



## **AUDIT COMMITTEE CHARTER**

### **Mission Statement**

The Audit Committee (the "Committee") of Microvision, Inc. (the "Company") is appointed by the Board of Directors as a permanent committee to assist it in monitoring and overseeing (1) the accounting and financial reporting processes of the Company and the audits of the financial statements of the Company, (2) the integrity of the financial statements of the Company, (3) the compliance by the Company with legal and regulatory requirements, and (4) the performance of the Company's internal finance and accounting personnel and its independent auditors.

In particular, and without limiting the generality of the foregoing, the purpose of the Committee is to undertake the duties of an audit committee described in, and otherwise to assist the Company in complying with the requirements of, Rule 5605(c)(2) of the Rules of the National Association of Securities Dealers, Inc. (the "NASD"), applicable rules of the Securities and Exchange Commission (the "Commission"), and any other similar rules of the NASD, the Commission or of any securities exchange or trading facility to which the Company may become subject.

In carrying out its functions, the Committee shall serve as an independent and objective monitor of the performance of the Company's financial reporting processes and system of internal controls; review and assess the audit work of the Company's independent auditors and internal accounting and finance personnel; and facilitate open, ongoing communication among the independent auditors, internal financial and accounting personnel, senior management, and the Board of Directors concerning the Company's financial condition and results of operations and financial reporting practices.

### **Organization and Membership**

The Committee will be comprised of not less than three nor more than four members of the Board of Directors (the "Members"), each of whom shall be an independent director as defined in NASD Rule 5605(a)(2) and as provided for under Commission Rule 10A-3(b)(1) (subject to the exemptions provided in Rule 10A-3(c)). A copy of NASD Rule 5605(a)(2) is attached as Exhibit A and a copy of Rule 10A-3(b)(1) is attached as Exhibit B.

Each Member shall be appointed annually by the Board of Directors at its annual meeting and will serve at the pleasure of the Board of Directors until the next annual meeting of shareholders or until such Member's replacement has been appointed. The Board of Directors will select the chair of the Committee (the "Chair").

Each Member must not have participated in the preparation of the financial statements of the Company or any current subsidiary of the Company at any time during the past three years. Each Member must be able to read and understand fundamental financial statements, including the Company's balance sheet, income statement, and cash flow statement. At least one Member must have past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background which results in the individual's financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities as required by NASD Rule 5605(c)(2).

## **Meetings**

In addition to meetings described in the following section, the Committee shall meet at least four times annually in conjunction with each quarterly review and annual audit of the Company's financial statements, which meetings shall be prior to the quarterly and annual earnings releases. Committee meetings may be held at such other times as the Members or the Chair may deem necessary or appropriate.

Committee meetings may be held in person or, at the option of the Chair, by conference telephone call. If any Member expects to participate in a Committee meeting by conference telephone call he or she shall so advise the Chair and, whenever reasonably possible, such Member shall be furnished with copies of financial statements, reports or other documents that will be discussed at the meeting so as to permit such Member to fully engage in the discussions as if such Member had attended the meeting in person.

## **Responsibilities of the Committee**

The functions set forth below shall be the common recurring activities of the Committee in carrying out its oversight responsibilities. In particular, and without limiting the generality of the foregoing, the Committee shall undertake the responsibilities and duties prescribed by the NASD, the Commission or other regulatory bodies having jurisdiction over the financial affairs of the Company. The functions set forth below shall be deemed to include such responsibilities and duties, as they may be promulgated from time to time, as if they were specifically listed below.

The Committee's responsibility is oversight, and it recognizes that the Company's management is responsible for preparing the Company's financial statements. While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. The independent auditor is responsible for planning and conducting audits to determine whether the financial statements present fairly in all material respects the financial position of the Company. The Committee has direct and sole responsibility for the appointment, compensation, oversight and replacement, if necessary, of the

independent auditor, including the resolution of disagreements between management and the auditor regarding financial reporting. Each member of the Committee shall be entitled to rely on (i) the integrity of those persons and organizations within and outside the Company that it receives information from and (ii) the accuracy of the

financial and other information provided to the Committee by such persons or organizations absent actual knowledge to the contrary (which shall be promptly reported to the Board of Directors). The Committee has the authority to retain legal, accounting or other experts that it determines to be necessary to carry out its duties. It also has authority to determine compensation for such advisors, as well as for the independent auditor and to make payments for ordinary administrative expenses that are necessary or appropriate in carrying out the Committee's duties.

## **1. Duties and Proceedings of the Audit Committee**

The Committee shall assist the Board of Directors in fulfilling its oversight responsibilities by accomplishing the following:

### Oversight of Independent Auditor.

- Annually evaluate, determine the selection and compensation of, and if necessary, determine the replacement of or rotation of, the independent auditor.
- Pre-approve all auditing services (including comfort letters and statutory audits) and all permitted non-audit services by the auditor.
- Receive formal written statements, at least annually, from the independent auditor regarding the auditor's independence, including a delineation of all relationships between the auditor and the Company; discuss with the independent auditor any disclosed relationships or services that may impact the objectivity and independence of the independent auditor, addressing at least the matters set forth in Rule 3526 of the Public Company Accounting Oversight Board; and if so determined by the Committee, recommend that the Board of Directors take appropriate action to satisfy itself of the independence of the auditor.
- At least annually, receive a report, orally or in writing, from the independent auditor detailing the firm's internal quality control procedures and any material issues raised by the independent auditor's internal quality control review, peer review or any governmental or other professional inquiry performed within the past five years and any remedial actions implemented by the firm.

