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

# FORM 10-Q

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

**For the quarterly period ended March 31, 2013**

**OR**

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

**For the transition period from ________to _________**

**Commission file number 0-21221**

**MicroVision, Inc.**
(Exact name of Registrant as Specified in its Charter)

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

**6222 185th Avenue NE**
**Redmond, Washington 98052**
(Address of Principal Executive Offices, including Zip Code)

**(425) 936-6847**
(Registrant's Telephone Number, including Area Code)

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

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

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

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

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

As of May 6, 2013, 25,273,000 shares of the Company's common stock, $0.001 par value, were outstanding.

Page

## Part I: Financial Information

Item 1. Financial Statements:



## Part II: Other Information

**MicroVision, Inc.**
**Consolidated Balance Sheets**
(In thousands, except per share data)
(Unaudited)

| | March 31, 2013 | December 31, 2012 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $ 3,310 | $ 6,850 |
| Accounts receivable, net of allowance of $340 and $332 | 1,506 | 1,115 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 12 | 12 |
| Inventory | 217 | 497 |
| Other current assets | 699 | 1,221 |
| Total current assets | 5,744 | 9,695 |
| Property and equipment, net | 1,003 | 1,205 |
| Restricted cash | 435 | 436 |
| Intangible assets | 1,540 | 1,580 |
| Other assets | 18 | 22 |
| Total assets | $ 8,740 | $ 12,938 |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities | | |
| Accounts payable | $ 2,314 | $ 3,035 |
| Accrued liabilities | 3,501 | 4,007 |
| Deferred revenue | 363 | 609 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 692 | 98 |
| Current portion of capital lease obligations | 51 | 48 |
| Current portion of long-term debt | 42 | 67 |
| Total current liabilities | 6,963 | 7,864 |
| Capital lease obligations, net of current portion | 5 | 20 |
| Total liabilities | 6,968 | 7,884 |
| Commitments and contingencies (Note 7) | | |
| 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; 25,253 and 25,237 shares issued and outstanding | 25 | 25 |
| Additional paid-in capital | 442,932 | 442,560 |
| Accumulated deficit | (441,185) | (437,531) |
| Total shareholders' equity | 1,772 | 5,054 |
| Total liabilities and shareholders' equity | $ 8,740 | $ 12,938 |

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

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

| | Three Months Ended March 31, 2013 | Three Months Ended March 31, 2012 |
|---|---|---|
| Product revenue | $ 1,219 | $ 1,529 |
| Contract revenue | 282 | 201 |
| Development revenue | 300 | - |
| Total revenue | 1,801 | 1,730 |
| Cost of product revenue | 664 | 4,175 |
| Cost of contract revenue | 137 | 155 |
| Total cost of revenue | 801 | 4,330 |
| Gross margin | 1,000 | (2,600) |
| Research and development expense | 2,252 | 3,940 |
| Sales, marketing, general and administrative expense | 2,403 | 3,288 |
| Gain on disposal of fixed assets | (2) | - |
| Total operating expenses | 4,653 | 7,228 |
| Loss from operations | (3,653) | (9,828) |
| Other income (expense) | (1) | 25 |
| Net loss | $ (3,654) | $ (9,803) |
| Net loss per share - basic and diluted | $ (0.14) | $ (0.58) |
| Weighted-average shares outstanding - basic and diluted | 25,240 | 17,027 |

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

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

| | Three Months Ended March 31, 2013 | Three Months Ended March 31, 2012 |
|---|---|---|
| Net loss | $ (3,654) | $ (9,803) |
| Other comprehensive gain (loss): | | |
| Unrealized gain (loss) on investment securities, available-for-sale | - | 5 |
| Comprehensive loss | $ (3,654) | $ (9,798) |

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

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

| | Three Months Ended March 31, 2013 | Three Months Ended March 31, 2012 |
|---|---|---|
| Cash flows from operating activities | | |
| Net loss | $ (3,654) | $ (9,803) |
| Adjustments to reconcile net loss to net cash used in operations: | | |
| Depreciation | 239 | 613 |
| Amortization of intangible assets | 40 | 46 |
| Gain on disposal of property and equipment | (2) | - |
| Non-cash stock-based compensation expense | 385 | 373 |
| Inventory write-downs | - | 1,094 |
| Non-cash deferred rent | - | (44) |
| Change in: | | |
| Accounts receivable, net | (391) | 74 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | - | 7 |
| Inventory | 280 | 2,041 |
| Other current assets | 509 | (140) |
| Other assets | 4 | - |
| Accounts payable | (754) | (792) |
| Accrued liabilities | (506) | (106) |
| Deferred revenue | (246) | - |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 594 | 446 |
| Net cash used in operating activities | (3,502) | (6,191) |
| Cash flows from investing activities | | |
| Decrease in restricted cash | 1 | 350 |
| Proceeds on sale of property and equipment | 2 | - |
| Purchases of property and equipment | (4) | (393) |
| Net cash used in investing activities | (1) | (43) |
| Cash flows from financing activities | | |
| Principal payments under capital leases and long-term debt | (37) | (33) |
| Net cash used in financing activities | (37) | (33) |
| Net decrease in cash and cash equivalents | (3,540) | (6,267) |
| Cash and cash equivalents at beginning of period | 6,850 | 13,075 |
| Cash and cash equivalents at end of period | $ 3,310 | $ 6,808 |
| Supplemental disclosure of cash flow information | | |
| Cash paid for interest | $ 5 | $ 9 |
| Supplemental schedule of non-cash investing and financing activities | | |
| Other non-cash additions to property and equipment | $ 33 | $ 86 |

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

## 1. MANAGEMENT'S STATEMENT AND PRINCIPLES OF CONSOLIDATION

Management's Statement

The Consolidated Balance Sheet as of March 31, 2013, the Consolidated Statements of Operations and Comprehensive Loss for the three months ended March 31, 2013 and 2012, and Consolidated Statements of Cash Flows for the three months ended March 31, 2013 and 2012 have been prepared by MicroVision, Inc. ("we" or "us") and have not been audited. In the opinion of management, all adjustments necessary to state fairly the financial position at March 31, 2013 and the results of operations, comprehensive loss and cash flows for all periods presented have been made and consist of normal recurring adjustments. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules of the Securities and Exchange Commission (the "SEC"). The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. You should read these condensed consolidated financial statements in conjunction with the financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012. The results of operations for the three months ended March 31, 2013 are not necessarily indicative of the operating results that may be attained for the entire fiscal year.

We have incurred significant losses since inception. We have funded 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 contract revenues, collaborative research and development agreements and product sales. At March 31, 2013, we had $3.3 million in cash and cash equivalents and a working capital deficit of $1.2 million.

