

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the fiscal year ended December 31, 2012

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 0-21221



**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)

**6222 185th Ave NE**

**Redmond, Washington 98052**

(Address of Principal Executive Offices including Zip Code)

**(425) 936-6847**

(Registrant's Telephone Number, Including Area Code)

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

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

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

**None**

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  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 Act). Yes  No

The aggregate market value of the common stock held by non-affiliates of the registrant as of June 30, 2012 was approximately \$40.0 million (based on the closing price for the registrant's Common Stock on the NASDAQ Global Market of \$1.61 per share).

The number of shares of the registrant's common stock outstanding as of March 7, 2013 was 25,237,000.

**MicroVision, Inc.**  
**2011 ANNUAL REPORT ON FORM 10-K**

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**PART I**

**Preliminary Note Regarding Forward-Looking Statements**

*This report contains forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and is subject to the safe harbor created by those sections. Such statements may include, but are not limited to, projections of revenues, income or loss, capital expenditures, plans for product development and cooperative arrangements, technology development by third parties, future operations, financing needs or plans of MicroVision, as well as assumptions relating to the foregoing. The words "anticipate," "could," "would," "believe," "estimate," "expect," "goal," "may," "plan," "project," "will," and similar expressions identify forward-looking statements. Factors that could cause actual results to differ materially from those projected in our forward-looking statements include the following: our ability to obtain financing; market acceptance of our technologies and products; our financial and technical resources relative to those of our competitors; our ability to keep up with rapid technological change; government regulation of our technologies; our ability to enforce our intellectual property rights and protect our proprietary technologies; the ability to obtain additional contract awards and to develop partnership opportunities; the timing of commercial product launches; the ability to achieve key technical milestones in key products; and other risk factors identified below in Item 1A.*

**ITEM 1. BUSINESS**

**Overview**

We are developing our proprietary PicoP® display technology which can be used by our customers to create high-resolution miniature laser display and imaging engines. Our PicoP display technology utilizes our widely patented expertise in two dimensional Micro-Electrical Mechanical Systems (MEMS), lasers, optics, and electronics to create a high quality video or still image from a small form factor device with lower power needs than conventional display technologies. Our strategy is to develop and supply PicoP display technology directly or through licensing arrangements to original equipment manufacturers (OEMs) in market segments including consumer electronics, automotive, and industrial for integration into their products.

During 2012, we aligned our operations to our ingredient brand strategy, simplifying our operations and resulting in an expected significant reduction to our future cash requirements. Our strategy is to focus our efforts on licensing our technology to partners who will produce display engines based on PicoP display technology and incorporate the engine into their products. Our development efforts are focused on supporting our customers in their manufacturing and integration and optimizing PicoP display technology for specific applications.

The primary objective for consumer applications is to provide users of mobile consumer devices such as smartphones, media players, tablet PCs and other consumer electronics products with a large screen viewing experience produced by a small projector either embedded in the device or via an attached accessory. These potential products would allow users to watch movies and videos, play video games, and display images and other data onto a variety of surfaces, freeing users from the limitations of a small, palm-sized screen. PicoP display technology could be further modified to be embedded into a pair of glasses to provide the mobile user with a see-through or occluded personal display to view movies, play games or access other content.

PicoP display technology is currently sold by Pioneer Corporation as part of an aftermarket high-resolution head-up display (HUD) that projects point-by-point navigation, critical operational, safety and other information important to the vehicle operator. With some modification PicoP display technology could also be embedded into a vehicle or integrated into a portable standalone HUD.

PicoP enabled devices can be used in field-based professions such as service repair or sales to view and share information such as schematics for equipment repair, sales data, orders or contact information within a CRM application on a larger, more user-friendly display. We also see potential for embedding PicoP display technology in industrial products where our displays could be used for 3D measuring and digital signage, enhancing the overall user experience of these applications. We continue to enter into a limited number of development agreements with commercial and U.S. government customers to develop advanced prototypes and demonstration units based on our light scanning technologies.

We develop and procure intellectual property rights relating to our technology as a key aspect of our business strategy. We generate intellectual property from our internal research and development activities and our ongoing performance on development contracts. We also have acquired exclusive rights to various technologies under licensing and acquisition agreements.

We currently sell our SHOWWX™ line of pico projectors. In 2012, we reduced our sales and marketing for these products and we do not expect to increase our investment in the SHOWWX product in the future.

We also currently sell our ROV hand held bar code scanners, which use our proprietary MEMS technology, and bar code scanner enabled enterprise solutions. We reduced our sales and marketing efforts on the bar code product in 2009 and we do not expect to increase our investment in the bar code product in the future.

### **Technology**

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

- Small and thin package size
- High brightness and contrast with 100% brightness uniformity
- Rich, saturated color reproduction
- Higher resolution
- Clear text readability
- Reduced power requirements that enable battery operation
- Simple optical design that does not require complex focusing lenses
- Lower price at volume

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

### **Business Strategy**

Our business strategy is to commercialize our technology in the form of licensing arrangements whereby leading OEMS integrate and embed PicoP display technology across a broad range of display and imaging product applications. Presently, we are focused on the following steps to implement our business strategy:

- Continue rapid advancement of our technology platform and value-add applications.
- Target leading OEMs to integrate our PicoP technology into their products.
- Partner with original design manufacturers (ODMs) and Automotive Tier 1 suppliers to produce advanced prototypes and demonstration units using PicoP display technology, in order to market the benefits of our technology by us or our partners to OEM customers while minimizing our own development costs.
- Supply key components for the display engine being developed by OEMs and ODMs who license PicoP display technology.
- Maintain a position of leadership with our intellectual property around PicoP display technology.

Pioneer is our first customer under the business model whereby we sell components and receive a license fee and royalties for our PicoP display technology. In 2012 Pioneer launched their Cyber Navi HUD incorporating MicroVision's PicoP display technology. We are supplying Pioneer with the MEMS and key electronics for their production of the Cyber Navi system.

**Marketing Focus:**  
**Mobile Device Displays**

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

**Vehicle Displays**

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

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

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

**Go-To-Market Strategy**

We are currently marketing our PicoP display technology to leading OEMs and ODMs. We expect our vertically integrated customers will integrate our PicoP display technology into their end products. We expect other customers will develop PicoP display engines for sale to OEMs. We expect products using our technology will be branded and distributed by our OEM customers.

Certain applications using PicoP display technology, such as an automotive HUD or pico projection for tablet PCs and mobile phones require integration of an engine based on our technology into other products. In markets requiring high volume production of the PicoP display engine components or subsystems that are to be integrated with other components, we plan to provide designs for components, subsystems and systems to OEMs under licensing agreements.

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

To date, the majority of our revenue from pico projection products has been generated primarily through sales of PicoP display engine components to Pioneer and sales of our SHOWWX line of accessory projectors through distributors and OEM customers, and to a lesser extent directly to end users through our online store. In the future, we expect a larger percentage of our revenue to come from royalties associated with licensing reference designs for components, subsystems, and systems under licensing agreements and sales of MEMs and key electronics components.

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

We conduct ongoing research on safety factors that must be addressed by products incorporating our technology, including such issues as the maximum permissible laser exposure limits established by International Electrotechnical Commission (IEC) and others. Independent experts have concluded that laser exposure to the eye resulting from use of the light scanning displays under normal operating conditions would be below the calculated maximum permissible exposure level set by IEC. Our accessory pico projectors products are currently Class 2 laser products, which are products safe for use by consumers.

In addition, we work with and commission third party independent experts in the field of laser safety to assist in meeting safety specifications as requested by our customers.

#### **Competitive Conditions**

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

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

The information display industry has been characterized by rapid and significant technological advances. Our technology and potential products may not remain competitive with such advances, and we may not have sufficient funds to invest in new technologies, products or processes. Although we believe our technology platform and proposed display products could deliver images of a substantially better quality and resolution from a smaller form factor device than those of commercially available miniaturized liquid crystal displays and cathode ray tube based display products, manufacturers of liquid crystal displays and cathode ray tubes may develop further improvements of screen display technology that could reduce or eliminate the anticipated advantages of our proposed products.

## Intellectual Property and Proprietary Rights

We generate intellectual property from our ongoing performance on development contracts, our internal research and development activities and technology acquisitions. The inventions covered by our patent applications generally relate to component miniaturization, specific implementation of various system components and design elements to facilitate mass production. Protecting these key enabling technologies and components is a fundamental aspect of our strategy to penetrate diverse markets with unique products. As such, we intend to continue to develop our portfolio of proprietary and patented technologies at the system, component and process levels.

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

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

Our ability to compete effectively in the display and image capture market will depend, in part, on our ability and the ability of our licensors to maintain the proprietary nature of these technologies.

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

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

## Additional Information

We perform research and development to design and develop our technology platform and modifications to PicoP display technology that will be required for specific applications. Research and development expense for the fiscal years ended December 31, 2012, 2011, and 2010 was \$13.1 million, \$15.3 million, and \$21.6 million, respectively. In 2012, 81% of our revenue was generated from product sales, and 2% and 17% of revenue was derived from performance on development contracts with the U.S. government and commercial customers, respectively. One commercial customer accounted for 61% of our revenue in 2012. In 2011, 77% of our revenue was generated from product sales, and 6% and 17% of revenue was derived from performance on development contracts with the U.S. government and commercial customers, respectively. One commercial customer accounted for 11% of our revenue in 2011. In 2010, 81% of our revenue was generated from product sales, 4% and 15% of revenue was derived from performance on development contracts with the U.S. government and commercial customers, respectively. One commercial customer accounted for 26% of total revenue in 2010. Prior to 2010, most of our revenue was generated from development contracts to develop our technology to meet customer specifications for both the U.S. government and commercial enterprises. Our contracts with the U.S. government can be terminated for convenience by the U.S. government at any time. See Management's Discussion and Analysis of Financial Condition and Results of Operations.

We had a backlog of \$1.8 million at December 31, 2012 compared to a backlog of \$2.1 million at December 31, 2011. The backlog at December 31, 2012 is composed of \$1.4 million in orders for key components under our "Image by PicoP" ingredient brand business model and \$100,000 in development contracts and orders for prototype units and evaluation kits, and \$320,000 in orders for accessory pico projectors. We plan to complete all of the backlog contracts within one year.

## Employees

As of March 7, 2013, we had approximately 67 employees.

## Further Information

MicroVision was founded in 1993 as a Washington corporation and reincorporated in 2003 under the laws of the State of Delaware. Our principal office is located at 6222 185th Avenue NE, Redmond WA 98052 and our telephone number is 425-936-6847.

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

## ITEM 1A. RISK FACTORS

### Risk Factors Relating to the MicroVision Business

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

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

- As of December 31, 2012, we had an accumulated deficit of \$437.5 million.
- We incurred consolidated net losses of \$331.5 million from inception through 2009, \$47.5 million in 2010, \$35.8 million in 2011, and \$22.7 million in 2012.

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

We cannot be certain that we will succeed in obtaining additional development contracts or that we will be able to obtain substantial customer orders for our products. In light of these factors, we expect to continue to incur substantial losses and negative cash flow at least through 2013 and likely thereafter. We cannot be certain that we will achieve positive cash flow at any time in the future.

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

Based on our current operating plan, we anticipate that we have sufficient cash and cash equivalents to fund our operations through the second quarter of 2013. We will require additional cash to fund our operating plan past that time. We are introducing new technology into an emerging market which creates significant uncertainty about our ability to accurately project revenue, costs and cash flows. If the level of sales anticipated by our financial plan is not achieved or our working capital requirements are higher than planned, we will need to raise additional cash sooner or take actions to reduce operating expenses. We plan to obtain additional cash through the issuance of equity or debt securities.



Our capital requirements will depend on many factors, including, but not limited to, the rate at which we can, directly or through arrangements with original equipment manufacturers, introduce products incorporating PicoP display technology and the market acceptance and competitive position of such products. If revenues are less than we anticipate, if the mix of revenues varies from anticipated amounts or if expenses exceed the amounts budgeted, we may require additional capital earlier than expected to fund our operations. In addition, our operating plan provides for the development of strategic relationships with systems and equipment manufacturers that may require additional investments by us.

Additional capital may not be available to us, or if available, on terms acceptable to us or on a timely basis. Raising additional capital may involve issuing securities with rights and preferences that are senior to our common stock and may dilute the value of current shareholders' shares. If adequate funds are not available on a timely basis we intend to consider limiting our operations substantially to extend out funds as we pursue other financing opportunities and business relationships. This limitation of operations could include delaying development projects and reductions in staff, operating costs, including research and development, and capital expenditures.

**We are dependent on third parties in order to develop, manufacture, sell and market our products.**

Our strategy for commercializing our technology and products incorporating PicoP display technology includes entering into cooperative development, manufacturing, sales and marketing arrangements with corporate partners, original equipment manufacturers and other third parties. We cannot be certain that we will be able to negotiate arrangements on acceptable terms, if at all, or that these arrangements will be successful in yielding commercially viable products. If we cannot establish these arrangements, we would require additional capital to undertake such activities on our own and would require extensive manufacturing, sales and marketing expertise that we do not currently possess and that may be difficult to obtain. In addition, we could encounter significant delays in introducing PicoP display technology or find that the development, manufacture or sale of products incorporating the PicoP display engine would not be feasible. To the extent that we enter into cooperative development, sales and marketing or other joint venture arrangements, our revenues will depend upon the performance of third parties. We cannot be certain that any such arrangements will be successful.

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

Our success will depend in part on customer acceptance of PicoP display technology. PicoP display technology may not be accepted by manufacturers who use display technologies in their products, by systems integrators who incorporate our products into their products or by end users of these products. To be accepted, PicoP display technology must meet the expectations of our potential customers in the consumer, automotive, industrial, and other markets. If our technology fails to achieve market acceptance, we may not be able to continue to develop our technology platform.

**Future products based on our PicoP display technology are dependent on advances in technology by other companies.**

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

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

Since 2010, most of our revenues have been generated from product sales to a limited number of customers and distribution partners. In 2012, 61% of our revenue was generated from sales to Pioneer Corporation. Our quarterly operating results may vary significantly based on:

- commercial acceptance of PicoP-based products;
- changes in evaluations and recommendations by any securities analysts following our stock or our industry generally;
- announcements by other companies in our industry;
- changes in business or regulatory conditions;
- announcements or implementation by our competitors of technological innovations or new products;
- the status of particular development programs and the timing of performance under specific development agreements;
- economic and stock market conditions; or
- other factors unrelated to our company or industry.

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

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

Our backlog of open orders totaled \$1.8 million as of December 31, 2012. We may be unable to meet the performance requirements, including performance specifications or delivery dates, required by such purchase orders. Further, our customers may be unable or unwilling to perform their obligations thereunder on a timely basis or at all if, among other reasons, our products and technologies do not achieve market acceptance, our customers' products and technologies do not achieve market acceptance or our customers otherwise fail to achieve their operating goals. To the extent we are unable to perform under such purchase orders or to the extent customers are unable or unwilling to perform, our operating results and cash flows could be adversely affected.

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

Our common stock is listed for quotation on The NASDAQ Global Market. On February 26, 2013, we received a deficiency notice from NASDAQ advising us that for 30 consecutive trading days preceding the date of the notice we were not in compliance with the \$50,000,000 minimum market value of listed securities required for continued listing on The NASDAQ Global Market pursuant to NASDAQ's listing requirements. Market value of listed securities is calculated by multiplying our daily closing bid price by our total outstanding shares of common stock. In accordance with NASDAQ's listing rules, we have 180 calendar days, or until August 26, 2013, to regain compliance with this requirement. During this initial 180-day compliance period, we can regain compliance if the market value of its listed securities closes at \$50,000,000 or more for a minimum of 10 consecutive business days. We could also regain compliance with NASDAQ's continued listing requirements by reporting stockholders' equity of \$10 million or more.

