginning after December 15, 2015, and interim periods within those years, with early adoption permitted. The implementation of this standard did not have a material effect on our financial statements.

In August 2014, the FASB issued Accounting Standards Update No. 2014-15 (ASU 2014-15), Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern, which provides guidance on determining when and how to disclose going concern uncertainties in the financial statements. The new standard requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about the entity's ability to continue as a going concern. ASU 2014-15 will be effective for annual periods ending after December 15, 2016, and interim periods thereafter, with early adoption permitted. We do not expect the implementation of this standard to have a material effect on our financial statements.

In May 2014, FASB issued Accounting Standards Update No. 2014-09 (ASU 2014-09), Revenue from Contracts with Customers, an updated standard on revenue recognition. ASU 2014-09 provides enhancements to the quality and consistency of how revenue is reported while also improving comparability in the financial statements of companies reporting using International Financial Reporting Standards and generally accepted accounting principles of the United States. 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. In July 2015, the FASB voted to defer the effective date of this update for one year. ASU 2014-09 will be effective in the first quarter of fiscal 2018 and may be applied on a full retrospective or modified retrospective approach. We have not yet selected a transition method and we are currently evaluating the effect that the updated standard will have on our financial statements.

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

Forward-looking statements

The information set forth in this report in Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Item 3, "Quantitative and Qualitative Disclosure about Market Risk," includes "Forward-Looking Statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and is subject to the safe harbor created by those sections. Such statements may include, but are not limited to, projections of revenues, income or loss, capital expenditures, plans for product development and cooperative arrangements, technology development by third parties, future operations, financing needs or plans of MicroVision, 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 that use laser diodes as the light source. Our PicoP scanning technology incorporates our patented expertise in two-dimensional Micro-Electrical Mechanical Systems (MEMS), lasers, optics, and electronics to create a small form factor scanning engine with lower power needs than many other technologies that projects high-quality video and still image and/or uses depth sensing to capture three-dimensional data.

Our business strategy is to commercialize our PicoP scanning technology by enabling ODMs and OEMs to produce scanning engines by licensing our technology to those ODMs and OEMs, and by selling key scanning engine components to them, as needed.

While we are optimistic about our technology and the potential for future revenues, we have incurred substantial losses since inception and expect to incur a significant loss during the fiscal year ending December 31, 2016.

We have received a report from our independent registered public accounting firm regarding the consolidated financial statements for the year ended December 31, 2015 that includes an explanatory paragraph expressing substantial doubt about our ability to continue as a going concern. The consolidated financial statements were prepared assuming we will continue as a going concern.

Results of operations

Product revenue

(in thousands)	2016	2015	\$ change	% change
Three Months Ended March 31,	\$ 3,155	\$ 741	\$ 2,414	325.8

Product revenue is revenue from our sales of our products, which are MEMS and ASICs. Our product sales generally include acceptance provisions. We recognize product revenue upon acceptance of the product by the customer or the expiration of the contractual acceptance period, after which there are no rights of return. Our 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.

Product revenue was higher during the three months ended March 31, 2016, compared to the same period in 2015, due to higher product sales to Sony Corporation as part of continued shipments of orders we received during 2015 and 2014 totaling \$14.6 million and \$3.8 million, respectively, for key components to be integrated into display modules it manufactures and sells. The backlog of product orders at March 31, 2016 was approximately \$9.1 million, compared to \$17.2 million at March 31, 2015. The product backlog is scheduled for delivery within the next twelve months.

Royalty revenue

(in thousands)	2016	2015	\$ change	% change
Three Months Ended March 31,	\$ 542	\$ 144	\$ 398	276.4

Royalty revenue is revenue under license agreements to our PicoP scanning technology. We recognize revenue on upfront license fees over the expected time frame that we provide services or have ongoing obligations under the agreement. Ongoing per unit royalties are reported by the customer and are recognized as revenue in the period in which the data becomes available to us. Royalty revenue was higher during the three months ended March 31, 2016, compared to the same period in 2015, as a result of higher royalty payments we received from Sony Corporation for display modules it sold and the prorated revenue that was recognized from the \$8.0 million upfront license fee we received in March 2015.