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 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 delaying development projects and reductions in staff and operating costs, including research and development, and capital expenditures.

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

Principles of Consolidation

Our condensed 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 operational support functions for MicroVision, Inc. There were no material intercompany accounts and transactions during the three months ended March 31, 2013.

**2. NET LOSS PER SHARE**

Basic net loss per share is calculated using the weighted-average number of common shares outstanding during the reporting periods. Diluted net loss per share is calculated using the weighted-average number of common shares outstanding and taking into account the dilutive effect of all potentially dilutive securities, including common stock equivalents and convertible securities outstanding. Potentially dilutive common stock equivalents primarily consist of warrants, employee stock options and nonvested equity shares. Diluted net loss per share for the three months ended March 31, 2013 and 2012 is equal to basic net loss per share because the effect of all potential common stock outstanding during the periods, including options, warrants and nonvested equity shares is anti-dilutive. The components of basic and diluted net loss per share were as follows (in thousands, except loss per share data):

| | Three Months Ended March 31, 2013 | Three Months Ended March 31, 2012 |
|---|---|---|
| Numerator: | | |
| Net loss available for common shareholders - basic and diluted | $ (3,654) | $ (9,803) |
| Denominator: | | |
| Weighted-average common shares outstanding - basic and diluted | 25,240 | 17,027 |
| Net loss per share - basic and diluted | $ (0.14) | $ (0.58) |

On March 31, 2013 and 2012, we excluded the following convertible securities from diluted net loss per share, as the effect of including them would have been anti-dilutive: publicly traded warrants exercisable for 753,000 and 753,000 shares of common stock, respectively, options and private warrants exercisable into a total of 5,657,000 and 2,471,000 shares of common stock, respectively, and 176,000 and 127,000 nonvested equity shares, respectively.

**3. KEY ACCOUNTING POLICY - REVENUE RECOGNITION**

We evaluate the performance criteria and terms of our collaborative research and development agreements to determine whether revenue should be recognized under a performance-based method or milestone method. Significant items included in our evaluation are the following:

- the nature of our obligation under the agreement,
- whether provisions leading to variable revenues exist
- whether any payments are required to be repaid,
- whether the deliverables should be treated as one unit of accounting or separated into multiple units,
- whether substantive milestones exist,
- whether milestone payments are commensurate with either our level of effort or the increase in value of the customer's rights, and
- whether a licensing agreement exists.

In March 2013, we entered into and began work under a $4.6 million collaborative research and development agreement with a customer researching and developing commercial applications for our technology. Our contributions under the collaborative agreement include research services, components, and prototype devices and fixtures. Development revenues to be realized are subject to successful completion of the deliverables as defined in the collaborative research and development agreement.

Based on the terms of this agreement, we recognize development revenue as work progresses on the agreement and as our customer accepts the deliverables using a proportional method based on the lesser of the cumulative proportion of total planned costs to be incurred under the agreement or the cash payments received plus outstanding billings for work accepted by the customer. Since our collaborative agreements generally require some level of technology development, the actual costs required to complete a contract can vary from our estimates. The proportional revenue recognition method we use for collaborative research and development agreements includes adjustments for revisions to estimated total agreement costs. Each period, we evaluate total estimated costs for each agreement and include any significant revisions in the period we become aware of changes in estimated total costs. The costs for work performed under collaborative research and development agreements are expensed in the periods incurred and included in the Statement of Operations in research and development expense.

For the three months ended March 31, 2013, two commercial customers accounted for approximately 84% of our total revenue. The accounts receivable balance from these customers was approximately 97% of our net accounts receivable balance at March 31, 2013.

**4. INVENTORY**

Inventory consists of the following:

| | March 31, 2013 | December 31, 2012 |
|---|---|---|
| Raw materials | $ 149,000 | $ 361,000 |
| Finished goods | 68,000 | 136,000 |
| | $ 217,000 | $ 497,000 |

The inventory at March 31, 2013and December 31, 2012 consisted of components supplied under our "Image by PicoP" ingredient brand business model, and finished goods primarily composed of our accessory pico projectors. Inventory is stated at the lower of cost or market. 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 our estimated scrap value when management determines that it is not probable that the inventory will be consumed through normal production during the next twelve months. In 2012, we recorded inventory write-downs of $1,094,000. At March 31, 2013 and December 31, 2012, we have aggregate write-downs recorded of $9,975,000 and $9,916,000, respectively, offsetting inventory on hand deemed to be obsolete or scrap inventory.

**5. 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 following table shows the amount of stock-based employee compensation expense included in the consolidated statements of operations:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2013 | 2012 |
| Cost of contract revenue | $ 4,000 | $ 6,000 |
| Cost of product revenue | 1,000 | 20,000 |
| Research and development expense | 160,000 | 137,000 |
| Sales, marketing, general and administrative expense | 220,000 | 215,000 |
| Total share-based employee compensation expense | $ 385,000 | $ 378,000 |

Options Activity and Positions

The following table summarizes shares, weighted average exercise price, weighted average remaining contractual term and aggregate intrinsic value of options outstanding and options exercisable as of March 31,2013:

| Options | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding as of March 31, 2013 | 1,246,000 | $ 13.47 | 6.8 | $ - |
| Exercisable as of March 31, 2013 | 723,000 | $ 20.33 | 5.1 | $ - |

As of March 31, 2013, our unamortized share-based employee compensation was $1.1 million which we plan to amortize over the next 1.5 years and our unamortized nonvested equity share-based employee compensation was $331,000 which we plan to amortize over the next 0.7 years.

**6. LONG-TERM DEBT**

Tenant Improvement Loan Agreement

During 2006, we entered into a loan agreement with the lessor of our corporate headquarters in Redmond, Washington to finance $536,000 in tenant improvements. The loan carries a fixed interest rate of 9% per annum, is repayable through August 2013, the initial term of the lease, and is secured by a letter of credit. The balance of the loan was $42,000 at March 31, 2013 and is classified as a current liability.

**7. 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 our consolidated financial position, results of operations or cash flows.

**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. We periodically assess the need to provide for impairment on these purchase contracts and record a loss on purchase commitments when required. As of March 31, 2013 and December 31, 2012 we had approximately $522,000 and $634,000, respectively, accrued for adverse purchase commitments related to these purchase contracts.

**8. NEW ACCOUNTING PRONOUNCEMENTS**

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.

In February 2013, the 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.

**9. SUBSEQUENT EVENT**

In April 2013, we signed a 65 month lease amendment on 24,000 square feet of combined use office and laboratory space that will become our headquarter facility in Redmond, Washington. We expect to occupy these premises in June 2013.