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 the common stock on the NASDAQ Capital Market, the American Stock Exchange or on a regional stock exchange. Listing on such other market or exchange could reduce the liquidity of our common stock. If our common stock were not listed on the NASDAQ Capital Market or an exchange, trading of our common stock would be conducted in the over-the-counter market on an electronic bulletin board established for unlisted securities or directly through market makers in our common stock. If our common stock were to trade in the over-the-counter market, an investor would find it more difficult to dispose of, or to obtain accurate quotations for the price of, the common stock. A delisting from The NASDAQ Global Market and failure to obtain listing on such other market or exchange would subject our securities to so-called penny stock rules that impose additional sales practice and market-making requirements on broker-dealers

who sell or make a market in such securities. Consequently, removal from The NASDAQ Global Market and failure to obtain listing on another market or exchange could affect the ability or willingness of broker-dealers to sell or make a market in our common stock and the ability of purchasers of our common stock to sell their securities in the secondary market. In addition, when the market price of our common stock is less than \$5.00 per share, we become subject to penny stock rules even if our common stock is still listed on The NASDAQ Global Market. While the penny stock rules should not affect the quotation of our common stock on The NASDAQ Global Market, these rules may further limit the market liquidity of our common stock and the ability of investors to sell our common stock in the secondary market. The market price of our stock has mostly traded below \$5.00 per share during 2012 and 2011. On March 7, 2013, the closing price of our stock was \$1.68.

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

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

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

The information display industry has been characterized by rapidly changing technology, accelerated product obsolescence and continuously evolving industry standards. Our success will depend upon our ability to further develop our technology platform and to cost effectively introduce new products and features in a timely manner to meet evolving customer requirements and compete with competitors' product advances.

We may not succeed in these efforts because of:

- delays in product development;
- lack of market acceptance for our products; or
- lack of funds to invest in product development and marketing.

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

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

We are aware of several patents held by third parties that relate to certain aspects of light scanning displays and image capture products. These patents could be used as a basis to challenge the validity, limit the scope or limit our ability to obtain additional or broader patent rights of our patents or patents we have licensed. A successful challenge to the validity of our patents or patents we have licensed could limit our ability to commercialize our technology and the PicoP display engine and, consequently, materially reduce our revenues. Moreover, we cannot be certain that patent holders or other third parties will not claim infringement by us with respect to current and future technology. Because U.S. patent applications are held and examined in secrecy, it is also possible that presently pending U.S. applications will eventually be issued with claims that will be infringed by our products or our technology. The defense and prosecution of a patent suit would be costly and time consuming, even if the outcome were ultimately favorable to us. An adverse outcome in the defense of a patent suit could subject us to significant costs, to require others and us to cease selling products that incorporate PicoP display technology, to cease licensing our technology or to require disputed rights to be licensed from third parties. Such licenses, if available, would increase our operating expenses. Moreover, if claims of infringement are asserted against our future co-development partners or customers, those partners or customers may seek indemnification from us for damages or expenses they incur.

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

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

**Our products may be subject to future health and safety regulations that could increase our development and production costs.**

Products incorporating PicoP display technology could become subject to new health and safety regulations that would reduce our ability to commercialize PicoP display technology. Compliance with any such new regulations would likely increase our cost to develop and produce products using PicoP display technology and adversely affect our financial results.

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

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

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

We currently use foreign manufacturers and plan to continue to use foreign manufacturers to manufacture future products, where appropriate. These international operations are subject to inherent risks, which may adversely affect us, including:

- political and economic instability;
- high levels of inflation, historically the case in a number of countries in Asia;
- burdens and costs of compliance with a variety of foreign laws;
- foreign taxes;
- changes in tariff rates or other trade and monetary policies; and
- changes or volatility in currency exchange rates.

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

We rely on single suppliers to manufacture our PicoP display engine and our MEMS chips in wafer form. The lead time required to establish a relationship with a new contract manufacturer or foundry is long, and it takes time to adapt a product's design to a particular manufacturer's processes. Accordingly, there is no readily available alternative source of supply for these products and components in high volumes. Changing our source of supply and manufacture could cause significant delays in shipping products which may result in lost revenues and damaged customer relationships.

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

Our success depends, in part, on our ability to provide our components and future products in commercial quantities at competitive prices. Accordingly, we will be required to obtain access, through business partners or contract manufacturers, to manufacturing capacity and processes for the commercial production of our expected future products. We cannot be certain that we will successfully obtain access to sufficient manufacturing resources. Future manufacturing limitations of our suppliers could result in a limitation on the number of products incorporating our technology that we are able to produce.

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

Intellectual property protection for our products is important and uncertain. If we do not obtain effective intellectual property protection for our products, processes and technology, we may be subject to increased competition. Our commercial success will depend in part on our ability and the ability of our licensors to maintain the proprietary nature of the PicoP display and other key technologies by securing valid and enforceable patents and effectively maintaining unpatented technology as trade secrets. We try to protect our proprietary technology by seeking to obtain United States and foreign patents in our name, or licenses to third-party patents, related to proprietary technology, inventions, and improvements that may be important to the development of our business. However, our patent position and the patent position of our licensors involve complex legal and factual questions. The standards that the United States Patent and Trademark Office and its foreign counterparts use to grant patents are not always applied predictably or uniformly and can change. Additionally, the scope of patents are subject to interpretation by courts and their validity can be subject to challenges and defenses, including challenges and defenses based on the existence of prior art. Consequently, we cannot be certain as to the extent to which we will be able to obtain patents for our new products and technology or the extent to which the patents that we already own or license from others protect our products and technology. Reduction in scope of protection or invalidation of our licensed or owned patents, or our inability to obtain new patents, may enable other companies to develop products that compete with ours on the basis of the same or similar technology.

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

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

We may be subject to product liability claims if any of our product applications are alleged to be defective or cause harmful effects. For example, because some of our PicoP displays are designed to scan a low power beam of colored light into the user's eye, the testing, manufacture, marketing and sale of these products involve an inherent risk that product liability claims will be asserted against us. Product liability claims or other claims related to our products, regardless of their outcome, could require us to spend significant time and money in litigation, divert management time and attention, require us to pay significant damages, harm our reputation or hinder acceptance of our products. Any successful product liability claim may prevent us from obtaining adequate product liability insurance in the future on commercially desirable or reasonable terms. An inability to obtain sufficient insurance coverage at an acceptable cost or otherwise to protect against potential product liability claims could prevent or inhibit the commercialization of our products.

**Our development agreements have long sales cycles, which make it difficult to plan our expenses and forecast our revenues.**

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

**Our development contracts may not lead to products that will be profitable.**

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

**If we lose our rights under our third-party technology licenses, our operations could be adversely affected.**

Our business depends in part on technology rights licensed from third parties. We could lose our exclusivity or other rights to use the technology under our licenses if we fail to comply with the terms and performance requirements of the licenses. In addition, certain licensors may terminate a license upon our breach and have the right to consent to sublicense arrangements. If we were to lose our rights under any of these licenses, or if we were unable to obtain required consents to future sublicenses, we could lose a competitive advantage in the market, and may even lose the ability to commercialize certain products completely. Either of these results could substantially decrease our revenues.

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

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

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None

**ITEM 2. PROPERTIES**

We currently lease approximately 67,000 square feet of combined use office, laboratory and manufacturing space at our headquarters facility in Redmond, Washington. The 90 month lease expires in August 2013.

**ITEM 3. LEGAL PROCEEDINGS**

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

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT**

Executive officers are appointed by our Board of Directors and hold office until their successors are elected and duly qualified. Mr. Tokman also serves as a director of MicroVision. The following persons serve as executive officers of MicroVision:

Alexander Tokman, age 51, has served as President, Chief Executive Officer and a director of MicroVision since January 2006. Mr. Tokman served as MicroVision's President and Chief Operating Officer from July 2005 to January 2006. Mr. Tokman, a former GE executive, joined MicroVision after a 10-year tenure at GE Healthcare, a subsidiary of General Electric, where he led several global businesses, most recently as General Manager of its Global Molecular Imaging and Radiopharmacy multi-technology business unit from 2003 to 2005. Prior to that, between 1995 and 2003, Mr. Tokman served in various cross-functional and cross-business leadership roles at GE where he led the definition and commercialization of several medical modalities product segments including PET/CT, which added over \$500 million of revenue growth to the company within the first three years of its commercial introduction. Mr. Tokman is a certified Six Sigma and Design for Six Sigma (DFSS) Black Belt and Master Black Belt and as one of GE's Six Sigma pioneers, he drove the quality culture change across GE Healthcare in the late 1990s. From November 1989 to March 1995 Mr. Tokman served as new technologies programs lead and a head of I&RD office at Tracor Applied Sciences a subsidiary of then Tracor, Inc. Mr. Tokman has both an M.S. and B.S. in Electrical Engineering from the University of Massachusetts, Dartmouth.

Michael Franzi, age 57, joined MicroVision in December 2012 as Vice President, Marketing and Business Development. Prior to MicroVision, from August 2009 to December 2012, he served as the principal of MJF Group, a consulting firm that assists companies in monetizing technology assets, including licensing of intellectual property and the development of strategic and tactical sales and marketing plans. From September 2010 to July 2011, he was Vice President and General Manager of Synopsis, Inc., a supplier of electronic design automation solutions, systems and intellectual property to global semiconductor and electronic OEM companies. He served as Vice President Global Marketing of ARC International from June 2008 until its acquisition by Synopsis in September 2010. From August 2005 to April 2008, Mr. Franzi served as Vice President Global Licensing and Business Development of SRS Labs, Inc. an audio technology engineering company that specialized in licensing of audio enhancement technology solutions for global electronic companies. Mr. Franzi received a B.S. degree in electrical engineering from the Swanson School of Engineering, University of Pittsburgh..

Thomas M. Walker, age 48, has served as Executive Vice President since December 2012. Mr. Walker served as Vice President, General Counsel and Secretary from May 2002 to December 2012. Prior to joining MicroVision, Mr. Walker served as Senior Vice President, General Counsel and Secretary of Advanced Radio Telecom Corp., a publicly held technology and services company where he managed domestic and international legal affairs from April 1996 to April 2002. Prior to that, Mr. Walker advised publicly and privately held businesses while practicing in the Los Angeles offices of the law firms of Pillsbury Winthrop and Buchalter, Nemer Fields and Younger. Mr. Walker holds a B.A. from Claremont McKenna College and a J.D. from the University of Oregon.

Jeff T. Wilson, age 52, has served as Chief Financial Officer since April 2006, Principal Financial Officer since January 2006 and Principal Accounting Officer of MicroVision since August 1999. Mr. Wilson served as Vice President, Accounting of MicroVision from April 2002 to April 2006 and as Director of Accounting of MicroVision from August 1999 to March 2002. Prior to joining MicroVision, from 1991 to 1999, Mr. Wilson served in various accounting positions for Siemens Medical Systems, Inc., a developer and manufacturer of medical imaging equipment. Prior to 1991, Mr. Wilson served as a manager with the accounting firm PricewaterhouseCoopers LLP. Mr. Wilson is a Certified Public Accountant. Mr. Wilson holds a B.S. in Accounting from Oklahoma State University. On September 20, 2012, we announced that we had come to an agreement with Mr. Wilson pursuant to which he had resigned from his position as our Chief Financial Officer. Upon filing of our Form 10-K, the transition of his responsibilities will be completed.

Dale Zimmerman, age 53, has served as Vice President of Research and Development since June 2012 and Director of Systems Engineering of MicroVision from June 2011 to May 2012. Prior to MicroVision, from February 2006 to December 2008 he served as Vice President of Product Strategy of Silicon Image, a company specializing in high speed serial interface solutions for HDTV, PC and storage products. From 1996 to 2008 he served as General Manager of DLP TV for Texas Instruments where he played an important role in launching the first conference room projectors, home theater projectors, and HDTVs. His teams received many awards including 3 Emmys and CES Innovation Best of Show. He received B.S. and M.S. degrees in electrical and electronics engineering from Massachusetts Institute of Technology (MIT) and a second M.S. in electrical engineering in 2011 from Stanford University.

## **PART II**

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

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

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

As of March 7, 2013, there were approximately 67 holders of record of 25,237,000 shares of common stock outstanding.

The high and low sales prices of our common stock for each full quarterly period in the last two fiscal years and the year to date as reported by The NASDAQ Global Market, as adjusted for the reverse stock split, are as follows:

Quarter Ended	Common Stock	
	HIGH	LOW
<b>2011</b>		
March 31, 2011	\$ 19.36	\$ 9.68
June 30, 2011	13.76	8.16
September 30, 2011	11.04	5.28
December 31, 2011	6.80	2.72
<b>2012</b>		
March 31, 2012	\$ 5.36	\$ 2.28
June 30, 2012	3.63	1.11
September 30, 2012	2.94	1.46
December 31, 2012	2.72	1.84
<b>2013</b>		
January 1, 2013 to March 7, 2013	\$ 2.28	\$ 1.54

#### ITEM 6. SELECTED FINANCIAL DATA

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

	YEARS ENDED DECEMBER 31,				
	2012	2011	2010	2009	2008
	<i>(in thousands, except per share data)</i>				
<b>Statement of Operations Data:</b>					
Revenue	\$ 8,365	\$ 5,617	\$ 4,740	\$ 3,833	\$ 6,611
Net loss available for common shareholders	(22,693)	(35,808)	(47,460)	(39,529)	(32,620)
Basic and diluted net loss per share	(1.05)	(2.57)	(4.17)	(4.29)	(4.23)
Weighted average shares outstanding basic and diluted	21,595	13,919	11,379	9,220	7,705
<b>Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 6,850	\$ 13,075	\$ 19,413	\$ 43,025	\$ 25,533
Investments available-for-sale	-	-	13	2,710	2,705
Working capital	1,831	5,913	15,618	38,221	24,347
Total assets	12,938	23,870	35,233	53,536	36,964
Long-term liabilities	20	326	1,394	1,471	1,776
Total shareholders' equity (deficit)	5,054	10,802	21,833	41,891	27,651



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

### Overview

We are developing our proprietary PicoP® display technology, which can be used by our customers to create high-resolution miniature laser display and imaging engines. Our PicoP display technology utilizes our widely patented expertise in two dimensional Micro-Electrical Mechanical Systems (MEMS), lasers, optics and electronics to create a high quality video or still image from a small form factor device with lower power needs than conventional display technologies. Our strategy is to develop and supply PicoP display technology directly or through licensing arrangements to original equipment manufacturers (OEMs) in market segments including consumer electronics, automotive, and industrial for integration into their products.

During 2012, we aligned our operations to our ingredient brand strategy, simplifying our operations and resulting in an expected significant reduction to our future cash requirements. Our strategy is to focus our efforts on licensing our technology to partners who will produce display engines based on PicoP display technology and incorporate the engine into their products. Our development efforts are focused on supporting our customers in their manufacturing and integration and optimizing PicoP display technology for specific applications.

The primary objective for consumer applications is to provide users of mobile consumer devices such as smartphones, media players, tablet PCs and other consumer electronics products with a large screen viewing experience produced by a small projector either embedded in the device or via an attached accessory. These potential products would allow users to watch movies and videos, play video games, and display images and other data onto a variety of surfaces, freeing users from the limitations of a small, palm-sized screen. PicoP display technology could be further modified to be embedded into a pair of glasses to provide the mobile user with a see-through or occluded personal display to view movies, play games or access other content.

PicoP display technology is currently sold by Pioneer Corporation as part of an aftermarket high-resolution head-up display (HUD) that projects point-by-point navigation, critical operational, safety and other information important to the vehicle operator. With some modification PicoP display technology could also be embedded into a vehicle or integrated into a portable standalone HUD.