### Oversight of Audit Process and Company's Legal Compliance.

- Review with each of the internal and independent auditors the overall scope and plans for audits.
- Review and discuss with management and internal auditors the Company's system of internal control and discuss with the independent auditor any

significant matters regarding internal controls over financial reporting that have come to its attention during the conduct of its audit.

- Review and discuss with management, internal auditors and independent auditor the Company's financial and critical accounting practices, and policies relating to risk assessment and management.
- Receive and review reports of the independent auditor discussing 1) all critical accounting policies and practices to be used in the firm's audit of the Company's financial statements, 2) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor, and 3) other material written communications between the independent auditor and management, such as any management letter or schedule of unadjusted differences.
- Review and discuss with management and the independent auditor the annual and quarterly financial statements and MD&A of the Company prior to the filing of the Company's Annual Report on Form 10-K and Quarterly Reports on Form 10-Q. Discuss results of the annual audit and quarterly review and any other matters required to be communicated to the committee by the independent auditor under generally accepted auditing standards. Discuss with management and independent auditor their judgment about the quality of accounting principles, the reasonableness of significant judgments, including a description of any transactions as to which the management obtained Statement on Auditing Standards No. 50 letters, and the clarity of disclosures in the financial statements, including the Company's disclosures of critical accounting policies and other disclosures under "Management's Discussion and Analysis of Financial Conditions and Results of Operations."
- Review, or establish standards for the type of information and the type of presentation of such information to be included in, earnings press releases and earnings guidance provided to analysts and rating agencies.
- Discuss with management and independent auditor any changes in Company's critical accounting principles and the effects of alternative GAAP methods, off-balance sheet structures and regulatory and accounting initiatives.
- Review material pending legal proceedings involving the Company and other contingent liabilities.
- Meet, periodically, with the CEO, CFO, the senior internal auditing executive and the independent auditor in separate executive sessions to discuss results of examinations. In connection with and prior to giving their required certifications, the CEO and CFO must disclose to the auditors and the Committee all significant deficiencies and material weaknesses in the design or operation of internal controls, and any fraud that involves management or other employees who have a significant role in the company's internal controls.

- Discuss with independent auditor the matters required to be communicated to audit committees in accordance with Auditing Standard No. 16 of the Public Company Accounting Oversight Board.
- Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submissions by employees or contractors of concerns regarding questionable accounting or accounting matters.

## **2. Other Responsibilities**

In addition to the foregoing, the Audit Committee shall:

- Review adequacy of this audit committee charter annually and submit charter to Board of Directors for approval.
- Prepare report for inclusion in the Company's annual proxy statement as required by the rules of the Securities and Exchange Commission.
- Put in place an appropriate control process for reviewing and approving Company's internal transactions and accounting.
- Review all transactions between the Company and related parties or affiliates of the officers of the Company.
- Review any requested waivers of the Company's Code of Ethics for Executives or Code of Conduct that involve any of the Company's executive officers or other principal accounting officer or controller.
- Report recommendations to the Board on a regular basis and present to the Board of Directors an annual performance evaluation of the Committee.
- Perform any other activities consistent with the Charter, By-laws and governing law as the Board of Directors or the Audit Committee shall deem appropriate, including holding meetings with the Company's investment bankers and financial analysts.



## EXHIBIT A

### **NASD RULE 5605(a)(2) - DEFINITION OF INDEPENDENT DIRECTOR**

"Independent Director" means a person other than an Executive Officer or employee of the Company or any other individual having a relationship which, in the opinion of the Company's board of directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. For purposes of this rule, "Family Member" means a person's spouse, parents, children and siblings, whether by blood, marriage or adoption, or anyone residing in such person's home. The following persons shall not be considered independent:

(A) a director who is, or at any time during the past three years was, employed by the Company;

(B) a director who accepted or who has a Family Member who accepted any compensation from the Company in excess of \$120,000 during any period of twelve consecutive months within the three years preceding the determination of independence, other than the following:

(i) compensation for board or board committee service;

(ii) compensation paid to a Family Member who is an employee (other than an Executive Officer) of the Company; or

(iii) benefits under a tax-qualified retirement plan, or non-discretionary compensation.

Provided, however, that in addition to the requirements contained in this paragraph (B), audit committee members are also subject to additional, more stringent requirements under Rule 5605(c)(2).

(C) a director who is a Family Member of an individual who is, or at any time during the past three years was, employed by the company as an Executive Officer;

(D) a director who is, or has a Family Member who is, a partner in, or a controlling Shareholder or an Executive Officer of, any organization to which the Company made, or from which the Company received, payments for property or services in the current or any of the past three fiscal years that exceed 5% of the recipient's consolidated gross revenues for that year, or \$200,000, whichever is more, other than the following:

(i) payments arising solely from investments in the Company's securities; or

(ii) payments under non-discretionary charitable contribution matching programs.

