



MicroVision

2012 Annual Report
and
Proxy Statement for 2013 Annual Meeting of Shareholders

Forward-Looking Statements

Certain statements contained in this annual report, including those relating to future commercial agreements, supply chain, operating results, products and technology development and those using words such as “achieve,” “positioned,” “expected,” “plan,” and “will” are forward-looking statements that involve a number of risks and uncertainties. Factors that could cause actual results to differ materially from those projected in the company’s forward-looking statements include the following: our ability to raise additional capital when needed; products incorporating our PicoP display engine may not achieve market acceptance, commercial partners may not enter into or perform under agreements as anticipated, our or our customers failure to perform under open purchase orders; 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; the timing of commercial product launches and delays in product development; the ability to achieve key technical milestones in key products; dependence on third parties to develop, manufacture, sell and market our products; potential product liability claims; and other risk factors identified from time to time in the company’s SEC reports, including the company’s most recent Annual Report on Form 10-K filed with the SEC. Except as expressly required by federal securities laws, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changes in circumstances or any other reason.

Dear Fellow Shareowner:

2012 was a year marked by key advances for MicroVision on several important fronts: commercializing our patented PicoP® display technology, transitioning to a licensing business model, securing OEM customers and improving our key financial metrics. Our business goals for the year were structured around these key areas, and we saw significant positive progress in all of them.

Key highlights of 2012 included:

- Unveiling MicroVision’s HD PicoP® Gen2 display technology using direct green lasers (DGL) at the 2012 Consumer Electronics Show (CES). With its small form factor, low power requirements and superior image quality, PicoP Gen2 display technology received the ‘CES Product of the Future’ award from Popular Science;
- Beginning the commercially available DGL era in July 2012 when we helped Pioneer to launch its Carrozzeria Cyber Navi head-up display system (HUD), the first revolutionary augmented reality HUD commercial product that incorporated our PicoP Gen2 display technology;
- Transitioning to our core “Image by PicoP®” ingredient brand business model. Under this model, we received royalty revenue and achieved positive margin on component sales in Q3 and Q4, with leaner operations and significantly reduced cash used in operations;
- Shipping PicoP® Gen2 display engine design samples to over 50 global OEMs for evaluation, primarily in the consumer electronics and automotive markets; and
- Increasing revenue by 49 percent with \$8.4 million in 2012 versus \$5.6 million in 2011 while significantly decreasing cash used in operations and net loss by 26 % and 37 %, respectively, during the same period.
- An additional highlight for 2012 was significant advancement in the commercial availability of DGLs with Osram announcing its first commercial DGLs, Sony announcing its intent to enter the DGL market, and an additional supplier providing DGLs to Pioneer for the Cyber Navi product.

We were also honored to have our highly recognized patent portfolio included in the Ocean Tomo 300 Patent Index for the second year in a row. The Ocean Tomo 300 Patent Index is priced and published by the NYSE Euronext (NYSE: OTPAT) and is the first index based on the value of intellectual property. MicroVision is included among other well-known technology companies such as Microsoft, Intel and Qualcomm, along with many others.

Outlook for 2013

Building on the positive momentum from 2012, we have a focused strategy to achieve three primary goals in 2013:

- Secure licensing agreements with OEMs in our target markets;
- Strengthen the supply chain for key components of PicoP display technology to offer multiple sources to OEMs as they prepare to bring their products to market; and
- Manage aggressively costs and cash used in operations.

The shipment of PicoP® design samples starting in late Q1 2012 and the resultant customer evaluations of PicoP display technology positioned us to enter into negotiations with several companies in the second half of 2012, putting us on a positive path to achieve the first goal of securing licensing agreements in 2013. We are very pleased to have announced in April that we have secured a development agreement with a leading global consumer electronics brand. The

agreement was a milestone advancement of our licensing business model and we look forward to supporting our partner in its development of a display engine based on our patented PicoP display technology. We continue to be actively engaged with several other players in the consumer electronics segment, as well as with major automotive OEMs and tier one suppliers.