PicoP enabled devices can be used in field-based professions such as service repair or sales to view and share information such as schematics for equipment repair, sales data, orders or contact information within a CRM application on a larger, more user-friendly display. We also see potential for embedding PicoP display technology in industrial products where our displays could be used for 3D measuring and digital signage, enhancing the overall user experience of these applications. We continue to enter into a limited number of development agreements with commercial and U.S. government customers to develop advanced prototypes and demonstration units based on our light scanning technologies.

We develop and procure intellectual property rights relating to our technology as a key aspect of our business strategy. We generate intellectual property from our internal research and development activities and our ongoing performance on development contracts. We also have acquired exclusive rights to various technologies under licensing and acquisition agreements.

We currently sell our SHOWWX line of pico projectors. In 2012, we reduced our sales and marketing for these products and we do not expect to increase our investment in the SHOWWX product in the future.

We also currently sell our ROV hand held bar code scanners, which use our proprietary MEMS technology, and bar code scanner enabled enterprise solutions. We reduced our sales and marketing efforts on the bar code product in 2009 and we do not expect to increase our investment in the bar code product in the future.

We have incurred substantial losses since inception and expect to incur a substantial loss during the fiscal year ending December 31, 2013.

## Key Accounting Policies and Estimates

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

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

*Revenue Recognition.* Our product sales generally include acceptance provisions. We recognize product revenue upon acceptance of the product by the customer or expiration of the contractual acceptance period, after which there are no rights of return. We have entered into agreements with resellers and distributors, as well as selling directly to the public. Sales made to resellers and distributors are recognized using either the sell-through method or upon expiration of the contractually agreed-upon acceptance period, depending on our ability to reasonably estimate returns. Some of the agreements with resellers and distributors contain price-protection clauses, and revenue is recognized net of these amounts. Sales made directly to the public are recognized either upon expiration of the contractual acceptance period after which there are no rights of return, or net of estimated returns and allowances. Provisions are made for warranties at the time revenue is recorded. Our quarterly revenue may vary substantially due to the timing of product orders from customers, production constraints and availability of components and raw materials.

We recognize contract revenue as work progresses on long-term, cost plus fixed fee, and fixed price contracts using the percentage-of-completion method, which relies on estimates of total expected contract revenue and costs. We have developed processes that allow us to make reasonable estimates of the cost to complete a contract. When we begin work on the contract and at the end of each accounting period, we estimate the labor, material and other costs required to complete the contract using information provided by our technical team, project managers, vendors, outside consultants and others and compare these to costs incurred to date. Since our contracts generally require some level of technology development to complete, the actual cost required to complete a contract can vary from our estimates. Recognized revenues are subject to revisions as actual cost becomes certain. Revisions in revenue estimates are reflected in the period in which the facts that give rise to the revision become known. Historically, we have made only immaterial revisions in the estimates to complete the contract at each reporting period. In the future, revisions in these estimates could significantly impact recognized revenue in any one reporting period. If the U.S. government cancels a contract, we would receive payment for work performed and costs committed to prior to the cancellation. We recognize contract revenue on the sale of prototype units and evaluation kits upon acceptance of the deliverables by the customer or expiration of the contractual acceptance period, after which there are no rights of return.

We establish an allowance for estimated losses if the estimated cost to complete a contract exceeds the remaining contract value. The entire estimated loss is recorded in the period in which the loss is first determined. We determine the estimated cost to complete a contract through a detailed review of the work to be completed, the resources available to complete the work and the technical difficulty of the remaining work. If the revised estimated cost to complete the contract is higher than the total contract revenue, the entire contract loss is recognized. The actual cost to complete a contract can vary significantly from the estimated cost, due to a variety of factors including availability of technical staff, availability of materials and technical difficulties that arise during a project. Most of our development contracts are cost plus fixed fee type contracts. Under these types of contracts, we are not required to spend more than the contract value to complete the contracted work.

*Cost of Revenue.* Cost of revenue includes both the direct and allocated indirect costs of performing on development contracts and producing prototype units, evaluation kits, SHOWWX and ROV units. Direct costs include labor, materials and other costs incurred directly in performing on a contract or producing prototype units, evaluation kits, and accessory pico projector products. Indirect costs include labor and other costs associated with operating our research and development department and building our manufacturing and technical capabilities and capacity. Our overhead, which includes the costs of procuring, inspecting and storing material, and facility and depreciation costs, is allocated to inventory, cost of product revenue, cost of contract revenue, and research and development expense based on the proportion of direct material purchased for the respective activity.

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

*Intangible Assets.* Our intangible assets consist entirely of purchased patents. The patents are amortized using the straight-line method over their estimated period of benefit, ranging from one to 17 years. We evaluate the recoverability of intangible assets periodically by taking into account events or circumstances that may warrant revised estimates of useful lives or that indicate the asset may be impaired. We compare the projected undiscounted net cash flows associated with the related intangible assets or group of assets over their remaining lives against their respective carrying amounts. Measurement of an impairment loss for our intangible assets is based on the difference between the fair value of the asset and its carrying value.

*Inventory.* We value inventory at the lower of cost or market with cost determined on a net-realizable value basis. We make significant judgments and estimates to value our inventory and make adjustments to its carrying value. We review several factors in determining the market value of our inventory including evaluating the replacement cost of the raw materials, the net realizable value of the finished goods, and the likelihood of obsolescence. If we do not achieve our targeted sales prices, if market conditions for our components or products were to decline or if we do not achieve our sales forecast, additional reductions in the carrying value of the inventory would be required.

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

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

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

## Results of Operations

YEAR ENDED DECEMBER 31, 2012 COMPARED TO YEAR ENDED DECEMBER 31, 2011

### Product Revenue.

	<u>2012</u>	<u>% of product revenue</u>	<u>2011</u>	<u>% of product revenue</u>	<u>\$ change</u>	<u>% change</u>
(in thousands)						
Product revenue	\$ 6,782	100.0	\$ 4,338	100.0	\$ 2,444	56.3

Product revenue primarily includes sales of components under our "Image by PicoP" ingredient brand business model and sales of our SHOWWX™ line of accessory pico projectors.

Our quarterly and annual revenue may vary substantially due to the timing of product orders from customers, production constraints and availability of components and raw materials. In 2012, we reduced our sales and marketing effort on our sales of our SHOWWX™ line of accessory pico projectors and we do not expect to increase our investment in this product line in the future.

Product revenue was higher during year ended December 31, 2012 than the same period in 2011, due to sales of components primarily to Pioneer Corporation for use in their Cyber Navi automotive heads up display system ("HUD") under our "Image by PicoP" ingredient brand business model and increased sales of our PicoP display engines compared to the prior periods. The backlog of product orders at December 31, 2012 was approximately \$1.7 million, compared to \$1.4 million at December 31, 2011. The product backlog is scheduled for delivery within one year.

Pioneer has reported a group net loss for the period April to December 2012. The group net loss has been attributed in part due to lower financial performance for its car navigation system business. As a result of this performance, we have reduced our expectations for significant 2013 follow-on orders for their after-market HUD product.

**Contract Revenue.**

	<u>2012</u>	<u>% of contract revenue</u>	<u>2011</u>	<u>% of contract revenue</u>	<u>\$ change</u>	<u>% change</u>
(in thousands)						
Government revenue	\$ 156	9.9	\$ 345	27.0	\$ (189)	(54.8)
Commercial revenue	1,427	90.1	934	73.0	493	52.8
Total contract revenue	<u>\$ 1,583</u>		<u>\$ 1,279</u>		<u>\$ 304</u>	23.8

We earn contract revenue from performance on development contracts with the U.S. government and commercial customers and from the sale of prototype units and evaluation kits based on our PicoP display engine and sales of test equipment built specifically for use in PicoP display engine production. Our contract revenue from development contracts in a particular period is dependent upon when we enter into a contract, the value of the contracts we have entered into, and the availability of technical resources to perform work on the contracts. Our contract revenue from sales of prototype units and evaluation kits may vary substantially due to the timing of orders from customers and potential constraints on resources.

Contract revenue was higher during the year ended December 31, 2012 than the same period in 2011 due to increased sales of test fixtures, prototype units and evaluation kits in 2012 compared to the prior year.

Our backlog of development contracts, including orders for prototype units and evaluation kits, at December 31, 2012 was \$100,000 compared to \$622,000 at December 31, 2011, all of which is scheduled for completion during the next twelve months.

**Cost of Product Revenue.**

	<u>2012</u>	<u>% of product revenue</u>	<u>2011</u>	<u>% of product revenue</u>	<u>\$ change</u>	<u>% change</u>
(in thousands)						
Cost of product revenue	\$ 6,085	89.7	\$ 11,640	268.3	\$ (5,555)	(47.7)

Cost of product revenue includes the direct and allocated indirect cost of manufacturing products sold to customers. Direct costs include labor, materials and other costs incurred directly in the manufacture of these products. Indirect costs include labor and other costs associated with operating our manufacturing capabilities and capacity. In the event that we maintain production capacity in excess of production requirements, cost of product revenue may also include manufacturing overhead associated with the excess capacity.

Cost of product revenue for 2012 and 2011 included inventory write downs of \$1.1 million and \$1.6 million, respectively. The write downs were primarily for lower of cost or market adjustments to our inventory value to reflect the then current estimated selling price for our inventory, as well as a reserve adjustment for materials which we expect would become obsolete as we introduced new products. The decrease in cost of product revenue for 2012, compared to 2011, was primarily attributed to a change in product mix from lower margin SHOWWX products to sales of components to support Pioneer's Cyber Navi production and decreased inventory write downs compared to the prior year. During 2012 and 2011, we sold inventory which had been previously written down to the lower of cost or market. Accordingly, cost of product revenue for 2012 and 2011 did not include approximately \$1.2 million and \$1.7 million of previously recognized write downs associated with this inventory. During 2012, we recorded a credit of approximately \$498,000 to cost of product revenue as a result of warranty expense lower than previous estimates. During 2011, we recognized approximately \$850,000 of warranty expense primarily associated with our PicoP display engine.

During 2012 and 2011, we expensed approximately \$523,000 and \$1.3 million, respectively, of manufacturing overhead associated with production capacity in excess of production requirements.

The cost of product revenue as a percentage of product revenue can fluctuate significantly from period to period, depending on the product mix, the level of overhead expense and the volume of direct materials purchased.

***Cost of Contract Revenue.***

	<u>2012</u>	<u>% of contract revenue</u>	<u>2011</u>	<u>% of contract revenue</u>	<u>\$ change</u>	<u>% change</u>
(in thousands)						
Cost of contract revenue	\$ 839	53.0	\$ 1,425	111.4	\$ (586)	(41.1)

The cost of contract revenue was lower in 2012 than in 2011 as a result of the lower activity on development contracts. Gross margin on contract revenue was significantly higher in 2012 compared to 2011. In 2011, we recorded losses on two development contracts. The losses were primarily as a result of our decision to share costs with one customer for development of advanced in-vehicle HUD prototypes in anticipation of follow-on revenue opportunities and excess material costs associated with minimum order quantities for materials required to complete one of our development contracts. The combined impact of the losses on contracts and lower gross margin was approximately \$710,000 in 2011.

The cost of contract revenue as a percentage of revenue was lower in 2012 than in 2011 primarily as a result of not having recognized contract losses in 2012 as we did in 2011. The cost of revenue as a percentage of revenue can fluctuate significantly from period to period, depending on the contract cost mix and the levels of direct and indirect costs incurred.

***Research and Development Expense.***

	<u>2012</u>	<u>2011</u>	<u>\$ change</u>	<u>% change</u>
(in thousands)				
Research and development	\$ 13,135	\$ 15,279	\$ (2,144)	(14.0)

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 allocate our research and development resources based on the business opportunity of the available projects, the skill mix of the resources available and the contractual commitments we have made to customers.

The decrease in research and development expense during 2012, compared to the same period in 2011, is primarily attributable to decreased payroll costs associated with reductions in staffing levels compared to the prior year and lower non-cash compensation expense resulting from the forfeiture of stock option grants.

We believe that a substantial level of continuing research and development expense will be required to develop additional commercial products using the PicoP technology. Accordingly, we anticipate our level of research and development spending will continue to be substantial.

***Sales, Marketing, General and Administrative Expense***

	<u>2012</u>	<u>2011</u>	<u>\$ change</u>	<u>% change</u>
(in thousands)				
Sales, marketing, general and administrative	\$ 11,252	\$ 13,314	\$ (2,062)	(15.5)

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. We believe that under the ingredient brand business model we will have lower sales, marketing, general and administrative spending in the future than had we not implemented the strategy.

The decrease in sales, marketing, general and administrative expense during 2012, compared to the same period in 2011, is primarily due to decreased payroll costs associated with reductions in staffing levels compared to the prior year and lower non-cash compensation expense resulting from the forfeiture of stock option grants.

***Other Income and Expense.***

	<u>2012</u>	<u>2011</u>	<u>\$ change</u>	<u>% change</u>
(in thousands)				
Other income and expense	\$ 174	\$ 222	\$ (48)	(21.6)

The decrease in other income and expense in 2012 from 2011 results primarily from lower average cash, investment securities balances, and interest rates.

***Income Taxes.***

No provision for income taxes has been recorded because we have experienced net losses from inception through December 31, 2012. At December 31, 2012, we had net operating loss carry-forwards of approximately \$305.9 million for federal income tax reporting purposes. In addition, we have research and development tax credits of \$6.0 million. The net operating loss carry-forwards and research and development credits available to offset future taxable income, if any, will expire in varying amounts from 2017 to 2032 if not previously utilized. The research and development tax credits and the remaining net operating losses are scheduled to expire between 2017 and 2032. In certain circumstances, as specified in the Internal Revenue Code, a 50% or more ownership change by certain combinations of our shareholders during any three-year period would result in a limitation on our ability to utilize a portion of our net operating loss carry-forwards.

We recognize interest accrued and penalties related to unrecognized tax benefits in tax expense. We did not have any unrecognized tax benefits at December 31, 2012 or at December 31, 2011.

***Liquidity and Capital Resources***

We have incurred significant losses since inception. We have funded operations to date primarily through the sale of common stock, convertible preferred stock, warrants, the issuance of convertible debt and, to a lesser extent, from development contract revenues and product sales. At December 31, 2012, we had \$6.8 million in cash and cash equivalents.

Based on our current operating plan, we anticipate that we have sufficient cash and cash equivalents to fund our operations through the second quarter of 2013. We will require additional cash to fund our operating plan past that time. We are introducing new products into an emerging market which creates significant uncertainty about our ability to accurately project revenue, costs and cash flows. If the level of sales anticipated by our financial plan is not achieved or our working capital requirements are higher than planned, we will need to raise additional cash sooner or take actions to reduce operating expenses. We plan to obtain additional cash through the issuance of equity or debt securities. There can be no assurance that additional cash will be available or that, if available, it will be available on terms acceptable to us on a timely basis. If adequate funds are not available on a timely basis we may be required to limit our operations substantially. This limitation of operations could include reducing our planned investment in development projects resulting in reductions in staff, operating costs, capital expenditures and investment in research and development.

We have received a report from our independent registered public accounting firm regarding the consolidated financial statements for the year ended December 31, 2012 that includes an explanatory paragraph expressing substantial doubt about our ability to continue as a going concern. These financial statements are prepared assuming we will continue as a going concern.

Cash used in operating activities totaled \$20.6 million during 2012, compared to \$27.9 million during 2011. During 2012, the decrease in net cash used in operating activities was primarily driven by lower personnel costs and increased margins on product sales, as well as savings resulting from steps taken to lower our 2012 cash use as described above.

#### *Investing Activities*

Cash used in investing activities totaled \$92,000 in 2012 compared to cash provided by investing activities of \$170,000 in 2011. In 2011, cash provided by investing activities primarily resulted from reductions in restricted cash used as collateral for our lease and other obligations.