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

Forward-Looking Statements

The information set forth in this report in Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Item 3, "Quantitative and Qualitative Disclosure about Market Risk," includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and is subject to the safe harbor created by that section. Such statements may include, but are not limited to, projections of revenues, income or loss, capital expenditures, plans for product development and cooperative arrangements, future operations, financing needs or plans of MicroVision , as well as assumptions relating to the foregoing. The words "anticipate," "believe," "estimate," "expect," "goal," "may," "plan," "project," "will," and similar expressions identify forward-looking statements, which speak only as of the date the statement was made. 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 in this report under the caption "Item 1A - Risk Factors."

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

**Results of Operations**

*Product revenue.*

| (in thousands) | 2013 | 2012 | $ change | % change |
|---|---|---|---|---|
| Three months ended March 31 | $ 1,219 | $ 1,529 | $ (310) | (20.3) |

Product revenue during the three months ended March 31, 2013 primarily includes sales of components to Pioneer under our "Image by PicoP" ingredient brand business model. Product revenue during the three months ended March 31, 2012 primarily included sales of our SHOWWX™ line of accessory pico projectors and our PicoP display engines.

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. Provisions are made for warranties at the time revenue is recorded. Warranty expense was not material for any periods presented.

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.

Product revenue was lower during the three months ended March 31, 2013 than the same period in 2012, due to decreased sales of our PicoP display engines and finished units. These decreases were partially offset by increased component sales. The backlog of product orders at March 31, 2013 was approximately $744,000, compared to $305,000 at March 31, 2012. The product backlog is scheduled for delivery within one year.

*Contract revenue.*

| (in thousands) | 2013 | % of contract revenue | 2012 | % of contract revenue | $ change | % change |
|---|---|---|---|---|---|---|
| Three months ended March 31 | | | | | | |
| Commercial revenue | $ 282 | 100.0 | $ 98 | 48.8 | $ 184 | 187.8 |
| Government revenue | - | - | 103 | 51.2 | (103) | (100.0) |
| Total contract revenue | $ 282 | | $ 201 | | $ 81 | 40.3 |

We earn contract revenue from performance on long-term, cost plus fixed fee, and fixed price contracts with commercial customers and the U.S. government 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 these 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.

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 costs required to complete the contract and compare these estimates to costs incurred to date. Since our contracts generally require some level of technology development, the actual costs 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. In the future, revisions in these estimates could significantly impact recognized revenue in any one reporting period.

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. While we anticipate future revenue from these units, quarterly revenue may vary substantially due to the timing of orders from customers and potential constraints on resources.

Contract revenue was higher during the three months ended March 31, 2013 than the same period in 2012 primarily due to higher prototype unit sales in 2013 compared to the prior year.

Our contract backlog at March 31, 2013 was $45,000 compared to $1.2 million at March 31, 2012. The backlog is scheduled for completion during the next twelve months.

*Development revenue*.

| (in thousands) | 2013 | 2012 | $ change | % change |
| --- | --- | --- | --- | --- |
| Three months ended March 31 | $ 300 | $ - | $ 300 | - |

We earn development revenue from performance on collaborative research and development agreements with commercial customers researching and developing commercial applications for our technology. Our contributions under the collaborative agreements generally include research services, components, and prototype devices and fixtures. Our development revenue from such agreements in a particular period is dependent upon the values and timing of agreements, and the availability of technical resources to perform the work. We evaluate the performance criteria and terms of our collaborative research and development agreements to determine whether revenue should be recognized under a performance-based method or milestone method.

In March 2013, we entered into a $4.6 million collaborative research and development agreement with a prominent electronics company to incorporate our PicoP® display technology into a display engine that could enable a variety of new products. During the three months ended March 31, 2013, $300,000 of revenue was recognized on this agreement.

Based on the terms of this agreement, we recognize development revenue as work progresses on the agreement and as our customer accepts the deliverables using a proportional method based on the lesser of the cumulative proportion of total planned costs to be incurred under the agreement or the cash payments received plus outstanding billings for work accepted by the customer. Since our collaborative agreements generally require some level of technology development, the actual costs required to complete a contract can vary from our estimates. The proportional revenue recognition method we use for collaborative research and development agreements includes adjustments for revisions to estimated total agreement costs. Each period, we evaluate total estimated costs for each agreement and include any significant revisions in the period we become aware of changes in estimated total costs. In the future, revisions in these estimates could significantly impact recognized revenue in any one reporting period.

Our backlog of collaborative research and development agreements at March 31, 2013 was $4.3 million compared to zero at March 31, 2012. The backlog is scheduled for completion during the next twelve months.

*Cost of product revenue.*

| (in thousands) | | 2013 | % of product revenue | | 2012 | % of product revenue | | $ change | % change |
|---|---|---|---|---|---|---|---|---|---|
| Three months ended March 31 | $ | 664 | 54.5 | $ | 4,175 | 273.1 | $ | (3,511) | (84.1) |

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, manufacturing overhead, and other costs associated with operating our manufacturing capabilities and capacity. Manufacturing overhead includes the costs of procuring, inspecting and storing material, and facility and depreciation costs, and is allocated to cost of product revenue based on the proportion of direct material purchased to support production. 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 was substantially lower during the three months ended March 31, 2013 than the same period in 2012 primarily because of a change in product mix from lower margin SHOWWX products to sales of higher margin components to support Pioneer's Cyber Navi production and decreased inventory write downs compared to the prior year. Our costs to produce pico projectors during the three months ended March 31, 2012 were substantially higher than product revenue. During the three months ended March 31, 2012, cost of product revenue included a net write down of $1.1 million for inventory in stock at the end of the quarter and expense of approximately $244,000 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 and volume, the level of overhead expense and the volume of direct material purchased. It decreased substantially during the three months ended March 31,2013 than the same period in 2012 due to costs incurred in 2012 associated with aligning our operations to our ingredient brand strategy per above.

*Cost of contract revenue.*

| (in thousands) | | 2013 | % of contract revenue | | 2012 | % of contract revenue | | $ change | % change |
|---|---|---|---|---|---|---|---|---|---|
| Three months ended March 31 | $ | 137 | 48.6 | $ | 155 | 77.1 | $ | (18) | (11.6) |

Cost of contract revenue includes both the direct and allocated indirect costs of performing on long-term, cost plus fixed fee, and fixed price 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.

Cost of contract revenue was lower during the three months ended March 31, 2013 than the same period in 2012 as a result of increased shipments of higher margin prototype units in 2013 compared to performance om lower margin contracts in 2012. The cost of contract revenue as a percentage of contract revenue was higher in the three months ended March 31, 2013, than in the comparable period in 2012 due to the cost mix on of the activity performed in each of the periods.