Enabling a strong supply chain for key components for PicoP display technology is an essential element of our licensing business model. We are working to establish new supply chain partners who are expected to produce high quality display engine components based on our reference design for PicoP display technology in order to provide more flexibility to our OEM customers.

We plan to continue to be aggressive in the management and further reduction of costs and cash used in operations. We have been and plan to continue to be very strategic and deliberate about how and where we focus our resources. Our first priority is to support customers through the design win and product launch process and advance PicoP display technology on its technology roadmap. We have added talent to our team in key areas with the goal of ensuring that our award-winning technology continues to have industry-leading and differentiated features. As we work with companies that are innovators in their own right, we expect to provide essential ingredients for them to evolve their product offerings and facilitate a growing market demand for products incorporating PicoP display technology. These ingredients include our roadmap and ability to continue advances of PicoP technology features and attributes such as increasing brightness while reducing power levels and engine size or enhancing user experience through an interactive touch feature.

There are several good signs for us and our shareholders. The green laser supply issue that has hindered us over the past few years has been alleviated; the mobile ecosystem has matured significantly since 2011 to accept new pico-projection devices, which increases the addressable market; and we have significantly advanced our PicoP technology to introduce features unmatched by our competitors.

We believe the progress we achieved in 2012 and the path we are following in 2013 form a strong foundation for success that will benefit MicroVision's shareholders and attract new interest in the company.

Thank you for your continued support.

Alexander Tokman
Chief Executive Officer
April 22, 2013

Notice of Annual Meeting
of Shareholders
and
Proxy Statement

Proxy

MICROVISION, INC.

NOTICE OF 2013 ANNUAL MEETING June 6, 2013

Dear MicroVision Shareholder:

The Annual Meeting of Shareholders of MicroVision, Inc. (the "Company"), will be held at the Meydenbauer Center, 11100 NE 6th Street, Bellevue, Washington 98004 on June 6, 2013 at 9:00 a.m. for the following purposes:

1. To elect six directors to serve until the next annual meeting;
2. To approve the 2013 MicroVision, Inc. Incentive Plan;
3. To ratify the selection of Moss Adams LLP as the Company's independent registered public accounting firm for the current fiscal year;
4. To conduct any other business that may properly come before the meeting and any adjournment or postponement of the meeting.

Details of the business to be conducted at the meeting are more fully described in the accompanying Proxy Statement. Please read it carefully before casting your vote.

If you were a shareholder of record on April 12, 2013, you will be entitled to vote on the above matters. A list of shareholders as of the record date will be available for shareholder inspection at the headquarters of the Company, 6222 185th Avenue NE, Redmond, Washington 98052, during ordinary business hours, from May 27, 2013 to the date of the Annual Meeting. The list also will be available for inspection at the Annual Meeting.

Important!

Whether or not you plan to attend the Annual Meeting, your vote is very important.

After reading the Proxy Statement, you are encouraged to vote by (1) toll-free telephone call, (2) the Internet or (3) completing, signing and dating the printable proxy card and returning it as soon as possible. If you are voting by telephone or the Internet, please follow the instructions on the proxy card. You may revoke your proxy at any time before it is voted by following the instructions provided below.

Important Notice Regarding the Availability of Proxy Materials for the Shareholders Meeting To Be Held on June 6, 2013. The proxy materials and the annual report to stockholders are available at <http://www.microvision.com/investors/proxy.html>.

If you need assistance voting your shares, please call Investor Relations at (425) 882-6629.

The Board of Directors recommends a vote **FOR** the election of the six nominees for directors, a vote **FOR** approval of the 2013 MicroVision, Inc. Incentive Plan and a vote **FOR** ratification of the selection of Moss Adams LLP as the Company's independent registered public accounting firm.