#### *Financing Activities*

Cash provided by financing activities totaled \$14.5 million in 2012, compared to \$21.4 million in 2011. The following is a list of our financing activities during 2012 and 2011. All share amounts have been adjusted for the 1:8 reverse stock split discussed in this annual report.

- In June 2012, we raised \$10.5 million before issuance costs of approximately \$823,000 through an underwritten public offering of 4.2 million shares of our common stock and warrants to purchase 2.1 million shares of our common stock. The warrants have an exercise price of \$2.65 per share, a five year term, and are exercisable beginning one year from the date of issuance.
- In May 2012, we raised approximately \$5.0 million before issuance costs of approximately \$71,000 from the sale of 3.3 million shares of common stock and warrants to purchase 1.0 million shares of our common stock to private investors. The warrants have an exercise price of \$2.12 per share, a three year term, and are exercisable beginning on the date of issuance.
- In November 2011, we raised approximately \$10.5 million, before issuance costs of approximately \$925,000, through an underwritten public offering of 2.2 million shares of common stock and warrants to purchase 1.3 million shares of our common stock.
- During 2011, we also raised an aggregate of \$12.1 million, before issuance costs of approximately \$635,000, from the sale of 1.7 million shares of our common stock under our committed equity financing facilities with Azimuth. We terminated one of these facilities in July 2011 and the other two in November 2011.

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

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

- the progress of research and development programs,
- the progress in commercialization activities and arrangements,
- the cost of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights,
- competing technological and market developments, and
- our ability to establish cooperative development, joint venture and licensing arrangements.

In order to maintain our exclusive rights under our license agreement with the University of Washington, we are obligated to make royalty payments to the University of Washington with respect to the Virtual Retinal Display technology. If we are successful in establishing original equipment manufacturer co-development and joint venture arrangements, we expect our partners to fund certain non-recurring engineering costs for technology development and/or for product development. Nevertheless, we expect our cash requirements to remain high as we expand our activities and operations with the objective of commercializing our light scanning technology.

#### **New accounting pronouncements**

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

#### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

##### Interest Rate and Market Liquidity Risks

As of the end of 2012, all of our total cash and cash equivalents have variable interest rates. Therefore, we believe our exposure to market and interest rate risks is not material.

Our investment policy generally directs that the investment managers should select investments to achieve the following goals: principal preservation, adequate liquidity and return. As of December 31, 2012, our cash and cash equivalents are comprised of short-term highly rated money market savings accounts.

The values of cash equivalents and investment securities, available-for-sale by maturity date as of December 31, 2012, are as follows:

	<u>Amount</u>	<u>Percent</u>
Cash and cash equivalents	\$ 6,850,000	100.0 %
Less than one year	<u>-</u>	<u>-</u>
	<u>\$ 6,850,000</u>	<u>100.0 %</u>

##### Foreign Exchange Rate Risk

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



ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders  
MicroVision, Inc.

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

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

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

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

Moss Adams LLP  
Seattle, Washington  
March 13, 2013

## Report of Independent Registered Public Accounting Firm

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

In our opinion, the consolidated balance sheet as of December 31, 2011 and the related consolidated statements of operations, comprehensive loss, shareholders' equity, and cash flows for the year ended December 31, 2011 presents fairly, in all material respects, the financial position of MicroVision, Inc. and its subsidiaries at December 31, 2011, and the results of their operations and their cash flows for the year ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

PricewaterhouseCoopers LLP  
Seattle, Washington  
March 8, 2012

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

	<b>December 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 6,850	\$ 13,075
Accounts receivable, net of allowances of \$332 and \$243	1,115	463
Costs and estimated earnings in excess of billings on uncompleted contracts	12	70
Inventory	497	4,254
Other current assets	1,221	793
Total current assets	<u>9,695</u>	<u>18,655</u>
Property and equipment, net	1,205	2,347
Restricted cash	436	786
Intangible assets	1,580	2,048
Other assets	22	34
Total assets	<u>\$ 12,938</u>	<u>\$ 23,870</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Accounts payable	\$ 3,035	\$ 7,341
Accrued liabilities	4,007	5,113
Deferred revenue	609	-
Billings in excess of costs and estimated earnings on uncompleted contracts	98	156
Current portion of capital lease obligations	48	39
Current portion of long-term debt	67	93
Total current liabilities	<u>7,864</u>	<u>12,742</u>
Capital lease obligations, net of current portion	20	72
Long-term debt, net of current portion	-	67
Deferred rent, net of current portion	-	187
Total liabilities	<u>7,884</u>	<u>13,068</u>
Commitments and contingencies (Note 13)		
Shareholders' Equity		
Preferred stock, par value \$.001; 25,000 shares authorized; 0 and 0 shares issued and outstanding	-	-
Common stock, par value \$.001; 100,000 shares authorized; 25,237 and 17,019 shares issued and outstanding at December 2012 and 2011, respectively	25	17
Additional paid-in capital	442,560	425,658
Accumulated other comprehensive loss	-	(35)
Accumulated deficit	(437,531)	(414,838)
Total shareholders' equity	<u>5,054</u>	<u>10,802</u>
Total liabilities and shareholders' equity	<u>\$ 12,938</u>	<u>\$ 23,870</u>

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

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

	Years Ended December 31,	
	2012	2011
Product revenue	\$ 6,782	\$ 4,338
Contract revenue	1,583	1,279
Total revenue	<u>8,365</u>	<u>5,617</u>
Cost of product revenue	6,085	11,640
Cost of contract revenue	839	1,425
Total cost of revenue	<u>6,924</u>	<u>13,065</u>
Gross margin	<u>1,441</u>	<u>(7,448)</u>
Research and development expense	13,135	15,279
Sales, marketing, general and administrative expense	11,252	13,314
Gain on disposal of fixed assets	(79)	(11)
Total operating expenses	<u>24,308</u>	<u>28,582</u>
Loss from operations	(22,867)	(36,030)
Other income, net	174	222
Net loss	<u>\$ (22,693)</u>	<u>\$ (35,808)</u>
Net loss per share basic and diluted	<u>\$ (1.05)</u>	<u>\$ (2.57)</u>
Weighted-average shares outstanding basic and diluted	<u>21,595</u>	<u>13,919</u>

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

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

	<b>Years Ended December 31,</b>	
	<b>2012</b>	<b>2011</b>
Net loss	\$ (22,693)	\$ (35,808)
Other comprehensive gain (loss)		
Unrealized gain (loss) on investment securities, available-for-sale:		
Unrealized holding gain (loss) arising during period	3	(5)
Less: reclassification adjustment for losses realized in net income	32	-
Comprehensive loss	\$ <u>(22,658)</u>	\$ <u>(35,813)</u>

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

Consolidated Statements of Shareholders' Equity (in thousands)

	<b>Shareholders' Equity (Deficit)</b>					
	<b>Common Stock</b>		<b>Additional paid-in capital</b>	<b>Accumulated other comprehensive loss</b>		<b>Total Shareholders' equity</b>
	<b>Shares</b>	<b>Par value</b>		<b>Accumulated deficit</b>	<b>Net loss</b>	
<b>Balance at December 31, 2010</b>	12,809	\$ 13	\$ 400,880	\$ (30)	\$ (379,030)	\$ 21,833
Share-based compensation expense	218	-	3,356	-	-	3,356
Exercise of warrants and options	5	-	70	-	-	70
Sales of common stock and warrants	3,987	4	21,352	-	-	21,356
Other comprehensive loss	-	-	-	(5)	-	(5)
Net loss	-	-	-	-	(35,808)	(35,808)
<b>Balance at December 31, 2011</b>	17,019	17	425,658	(35)	(414,838)	10,802
Share-based compensation expense	648	-	2,286	-	-	2,286
Exercise of warrants and options	16	-	23	-	-	23
Sales of common stock and warrants	7,554	8	14,593	-	-	14,601
Other comprehensive gain	-	-	-	35	-	35
Net loss	-	-	-	-	(22,693)	(22,693)
<b>Balance at December 31, 2012</b>	25,237	\$ 25	\$ 442,560	\$ -	\$ (437,531)	\$ 5,054

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

**Consolidated Statements of Cash Flows (in thousands)**

	<b>Years Ended December 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>Cash flows from operating activities</b>		
Net loss	\$ (22,693)	\$ (35,808)
Adjustments to reconcile net loss to net cash used in operations:		
Depreciation	1,445	2,406
Amortization of intangible assets	184	185
Impairment of intangible assets	284	-
Gain on disposal of property and equipment	(79)	(11)
Realized loss on sale of short-term investments	32	-
Non-cash stock-based compensation	2,269	3,356
Inventory write-downs	1,094	1,563
Non-cash deferred rent	(118)	(340)
Change in:		
Accounts receivable	(652)	653
Costs and estimated earnings in excess of billings on uncompleted contracts	58	67
Inventory	2,663	258
Other current assets	(419)	(221)
Other assets	12	(16)
Accounts payable	(4,077)	(532)
Accrued liabilities	(1,175)	808
Deferred revenue	609	-
Billings in excess of costs and estimated earnings on uncompleted contracts	(58)	75
Other long-term liabilities	-	(330)
Net cash used in operating activities	<u>(20,621)</u>	<u>(27,887)</u>
<b>Cash flows from investing activities</b>		
Sales of investment securities	11	-
(Increase)/Decrease in restricted investment	350	709
Proceeds on sale of property and equipment	80	11
Purchases of property and equipment and intangible assets	<u>(533)</u>	<u>(550)</u>
Net cash provided by (used in) investing activities	<u>(92)</u>	<u>170</u>
<b>Cash flows from financing activities</b>		
Principal payments under capital leases and long-term debt	(136)	(127)
Net proceeds from issuance of common stock and warrants	<u>14,624</u>	<u>21,506</u>
Net cash provided by financing activities	<u>14,488</u>	<u>21,379</u>
Net decrease in cash and cash equivalents	(6,225)	(6,338)
Cash and cash equivalents at beginning of period	<u>13,075</u>	<u>19,413</u>
Cash and cash equivalents at end of period	<u>\$ 6,850</u>	<u>\$ 13,075</u>
<b>Supplemental disclosure of cash flow information</b>		
Cash paid for interest	<u>\$ 30</u>	<u>\$ 46</u>
<b>Supplemental schedule of non-cash investing and financing activities</b>		
Other non-cash additions to property and equipment	<u>\$ -</u>	<u>\$ 229</u>

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



## **1. The Company and liquidity**

MicroVision, Inc. (the "Company") is developing its proprietary PicoP® display technology, which can be used by our customers to create high-resolution miniature laser display and imaging engines. Our PicoP display technology utilizes our widely patented expertise in two dimensional Micro-Electrical Mechanical Systems (MEMS), lasers, optics and electronics to create a high quality video or still image from a small form factor device with lower power needs than conventional display technologies. Our strategy is to develop and supply PicoP display technology directly or through licensing arrangements to original equipment manufacturers (OEMs) in market segments including consumer electronics, automotive, and industrial for integration into their products.

During 2012, we aligned our operations to our ingredient brand strategy, simplifying our operations and resulting in an expected significant reduction to our future cash requirements. Our strategy is to focus our efforts on licensing our technology to partners who will produce display engines based on PicoP display technology and incorporate the engine into their products. Our development efforts are focused on supporting our customers in their manufacturing and integration and optimizing PicoP display technology for specific applications.

The primary objective for consumer applications is to provide users of mobile consumer devices such as smartphones, media players, tablet PCs and other consumer electronics products with a large screen viewing experience produced by a small projector either embedded in the device or via an attached accessory. These potential products would allow users to watch movies and videos, play video games, and display images and other data onto a variety of surfaces, freeing users from the limitations of a small, palm-sized screen. PicoP display technology could be further modified to be embedded into a pair of glasses to provide the mobile user with a see-through or occluded personal display to view movies, play games or access other content.

PicoP display technology is currently sold by Pioneer Corporation as part of an aftermarket high-resolution head-up display (HUD) that projects point-by-point navigation, critical operational, safety and other information important to the vehicle operator. With some modification PicoP display technology could also be embedded into a vehicle or integrated into a portable standalone HUD.

PicoP enabled devices can be used in field-based professions such as service repair or sales to view and share information such as schematics for equipment repair, sales data, orders or contact information within a CRM application on a larger, more user-friendly display. We also see potential for embedding PicoP display technology in industrial products where our displays could be used for 3D measuring and digital signage, enhancing the overall user experience of these applications. We continue to enter into a limited number of development agreements with commercial and U.S. government customers to develop advanced prototypes and demonstration units based on our light scanning technologies.

We develop and procure intellectual property rights relating to our technology as a key aspect of our business strategy. We generate intellectual property from our internal research and development activities and our ongoing performance on development contracts. We also have acquired exclusive rights to various technologies under licensing and acquisition agreements.

Based on our current operating plan, we anticipate that we have sufficient cash and cash equivalents to fund our operations through the second quarter of 2013. We will require additional cash to fund our operating plan past that time. We are introducing new technology into an emerging market which creates significant uncertainty about our ability to accurately project revenue, costs and cash flows. If the level of sales anticipated by our financial plan is not achieved or our working capital requirements are higher than planned, we will need to raise additional cash sooner or take actions to reduce operating expenses.

We plan to obtain additional cash through the issuance of equity or debt securities. There can be no assurance that additional cash will be available or that, if available, it will be available on terms acceptable to us on a timely basis. If adequate funds are not available on a timely basis, we intend to consider limiting our operations substantially to extend our funds as we pursue other financing opportunities and business relationships. This limitation of operations could include reducing our planned investment in working capital to fund revenue growth and delaying development projects and reductions in staff, operating costs, including research and development, and capital expenditures.

Our capital requirements will depend on many factors, including, but not limited to, the rate at which we can, directly or through arrangements with OEMs, introduce products incorporating the PicoP display engine and image capture technologies and the market acceptance and competitive position of such products. If revenues are less than anticipated, if the mix of revenues vary from anticipated amounts or if expenses exceed the amounts budgeted, we may require additional capital earlier than expected to further the development of our technologies, for expenses associated with product development, and to respond to competitive pressures or to meet unanticipated development difficulties. In addition, our operating plan provides for the development of strategic relationships with systems and equipment manufacturers that may require additional investments by us.

We have received a report from our independent registered public accounting firm regarding the consolidated financial statements for the year ended December 31, 2012 that includes an explanatory paragraph expressing substantial doubt about our ability to continue as a going concern. These consolidated financial statements are prepared assuming the Company will continue as a going concern.

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

## **2. Summary of significant accounting policies**

### **Use of estimates**

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

### **Principles of consolidation**

Our consolidated financial statements include the accounts of MicroVision, Inc. and MicroVision Innovations Singapore Pte. Ltd. ("MicroVision Singapore"), a wholly owned foreign subsidiary. MicroVision Singapore was incorporated in April 2011 and is engaged in advanced research and development activities and operation support functions for MicroVision, Inc. There were no material intercompany accounts and transactions during the years ended December 31, 2012 and 2011.

### **Cash and cash equivalents and fair value of financial instruments**

Our financial instruments include cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and long-term debt. Excluding the long term debt, the carrying value of our financial instruments approximates fair value due to their short maturities. The carrying amount of long-term debt at December 31, 2012 and 2011 was not materially different from the fair value based on rates available for similar types of arrangements.

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

## **Intangible assets**

Our intangible assets consist entirely of purchased patents. The patents are amortized using the straight-line method over their estimated period of benefit, ranging from one to 17 years. We evaluate the recoverability of intangible assets periodically by taking into account events or circumstances that may warrant revised estimates of useful lives or that indicate the asset may be impaired. We compare the projected undiscounted net cash flows associated with the related intangible assets or group of assets over their remaining lives against their respective carrying amounts. Measurement of an impairment loss for our intangible assets is based on the difference between the fair value of the asset and its carrying value.