Contract revenue

(in thousands)	2016	2015	\$ change	% change
Three Months Ended March 31,	\$ 4	\$ 16	\$ (12)	(75.0)

Contract revenue includes revenue from the sale of prototype units and evaluation kits based on our PicoP scanning engine. Our contract revenue in a particular period is dependent upon when we enter into a contract, the value of the contracts we have entered into, and the availability of technical resources to perform work on the contracts. We recognize contract revenue on long-term, cost plus fixed fee, and fixed price contracts using the percentage-of-completion method. If we are unable to estimate costs on a contract, revenue is recognized using the completed-contract method. Under the completed-contract method, revenue and contract costs are deferred and both are recognized when all deliverables are completed.

Our contract backlog, including orders for prototype units and evaluation kits, at March 31, 2016 was approximately \$45,000, compared to \$1.5 million at March 31, 2015. The contract backlog is scheduled for completion during the next twelve months.

Cost of product revenue

(in thousands)	2016	% of product revenue	2015	% of product revenue	\$ change	% change
Three Months Ended March 31,	\$ 2,588	82.0	\$ 1,037	139.9	\$ 1,551	149.6

Cost of product revenue includes the direct and allocated indirect costs of manufacturing products sold to customers. Cost of product revenue can fluctuate significantly from period to period, depending on the volume and product mix and the level of manufacturing overhead expense. Cost of product revenue was higher during the three months ended March 31, 2016, compared to the same period in 2015, driven primarily by higher product sales to Sony Corporation.

During the three months ended March 31, 2016, we expensed approximately \$228,000 of manufacturing overhead associated with production capacity in excess of production requirements, compared to \$221,000 during the same period in 2015. Additionally, during the three months ended March 31, 2016, we recorded a provision for scrap of \$122,000, compared to \$139,000 during the same period in 2015.

Cost of contract revenue

(in thousands)	2016	% of contract revenue	2015	% of contract revenue	\$ change	% change
Three Months Ended March 31,	\$ 1	25.0	\$ 7	43.8	\$ (6)	(85.7)

Cost of contract revenue includes both the direct and allocated indirect costs of performing on contracts and producing prototype units and evaluation kits, which can fluctuate substantially from period to period.

Research and development expense

(in thousands)	2016	2015	\$ change	% change
Three Months Ended March 31,	\$ 2,597	\$ 1,898	\$ 699	36.8

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. Accordingly, we anticipate our level of research and development spending will continue to be substantial.

The increase in research and development expense during the three months ended March 31, 2016, compared to the same period in 2015, was attributable to increased compensation and benefits expenses and the allocation of resources to internal research and development activities that were previously allocated to a commercial contract in prior periods.

Sales, marketing, general and administrative expense

(in thousands)	2016	2015	\$ change	% change
Three Months Ended March 31,	\$ 2,068	\$ 1,921	\$ 147	7.7

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

The increase in sales, marketing, general and administrative expense during the three months ended March 31, 2016, compared to the same period in 2015, was primarily due to increased professional and outside services costs and increased non-cash compensation 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 March 31, 2016, we had \$11.2 million in cash and cash equivalents.

Based on our current operating plan, and assuming no additional funds from our existing ATM facility, we anticipate that we have sufficient cash and cash equivalents to fund our operations through December 2016. Under the terms of our March 2016 financing, we are restricted from selling additional equity until June 20, 2016 without the permission of the underwriter. We will require additional cash to fund our operating plan past that time. We plan to obtain additional cash through the issuance of equity or debt securities and/or product sales and licensing activities. There can be no assurance that additional cash will be available or that, if available, it will be available on terms acceptable to us on a timely basis. If adequate funds are not available on a timely basis, we intend to consider limiting our operations substantially. This limitation of operations could include reducing our planned investment in development projects, staff, operating costs, capital expenditures and investment in research and development.

We received a report from our independent registered public accounting firm regarding the consolidated financial statements for the year ended December 31, 2015 that includes an explanatory paragraph expressing substantial doubt about our ability to continue as a going concern. The consolidated financial statements are prepared assuming we will continue as a going concern.

Operating activities

Cash used in operating activities totaled \$3.0 million during the three months ended March 31, 2016, compared to cash provided by operating activities of \$5.1 million during the same period in 2015. The change in cash flows from operating activities in the 2015 period primarily reflects an \$8.0 million upfront payment we received under the terms of the license agreement with Sony Corporation for our PicoP® scanning technology in March 2015.