At the meeting, you will have an opportunity to ask questions about the Company and its operations. You may attend the meeting and vote your shares in person even if you vote by telephone or the Internet or return your proxy card. Your proxy (including a proxy granted by telephone or the Internet) may be revoked by sending in another signed proxy card with a later date, sending a letter revoking your proxy to the Company's Secretary in Redmond, Washington, voting again by telephone or Internet, or attending the Annual Meeting and voting in person.

We look forward to seeing you. Thank you for your ongoing support of and interest in MicroVision, Inc.
Sincerely,



Thomas M. Walker
Secretary

April 22, 2013
Redmond, Washington

MICROVISION, INC.

6222 185th Avenue NE
Redmond, Washington 98052

PROXY STATEMENT FOR ANNUAL MEETING OF SHAREHOLDERS June 6, 2013

TABLE OF CONTENTS

INFORMATION ABOUT THE ANNUAL MEETING AND VOTING	1
DISCUSSION OF PROPOSALS RECOMMENDED BY THE BOARD	4
Proposal One—Election Of Directors	4
Board Meetings and Committees	6
Shareholder Communication with the Board of Directors	10
Section 16(a) Beneficial Ownership Reporting Compliance	10
Code of Ethics	10
Proposal Two—Approval of the 2013 MicroVision, Inc. Incentive Plan	11
Proposal Three—Ratification of the Selection of Independent Registered Public Accounting Firm	16
OTHER BUSINESS	16
EXECUTIVE COMPENSATION	17
Summary Compensation Table for 2012	17
Outstanding Equity Awards at Year-End 2012	18
Potential Payments upon Termination or Change in Control	18
Severance and Employment Agreements	19
Director Compensation for 2012	21
INFORMATION ABOUT MICROVISION COMMON STOCK OWNERSHIP	22
CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE	23
AUDIT COMMITTEE REPORT	23
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	24
INFORMATION ABOUT SHAREHOLDER PROPOSALS	26
ADDITIONAL INFORMATION	27
Annual Report	27
Incorporation by Reference	27
Householding	27
Voting by Telephone or the Internet	27

INFORMATION ABOUT THE ANNUAL MEETING AND VOTING

Q: Why did you send me this Notice of Internet Availability of Proxy Materials?

A: We sent you the Notice of Internet Availability of Proxy Materials because the Board of Directors of the Company (the “Board of Directors” or the “Board”) is soliciting your proxy to vote at the 2013 Annual Meeting of Shareholders (the “Annual Meeting”). The Annual Meeting will be held at the Meydenbauer Center, 11100 NE 6th Street, Bellevue, Washington 98004 on June 6, 2013, at 9:00 a.m.

This Proxy Statement summarizes the information regarding the matters to be voted upon at the Annual Meeting. You do not need to attend the Annual Meeting, however, to vote your shares. You may simply vote your shares by telephone or over the Internet in accordance with the instructions contained on the proxy card or print, complete, sign, and return the proxy card.

On April 12, 2013 there were 25,263,387 shares of common stock of the Company outstanding. If you owned shares of our common stock at the close of business on the record date, you are entitled to one vote for each share of common stock you owned as of that date. We made this Proxy Statement available on or about April 22, 2013 to all shareholders entitled to vote their shares at the Annual Meeting. All share-related information in this proxy Statement has been adjusted for the 1-for-8 reverse stock split, which became effective February 17, 2012.

Q: How many votes do I have?

A: You have one vote for each share of common stock that you owned on the record date. The proxy card will indicate the number of shares.

Q: How do I vote by proxy?

A: If you properly cast your vote by either voting your proxy by telephone or via the Internet or executing and returning the proxy card, and your vote is not subsequently revoked by you, your vote will be voted in accordance with your instructions. If you sign the proxy card but do not make specific choices, your proxy will vote your shares as recommended by the Board as follows:

- “FOR” the election of each of the nominees for director;
- “FOR” approval of the 2013 MicroVision, Inc. Incentive Plan;
- “FOR” ratification of the selection of Moss Adams LLP as the Company’s independent registered public accounting firm.