## **Inventory**

Inventory consists of key components under our "Image by PicoP" ingredient brand raw material and finished goods for our pico projectors and ROV products. Inventory is recorded at the lower of cost or market with cost determined on a net realizable value basis. We periodically assess the need to provide for obsolescence of inventory and adjust the carrying value of inventory to its net realizable value when required. In addition, we reduce the value of our inventory to its estimated scrap value when we determine that it is not probable that the inventory will be consumed through normal production during the next twelve months.

## **Property and equipment**

Property and equipment is stated at cost and depreciated over the estimated useful lives of the assets (two to five years) using the straight-line method. Leasehold improvements are depreciated over the shorter of estimated useful lives or the lease term. Costs for repairs and maintenance are charged to expense as incurred and expenditures for major improvements are capitalized at cost. Gains or losses on the disposition of assets are reflected in the income statements at the time of disposal.

## **Restricted investments**

As of December 31, 2012, restricted investments were in money market savings accounts and serve as collateral for \$436,000 in irrevocable letters of credit. The restricted investments balance includes two letters of credit which are outstanding in connection with a lease agreement for our corporate headquarters building in Redmond, WA. The required balance decreases over the term of the lease, which expires in 2013. In January 2012, a \$350,000 letter of credit which was outstanding under the terms of a supplier agreement expired.

## **Revenue recognition**

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

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

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

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

#### **Cost of revenue**

Cost of product revenue includes the direct and allocated indirect costs of manufacturing products sold to customers. Direct costs include labor, materials and other costs incurred directly in the manufacture of these products. Indirect costs include labor and other costs associated with operating our manufacturing capabilities and capacity.

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

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

#### **Concentration of credit risk and sales to major customers**

##### *Concentration of Credit Risk*

Financial instruments that potentially subject us to concentrations of credit risk are primarily cash equivalents and accounts receivable. We typically do not require collateral from our customers. As of December 31, 2012, our cash and cash equivalents are comprised of short-term highly rated money market savings accounts.

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

During 2012, one commercial customer accounted for 61% of our total revenue and 96% of our accounts receivable balance at December 31, 2012. During 2011, two commercial customers accounted for 20% of our total revenue and three commercial customers accounted for 53% of our accounts receivable balance at December 31, 2011.

#### **Income taxes**

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

#### **Net loss per share**

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

As of December 31, 2012 and 2011, we excluded the following convertible securities from diluted net loss per share as the effect of including them would have been anti-dilutive. The shares shown represent the number of shares of common stock which would be issued upon conversion in the respective years.

	<b>December 31,</b>	
	<b>2012</b>	<b>2011</b>
Publicly traded warrants	753,000	753,000
Options and private warrants	5,696,000	2,498,000
Nonvested equity shares	207,000	132,000
	<u>6,656,000</u>	<u>3,383,000</u>

#### **Research and development**

Research and development costs are expensed as incurred.

#### **Long-lived assets**

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

#### **Share-based compensation**

Our share-based incentive compensation plans are described in Note 11.

We use the straight-line attribution method to allocate the fair value of share-based compensation awards over the requisite service period for each award. The following table shows the amount of share-based employee compensation expense included in the statements of operations for each period shown:

	<b>Year Ended December 31,</b>	
	<b>2012</b>	<b>2011</b>
Cost of contract revenue	\$ 34,000	\$ 143,000
Cost of product revenue	54,000	136,000
Research and development expense	825,000	1,329,000
Sales, marketing, general and administrative expense	1,301,000	1,648,000
	<u>\$ 2,214,000</u>	<u>\$ 3,256,000</u>

#### **Reclassifications**

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

#### **New accounting pronouncements**

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

In July 2012, the Financial Accounting Standards Board ("FASB") issued guidance that will allow an entity to first assess qualitative factors to determine whether it is necessary to perform a quantitative impairment test for indefinite-lived intangible assets. Under this guidance, an entity would not be required to calculate the fair value of an indefinite-lived intangible asset unless the entity determines, based on qualitative assessment, that it is not more likely than not, the indefinite-lived intangible asset is impaired. This guidance is effective for impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. We do not expect the implementation of this guidance will have a material impact on our financial statements.

### 3. Long-term contracts

Cost and estimated earnings in excess of billings on uncompleted contracts comprises amounts of revenue recognized on contracts that we have not yet billed to customers because the amounts were not contractually billable at December 31, 2012 and 2011. The following table summarizes when we will be contractually able to bill the balance as of December 31, 2012 and 2011 (in thousands).

	<b>Year Ended December 31,</b>	
	<b>2012</b>	<b>2011</b>
Billable within 30 days	\$ 5	\$ 63
Billable between 31 and 90 days	-	-
Billable after 90 days	7	7
	<u>\$ 12</u>	<u>\$ 70</u>

Our current contracts with the U.S. government are primarily cost-plus-fixed-fee type contracts. Under the terms of a cost-plus-fixed-fee contract, the U.S. government reimburses us for negotiated actual direct and indirect cost incurred in performing the contracted services. We are not obligated to spend more than the contract value to complete the contracted services. The period of performance is generally one year. Each of our contracts with the U.S. government can be terminated for convenience by the government at any time. To date, the U.S. government has not terminated a contract with us.

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

	<b>December 31,</b>	
	<b>2012</b>	<b>2011</b>
Costs and estimated earnings incurred on uncompleted contracts	\$ 1,977	\$ 1,822
Billings on uncompleted contracts	(2,063)	(1,908)
	<u>\$ (86)</u>	<u>\$ (86)</u>

#### **Included in accompanying consolidated balance sheets under the following captions:**

Costs and estimated earnings in excess of billings on uncompleted contracts	\$ 12	\$ 70
Billings in excess of costs and estimated earnings on uncompleted contracts	(98)	(156)
	<u>\$ (86)</u>	<u>\$ (86)</u>

#### 4. Inventory

Inventory consists of the following:

	<u>December 31,</u>	
	<u>2012</u>	<u>2011</u>
Raw materials	\$ 361,000	\$ 2,741,000
Finished goods	136,000	1,513,000
	<u>\$ 497,000</u>	<u>\$ 4,254,000</u>

The inventory at December 31, 2012 consisted of key components supplied under our "Image by PicoP" ingredient brand business model, and finished goods primarily composed of our accessory pico projectors. The inventory at December 31, 2011 consisted of raw materials primarily for our accessory pico projectors and PicoP display engine, and finished goods primarily composed of our accessory pico projectors. Inventory is stated at the lower of cost or market, with cost determined on a net realizable value basis. Management periodically assesses the need to provide for obsolescence of inventory and adjusts the carrying value of inventory to its net realizable value when required. In addition, we reduce the value of our inventory to its estimated scrap value when management determines that it is not probable that the inventory will be consumed through the normal course of business during the next twelve months. In 2012 and 2011, we recorded inventory write-downs of \$1,094,000 and \$1,563,000, respectively. At December 31, 2012 and 2011, we have aggregate allowances recorded of \$9,916,000 and \$11,138,000, respectively, offsetting inventory on hand deemed to be obsolete or scrap inventory.

#### 5. Accrued liabilities

Accrued liabilities consist of the following:

	<u>December 31,</u>	
	<u>2012</u>	<u>2011</u>
Bonuses	\$ 724,000	\$ 1,214,000
Payroll and payroll taxes	427,000	590,000
Compensated absences	384,000	508,000
Deferred rent credit	187,000	261,000
Warranty	206,000	490,000
Adverse purchase commitments	634,000	134,000
Accelerated rent expense	109,000	402,000
Professional fees	533,000	415,000
Purchased patents	-	330,000
Other	803,000	769,000
	<u>\$ 4,007,000</u>	<u>\$ 5,113,000</u>

#### 6. Property and equipment, net

Property and equipment consists of the following:

	<u>December 31,</u>	
	<u>2012</u>	<u>2011</u>
Production equipment	\$ 5,201,000	\$ 5,144,000
Leasehold improvements	3,344,000	3,344,000
Computer hardware and software/lab equipment	9,002,000	8,917,000
Office furniture and equipment	1,485,000	1,485,000
	<u>19,032,000</u>	<u>18,890,000</u>
Less: Accumulated depreciation	<u>(17,827,000)</u>	<u>(16,543,000)</u>
	<u>\$ 1,205,000</u>	<u>\$ 2,347,000</u>

Depreciation expense was \$1,445,000 and \$2,406,000 in 2012 and 2011, respectively.

## 7. Intangible assets

Our intangible assets consist entirely of technology-based purchased patents. The patents are amortized using the straight-line method over their estimated period of benefit, ranging from one to 17 years. The gross value of our intangible assets was \$2.3 million as of December 31, 2012 and 2011, respectively. Amortization expense was \$184,000 and \$185,000 in 2012 and 2011, respectively. In 2012 we recorded an impairment amounting to \$284,000 on 35 patents that were abandoned in prosecution. We estimate that we have no significant residual value related to our intangible assets.

In October 2010, we entered into an agreement to purchase a patent portfolio containing 195 patents and patents pending from Motorola, Inc. to complement our current portfolio of pico projection and display patents. Under terms of the agreement we issued approximately 104,000 shares of MicroVision common stock in October 2010, made cash payments of \$220,000 and \$330,000 in June 2011 and June 2012, respectively.

The following table outlines the estimated future amortization expense related to intangible assets held at December 31, 2012:

<u>Year ended December 31,</u>	<u>Amount</u>
2013	\$ 158,000
2014	158,000
2015	157,000
2016	157,000
2017	146,000
Thereafter	804,000
Total	<u>\$ 1,580,000</u>

## 8. Committed equity financing facility

In August 2010, we entered into a committed equity financing facility (CEFF) with Azimuth Opportunity, Ltd., ("Azimuth"), under which we completed two draws and raised a total of \$5.6 million in gross proceeds from the sale of approximately 557,000 shares of our common stock. In consideration for Azimuth's execution and delivery of the purchase agreement, we paid Azimuth \$150,000 in cash and 8,047 shares of our common stock. In July 2011, we cancelled this facility.

In May 2011, we entered into a CEFF with Azimuth, under which we raised \$1.5 million before placement agent and other issuance costs from the sale of approximately 203,000 shares of our common stock. In November 2011, we cancelled this facility.

In September 2011, we entered into a CEFF with Azimuth, under which we raised \$5.0 million before placement agent and other issuance costs from the sale of approximately 955,000 shares of our common stock. In November 2011, we cancelled this facility.

Reedland Capital Partners acted as placement agent under each of these CEFFs and received a fee for its services equal to 1% of the aggregate dollar amount of common stock purchased by Azimuth upon settlement of any draw under the facilities.

## 9. Common stock

In June 2012, we raised \$10.5 million before issuance costs of approximately \$823,000 through an underwritten public offering of 4.2 million shares of our common stock and warrants to purchase 2.1 million shares of our common stock. Details of the warrants are described below in Note 10.



In May 2012, we raised approximately \$5.0 million before issuance costs of approximately \$71,000 from the sale of 3.3 million shares of common stock and warrants to purchase 1.0 million shares of our common stock to private investors. Details of the warrants are described below in Note 10.

In November 2011, we raised approximately \$10.5 million, before issuance costs of approximately \$925,000, through an underwritten public offering of 2.2 million shares of common stock and warrants to purchase 1.3 million shares of our common stock. Details of the warrants are described below in Note 10.

During 2011, we also raised approximately \$12.1 million, before issuance costs of \$635,000, through the sale of approximately 1.7 million shares of our common stock under our 2010 and 2011 committed equity financing facilities.

## 10. Warrants

In June 2012, we raised \$10.5 million before issuance costs of approximately \$823,000 through an underwritten public offering of 4.2 million shares of our common stock and warrants to purchase 2.1 million shares of our common stock. The warrants have an exercise price of \$2.65 per share, a five year term, and are exercisable beginning one year from the date of issuance.

In May 2012, we raised approximately \$5.0 million before issuance costs of approximately \$71,000 from the sale of 3.3 million shares of common stock and warrants to purchase 1.0 million shares of our common stock to private investors. The warrants have an exercise price of \$2.125 per share, a three year term, and are exercisable 60 days from the date of issuance.

In November 2011, we raised approximately \$10.5 million, before issuance costs of approximately \$925,000, through an underwritten public offering of 2.2 million shares of common stock and warrants to purchase 1.3 million shares of our common stock. The warrants have an exercise price of \$6.24 per share, a five year term, and are exercisable on the date of issuance.

The following summarizes activity with respect to MicroVision common stock warrants during the two years ended December 31, 2012:

	<b>Warrants to purchase common shares</b>	<b>Weighted average exercise price</b>
<b>Outstanding at December 31, 2010</b>	1,042,000	\$ 25.84
Granted:		
Exercise price greater than intrinsic value	1,278,000	6.24
Exercised	-	-
Canceled/expired	(33,000)	22.08
<b>Outstanding at December 31, 2011</b>	<u>2,287,000</u>	14.96
Granted:		
Exercise price greater than intrinsic value	3,100,000	2.48
Exercised	-	-
Canceled/expired	(256,000)	17.60
<b>Outstanding at December 31, 2012</b>	<u><u>5,131,000</u></u>	\$ 7.28
<b>Exercisable at December 31, 2012</b>	<u><u>3,031,000</u></u>	\$ 10.49

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

	<b>Year Ended December 31,</b>	
	<b>2012</b>	<b>2011</b>
Exercise price greater than fair value	\$ 0.97	\$ 2.06

We estimated the fair value of our common stock warrants on the respective grant dates using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 2012 and 2011, respectively: dividend yield of zero percent for both years; expected volatility of 100% and 83%; risk-free interest rates of 0.52% and 1.0% and expected lives of 4 and 5 years, respectively.

The following table summarizes information about our common stock warrants outstanding and exercisable at December 31, 2012:

<b>Range of exercise prices</b>	<b>Warrants outstanding</b>			<b>Warrants exercisable</b>	
	<b>Number outstanding at December 31, 2012</b>	<b>Weighted average remaining contractual life (years)</b>	<b>Weighted average exercise price</b>	<b>Number exercisable at December 31, 2012</b>	<b>Weighted average exercise price</b>
\$2.13	1,000,000	2.39	\$ 2.13	1,000,000	\$ 2.13
\$2.65	2,100,000	4.47	2.65	-	-
\$6.24	1,278,000	3.88	6.24	1,278,000	6.24
\$28.80	753,000	0.56	28.80	753,000	28.80
\$2.13-\$28.80	<u>5,131,000</u>			<u>3,031,000</u>	

#### 11. Share-based compensation

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

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

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

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

In May 2011, we issued 52,000 shares of our common stock as incentive awards to non-executive employees under the 2006 Incentive Plan. The shares were valued using our closing stock price on the date of grant. We expensed \$560,000 of share-based employee compensation for these awards at grant.

In June 2011, we implemented a voluntary program in which certain non-executive senior professional employees could elect to receive a portion of their 2011 salary in stock instead of cash. During 2011, we issued 136,000 shares of our common stock under the 2006 Incentive Plan as payment of salary. The shares were valued using our closing stock price on the date of grant. The total share-based compensation expense for these awards was \$998,000, for service completed during 2011.

#### Description of Incentive Plans

The Company currently has two share-based incentive plans. The 2006 Incentive Plan described below is administered by the Board of Directors, or its designated committee ("Plan Administrator"), and provides for various awards as determined by the Plan Administrator. In June 2008, we determined not to issue additional options from a second share-based incentive plan, the Independent Director Stock Option Plan described below.

The 2006 Incentive Plan has 2.8 million shares authorized, of which 218,000 shares were available for awards as of December 31, 2012. The 2006 Incentive Plan permits granting non-qualified stock options (NSOs), incentive stock options (ISOs), stock appreciation rights, restricted or unrestricted stock, deferred stock, other share-based awards, or cash awards to employees, officers, directors and certain non-employees of the Company. Any award may be a performance-based award. Awards granted under the 2006 Incentive Plan have generally been to employees under non-qualified stock option agreements with the following provisions: exercise prices greater than or equal to the Company's closing stock price on the date of grant; vesting periods ranging from three years to four years; expiration 10 years from the date of grant; and optionees who terminate their service after vesting have a limited time to exercise their options (typically three to twelve months).