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.*

| (in thousands) | 2013 | 2012 | $ change | % change |
|---|---|---|---|---|
| Three months ended March 31 | $ 2,252 | $ 3,940 | $ (1,688) | (42.8) |

Research and development expense consists of compensation related costs of employees and contractors engaged in internal research and product development activities, direct material to support development programs, laboratory operations, outsourced development and processing work, and other operating expenses. We include costs for work performed under collaborative research and development agreements in research and development costs in the periods incurred. 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.

We believe that a substantial level of continuing research and development expense will be required to further develop our PicoP technology and to support our customers to integrate our technology into their products under the ingredient brand business model. Accordingly, we anticipate our level of research and development spending will continue to be substantial. We believe that under the ingredient brand business model, we will have lower research and development spending in the future than had we not implemented the strategy.

The decrease in research and development expense during the three months ended March 31, 2013, compared to the same period in 2012, is primarily attributable to decreased payroll costs associated with reductions in staffing levels and lower subcontracted services compared to the prior year.

*Sales, marketing, general and administrative expense.*

| (in thousands) | 2013 | 2012 | $ change | % change |
|---|---|---|---|---|
| Three months ended March 31 | $ 2,403 | $ 3,288 | $ (885) | (26.9) |

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 the three months ended March 31, 2013, compared to the same period in 2012, is primarily due to decreased payroll costs associated with reductions in staffing levels compared to the prior year.

*Other income (expense).*

| (in thousands) | 2013 | 2012 | $ change | % change |
|---|---|---|---|---|
| Three months ended March 31 | $ (1) | $ 25 | $ (26) | (104.0) |

The change in other income (expense) for the three months ended March 31, 2013 compared to the same period in 2012 resulted primarily from prior year sales of excess inventory during the three months ended March 31, 2012.

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 contract revenues, collaborative research and development agreements and product sales. At March 31, 2013, we had $3.3 million in cash and cash equivalents and a working capital deficit of $1.2 million.

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 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. 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 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 $3.5 million during the three months ended March 31, 2013, compared to $6.2 million during the same period in 2012. During the three months ended March 31, 2013, 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 cash use as we aligned our operations with our ingredient brand strategy.

Net cash used in investing activities totaled $1,000 for the three months ended March 31, 2013 compared to net cash used in investing activities of $43,000 during the three months ended March 31, 2012. During the three months ended March 31, 2013, the change in net cash used in investing activities was primarily driven by prior year activity which did not occur in the current year. Prior year activity included a $350,000 decrease of our restricted cash offset by purchases of property and equipment totaling $393,000.

Net cash used in financing activities totaled $37,000 for the three months ended March 31, 2013 compared to net cash used in financing activities of $33,000 during the same period in 2012. Activity during both periods consisted of principal payments on capital leases and debt.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Interest Rate and Market Liquidity Risks

As of March 31, 2013, all of our cash and cash equivalents have variable interest rates. Therefore, we believe our exposure to market and interest rate risks is not material.

Our investment policy generally directs that the investment managers should select investments to achieve the following goals: principal preservation, adequate liquidity and return. As of March 31, 2013, our cash and cash equivalents are comprised of short-term highly rated money market savings accounts.

The values of cash and cash equivalents by maturity date as of March 31, 2013, are as follows:

| (amount in thousands) | | Amount | Percent |
|---|---|---|---|
| Cash and cash equivalents | $ | 3,310 | 100.00 % |
| Less than one year | | - | - % |
| | $ | 3,310 | 100.00 % |

Foreign Exchange Rate Risk

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

**ITEM 4. CONTROLS AND PROCEDURES**

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

**PART II**

**OTHER INFORMATION**

**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 March 31, 2013, we had an accumulated deficit of $441.2 million.
- We incurred consolidated net losses of $414.8 million from inception through 2011, $22.7 million in 2012, and a net loss of $3.7 million in the three months ended March 31, 2013.

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 contracts or collaborative research and development agreements 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 plan to obtain additional cash through the issuance of equity or debt securities.

We are introducing new technology into an emerging market which creates significant uncertainty about our ability to accurately project revenue, costs and cash flows. Our capital requirements will depend on many factors, including, but not limited to, the rate at which 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 one commercial customer. For the three months ended March 31, 2013, two commercial customers accounted for approximately 84% of our total revenue. 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 collaborative research and development agreements, contracts and open orders, which could adversely affect our operating results and cash flows.**

Our backlog totaled $5.1 million as of March 31, 2013. We may be unable to meet the performance requirements, including performance specifications or delivery dates, required by such collaborative research and development agreements, contracts or 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 collaborative research and development agreements, contracts or 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. To keep our listing on this market, we must meet NASDAQ's listing maintenance standards. If we are unable to continue to meet NASDAQ'S listing maintenance standards for any reason, our common stock could be delisted from The NASDAQ Global Market. If our common stock were delisted, we likely would seek to list 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 May 6, 2013, the closing price of our stock was $2.20.

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

Our contracts and collaborative research and 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 contracts and collaborative research and development agreements could cause significant variability in our revenues and operating results for any particular quarterly period.

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

Our contracts and collaborative research and development agreements, including without limitation those discussed in this document, are exploratory in nature and are intended to develop new types of products for new applications. 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 6. Exhibits**

| | |
|---|---|
| 10.1 | Second Amendment to Lease Agreement between Arden Realty Limited Partnership and MicroVision, Inc. executed on April 15, 2013. |
| 31.1 | Chief Executive Officer Certification Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Chief Financial Officer Certification Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Chief Executive Officer 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 |
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| 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 |
| * | Pursuant to Rule 406T of Regulation 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 the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

| | | |
|---|---|---|
| | | **MICROVISION, INC.** |
| Date: May 10, 2013 | BY: | /s/ Alexander Y. Tokman |
| | | Alexander Y. Tokman |
| | | Chief Executive Officer<br>(Principal Executive Officer) |
| Date: May 10, 2013 | BY: | /s/ Stephen P. Holt |
| | | Stephen P. Holt |
| | | Chief Financial Officer<br>(Principal Financial Officer) |

**EXHIBIT INDEX**

The following documents are filed herewith.

| Exhibit Number | Description |
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| 101.LAB* | XBRL Taxonomy Extension Label Linkbase |
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase |
| * | Pursuant to Rule 406T of Regulation 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. |

**Exhibit 10.1**

**SECOND AMENDMENT TO LEASE**
**(Redmond Hilltop)**

THIS SECOND AMENDMENT TO LEASE ("**Second Amendment**") is made and entered into as of the 15th day of January, 2013, by and between ARDEN REALTY LIMITED PARTNERSHIP, a Maryland limited partnership ("**Landlord**") and MICROVISION, INC., a Delaware corporation ("**Tenant**").