If any other matter is presented, your proxy will vote in accordance with his best judgment. At the time we printed this Proxy Statement, we knew of no matters that needed to be acted on at the Annual Meeting other than those discussed in this Proxy Statement.

Q: May my broker vote for me?

A: Under the rules of the Financial Industry Regulatory Authority, if your broker holds your shares in its “street” name, the broker may vote your shares on routine matters even if it does not receive instructions from you. At the Annual Meeting your broker may, without instructions from you, vote on Proposal 3, but not on any of the other proposals.

Q: What are abstentions and broker non-votes?

A: An abstention represents the action by a shareholder to refrain from voting “for” or “against” a proposal. “Broker non-votes” represent votes that could have been cast on a particular matter by a broker, as a shareholder of record, but that were not cast because the broker (i) lacked discretionary voting authority on the matter and did not receive voting instructions from the beneficial owner of the shares or (ii) had discretionary voting authority but nevertheless refrained from voting on the matter.

Q: May I revoke my proxy?

A: Yes. You may change your mind after you send in your proxy card or vote your shares by telephone or via the Internet by following these procedures. To revoke your proxy:

- Vote again by telephone or Internet;
- Send in another signed proxy card with a later date;
- Send a letter revoking your proxy to MicroVision's Secretary at the Company's offices in Redmond, Washington; or
- Attend the Annual Meeting and vote in person.

Q: How do I vote in person?

A: If you plan to attend the Annual Meeting and vote in person, we will give you a ballot when you arrive. If your shares are held in a brokerage account or by another nominee, the Notice of Internet Availability of Proxy Materials is being forwarded to you. Follow the instructions on the Notice of Internet Availability of Proxy Materials in order to vote your shares by proxy or in person. Alternatively, you may contact the person in whose name your shares are registered and obtain a proxy from that person and bring it to the Annual Meeting.

Q: What is the quorum requirement for the meeting?

A: The quorum requirement for holding the meeting and transacting business is a majority of the outstanding shares entitled to be voted. The shares may be present in person or represented by proxy at the meeting. Both abstentions and broker non-votes are counted as present for the purpose of determining the presence of a quorum.

Q: What vote is required to approve the election of directors?

A: The six nominees for director who receive the most votes will be elected. So, if you do not vote for a nominee, or you "withhold authority to vote" for a nominee, your vote will not count either "for" or "against" the nominee. Abstentions and broker non-votes will have no effect on the outcome of voting for directors.

Q: What vote is required to approve the 2013 MicroVision, Inc. Incentive Plan?

A: The 2013 MicroVision, Inc. Incentive Plan will be approved if the number of votes cast in favor of this proposal exceeds the number of votes cast against this proposal. Abstentions and broker non-votes will not be counted "for" or "against" the proposal and will have no effect on the outcome of the vote.

Q: What vote is required to ratify the selection of Moss Adams LLP as the Company's independent registered public accounting firm (Proposal 3)?

A: For Proposal 3, you may vote "**FOR**", "**AGAINST**", or "**ABSTAIN**".

The affirmative vote of a majority of the votes properly cast on the proposal at the 2013 Annual Meeting is required to ratify the appointment of Moss Adams LLP as the Company's independent registered public accounting firm. Abstentions and broker non-votes will have no effect on the outcome of Proposal 3.

Q: Is voting confidential?

A: We keep all the proxies and ballots private as a matter of practice.

Q: What are the costs of soliciting these proxies?

A: The Company will pay all the costs of soliciting these proxies. In addition to the solicitation of proxies by mail, our officers and employees also may solicit proxies by telephone, fax or other electronic means of communication, or in person. We will reimburse banks, brokers, nominees, and other fiduciaries for the expenses they incur in forwarding the proxy materials to you.

Q: Who should I call if I have any questions?

A: If you have any questions about the Annual Meeting, voting or your ownership of MicroVision common stock, please call us at (425) 882-6629 or send an e-mail to ir@microvision.com.