(E) a director of the Company who is, or has a Family Member who is, employed as an Executive Officer of another entity where at any time during the past three years any of the Executive Officers of the Company serve on the compensation committee of such other entity; or

(F) a director who is, or has a Family Member who is, a current partner of the Company's outside auditor, or was a partner or employee of the Company's outside auditor who worked on the Company's audit at any time during any of the past three years.

(G) in the case of an investment company, in lieu of paragraphs (A)-(F), a director who is an "interested person" of the Company as defined in Section 2(a)(19) of the Investment Company Act of 1940, other than in his or her capacity as a member of the board of directors or any board committee.



## EXHIBIT B

### COMMISSION RULE 10A-3(b)(1)

#### 1. *Independence.*

- i. Each member of the audit committee must be a member of the board of directors of the listed issuer, and must otherwise be independent; provided that, where a listed issuer is one of two dual holding companies, those companies may designate one audit committee for both companies so long as each member of the audit committee is a member of the board of directors of at least one of such dual holding companies.
- ii. *Independence requirements for non-investment company issuers.* In order to be considered to be independent for purposes of this paragraph (b)(1), a member of an audit committee of a listed issuer that is not an investment company may not, other than in his or her capacity as a member of the audit committee, the board of directors, or any other board committee:
  - A. Accept directly or indirectly any consulting, advisory, or other compensatory fee from the issuer or any subsidiary thereof, provided that, unless the rules of the national securities exchange or national securities association provide otherwise, compensatory fees do not include the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the listed issuer (provided that such compensation is not contingent in any way on continued service); or
  - B. Be an affiliated person of the issuer or any subsidiary thereof.
- iii. *Independence requirements for investment company issuers.* In order to be considered to be independent for purposes of this paragraph (b)(1), a member of an audit committee of a listed issuer that is an investment company may not, other than in his or her capacity as a member of the audit committee, the board of directors, or any other board committee:
  - A. Accept directly or indirectly any consulting, advisory, or other compensatory fee from the issuer or any subsidiary thereof, provided that, unless the rules of the national securities exchange or national securities association provide otherwise, compensatory fees do not include the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the listed issuer (provided that such compensation is not contingent in any way on continued service); or
  - B. Be an "interested person" of the issuer as defined in section 2(a)(19) of the Investment Company Act of 1940.

iv. *Exemptions from the independence requirements.*

- A. For an issuer listing securities pursuant to a registration statement under section 12 of the Act, or for an issuer that has a registration statement under the Securities Act of 1933 covering an initial public offering of securities to be listed by the issuer, where in each case the listed issuer was not, immediately prior to the effective date of such registration statement, required to file reports with the Commission pursuant to section 13(a) or 15(d) of the Act:
1. All but one of the members of the listed issuer's audit committee may be exempt from the independence requirements of paragraph (b)(1)(ii) of this section for 90 days from the date of effectiveness of such registration statement; and
  2. A minority of the members of the listed issuer's audit committee may be exempt from the independence requirements of paragraph (b)(1)(ii) of this section for one year from the date of effectiveness of such registration statement.
- B. An audit committee member that sits on the board of directors of a listed issuer and an affiliate of the listed issuer is exempt from the requirements of paragraph (b)(1)(ii)(B) of this section if the member, except for being a director on each such board of directors, otherwise meets the independence requirements of paragraph (b)(1)(ii) of this section for each such entity, including the receipt of only ordinary-course compensation for serving as a member of the board of directors, audit committee or any other board committee of each such entity.
- C. An employee of a foreign private issuer who is not an executive officer of the foreign private issuer is exempt from the requirements of paragraph (b)(1)(ii) of this section if the employee is elected or named to the board of directors or audit committee of the foreign private issuer pursuant to the issuer's governing law or documents, an employee collective bargaining or similar agreement or other home country legal or listing requirements.
- D. An audit committee member of a foreign private issuer may be exempt from the requirements of paragraph (b)(1)(ii)(B) of this section if that member meets the following requirements:
1. The member is an affiliate of the foreign private issuer or a representative of such an affiliate;
  2. The member has only observer status on, and is not a voting member or the chair of, the audit committee; and
  3. Neither the member nor the affiliate is an executive officer of the foreign private issuer.

- E. An audit committee member of a foreign private issuer may be exempt from the requirements of paragraph (b)(1)(ii)(B) of this section if that member meets the following requirements:
  - 1. The member is a representative or designee of a foreign government or foreign governmental entity that is an affiliate of the foreign private issuer; and
  - 2. The member is not an executive officer of the foreign private issuer.
  
- F. In addition to paragraphs (b)(1)(iv)(A) through (E) of this section, the Commission may exempt from the requirements of paragraphs (b)(1)(ii) or (b)(1)(iii) of this section a particular relationship with respect to audit committee members, as the Commission determines appropriate in light of the circumstances.