R E C I T A L S:

A. CARRAMERICA REALTY OPERATING PARTNERSHIP, L.P., a Delaware limited partnership (" **Original Landlord**") and Tenant entered into that certain Lease dated as of June 14, 2005 (the "**Lease**"), as amended by that certain First Amendment to Lease by and between Original Landlord and Tenant dated June 1, 2006 ("**First Amendment**"), whereby Original Landlord leased to Tenant and Tenant leased from Original Landlord certain office space located in those that certain buildings located and addressed at 6222-185th Avenue NE, Redmond, Washington 98052 (" **Building B**") and 6244-185th Avenue NE, Redmond, Washington 98052 (" **Building C**"). The Original Lease as amended by the First Amendment may be referred to herein as the "**Lease**." Landlord is the successor-in-interest to Original Landlord.

B. By this Second Amendment, Landlord and Tenant desire to extend the Term of the Lease with respect to a portion of the Existing Premises, reduce the size of the Premises and to otherwise modify the Lease as provided herein.

C. Unless otherwise defined herein, capitalized terms as used herein shall have the same meanings as given thereto in the Lease.

NOW, THEREFORE, in consideration of the foregoing recitals and the mutual covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

A G R E E M E N T:

1. The Existing Premises. Landlord and Tenant hereby agree that pursuant to the Lease, Landlord currently leases to Tenant and Tenant currently leases from Landlord (i) that certain space consisting of 43,046 rentable square feet in Building B as outlined on Appendix A to the Original Lease (the "**Building B Premises**"), and (ii) 23,917 rentable square feet in Building C as outlined on Appendix A to the Original Lease (the "**Building C Premises**"). The Building B Premises and the Building C Premises may be collectively referred to herein as the "**Existing Premises**."

2. Reduction of the Existing Premises. The Term of the Lease for the Existing Premises is scheduled to expire on August 31, 2013. The Term shall not be extended with respect to the Building B Premises; however, the Term shall be extended with respect to the Building C Premises as further provided in this Second Amendment.

3. Extension of Term. For the Building C Premises only, the expiration date shall be extended such that the Lease shall expire on January 31, 2019 (the "**New Expiration Date**"). The period from September 1, 2013 through the New Expiration Date specified above, shall be referred to herein as the "**Extended Term**." Tenant shall retain the option to further renew and extend the Extended Term with respect to the Building C Premises only for an additional period of five (5) years in accordance with, and subject to, Addendum 1 to the Original Lease.

4. Base Rent. Notwithstanding anything to the contrary in the Lease, during the Extended Term, Tenant shall pay, in accordance with the provisions of this Section 4 and subject to abatement pursuant to Section 5 below, Base Rent for the Building C Premises as follows:

| Period | Monthly Base Rent* | Annual Base Rent Per Rentable Square Foot |
|---|---|---|
| 9/1/2013 - 8/31/2014 | $32,885.88 | $16.50 |
| 9/1/2014 - 8/31/2015 | $33,882.42 | $17.00 |
| 9/1/2015 - 8/31/2016 | $34,878.96 | $17.50 |
| 9/1/2016 - 8/31/2017 | $35,875.50 | $18.00 |
| 9/1/2017 - 8/31/2018 | $36,872.04 | $18.50 |
| 9/1/2018 - 1/31/2019 | $37,868.58 | $19.00 |

*Subject to abatement as described in Section 5 below.

5. Rental Abatement. Notwithstanding anything to the contrary contained in the Lease or in this Second Amendment, and provided that Tenant faithfully performs all of the terms and conditions of the Lease, as amended by this Second Amendment, Landlord hereby agrees to abate Tenant's obligation to pay (i) Monthly Base Rent for the Building C Premises for the period from September 1, 2013 through May 31, 2014, and (ii) Monthly Base Rent and Operating Costs Share Rent and Tax Share Rent for the Building B Premises for the period from June 1, 2013 through August 30, 2013. During such abatement periods, Tenant shall still be responsible for the payment of all of its other monetary obligations under the Lease, as amended by this Second Amendment. In the event of a default by Tenant under the terms of the Lease, as amended by this Second Amendment, that results in termination of the Lease (as amended), Landlord shall be entitled to the recovery of the amounts that were abated under the provisions of this Section 6.

6. Refurbishment Allowance. Tenant shall be entitled to renovate the tenant improvements in the Building C Premises in accordance with this Section 6. In connection therewith, Tenant shall be entitled to a tenant refurbishment allowance (the "**Refurbishment Allowance**") in the amount of $346,796.50 (based on $14.50 per rentable square foot of the Building C Premises) for the costs relating to the design and construction of renovations to the tenant improvements in the Building C Premises that are to be permanently affixed to the Building C Premises (the "**Refurbished Improvements**") and the other Refurbishment Allowance Items specified below.

6.1. Refurbishment Allowance Items. The Refurbishment Allowance shall be disbursed by Landlord for the following items and costs only (collectively the "**Refurbishment Allowance Items**"): (a) payment of the fees of the architect and engineer(s) retained by Tenant (if any), and payment of the fees incurred by, and the cost of documents and materials supplied by, Landlord and Landlord's consultants in connection with the review of the plans and specifications prepared for the Refurbished Improvements ("**Refurbishment Drawings**"), (b) the payment of plan check, permit and license fees relating to construction of the Refurbished Improvements, (c) the cost of construction of the Refurbished Improvements including, without limitation, testing and inspection costs, trash removal costs, and contractors' fees and general conditions, (d) the cost of any changes in the Building when such changes are required by the Refurbishment Drawings or the Refurbished Improvements, such cost to include all architectural and/or engineering fees and expenses incurred in connection therewith, and (e) the cost of furniture, trade fixtures, equipment, moving costs and cabling for the Building C Premises and as a credit toward Monthly Base Rent for the Building C Premises (collectively, the "**Miscellaneous Items**"), provided that the maximum amount of the Refurbishment Allowance which may be applied toward the Miscellaneous Items under this Section 6.1(e) shall be $107,626.50 (based on $4.50 per rentable square foot).

6.2. Refurbishment Drawings. To the extent necessary based on the scope of the Refurbished Improvements, Tenant shall retain an architect/space planner reasonably approved by Landlord (the "**Architect**") to prepare any necessary Refurbishment Drawings for the Refurbished Improvements. If necessary (as determined by Landlord in its reasonable discretion), Tenant shall also retain the engineering consultants reasonably approved by Landlord (the "**Engineers**") to prepare all plans and engineering working drawings relating to the structural, mechanical, electrical, plumbing, HVAC and life safety work of the Refurbished Improvements. Any Refurbishment Drawings shall be subject to Landlord's approval, which approval shall not unreasonably withheld.