The Independent Director Stock Option Plan (IDSOP) has 113,000 shares authorized, of which 75,000 are issued and outstanding as of December 31, 2012. The IDSOP permits granting NSOs to independent directors of the Company. Grants awarded under the IDSOP generally have the following terms: exercise price equal to the Company's closing stock price on the date of grant, expiration 10 years from the date of grant, and vested grants remain exercisable until their expiration dates if a director leaves the Board. In June 2008, the Company shareholders approved an amendment to the 2006 Incentive Plan described above to allow non-employee directors to participate in the plan. The Company does not intend to issue additional options from the IDSOP.

#### Options Valuation Methodology and Assumptions

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

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

We use historical lives, including post-termination exercise behavior, publications, comparable company estimates, and other factors as the basis for estimating expected lives.

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

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

	<b>Year Ended December 31,</b>	
	<b>2012</b>	<b>2011</b>
Assumptions (weighted average)		
Volatility	98%	85%
Expected term (in years)	4.5	4.0
Risk-free rate	0.6%	1.3%
Expected dividends	0.0%	0.0%
Pre-vest forfeiture rate	8.5%	7.5%
Grant date fair value of options granted	\$ 1.39	\$ 6.10

#### Options Activity and Positions

The following table summarizes activity and positions with respect to options for the two years ended December 31, 2012:

<b>Options</b>	<b>Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Term (years)</b>	<b>Aggregate Intrinsic Value</b>
Outstanding as of December 31, 2010	1,092,000	\$ 27.20	5.9	\$ 96,309
Granted	121,000	10.00		
Exercised	(5,000)	15.12		
Forfeited or expired	(244,000)	31.60		
Outstanding as of December 31, 2011	964,000	24.00	5.8	-
Granted	671,000	1.97		
Exercised	(16,000)	1.80		
Forfeited or expired	(301,000)	21.20		
Outstanding as of December 31, 2012	<u>1,318,000</u>	<u>\$ 13.71</u>	<u>6.8</u>	<u>\$ 61,871</u>
Vested and expected to vest as of December 31, 2012	<u>1,285,000</u>	<u>\$ 13.97</u>	<u>6.7</u>	<u>\$ 59,481</u>
Exercisable as of December 31, 2012	<u>777,000</u>	<u>\$ 20.34</u>	<u>5.4</u>	<u>\$ 20,444</u>

The total intrinsic value of options exercised during the years ended December 31, 2012 and 2011 were \$13,000 and \$12,000, respectively.

The total grant date fair value of options vested during the years ended December 31, 2012 and 2011 was \$2.5 million and \$4.1 million, respectively. As of December 31, 2012, our unamortized share-based compensation was \$1.3 million which we plan to amortize over the next 1.5 years.

In March 2011, we issued 85,000 nonvested equity shares of the Company's common stock to executive employees. These shares vest conditionally upon completion of certain service and performance objectives by June 30, 2014. The nonvested equity shares were valued at fair value on the date of grant and the share-based compensation expense will be amortized over the service period.

As of December 31, 2012, our unamortized nonvested equity share-based compensation was \$516,000 which we plan to amortize over the next year.

## 12. Receivables from related parties

Our revenue for the year ended December 31, 2011 included \$409,000 from a sale of PicoP engines to Walsin Lihwa Corporation which integrated the engines into its product sold in China during 2011. Our revenue for the year ended December 31, 2012 does not include any sales to Walsin Lihwa Corporation. Our accounts receivable balance at December 31, 2012 and 2011 included \$159,000 remaining due from this customer. Based on filings with the SEC as of December 31, 2012 and 2011, Walsin Lihwa beneficially owns approximately 4.0% and 7.3% of our common stock as determined in accordance with SEC rules, through its wholly owned subsidiary Max Display Enterprises Limited.

## 13. Commitments and contingencies

### Litigation

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

### Lease commitments

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

We entered into a 90 month facility lease that commenced in February 2006. The lease includes extension and rent escalation provisions over the 90 month term of the lease. Rent expense will be recognized on a straight-line basis over the lease term.

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

	<b>Capital leases</b>	<b>Operating leases</b>
2013	\$ 62,000	\$ 642,000
2014	21,000	-
2015	-	-
2016	-	-
2017	-	-
Thereafter	-	-
Total minimum lease payments	<u>83,000</u>	<u>\$ 642,000</u>
Less: Amount representing interest	<u>(15,000)</u>	
Present value of capital lease obligations	68,000	
Less: Current portion	<u>(48,000)</u>	
Long-term obligation at December 31, 2012	<u>\$ 20,000</u>	

The capital leases are collateralized by the related assets financed and by security deposits held by the lessors under the lease agreements. The cost and accumulated depreciation of equipment under capital leases was \$987,000 and \$961,000, respectively, at December 31, 2012 and \$987,000 and \$942,000, respectively, at December 31, 2011.

Net rent expense was \$708,000 and \$1,156,000 for 2012 and 2011, respectively.

## Long-term debt

During 2006, we entered into a loan agreement with the lessor of our corporate headquarters in Redmond to finance \$536,000 in tenant improvements. The loan carries a fixed interest rate of 9% per annum, is repayable over the initial term of the lease, which expires in 2013, and is secured by a letter of credit. The balance of the loan was \$67,000 at December 31, 2012.

## Adverse purchase commitments

We have periodically entered into noncancelable purchase contracts in order to ensure the availability of materials to support production of our PicoP based products and bar code scanners. We periodically assess the need to provide for impairment on these purchase contracts and record a loss on purchase commitments when required. During 2012, we recorded losses of \$500,000 to cost of product revenue as a result of commitments to purchase materials for the SHOWWX that were in excess of our estimated future proceeds from sale of the SHOWWX. During 2011, no losses on purchase commitments were recorded.

## 14. Income taxes

A provision for income taxes has not been recorded for 2012 and 2011 due to the valuation allowances placed against the net operating losses and deferred tax assets arising during such periods. A valuation allowance has been recorded for all deferred tax assets. Based on our history of losses since inception, the available objective evidence creates sufficient uncertainty regarding the realizability of the deferred tax assets.

At December 31, 2012, we have net operating loss carry-forwards of approximately \$305.9 million, for federal income tax reporting purposes. In addition, we have research and development tax credits of \$6.0 million. The net operating loss carry-forwards and research and development credits available to offset future taxable income, if any, will expire in varying amounts from 2017 to 2032 if not previously utilized. The research and development tax credits and the remaining net operating losses are scheduled to expire between 2017 and 2032. In certain circumstances, as specified in the Internal Revenue Code, a 50% or more ownership change by certain combinations of our stockholders during any three-year period would result in limitations on our ability to utilize our net operating loss carry-forwards.

Deferred tax assets are summarized as follows:

	December 31,	
	2012	2011
Deferred tax assets, current		
Reserves	\$ 3,804,000	\$ 4,395,000
Other	710,000	806,000
Total gross deferred tax assets, current	<u>4,514,000</u>	<u>5,201,000</u>
Deferred tax assets, noncurrent		
Net operating loss carryforwards	104,893,000	97,156,000
R&D credit carryforwards	6,032,000	5,754,000
Depreciation/amortization deferred	26,594,000	26,510,000
Other	7,573,000	6,958,000
Total gross deferred tax assets, noncurrent	<u>145,092,000</u>	<u>136,378,000</u>
Net deferred taxes before valuation allowance	149,606,000	141,579,000
Less: Valuation allowance	<u>(149,606,000)</u>	<u>(141,579,000)</u>
Deferred tax assets	<u>\$ -</u>	<u>\$ -</u>

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

Certain net operating losses arise from the deductibility for tax purposes of compensation under nonqualified stock options equal to the difference between the fair value of the stock on the date of exercise and the exercise price of the options. For financial reporting purposes, the tax effect of this deduction when recognized is accounted for as a credit to shareholders' equity.

We did not have any unrecognized tax benefits at December 31, 2012 and at December 31, 2011.

We recognize interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2012 and 2011, we recognized no interest or penalties.

We file income tax returns in the U.S. federal jurisdiction and various states. Due to our operating loss and credit carryforwards, the U.S. federal statute of limitations remains open for 1997 and onward.

#### 15. Retirement savings plan

We have a retirement savings plan that qualifies under Internal Revenue Code Section 401(k). The plan covers all qualified employees. Contributions to the plan by the Company are made at the discretion of the Board of Directors. In March 2012, the Company discontinued discretionary matching contributions. Prior to March 2012, we matched 50% of employee contributions to the plan up to 6% of the employee's per pay period compensation. During 2012 and 2011, we contributed \$44,000 and \$242,000, respectively, to the plan under the matching program.

#### 16. Quarterly financial information (Unaudited)

The following table presents our unaudited quarterly financial information for the years ending December 31, 2012 and 2011 (in thousands, except per share data):

	Year Ended December 31, 2012			
	December 31,	September 30,	June 30,	March 31,
Revenue	\$ 2,727	\$ 2,613	\$ 1,295	\$ 1,730
Gross margin (loss)	1,238	1,475	1,328	(2,600)
Net loss	(4,074)	(3,845)	(4,971)	(9,803)
Net loss per share basic and diluted	(0.16)	(0.15)	(0.26)	(0.58)

  

	Year Ended December 31, 2011			
	December 31,	September 30,	June 30,	March 31,
Revenue	\$ 1,504	\$ 1,839	\$ 1,155	\$ 1,119
Gross margin (loss)	(2,922)	(881)	(2,225)	(1,420)
Net loss	(9,806)	(7,790)	(9,175)	(9,037)
Net loss per share basic and diluted	(0.62)	(0.57)	(0.69)	(0.70)

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

There have been no changes in or disagreements with accountants in accounting or financial disclosure matters during the Company's fiscal years ended December 31, 2012 and 2011.

### ITEM 9A. CONTROLS AND PROCEDURES

(a) *Evaluation of disclosure controls and procedures.* Our Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") evaluated our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), prior to the filing of this Form 10-K. Based on that evaluation, our CEO and CFO concluded that, as of December 31, 2012, our disclosure controls and procedures were effective.

(b) *Management's Report on Internal Control Over Financial Reporting.* Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Our management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its evaluation under the framework in *Internal Control - Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2012.

(c) *Changes in internal controls over financial reporting.* There have not been any changes in our internal control over financial reporting during the quarter ended December 31, 2012 which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### ITEM 9B. OTHER INFORMATION

None



**PART III**

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

Information regarding executive officers is included in Part I of this Annual Report on Form 10-K in Item 4A. The information required by this Item and not provided in Item 4A will appear under the caption "Discussion of Proposals Recommended by the Board" in the Proxy Statement, which section is incorporated in this Item by reference. The Proxy Statement will be filed prior to our 2013 Annual Meeting of Shareholders'.

**ITEM 11. EXECUTIVE COMPENSATION.**

The information required by this Item will appear under the captions "Executive Compensation," "Compensation Committee Interlocks and Insider Participation" and "Director Compensation for 2012" in the Proxy Statement, which sections are incorporated in this Item by reference.

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

Information as of December 31, 2012 regarding equity compensation plans approved and not approved by stockholders is summarized in the following table:

<b>Plan Category</b>	<b>Equity Compensation Plan Information</b>		
	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights</b>	<b>Number of securities remaining available for further issuance under equity compensation plans (excluding securities reflected in column (a))</b>
	<b>(a)</b>	<b>(b)</b>	<b>(c)</b>
Equity compensation plans approved by shareholders	1,318,000	\$ 13.71	218,000
Equity compensation plans not approved by shareholders	-	-	-
Total	<u>1,318,000</u>	<u>\$ 13.71</u>	<u>218,000</u>

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

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

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

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

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

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of the report:

Financial Statements

Reports of Independent Registered Public Accounting Firms

Consolidated Balance Sheets as of December 31, 2012 and 2011

Consolidated Statements of Operations for the years ended December 31, 2012 and 2011

Consolidated Statements of Comprehensive Loss for the years ended December 31, 2012 and 2011

Consolidated Statements of Shareholders' Equity for the years ended December 31, 2012 and 2011

Consolidated Statements of Cash Flows for the years ended December 31, 2012 and 2011

Notes to Consolidated Financial Statements

(b) Exhibits

The following exhibits are referenced or included in this report.

- 3.1 Amended and Restated Certificate of Incorporation of MicroVision, Inc., as amended<sup>(9)</sup>
- 3.2 Certificate of Amendment to the Amended and Restated Certificate of Incorporation of MicroVision, Inc.<sup>(14)</sup>
- 3.3 Bylaws of MicroVision, Inc.<sup>(2)</sup>
- 4.1 Form of Specimen Stock Certificate for Common Stock.<sup>(2)</sup>
- 4.2 Form of Warrant issued under the Placement Agency Agreement dated as of July 18, 2008 by and between MicroVision, Inc. and FTN Securities Corp., as representative of the several placement agents named therein.<sup>(7)</sup>
- 4.3 Warrant Agreement dated November 16, 2011 by and between MicroVision, Inc. and American Stock Transfer and Trust Company, LLC<sup>(13)</sup>
- 4.4 Form of Warrant issued under the Securities Purchase Agreement dated as of May 9, 2012 by and between MicroVision, Inc. and the investors named therein, as amended.
- 4.5 Warrant Agreement dated June 20, 2012 by and between MicroVision, Inc. and American Stock Transfer and Trust Company, LLC<sup>(15)</sup>
- 10.1 Assignment of License and Other Rights between The University of Washington and the Washington Technology Center and the H. Group, dated July 25, 1993.<sup>(1)</sup>
- 10.2 Project II Research Agreement between The University of Washington and the Washington Technology Center and MicroVision, Inc., dated October 28, 1993.<sup>(1)+</sup>
- 10.3 Exclusive License Agreement between The University of Washington and MicroVision, Inc., dated October 28, 1993.<sup>(1)+</sup>
- 10.4 Exclusive License Agreement between the University of Washington and MicroVision, Inc. dated March 3, 1994.<sup>(4)</sup>
- 10.5 MicroVision, Inc. 2006 Incentive Plan, as amended.<sup>(6)\*</sup>
- 10.6 Independent Director Stock Option Plan, as amended.<sup>(3)\*</sup>
- 10.7 Employment Agreement between MicroVision, Inc. and Alexander Y. Tokman dated April 7, 2009.<sup>(10)</sup>
- 10.8 Lease Agreement between CarrAmerica Reality Operating Partnership, L.P. and MicroVision, Inc., dated July 15, 2005.<sup>(5)</sup>
- 10.9 Change of Control Severance Plan
- 10.10 Jeff T. Wilson Severance and General Release Agreement.<sup>(16)</sup>
- 16.1 Letter from PricewaterhouseCoopers LLP to the Securities and Exchange Commission dated October 2, 2012.<sup>(17)</sup>

23.1	Consent of Independent Registered Public Accounting Firm — Moss Adams LLP.
23.2	Consent of Independent Registered Public Accounting Firm — PricewaterhouseCoopers LLP.
31.1	Principal Executive Officer certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Principal Financial Officer certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Principal Executive Officer certification pursuant to Rule 13a-14(b) or Rule 15d-14(b) and Section 1350, Chapter 63 of Title 18 United States Code (18 U.S.C. 1350), as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002.
32.2	Principal Financial Officer certification pursuant to Rule 13a-14(b) or Rule 15d-14(b) and Section 1350, Chapter 63 of Title 18 United States Code (18 U.S.C. 1350), as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002.
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase
101.DEF**	XBRL Taxonomy Extension Definition Linkbase
101.LAB**	XBRL Taxonomy Extension Label Linkbase
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase

- (1) Incorporated by reference to the Company's Form SB-2 Registration Statement, Registration No. 333-05276-LA.
- (2) Incorporated by reference to the Company's Post-Effective Amendment to Form S-3 Registration Statement, Registration No. 333-102244.
- (3) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended June 30, 2002.
- (4) Incorporated by reference to the Company's Current Report on Form 8-K filed on March 5, 2003.
- (5) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended June 30, 2005.
- (6) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended September 30, 2008.
- (7) Incorporated by reference to the Company's Current Report on Form 8-K filed on July 18, 2008.
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- (10) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended March 31, 2009
- (11) Incorporated by reference to the Company's Current Report on Form 8-K filed on May 6, 2011.
- (12) Incorporated by reference to the Company's Current Report on Form 8-K filed on September 13, 2011.
- (13) Incorporated by reference to the Company's Current Report on Form 8-K filed on November 15, 2011.
- (14) Incorporated by reference to the Company's Current Report on Form 8-K filed on February 17, 2012.
- (15) Incorporated by reference to the Company's Current Report on Form 8-K filed on June 16, 2012.
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+ Subject to confidential treatment.