DISCUSSION OF PROPOSALS RECOMMENDED BY THE BOARD

Proposal One—Election Of Directors

The Board oversees the Company's business and affairs and monitors the performance of management. In accordance with corporate governance principles, the Board does not involve itself in day-to-day operations of the Company. The directors keep themselves informed through discussions with the Chief Executive Officer, other key executives, and the Company's principal advisers by reading the reports and other materials that the Company sends them regularly and by participating in Board and committee meetings. The Company's directors hold office until their successors have been elected and duly qualified unless the director resigns or by reason of death or other cause is unable to serve. Until any vacancy is filled, the Board will consist of the members who are elected at the Annual Meeting. Proxies cannot be voted for a greater number of persons than the number of nominees named.

If any nominee is unable to stand for election, the shares represented by all valid proxies will be voted for the election of such substitute nominee as the Board may recommend. All of the nominees are currently directors of the Company. The Company is not aware that any nominee is or will be unable to stand for election.

Proxies received from shareholders, unless directed otherwise, will be voted FOR the election of the nominees listed below.

THE BOARD RECOMMENDS A VOTE "FOR" ALL OF THE NOMINEES NAMED BELOW AS DIRECTORS OF THE COMPANY.

We seek individuals to serve as directors with established strong professional reputations, sophistication and experience in strategic planning, leadership, business management, innovation and in substantive areas that affect our business such as: technology development; sourcing, manufacturing and operations; financing; finance and accounting; business operations; government contracts; legal and regulatory; and sales and marketing. We believe that each of our current directors possesses the professional and personal qualifications necessary for board service and have highlighted particularly noteworthy attributes for each director in the individual biographies below.

Set forth below are the name, position held and age of each of the nominees for director of the Company. The principal occupation and recent employment history of each nominee is described below, and the number of shares of common stock beneficially owned by each nominee as of April 12, 2013 is set forth on page 22.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Richard A. Cowell (2) (3)*	65	Director
Slade Gorton (1) (3)*	85	Director
Jeanette Horan (1)*	57	Director
Perry Mulligan (2) (3)*	55	Director
Alexander Tokman	51	Director, President and Chief Executive Officer
Brian Turner (1) (2)*	53	Chairman of the Board and Lead Independent Director

* Independent Director

- (1) Member of the Compensation Committee
- (2) Member of the Audit Committee
- (3) Member of the Nominating Committee

Alexander Tokman has served as President, Chief Executive Officer and a director of MicroVision since January 2006. Mr. Tokman served as MicroVision's President and Chief Operating Officer from July 2005 to January 2006. Mr. Tokman, a former GE executive, joined MicroVision after a 10-year tenure at GE Healthcare, a subsidiary of General Electric, where he led several global businesses, most recently as General Manager of its

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

Colonel Richard A. Cowell, USA, (Ret.) has served as a director of the Company since August 1996. Colonel Cowell is a retired Principal at Booz Allen Hamilton, Inc. ("BAH") where he was involved in advanced concepts development and technology transition, joint and service experimentation, and the interoperability and integration of command and control systems for Department of Defense and other agencies. Prior to joining BAH in March of 1996, Colonel Cowell served in the United States Army for 25 years. Immediately prior to his retirement from the Army, Colonel Cowell served as Director of the Louisiana Maneuvers Task Force reporting directly to the Chief of Staff, Army. Colonel Cowell has authored a number of articles relating to the potential future capabilities of various services and agencies. Colonel Cowell's senior position at BAH with involvement in advanced concepts development and technology transition, leadership in the Army and prior history as a director of the Company have given him extensive experience and expertise in government contracts, financial matters and the Company's business and technology evolution. Colonel Cowell is a Director for Immunocellular Therapeutics Ltd.