6.3. Contractor. The contractor which shall construct the Improvements shall be a contractor selected pursuant to the following procedure. Initially, the Refurbishment Drawings shall be submitted by Landlord to a general contractor mutually agreed upon by Landlord and Tenant. Landlord will request that such general contractor submit a bid to Landlord. Upon receipt of such bid, Landlord and Tenant shall make a determination as to whether such general contractor's bid is fair and reasonable considering overall cost and ability to meet Landlord's construction schedule. If the parties do agree to retain such general contractor, such general contractor shall be required to submit all subcontracts to a competitive bidding process to at least three (3) subcontractors. If the parties are not able to agree upon a single general contractor, or if the mutually agreed upon general contractor's bid is not considered fair and reasonable, then the Refurbishment Drawings shall be submitted by Landlord to three (3) general contractors selected by Landlord and reasonably approved by Tenant. Each such contractor shall be invited to submit a sealed, fixed price contract bid (on such bid form as Landlord shall designate) to construct the Refurbished Improvements. Each contractor shall be notified in the bid package of the time schedule for construction of the Refurbished Improvements. The subcontractors utilized by the Contractor shall be subject to Landlord's reasonable approval and the bidding instructions shall provide that as to work affecting the structure of the Building and/or the systems and equipment of the Building, Landlord shall be entitled to designate the subcontractors. The bids shall be submitted promptly to Landlord and a reconciliation shall be performed by Landlord to adjust inconsistent or incorrect assumptions so that a like-kind comparison can be made and a low bidder determined. Landlord shall select the contractor based on overall cost, reputation, and ability to meet Landlord's construction schedule. The general contractor selected pursuant to this Section 6.3 shall be retained by Landlord and may be referred to herein as the "**Contractor**".

6.4. Cost of the Refurbished Improvements. After the Refurbishment Drawings are approved by Landlord and Tenant, Landlord shall provide Tenant with a cost proposal in accordance with the Refurbishment Drawings, which cost proposal shall include, as nearly as possible, all costs to be incurred in connection with the construction of the Refurbished Improvements (the "**Cost Proposal**"). Tenant shall approve and deliver the Cost Proposal to Landlord prior to commencement of construction. In the event the cost of design and construction of the Refurbished Improvements and the other Refurbishment Allowance Items exceeds the Refurbishment Allowance, Tenant shall deliver to Landlord, within ten (10) days after invoicing, an amount (the "**Over-Allowance Amount**") equal to the difference between (a) the total cost of design and construction of the Refurbished Improvements and the other Refurbishment Allowance Items and (b) the amount of the Refurbishment Allowance. In no event shall Tenant be entitled to any credit for any portion of the Refurbishment Allowance not used or applied by December 31, 2013.

6.5. Completion of the Refurbished Improvements. Tenant acknowledges that the Refurbished Improvements will be constructed in the Building C Premises during the existing Term and/or the Extended Term (as defined in Section 3 of this Second Amendment), that certain inconveniences may be associated with such construction, but that Tenant shall not be entitled to any abatement of rent nor shall Tenant be deemed to be constructively evicted from the Premises as a result of such construction. Except as specifically set forth in this Section 6, Tenant hereby agrees to accept the Premises in its "as-is" condition and Tenant hereby acknowledges that Landlord shall not be obligated to provide or pay for any improvement work or services related to the improvement of the Premises. Tenant also acknowledges that Landlord has made no representation or warranty regarding the condition of the Premises.

7. Tenant's Proportionate Shares. Notwithstanding anything to the contrary in the Lease, commencing as of September 1, 2013 and continuing during the remainder of the Extended Term, Section 4(b) of the Schedule of the Original Lease shall be amended such that Tenant's Proportionate Share of all Operating Costs of the Project, excluding all Operating Costs attributable to all or any portion of any Building in the Project, but including without limitation, landscape costs, parking lot repair and maintenance, and Landlord's liability insurance costs, shall be 26.32% (based upon a total of 90,880 rentable square feet in the Buildings).

8. Letter of Credit. Concurrently with Tenant's execution of this Second Amendment, Tenant shall deliver to Landlord an unconditional, irrevocable and renewable letter of credit ("**Letter of Credit**") in favor of Landlord in the form attached hereto as Exhibit "A", issued by a financial institution satisfactory to Landlord, in the principal amount ("**Stated Amount**") of $435,000.00, to be held by Landlord in accordance with the terms, provisions and

conditions of this Second Amendment. Tenant shall pay all expenses, points and/or fees incurred by Tenant in obtaining the Letter of Credit. If the Letter of Credit delivered by Tenant is inconsistent with the form attached hereto as Exhibit "A" (including, without limitation, the wrong name or address for the Beneficiary), Landlord may so notify Tenant in writing, in which case Tenant shall cause the Letter of Credit to be corrected within five (5) business days after such notice. Landlord shall be entitled to draw upon the Letter of Credit if the credit rating or financial condition of the issuer of the Letter of Credit is no longer acceptable to Landlord. Following any such draw by Landlord on the Letter of Credit solely because of the deterioration of the creditworthiness of the issuer of the Letter of Credit, Landlord will disburse such Letter of Credit proceeds to Tenant provided (i) Tenant delivers to Landlord a replacement Letter of Credit from a financial institution satisfactory to Landlord in the form attached hereto as Exhibit "A" within sixty (60) days after Landlord's draw thereon, (ii) there exists no event of default with respect to any provision of the Lease (as amended), and (iii) Tenant pays all of Landlord's fees and expenses incurred in connection with such disbursement; provided, however, if any of the three (3) foregoing conditions are not satisfied, the proceeds received from such draw shall constitute Landlord's property (and not Tenant's property or the property of the bankruptcy estate of Tenant) and Landlord may then use, apply or retain all or any part of the proceeds for the purposes set forth in clauses (1) through (5) of Section 8.2 below.

8.1. Existing Letters of Credit. Upon Landlord's receipt of the Letter of Credit, Landlord shall promptly return the letters of credit (or any proceeds thereof) held by Landlord under the Original Lease and the First Amendment, to Tenant.