Investing activities

Net cash used in investing activities totaled \$82,000 for the three months ended March 31, 2016, compared to \$69,000 during the same period in 2015.

Financing activities

Net cash provided by financing activities totaled \$6.4 million for the three months ended March 31, 2016, compared to \$3.4 million during the same period in 2015.

In March 2016, we raised \$6.9 million before issuance costs of approximately \$650,000 from the sale of 4.1 million shares of common stock in an underwritten public offering.

During the three months ended March 31, 2015, we received \$2.3 million from the exercise of warrants to purchase 1.1 million shares of our common stock, which warrants were issued in connection with earlier financing transactions.

During the three months ended March 31, 2015, we received gross proceeds of \$1.0 million as part of an ATM agreement we entered into with Meyers Associates, L.P. in June 2014.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest rate and market liquidity risks

As of March 31, 2016, all of our cash and cash equivalents have variable interest rates. Therefore, we believe our exposure to market and interest rate risks is not material.

Our investment policy generally directs that the investment manager should select investments to achieve the following goals: principal preservation, adequate liquidity and return. As of March 31, 2016, we had \$11.2 million in

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

We are also subject to various claims and pending or threatened lawsuits in the normal course of business. We are not currently party to any other legal proceedings that 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 March 31, 2016, we had an accumulated deficit of \$486.9 million.
- We incurred consolidated net losses of \$483.3 million from inception through 2015, and a net loss of \$3.6 million in the three months ended March 31, 2016.

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 2016 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, and assuming no additional funds from our existing ATM facility, we anticipate that we have sufficient cash and cash equivalents to fund our operations through December 2016. We will require additional cash to fund our operating plan past that time. We plan to obtain additional cash through the issuance of equity or debt securities and/or product sales and licensing activities.

We are introducing new technology into an emerging market which creates significant uncertainty about our ability to accurately project revenue, costs and cash flows. Our capital requirements will depend on many factors, including, but not limited to, the rate at which 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 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, 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 funds are not available on a timely basis, we may consider limiting our operations substantially to extend funds as we pursue other financing opportunities and business relationships. This limitation of operations could include reducing investments in our production capabilities or research and development projects, staff, operating costs, and capital expenditures. Reducing operations may 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, including our MEMS die in wafer form. The lead time to establish 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 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 image capture 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 are dependent on advances in technology by other companies.

Our PicoP scanning technology will continue to rely on technologies, such as laser 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.

During the three months ended March 31, 2016, 90% of our total revenue was generated from sales to one commercial customer. In the same period in 2015, 97% of our total revenue was generated from sales to the same commercial customer. 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;

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

In one or more future quarters, our results of operations may fall below the expectations of securities analysts and investors and the trading price of our common stock may decline as a consequence. In addition, following periods of volatility in the market price of a company's securities, shareholders often have instituted securities class action litigation against that company. If we become involved in a class action suit, it could divert the attention of management and, if adversely determined, could require us to pay substantial damages.

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

Our backlog of open orders totaled \$9.2 million as of March 31, 2016. We may be unable to meet the performance requirements, including performance specifications or delivery dates, required by such purchase orders. 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 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 April 22, 2016, the closing price of our common stock was \$1.82 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 image capture industry has been characterized by rapidly changing technology, accelerated product obsolescence and continuously evolving industry standards. Our success will depend upon our ability to further develop our 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 image capture products. These patents could be used as a basis to challenge the validity, limit the scope or limit our ability to obtain additional or broader patent rights of our patents or patents we have licensed. A successful challenge to the validity of our patents or patents we have licensed could limit our ability to commercialize our technology or 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 and 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 our licensors and 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 and the ability of our licensors, 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 and the patent position of our licensors involve complex legal and factual questions. The standards that the United States Patent and Trademark Office and its foreign counterparts use to grant patents are not always applied predictably or uniformly and can change.

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

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 display and image capture markets and adversely affect our business strategy execution and results of operations.

ITEM 6. Exhibits

- 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

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: April 27, 2016

BY: /s/ Alexander Y. Tokman

Alexander Y. Tokman

Chief Executive Officer and Director
(Principal Executive Officer)

Date: April 27, 2016

BY: /s/ Stephen P. Holt

Stephen P. Holt

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

EXHIBIT INDEX

The following documents are filed herewith.

<u>Exhibit Number</u>	<u>Description</u>
31.1	<u>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.</u>
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