Slade Gorton has served as a director of the Company since September 2003. Mr. Gorton was formerly Of Counsel at the law firm of K&L Gates, LLP. Prior to joining the firm, he represented Washington State in the United States Senate for 18 years. Mr. Gorton began his political career in 1958 as a Washington State Representative and went on to serve as State House Majority Leader. Mr. Gorton served as Attorney General of Washington from 1969-1981, and during that time, he argued 14 cases before the United States Supreme Court. After leaving the Senate, Mr. Gorton served as a Commissioner on the National Commission on Terrorist Attacks Upon the United States ("9-11 Commission"); as a member of the National War Powers Commission and is Co-Chairman of the National Transportation Policy Project. Mr. Gorton also served in the U.S. Army, U.S. Air Force, and the U.S. Air Force Reserves. Mr. Gorton is a director of Clearwire, Inc. From his positions as an attorney, in business and government, and prior history as a director of the Company, Mr. Gorton brings expertise in legal matters, corporate governance, general leadership and the Company's business and technology evolution.

Jeanette Horan has served as a director of the Company since June 2006. Ms. Horan is currently Chief Information Officer for IBM, a position she has held since May 2011. Prior to her current position, she was Vice President, Enterprise Business Transformation, where she led IBM's transformation to a globally integrated enterprise. Prior to that, she was Vice President, Business Process and Architecture Integration from July 2006 to April 2007 where she led IBM's internal business process transformation and information technology portfolio. Ms. Horan was Vice President, Information Management from January 2004 to July 2006 and Vice President Strategy, IBM Software Group from January 2003 to January 2004, where she was responsible for strategic alliances with key platform partners and led strategic and operational planning processes. From May 1998 to December 2002, Ms. Horan was also Vice President, Development for the Lotus brand and led worldwide product management, development and technical support. Ms. Horan has substantial breadth and depth of technology leadership experience and a demonstrated ability to translate novel technologies into products spanning various markets and segments.

Perry Mulligan has served as a director of the Company since January 2010. Mr. Mulligan has over 25 years of experience in operations and supply chain management. Since October 2007, Mr. Mulligan has served as

Senior Vice President, Operations for QLogic, where he is responsible for all aspects of the manufacturing and delivery of products to the customer in addition to overall supply chain design and manufacturing strategy. Prior to his current position, Mr. Mulligan was at Solectron from May 2004 to September 2007, where he held the position of Senior Vice President Supply Chain Management and Chief Procurement Officer and was responsible for establishing the overall materials and supply chain strategy. Mr. Mulligan brings extensive experience and knowledge in developing and setting up worldwide manufacturing and sourcing operations and overall supply chain strategy.

Brian Turner has served as a director of the Company since July 2006 and currently serves as Chairman of the Board and Lead Independent Director. Mr. Turner was the Chief Financial Officer of Coinstar Inc. from 2003 until June 2009. Prior to Coinstar, from 2001 to 2003, he served as Senior Vice President of Operations, Chief Financial Officer and Treasurer of Real Networks, Inc., a digital media and technology company. Prior to Real Networks, from 1999 to 2001, Mr. Turner was employed by BSquare Corp., a software company, where he initially served as Senior Vice President of Operations, Chief Financial Officer and Secretary, before being promoted to President and Chief Operating Officer. From 1995 to 1999, Mr. Turner was Chief Financial Officer and Vice President of Administration of Radisys Corp., an embedded software company. Mr. Turner's experience also includes 13 years at PricewaterhouseCoopers LLP where he held several positions including Director, Corporate Finance. Mr. Turner is lead director at Symmetra Mutual Fund. Mr. Turner brings financing expertise and knowledge of operational finance and accounting to the Board.

Board Meetings and Committees

Our Board of Directors met 11 times during 2012. All directors attended at least 75% of the meetings of the Board and meetings of the Board committees on which they served. The Board also approved certain actions by unanimous written consent. We have adopted a policy that each of our directors be requested to attend our Annual Meeting each year. All directors attended our Annual Meeting in 2012.

Independence Determination

No director will be deemed to be independent unless the Board affirmatively determines that the director has no material relationship with the Company, directly or as an officer, share owner, or partner of an organization that has a relationship with the Company. The Board observes all criteria for independence set forth in the NASDAQ listing standards and other governing laws and regulations.