8.2. Letter of Credit Terms. The Letter of Credit shall state that an authorized officer or other representative of Landlord may make demand on Landlord's behalf for the Stated Amount of the Letter of Credit, or any portion thereof, and that the issuing bank must immediately honor such demand, without qualification or satisfaction of any conditions, except the proper identification of the party making such demand. In addition, the Letter of Credit shall indicate that it is transferable in its entirety by Landlord as beneficiary and that upon receiving written notice of transfer, and upon presentation to the issuing bank of the original Letter of Credit, the issuer or confirming bank will reissue the Letter of Credit naming such transferee as the beneficiary. Tenant shall be responsible for the payment to the issuing bank of any transfer costs imposed by the issuing bank in connection with any such transfer. If (A) the term of the Letter of Credit held by Landlord will expire prior to the last day of the Extended Term and the Letter of Credit is not extended, or a new Letter of Credit for an extended period of time is not substituted, in either case at least sixty (60) days prior to the expiration of the Letter of Credit, or (B) Tenant commits a default with respect to any provision of the Lease (as amended), including the filing of a voluntary petition under Title 11 of the United States Code (i.e., the Bankruptcy Code), or otherwise becomes a debtor in any case or proceeding under the Bankruptcy Code, as now existing or hereinafter amended, or any similar law or statute, Landlord may (but shall not be required to) draw upon all or any portion of the Stated Amount of the Letter of Credit, and the proceeds received from such draw shall constitute Landlord's property (and not Tenant's property or the property of the bankruptcy estate of Tenant) and Landlord may then use, apply or retain all or any part of the proceeds (1) for the payment of any sum which is in default, (2) to reimburse Landlord for costs incurred by Landlord in connection with the Lease (as amended) (including, without limitation, the unamortized portion of the Refurbishment Allowance, brokerage commissions and attorneys' fees calculated over a sixty-five (65) month amortization period commencing as of September 1, 2013), (3) for the payment of any other amount which Landlord may spend or become obligated to spend by reason of Tenant's default, (4) to compensate Landlord for any loss or damage which Landlord may suffer by reason of Tenant's default or (5) as prepaid rent to be applied against Tenant's Base Rent obligations for the last month of the Extended Term and the immediately preceding month(s) of the Extended Term until the remaining proceeds are exhausted. If any portion of the Letter of Credit proceeds are so used or applied, Tenant shall, within ten (10) days after demand therefor, post an additional Letter of Credit in an amount to cause the aggregate amount of the unused proceeds and such new Letter of Credit to equal the Stated Amount required in this Section 8 above. Landlord shall not be required to keep any proceeds from the Letter of Credit separate from its general funds. Should Landlord sell its interest in the Building and if Landlord deposits with the purchaser thereof the Letter of Credit or any proceeds of the Letter of Credit, thereupon Landlord shall be discharged from any further liability with respect to the Letter of Credit and said proceeds and Tenant shall look solely to such transferee for the return of the Letter of Credit or any proceeds therefrom. The Letter of Credit or any remaining proceeds of the Letter of Credit held by Landlord after expiration of the Extended Term (as may be further extended), after any deductions described in this Section 8 above, shall be returned to Tenant or, at Landlord's option, to the last assignee of Tenant's interest, within sixty (60) days following the expiration of the Extended Term. The use, application or retention of the Letter of Credit, the proceeds or any portion thereof, shall not prevent Landlord from exercising any other rights or remedies provided under the Lease, it being intended that Landlord shall not be required to proceed against the Letter of Credit, and such use, application or retention of the Letter of Credit shall not operate as a limitation on any recovery to which Landlord may otherwise be entitled. No trust relationship is created herein between Landlord and Tenant with respect to the Letter of Credit.

8.3. Not a Security Deposit. Landlord and Tenant acknowledge and agree that in no event or circumstance shall the Letter of Credit, any renewal thereof or substitute therefor or the proceeds thereof be (i) deemed to be or treated as a "security deposit", or (ii) intended to serve as a "security deposit". The parties hereto (A) recite that the Letter of Credit is not intended to serve as a security deposit and any laws, rules and regulations applicable to security deposits in the commercial context ("**Security Deposit Laws**") shall have no applicability or relevancy thereto and (B) waive any and all rights, duties and obligations either party may now or, in the future, will have relating to or arising from the Security Deposit Laws.

9. Termination Option. Provided Tenant fully and completely satisfies each of the conditions set forth in this Section 9, Tenant shall have the option ("**Termination Option**") to terminate the Lease (as amended) with respect to the Building C Premises effective as of August 31, 2016 only (the **Termination Date**"). In order to exercise the Termination Option, Tenant must fully and completely satisfy each and every one of the following conditions: (a) Tenant must give Landlord written notice ("**Termination Notice**") of its exercise of the Termination Option, which Termination Notice must be delivered to Landlord on or before August 31, 2015, (b) at the time of the Termination Notice Tenant shall not be in default under the Lease (as amended) after expiration of applicable cure periods, and (c) concurrently with Tenant's delivery of the Termination Notice to Landlord, Tenant shall pay to Landlord fifty percent (50%) of a termination fee ("**Termination Fee**") in the total amount of $452,837.00 (which amount has been calculated based upon unamortized refurbishment allowance, brokerage commissions and abated rent for both Building B and Building C). The remaining fifty percent (50%) of the Termination Fee must be paid to Landlord on or before the Termination Date. Notwithstanding anything contained in this Section 9 to the contrary, in the event Tenant fails to deliver the remaining portion of the Termination Fee to Landlord on or before the Termination Date, Landlord shall have the option to either (1) deem the Termination Notice rescinded, in which case the Lease (as amended) shall continue in full force and effect for the remainder of the Extended Term, or (2) deem the Lease terminated as of the Termination Date and pursue any remedies Landlord may have against Tenant for failure to pay such Termination Fee. Notwithstanding Tenant's payment of the Termination Fee, Tenant shall remain responsible for payment of Base Rent and all other obligations of Tenant under the Lease (as amended) through the Termination Date.

10. Brokers. Each party represents and warrants to the other that no broker, agent or finder negotiated or was instrumental in negotiating or consummating this Second Amendment other than Broderick Group, Inc. (representing Landlord) and Washington Partners (representing Tenant), each of whom shall be compensated by Landlord pursuant to separate agreement. Each party further agrees to defend, indemnify and hold harmless the other party from and against any claim for commission or finder's fee by any other person or entity who claims or alleges that they were retained or engaged by the first party or at the request of such party in connection with this Second Amendment.

11. Right of First Offer. Section 30 of the Original Lease shall be null and void and of no further force or effect.

12. Financial Statements. If Tenant is not then publicly traded on a major United States stock exchange (e.g., NYSE or NASDAQ), then within ten (10) days after Tenant's receipt of Landlord's written request, Tenant shall provide Landlord with current financial statements of Tenant and financial statements for the three (3) calendar or fiscal years (if Tenant's fiscal year is other than a calendar year) prior to the current financial statement year. Any such statements shall be prepared in accordance with generally accepted accounting principles and, if the normal practice of Tenant, shall be audited by an independent certified public accountant.