\* Management contracts and compensatory plans and arrangements required to be filed as exhibits pursuant to Item 15(b) of this Report.

\*\* Pursuant to Rule 406T of Regulations S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability.

## 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.

Date: March 13, 2013

MICROVISION, INC.  
By Alexander Tokman  
Alexander Tokman  
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the following capacities on March 13, 2013.

Signature	Title
<u>/s/ Alexander Tokman</u> Alexander Tokman	Chief Executive Officer and Director (Principal Executive Officer)
<u>/s/ Jeff Wilson</u> Jeff Wilson	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)
<u>/s/ Richard A. Cowell</u> Richard A. Cowell	Director
<u>/s/ Slade Gorton</u> Slade Gorton	Director
<u>/s/ Jeanette Horan</u> Jeanette Horan	Director
<u>/s/ Perry Mulligan</u> Perry Mulligan	Director
<u>/s/ Brian Turner</u> Brian Turner	Director

## EXHIBIT INDEX

The following documents are filed herewith or have been included as exhibits to previous filings with the Securities and Exchange Commission and are incorporated by reference as indicated below.

- 3.1 Amended and Restated Certificate of Incorporation of MicroVision, Inc., as amended<sup>(9)</sup>
- 3.2 Certificate of Amendment to the Amended and Restated Certificate of Incorporation of MicroVision, Inc.<sup>(14)</sup>
- 3.3 Bylaws of MicroVision, Inc.<sup>(2)</sup>
- 4.1 Form of Specimen Stock Certificate for Common Stock.<sup>(2)</sup>
- 4.2 Form of Warrant issued under the Placement Agency Agreement dated as of July 18, 2008 by and between MicroVision, Inc. and FTN Securities Corp., as representative of the several placement agents named therein.<sup>(7)</sup>
- 4.3 Warrant Agreement dated November 16, 2011 by and between MicroVision, Inc. and American Stock Transfer and Trust Company, LLC<sup>(13)</sup>
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\*\* Pursuant to Rule 406T of Regulations S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability.

THIS WARRANT (THIS "WARRANT") AND THE UNDERLYING SECURITIES ISSUABLE UPON EXERCISE OF THIS WARRANT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE, AND MAY NOT BE OFFERED, TRANSFERRED, PLEDGED, HYPOTHECATED, SOLD OR OTHERWISE DISPOSED OF UNLESS A REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS SHALL HAVE BECOME EFFECTIVE WITH REGARD THERETO, OR AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS IS AVAILABLE IN CONNECTION WITH SUCH OFFER OR SALE.

Warrant No. [ \* ]

Date of Issuance: [ \* ], 2012

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MICROVISION, INC.

COMMON STOCK PURCHASE WARRANT

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This certifies that, for good and valuable consideration, MicroVision, Inc., a Delaware corporation (the "Company"), grants to the holder of this Warrant (the "Warrantholder"), which on the date hereof shall be [ \* ] (the "Initial Holder"), the right to subscribe for and purchase from the Company [ \* ] validly issued, fully paid and nonassessable shares (the "Warrant Shares") of the Company's Common Stock, par value \$0.001 per share (the "Common Stock"), at the purchase price per share of \$2.125 (as adjusted pursuant to the provisions of this Warrant, the "Exercise Price"), at any time and from time to time on or after the date that is more than six months after the Closing Date to and including 11:59 P.M. Seattle Time on the three-year anniversary of the Closing Date (the "Expiration Date"), all subject to the terms, conditions and adjustments herein set forth. The number of Warrant Shares and the Exercise Price shall be subject to further adjustment in accordance with Section 5.

This Warrant is issued pursuant to the Securities Purchase Agreement (the "Securities Purchase Agreement") by and between the Initial Holder and the Company, dated as of May 9, 2012, and the Initial Holder and the Company are each parties to the registration rights agreement (the "Registration Rights Agreement"), dated as of the date hereof, a copy of each of which is on file at the principal office of the Company. Accordingly, the Warrantholder shall be entitled to all of the benefits and bound by all of the applicable obligations set forth in the Securities Purchase Agreement and the Registration Rights Agreement. Any capitalized terms used herein and not otherwise defined shall have the meanings ascribed to such terms in the Securities Purchase Agreement.

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1. Exercise or Conversion of this Warrant.

1.1. Exercise of Warrant. Subject to the terms and conditions set forth herein, this Warrant may be exercised, in whole or in part, by the Warrantholder by: (i) the delivery of this Warrant to the Company, with a duly executed Exercise Form in the form attached as Exhibit A hereto (the "Exercise Form") specifying the number of Warrant Shares to be purchased, prior to the Expiration Date; and (ii) the delivery of payment to the Company, for the account of the Company, by cash, by wire transfer of immediately available funds or by certified or bank cashier's check, of the Exercise Price for the number of Warrant Shares specified in the Exercise Form in lawful money of the United States of America. The Company agrees that such Warrant Shares shall be deemed to be issued to the Warrantholder as the record holder of such Warrant Shares as of the close of business on the date on which this Warrant shall have been surrendered and payment made for such Warrant Shares as aforesaid.

1.2. Conversion of Warrant.

1.2.1. Right to Convert. If and only if at the time of exercise there is not then effective a registration statement filed under the Securities Act registering the resale of the Warrant Shares issuable on exercise hereof, then in addition to, and without limiting, the other rights of the Warrantholder hereunder, the Warrantholder shall have the right (the "Conversion Right") to convert this Warrant or any part hereof into Warrant Shares at any time and from time to time prior to the Expiration Date. Upon exercise of the Conversion Right, the Company shall deliver to the Warrantholder, without payment by the Warrantholder of any Exercise Price or any cash or other consideration, that number of Warrant Shares computed using the following formula:

$$X = \frac{Y (A-B)}{A}$$

Where: X = The number of Warrant Shares to be issued to the Warrantholder

Y = The number of Warrant Shares purchasable pursuant to this Warrant at such time or such lesser number of Warrant Shares as may be selected by the Warrantholder in the Notice of Conversion (as defined herein)

A = The Market Price (as defined in the Securities Purchase Agreement) as of the Conversion Date

B = The Exercise Price

1.2.2. Method of Conversion. The Conversion Right may be exercised by the Warrantholder by the surrender of this Warrant to the Company, together with a duly executed Notice of Conversion in the form attached as Exhibit B hereto (the "Notice of Conversion") specifying that the Warrantholder intends to exercise the Conversion Right and indicating the number of Warrant Shares to be acquired upon exercise of the Conversion Right. Such conversion shall be effective upon the Company's receipt of this Warrant, together with the

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Notice of Conversion, or on such later date as is specified in the Notice of Conversion (the "Conversion Date"). Certificates for the Warrant Shares so acquired shall be promptly delivered to the Warrantholder, in any event not to exceed three (3) Business Days after the Conversion Date in accordance with Section 1.3. If applicable, the Company shall, upon surrender of this Warrant for cancellation, deliver a new Warrant evidencing the rights of the Warrantholder to purchase the remaining Warrant Shares which new Warrant shall in all other respects be identical to this Warrant.

1.3. Warrant Shares Certificate. A stock certificate or certificates for the Warrant Shares specified in the Exercise Form or Notice of Conversion, as the case may be, shall be promptly delivered to the Warrantholder, in any event not to exceed three (3) Business Days after receipt of such Exercise Form or the Conversion Date, as the case may be, and receipt of payment of the purchase price, if any ("Delivery Date"). If this Warrant shall have been exercised or converted only in part, the Company shall, at the time of delivery of the stock certificate or certificates, deliver to the Warrantholder a new Warrant evidencing the rights to purchase the remaining Warrant Shares, which new Warrant shall in all other respects be identical to this Warrant.

1.4. Payment of Taxes. The issuance of certificates for Warrant Shares shall be made without charge to the Warrantholder for any stock transfer or other issuance tax or other incidental expense of issuance; provided, however, that the Warrantholder shall be required to pay any and all taxes which may be payable in respect of any transfer involved in the issuance and delivery of any certificate in a name other than that of the Warrantholder as reflected upon the books of the Company.

1.5. Fractional Shares. No fractional shares of Common Stock or scrip shall be issued to the Warrantholder in connection with the exercise or conversion of this Warrant. Instead of any fractional shares of Common Stock that would otherwise be issuable to the Warrantholder, the Company will pay to the Warrantholder a cash adjustment in respect of such fractional interest in an amount equal to the product of such fractional interest and the Market Price as of the date of receipt of such Exercise Form or the Conversion Date, as the case may be.

1.6. Limitation on Exercise or Conversion. A Warrantholder shall not have the right to exercise or convert any portion of the Warrants, pursuant to this Section 1 or otherwise, to the extent that after giving effect to such issuance after exercise or conversion as set forth on the applicable notice, such Warrantholder (together with such Warrantholder's Affiliates (as defined in Rule 13e-3 of the rules promulgated under the Securities Exchange Act of 1934 (the "Exchange Act"), and any other Persons acting as a group together with such Warrantholder or any of such Warrantholder's Affiliates), would beneficially own in excess of the Beneficial Ownership Limitation (as defined below). For purposes of the foregoing sentence, the number of shares of Common Stock beneficially owned by a Warrantholder and its Affiliates shall include the number of shares of Common Stock issuable upon exercise of the Warrant with respect to which such determination is being made, but shall exclude the number of shares of Common Stock which would be issuable upon (i) exercise of the remaining, nonexercised portion of the Warrant beneficially owned by such Warrantholder or any of its Affiliates and (ii) exercise or conversion of the unexercised or nonconverted portion of any other securities of the Company exercisable for or convertible into Common Stock that are subject to a limitation on conversion or exercise analogous to the limitation contained herein beneficially owned by such

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Warrantholder or any of its Affiliates. Except as set forth in the preceding sentence, for purposes of this Section 1.6, beneficial ownership shall be calculated in accordance with Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder, it being acknowledged by each Warrantholder that the Company is not representing to any Warrantholder that such calculation is in compliance with Section 13(d) of the Exchange Act and each Holder is solely responsible for any schedules required to be filed in accordance therewith. To the extent that the limitation contained in this Section 1.6 applies, the determination of whether the Warrant owned by a Warrantholder is exercisable (in relation to other securities owned by such Warrantholder together with its Affiliates) and of which portion of the Warrants owned by such Warrantholder is exercisable shall be in the sole discretion of such Warrantholder, and the submission of an Exercise Form or Notice of Conversion shall be deemed to be such Warrantholder's determination of whether the Warrant owned by such Warrantholder is exercisable (in relation to other securities owned by such Warrantholder together with any of its Affiliates) and of which portion of such Warrant is exercisable, in each case subject to the Beneficial Ownership Limitation, and the Company shall have no obligation to verify or confirm the accuracy of such determination. In addition, a determination as to any group status as contemplated above shall be determined in accordance with Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder. For purposes of this Section 1.6, in determining the number of outstanding shares of Common Stock, a Warrantholder may rely on the number of outstanding shares of Common Stock as reflected in (A) the Company's most recent periodic or annual report filed with the Commission, as the case may be, (B) a more recent public announcement by the Company or (C) a more recent written notice by the Company setting forth the number of shares of Common Stock outstanding. Upon the written or oral request of a Warrantholder, the Company shall within three Trading Days confirm orally and in writing to the Warrantholder the number of shares of Common Stock then outstanding. In any case, the number of outstanding shares of Common Stock shall be determined after giving effect to the conversion or exercise of securities of the Company, including the Warrant, by the Warrantholder or its Affiliates since the date as of which such number of outstanding shares of Common Stock was reported. The "Beneficial Ownership Limitation" for a Warrantholder shall be 19.99% of the number of shares of the Common Stock outstanding immediately after giving effect to the issuance of shares of Common Stock issuable upon exercise of the Warrant owned by such Warrantholder. The provisions of this paragraph shall be construed and implemented in a manner otherwise than in strict conformity with the terms of this Section 1.6 to correct this paragraph (or any portion hereof) which may be defective or inconsistent with the intended Beneficial Ownership Limitation herein contained or to make changes or supplements necessary or desirable to properly give effect to such limitation. The limitations contained in this paragraph shall apply to a successor holder of the Warrant.

2. Duration.

This Warrant shall expire and no longer be exercisable or convertible into Warrant Shares, and its provisions shall have no further force or effect, whether or not any portion thereof has been previously exercised or converted, upon the earlier to occur of (i) the first date upon which this Warrant has been exercised for or converted into the maximum amount of Warrant Shares available for issuance upon an exercise or conversion of this Warrant at such time, (ii) the last day of the Notice Period as provided in Section 7 with respect to all Warrant Shares subject to redemption and (iii) the Expiration Date.

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3. Loss or Destruction of this Warrant.

Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant and, in the case of loss, theft or destruction, of such indemnification as the Company may reasonably require, and, in the case of such mutilation, upon surrender and cancellation of this Warrant, the Company will execute and deliver a new Warrant of like tenor.

4. Ownership of this Warrant.

The Company may deem and treat the person in whose name this Warrant is registered as the holder and owner hereof (notwithstanding any notations of ownership or writing thereon made by anyone other than the Company) for all purposes and shall not be affected by any notice to the contrary, other than a transfer pursuant to Section 6.

5. Certain Adjustments.

5.1. The number of Warrant Shares purchasable upon the exercise of this Warrant and the Exercise Price shall be subject to adjustment as follows:

5.1.1. Stock Dividends, etc. If at any time after the date of the issuance of this Warrant and prior to the Expiration Date (i) the Company shall fix a record date for the issuance of any stock dividend payable in shares of Common Stock or (ii) the number of shares of Common Stock shall have been increased by a subdivision or split-up of shares of Common Stock, then, on the record date fixed for the determination of holders of Common Stock entitled to receive such dividend or immediately after the effective date of such subdivision or split up, as the case may be, the number of shares to be delivered upon exercise or conversion of this Warrant will be increased so that the Warranholder will be entitled to receive the number of shares of Common Stock that such Warranholder would have owned immediately following such action had this Warrant been exercised or converted in full immediately prior thereto. The Exercise Price payable upon the exercise of this Warrant shall be adjusted by multiplying such Exercise Price immediately prior to such adjustment by a fraction, of which the numerator shall be the number of Warrant Shares purchasable upon the exercise of this Warrant immediately prior to such adjustment, and of which the denominator shall be the number of Warrant Shares purchasable immediately thereafter. Notwithstanding the foregoing, in no circumstance shall the Exercise Price be reduced to less than the par value of a share of Common Stock.

5.1.2. Combination of Stock. If the number of shares of Common Stock outstanding at any time after the date of the issuance of this Warrant shall have been decreased by a combination of the outstanding shares of Common Stock, then, immediately after the effective date of such combination, the number of shares of Common Stock to be delivered upon exercise or conversion of this Warrant will be decreased so that the Warranholder thereafter will be entitled to receive the number of shares of Common Stock that such Warranholder would have owned immediately following such action had this Warrant been exercised or converted in full immediately prior thereto. The Exercise Price payable upon the exercise of this Warrant shall be adjusted by multiplying such Exercise Price immediately prior to such adjustment by a fraction, of which the numerator shall be the number of Warrant Shares purchasable upon the

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exercise of this Warrant immediately prior to such adjustment, and of which the denominator shall be the number of Warrant Shares purchasable immediately thereafter. Notwithstanding the foregoing, in no circumstance shall the Exercise Price be reduced to less than the par value of a share of Common Stock.

5.1.3. Reorganization, Merger, etc. In the event of a merger, consolidation, business combination, tender offer, exchange of shares, recapitalization, reorganization, redemption or other similar event, as a result of which the class of shares of Common Stock shall be changed into the same or a different number of shares of the same or another class or classes of stock or securities or other assets of the Company or another entity or the Company shall sell all or substantially all of its assets (each of the foregoing being a "Major Transaction"), the Company will give the Warrantholder at least fifteen (15) Business Days written notice prior to the earlier of (a) the closing or effectiveness of such Major Transaction and (b) the record date for the receipt of such shares of stock or securities or other assets, and: (i) the Warrantholder shall be permitted to exercise this Warrant in whole or in part at any time prior to the record date for the receipt of such consideration and shall be entitled to receive, for each share of Common Stock issuable to the Warrantholder upon such exercise, the same per share consideration payable to the other holders of Common Stock in connection with such Major Transaction, and (ii) if and to the extent that the Warrantholder retains any portion of this Warrant following such record date, the Company will cause the surviving or, in the event of a sale of assets, purchasing entity, as a condition precedent to such Major Transaction, to assume the obligations of the Company under this Warrant, with such adjustments to the Exercise Price and the securities covered hereby as may be reasonably determined in good faith by the Board of Directors to be necessary in order to preserve the economic benefits of this Warrant to the Warrantholder.

5.2. Notice of Adjustments. Whenever the number of Warrant Shares or the Exercise Price of such Warrant Shares is adjusted, as herein provided, the Company shall promptly mail by first class, postage prepaid, to the Warrantholder, notice of such adjustment or adjustments setting forth in reasonable detail the number of Warrant Shares and the Exercise Price of such Warrant Shares after such adjustment, a brief statement of the facts requiring such adjustment, and the computation by which such adjustment was made.

5.3. No Impairment. The Company shall not, by amendment of its certificate of incorporation or through any reorganization, recapitalization, transfer of assets, consolidation, merger, dissolution, issuance or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Company, but shall at all times in good faith assist in the carrying out of all the provisions of this Section 5 and in the taking of all such action as may be necessary or appropriate in order to protect the rights of the Warrantholder against impairment.

#### 6. Transfers.

This Warrant and the Warrant Shares issued upon the exercise thereof may be transferred only in compliance with Section 4.4 of the Securities Purchase Agreement and the other restrictions on transfer set forth in the Registration Rights Agreement. Subject to such restrictions, the Company shall transfer this Warrant from time to time upon the books to be

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maintained by the Company for that purpose, upon surrender hereof for transfer, properly endorsed or accompanied by appropriate instructions for transfer and such other documents as may be reasonably required by the Company, including, if required by the Company, an opinion of its counsel reasonably satisfactory to the Company to the effect that such transfer is exempt from the registration requirements of the Act, to establish that such transfer is being made in accordance with the terms hereof, and a new Warrant shall be issued to the transferee and the surrendered Warrant shall be canceled by the Company.

Upon such transfer or other disposition, the Warrantholder shall deliver this Warrant to the Company together with a written notice to the Company, substantially in the form of the Transfer Notice in the form attached hereto as Exhibit C (the "Transfer Notice"), indicating the person or persons to whom this Warrant shall be transferred and, if less than all of this Warrant is transferred, the number of Warrant Shares to be covered by the part of this Warrant to be transferred to each such person. Within three (3) Business Days of receiving a Transfer Notice and the original of this Warrant, the Company shall deliver to the each transferee designated by the Warrantholder a Warrant or Warrants of like tenor and terms for the appropriate number of Warrant Shares and, if less than all this Warrant is transferred, shall deliver to the Warrantholder a Warrant for the remaining number of Warrant Shares.

7. Company Call Right.

Notwithstanding any other provision contained in this Warrant to the contrary, in the event that the average closing bid prices per share of Common Stock, as quoted on the Nasdaq Global Market (or such other exchange or stock market on which the Common Stock may then be listed or quoted) over a period of 20 consecutive Trading Days, as defined in the Securities Purchase Agreement, ending on or after the sixth (6<sup>th</sup>)-month anniversary of the date hereof, exceeds 200% of the Exercise Price then in effect, thereafter the Company, upon ten (10) Business Days prior written notice (the "Notice Period") ending at 11:59 P.M. (Seattle time) on the fifteenth (15<sup>th</sup>) Business Day (not counting the day such notice is given) given to the Warrantholder within ten (10) Business Days of the end of such 20 consecutive Trading Day period, may call the Warrant, in whole or in part, at a redemption price equal to \$0.001 per share of Common Stock then purchasable pursuant to the Warrant called for redemption provided that (a) at all times during the Notice Period, there is an effective registration statement filed under the Securities Act registering the resale of the Warrant Shares issuable on exercise hereof and (b) the Warrantholder shall have the right to exercise this Warrant prior to the end of the Notice Period.

8. Miscellaneous.

8.1. Entire Agreement. This Warrant constitutes the entire agreement between the parties with regard to the subject matter hereof, superseding all prior agreements or understandings, whether written or oral, between or among the parties. Except as expressly provided herein, neither this Warrant nor any term hereof may be amended except pursuant to a written instrument executed by the Company and holders of at least a majority of the Warrant Shares and no provision hereof may be waived other than by a written instrument signed by the party against whom enforcement of any such waiver is sought. Any waiver or consent shall be effective only in the specific instance and for the specific purpose for which it is given.

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8.2. Binding Effects; Benefits. This Warrant shall inure to the benefit of and shall be binding upon the Company and the Warranholder and their respective heirs, legal representatives, successors and assigns. Nothing in this Warrant, expressed or implied, is intended to or shall confer on any person other than the Company and the Warranholder, or their respective heirs, legal representatives, successors or assigns, any rights, remedies, obligations or liabilities under or by reason of this Warrant.

8.3. Amendment; Waiver. Any term of this Warrant and any other warrant issued pursuant to the Purchase Agreement or a transfer of all or a part of this or any other such warrant (collectively with this Warrant, the "Series Warrants") may be amended or waived upon the written consent of the Company and the holders of such Series Warrants (including this Warrant) representing a majority of the aggregate Warrant Shares issuable upon the exercise or conversion of all Series Warrants (including this Warrant) at such time., and any such amendment shall bind the holders of all Series Warrants (including this Warrant)

8.4. Section and Other Headings. The headings used in this Warrant are used for convenience only and are not to be considered in construing or interpreting this Warrant.

8.5. Notices. Any notice, demand or request required or permitted to be given by the Company or the Warranholder pursuant to the terms of this Warrant shall be in writing and shall be deemed delivered (i) when delivered personally or by verifiable facsimile transmission or electronic mail, unless such delivery is made on a day that is not a Business Day, in which case such delivery will be deemed to be made on the next succeeding Business Day and (ii) on the third (3<sup>rd</sup>) Business Day after timely delivery to an international overnight courier, addressed as follows:

(a) if to the Company, addressed to:

MicroVision, Inc.  
6222 185th Avenue NE  
Redmond, WA 98052  
Attn: General Counsel  
Tel: (425) 415-6847  
Fax: (425) 936-4411

with a copy to:

Ropes & Gray LLP  
Prudential Tower  
800 Boylston Street  
Boston, MA 02199  
Attn: Joel F. Freedman  
Tel: (617) 951-7000  
Fax: (617) 951-7050

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(b) if to the Warrantholder, addressed to:

[        ]  
[        ]  
[        ]  
Attn: [        ]  
Tel: [        ]  
Fax: [        ]

with a copy (which shall not constitute notice) to:

[        ]  
[        ]  
[        ]  
Attn: [        ]  
Tel: [        ]  
Fax: [        ]

8.6. Severability. In the event that any provision of this Warrant becomes or is declared by a court of competent jurisdiction to be illegal, unenforceable or void, this Warrant shall continue in full force and effect without said provision; *provided* that in such case the parties shall negotiate in good faith to replace such provision with a new provision which is not illegal, unenforceable or void, as long as such new provision does not materially change the economic benefits of this Warrant to the parties.

8.7. Governing Law. This Warrant shall be governed by and construed under the laws of the State of Washington applicable to contracts made and to be performed entirely within the State of Washington. Each party hereby irrevocably submits to the non-exclusive jurisdiction of the state and federal courts sitting in the State of Washington for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby and hereby irrevocably waives, and agrees not to assert in any such suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is brought in an inconvenient forum or that the venue of such suit, action or proceeding is improper. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof to such party at the address in effect for notices to it under this Warrant and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law.

8.8. No Rights or Liabilities as Stockholder. Nothing contained in this Warrant shall be determined as conferring upon the Warrantholder any rights as a stockholder of the Company or as imposing any liabilities on the Warrantholder to purchase any securities whether such liabilities are asserted by the Company or by creditors or stockholders of the Company or otherwise.

*[Signature page follows]*

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IN WITNESS WHEREOF, the Company has caused this Warrant to be signed by its duly authorized officer as of the date first above written.

MICROVISION, INC.

By: \_\_\_\_\_

Name:

Title:

ACCEPTED AND AGREED:

[investor]

By: \_\_\_\_\_

Name:

Title:

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FORM OF NOTICE OF EXERCISE

To: MicroVision, Inc. ("the Company")

1. The undersigned hereby elects to purchase \_\_\_\_\_ shares of the Common Stock of the Company (the "Common Stock") pursuant to the terms of the Warrant, dated as of [✱], 2012 (the "Warrant") and tenders herewith payment of the purchase price of such shares in full.
2. Please issue or cause to be issued a certificate or certificates representing said shares in the name of the undersigned.
3. The undersigned hereby represents and warrants to the Company that it is the registered and beneficial owner of the portion of the Warrant which is the subject of this Notice of Exercise.
4. The undersigned acknowledges that each certificate for Common Stock issued upon exercise of the Warrant may bear a legend in accordance with Section 2.5 of the Securities Purchase Agreement, dated as of May 9, 2012 by and between the Company and the Investors named therein.
5. Solely with respect to the shares of Common Stock being received pursuant to this Notice of Exercise, the representations and warranties of the Warrantholder, in its capacity as the "Purchaser", contained in the Securities Purchase Agreement are hereby repeated at and as of the time of delivery hereof and are true and correct in all respects at and as of the time of delivery hereof.
6. The undersigned hereby agrees that the restrictions on transfer described in Section 6 of the Warrant shall survive any and all exercises of the Warrant and shall be applicable to any and all of the shares of Common Stock issued on exercise thereof.

\_\_\_\_\_  
(Name of Registered Owner)

\_\_\_\_\_  
(Signature of Registered Owner)

\_\_\_\_\_  
(Street Address)

\_\_\_\_\_  
(City) (State) (Zip Code)

Date: \_\_\_\_\_

FORM OF NOTICE OF CONVERSION

To: MicroVision, Inc. ("the Company")

1. The undersigned registered owner irrevocably elects to surrender the Warrant, dated as of [ ], 2012 (the "Warrant"), for the number of shares of Common Stock of the Company ("Common Stock") as shall be issuable pursuant to the conversion right provisions of Section 1.2 of the Warrant, in respect of \_\_\_\_\_ shares of Common Stock underlying the Warrant.
2. Please issue or cause to be issued a certificate or certificates representing said shares in the name of the undersigned, and return cash to the undersigned for any fractional shares.
3. The undersigned hereby represents and warrants to the Company that it is the registered and beneficial owner of the portion of the Warrant which is the subject of this Notice of Conversion.
4. The undersigned acknowledges that each certificate for Common Stock issued upon exercise of the Warrant may bear a legend in accordance with Section 2.5 of the Securities Purchase Agreement, dated as of May 9, 2012 by and between the Company and the Investors named therein.
5. The undersigned hereby agrees that the restrictions on transfer described in Section 6 of the Warrant shall survive any and all exercises of the Warrant and shall be applicable to any and all of the shares of Common Stock issued on exercise thereof.

\_\_\_\_\_  
(Name of Registered Owner)

\_\_\_\_\_  
(Signature of Registered Owner)

\_\_\_\_\_  
(Street Address)

\_\_\_\_\_  
(City) (State) (Zip Code)

Date: \_\_\_\_\_

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FORM OF TRANSFER NOTICE

To: MicroVision, Inc. ("the Company")

FOR VALUE RECEIVED, the undersigned Warrantholder of the attached Warrant hereby sells, assigns and transfers unto the person or persons named below the right to purchase shares of the Common Stock of [ ] evidenced by the attached Warrant.

Date:

Name of Registered Warrantholder

By:

Name:

Title:

Transferee Name and Address:

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**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-184701, No. 333-173114, No. 333-163929, No. 333-19011, No. 333-71373, No. 333-42276, No. 333-45534, No. 333-73652, No. 333-89176 and No. 333-141458) and on Form S-3 (No. 333-184703, No. 333-184702, No. 333-182462, No. 333-175419 and No. 333-160577) of MicroVision, Inc. of our report dated March 13, 2013 relating to the consolidated financial statements which appear in this Form 10-K.

/s/ Moss Adams LLP

Seattle, Washington  
March 13, 2013

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**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-173114, No. 333-163929, No. 333-19011, No. 333-71373, No. 333-42276, No. 333-45534, No. 333-73652, No. 333-89176, No. 333-141458, and No. 333-184701) and on Form S-3 (No. 333-175419, No. 333-160577, No. 333-182462, No. 333-184702 and No. 333-184703) of MicroVision, Inc. of our report dated March 8, 2012 relating to the financial statements, which appear in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Seattle, Washington  
March 13, 2013

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Exhibit 31.1

**CERTIFICATION PURSUANT TO  
RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Alexander Y. Tokman, certify that:

1. I have reviewed this annual report on Form 10-K for the period ended December 31, 2012 of Microvision, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 13, 2013

/s/ ALEXANDER Y. TOKMAN

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Alexander Y. Tokman  
*Chief Executive Officer*

Exhibit 31.2

**CERTIFICATION PURSUANT TO  
RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Jeff T. Wilson, certify that:

1. I have reviewed this annual report of Form 10-K for the period ended December 31, 2012 of Microvision, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 13, 2013

/s/ JEFF T. WILSON

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Jeff T. Wilson  
*Chief Financial Officer*

**Exhibit 32.1**

**CERTIFICATION PURSUANT TO  
SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as Chief Executive Officer of Microvision, Inc. (the "Company"), does hereby certify that to the undersigned's knowledge:

- 1) the Company's Form 10-K for the year ended December 31, 2012 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) the information contained in the Company's Form 10-K for the year ended December 31, 2012 fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ ALEXANDER Y. TOKMAN

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Alexander Y. Tokman  
*Chief Executive Officer*

Date: March 13, 2013

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**Exhibit 32.2**

**CERTIFICATION PURSUANT TO  
SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as Chief Financial Officer of Microvision, Inc. (the "Company"), does hereby certify that to the undersigned's knowledge:

- 1) the Company's Form 10-K for the year ended December 31, 2012 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) the information contained in the Company's Form 10-K for the year ended December 31, 2012 fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ JEFF T. WILSON

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Jeff T. Wilson.  
*Chief Financial Officer*

Date: March 13, 2013

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