13. Defaults. Tenant hereby represents and warrants to Landlord that, as of the date of this Second Amendment, Tenant is in full compliance with all terms, covenants and conditions of the Lease and that there are no breaches or defaults under the Lease by Landlord or Tenant, and that Tenant knows of no events or circumstances which, given the passage of time, would constitute a default under the Lease by either Landlord or Tenant.

14. No Further Modification. Except as set forth in this Second Amendment, all of the terms and provisions of the Lease shall apply during the Extended Term and shall remain unmodified and in full force and effect. Effective as of the date hereof, all references to the "Lease" shall refer to the Lease as amended by this Second Amendment.

IN WITNESS WHEREOF, this Second Amendment has been executed as of the day and year first above written.

"LANDLORD"

ARDEN REALTY LIMITED PARTNERSHIP,
a Maryland limited partnership

By: ARDEN REALTY, INC.,

a Maryland corporation
Its: Sole General Partner

By: ________________________________
Its: ___________________________

"TENANT"

MICROVISION, INC.,
a Delaware corporation

By: ________________________________
Print Name: ____________________________
Title: ________________________________

By: ________________________________
Print Name: ____________________________
Title: ________________________________

State of )
County of ______________________ )

On _________________________, before me, ,

(insert name and title of the officer)

personally appeared , who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of ____________ that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature (Seal)

State of )
County of ______________________ )

On _________________________, before me, ,

(insert name and title of the officer)

personally appeared , who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of __________ that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature ______________________________________________ (Seal)

State of )
County of ______________________ )

On _________________________, before me, ,

(insert name and title of the officer)

personally appeared , who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of __________ that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature ______________________________________________ (Seal)

# EXHIBIT "A"

## LETTER OF CREDIT

Arden Realty Limited Partnership
c/o General Electric Capital Corporation
14951 Dallas Parkway, Suite #600
Dallas, TX 75254
ATTN: Letter of Credit Department

RE: Irrevocable Letter of Credit No. ______________ for U.S. $______________

Ladies and Gentlemen:

We hereby issue our irrevocable Letter of Credit No. _________________in favor of Arden Realty Limited Partnership, a Maryland limited partnership ("Beneficiary"), for the account of Microvision, Inc., a Delaware corporation.

We undertake to honor from time to time your draft or drafts at sight on us not exceeding in the aggregate Four Hundred Thirty-Five Thousand U.S. Dollars (U.S. $435,000.00). All drafts hereunder must be marked "Drawn under Irrevocable Letter of Credit No. _________, dated ______________, 20_____."

Presentation of drafts drawn hereunder may be made at any time on or before the expiration date hereof at our offices located at ________________________________________________. Presentation on or before noon of any day other than a Saturday, Sunday or other day on which all commercial banks in (city), (state) are authorized or required to be closed ("Banking Day") shall result in payment to Beneficiary on the same date. Drafts presented after noon on any Banking Day shall result in payment to Beneficiary on the next Banking Day. We hereby waive any right that we may otherwise have to delay payment to a later date. If the expiration date is not a Banking Day, drafts presented on the first following Banking Day shall be deemed timely. Any notice of dishonor must be given within the applicable time period set forth above for payment.

Partial drawings are permitted, and this Letter of Credit shall, except to the extent reduced thereby, survive any partial drawings.

This Letter of Credit is valid through and including _____________________, 20____.

It is a condition of this Letter of Credit that it shall be automatically renewed for successive terms of one (1) year from the above-stated or any future expiration date, which shall become effective without amendment unless Beneficiary receives, not less than sixty (60) days before the above-stated or any future expiration date, written notice from us (in the manner below provided) that we have elected not to renew this Letter of Credit for any such additional term. If Beneficiary receives such notice of non-renewal from us, then Beneficiary may at any time prior to the then current expiration date hereof present its draft for payment hereunder.

Any notice to Beneficiary in connection with this Letter of Credit shall be in writing and shall be delivered in hand with receipt acknowledged, or by certified mail (return receipt requested), to Arden Realty Limited Partnership, c/o General Electric Capital Corporation, 14951 Dallas Parkway, Suite #600, Dallas, TX 75254, ATTN: Letter of Credit Department (or to such other address for any such notices which Beneficiary may hereafter specify) in a written notice delivered to the undersigned.

We agree that we shall have no duty or right to inquire as to the basis upon which Beneficiary has determined to present to us any draft under this Letter of Credit. We hereby waive any defense based upon any allegation of fraud.

We shall not be required or entitled to inquire as to the authority of the person signing any draft or other instrument contemplated hereunder on behalf of Beneficiary, and we shall accept such signature as conclusive evidence of authority.

This Letter of Credit is transferable in its entirety and not in part to any transferee. Upon any such transfer, all references herein to the beneficiary shall be automatically changed to such transferee, and draft(s) may be issued by such transferee rather than the beneficiary.

This irrevocable Letter of Credit is subject to the International Standby Practices 1998 ("ISP98"), International Chamber of Commerce Publication 590 and, to the extent not inconsistent therewith, the Uniform Commercial Code of the State of _______________.

All of the terms and conditions of this Letter of Credit are contained herein and shall not be altered except by reduction in the amount due to corresponding payments in like amount in compliance with the aforementioned terms. Except as otherwise expressly set forth herein, there are no conditions to this Letter of Credit.

Very truly yours,

By: ___________________________________

Title: ______________________________

**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 quarterly report on Form 10-Q 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(s) 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: May 10, 2013 | /s/ Alexander Y. Tokman |
| | Alexander Y. Tokman<br>*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, Stephen P. Holt, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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(s) 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 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.

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|---|---|
| Date: May 10, 2013 | /s/ Stephen P. Holt |
| | Stephen P. Holt<br>*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-Q for the quarter ended March 31, 2013 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-Q for the quarter ended March 31, 2013 fairly presents, in all material respects, the financial condition and results of operations of the Company.

| | |
|---|---|
| Date: May 10, 2013 | /s/ Alexander Y. Tokman |
| | Alexander Y. Tokman<br>*Chief Executive Officer* |

**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-Q for the quarter ended March 31, 2013 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-Q for the quarter ended March 31, 2013 fairly presents, in all material respects, the financial condition and results of operations of the Company.

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|---|---|
| Date: May 10, 2013 | /s/ Stephen P. Holt |
| | Stephen P. Holt<br>*Chief Financial Officer* |