In its annual review of director independence, the Board considers all commercial, banking, consulting, legal, accounting, charitable, or other business relationships any director may have with us. As a result of its annual review, the Board has determined that all of the directors, with the exception of Alexander Tokman, are independent (the "Independent Directors"). The Independent Directors are identified by an asterisk in the table above.

The NASDAQ listing standards have both objective tests and a subjective test for determining who is an "independent director." The objective tests state, for example, that a director is not considered independent if he or she is our employee or is a partner in or executive officer of an entity to which we made, or from which we received, payments in the current or any of the past three fiscal years that exceed 5% of the recipient's consolidated gross revenue for that year. The subjective test states that an independent director must be a person who lacks a relationship that, in the opinion of the Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. None of the non-employee directors were disqualified from "independent" status under the objective tests. In assessing independence under the subjective test, the Board took into account the standards in the objective tests, and reviewed and discussed additional information provided by the directors and us with regard to each director's business and personal activities as they may relate to us and our management. Based on all of the foregoing, as required by NASDAQ rules, the Board made a subjective determination as to each Independent Director that no relationship exists which, in the opinion of the

Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. The Board has not established categorical standards or guidelines to make these subjective determinations, but considers all relevant facts and circumstances.

In addition to the Board-level standards for director independence, the directors who serve on the Audit Committee each satisfy standards established by the Securities and Exchange Commission (the “SEC”) providing that to qualify as “independent” for purposes of membership on that Committee, members of audit committees may not accept, directly or indirectly any consulting, advisory, or other compensatory fee from us other than their director compensation.

Board’s Role in Risk Oversight

It is management’s responsibility to manage risk and bring to the Board’s attention risks that are material to the Company. The Board has oversight responsibility of the processes established to report and monitor systems for the most significant risks applicable to the Company. The Board administers its risk oversight role directly and through its committee structure and the committees’ regular reports to the Board at Board meetings. The Board reviews strategic, financial and execution risks and exposures associated with the annual plan and multi-year plans, major litigation and other matters that may present material risk to our operations, plans, prospects or reputation; acquisitions and divestitures and senior management succession planning.

Board Expertise and Diversity

The Nominating Committee seeks to have a Board that represents diversity as to experience, gender, race and ethnicity, but does not have a formal policy with respect to diversity. We seek a Board that reflects a range of talents, ages, skills, viewpoints, professional experience, educational background and expertise to provide sound and prudent guidance with respect to our operations and interests. All of our directors are financially literate, and two members of our Audit Committee are audit committee financial experts.

Board Leadership Structure

Our Board annually elects a Chairman of the Board. The Board has chosen to separate the roles of Chairman and Chief Executive Officer. Mr. Turner currently serves as Chairman and Lead Independent Director. In this role, among other duties, Mr. Turner meets with our Chief Executive Officer and with senior officers as necessary, schedules and presides at meetings of the Board, including meetings of the Independent Directors, serves as a liaison between the Board and our management, approves meeting schedules and agendas, and undertakes other responsibilities designated by the Board. The Board believes that the separate roles of Mr. Tokman as Chief Executive Officer and Mr. Turner as Chairman and Lead Independent Director currently well serve the interests of us and our shareholders. Mr. Tokman can devote his attention to leading the Company and focus on our business strategy. Mr. Turner provides an appropriate level of independence in the Company’s leadership through his review and approval of meeting agendas and his leadership of the Board.

Committees

The Board of Directors has an Audit Committee, a Compensation Committee and a Nominating Committee. The Board of Directors has adopted a written charter for each of these Committees. The full text of each charter is available on our website located at www.microvision.com.

The Audit Committee

The Board has an Audit Committee which assists the Board by monitoring and overseeing: (1) our accounting and financial reporting processes and the audits of our financial statements, (2) the integrity of our financial statements, (3) our compliance with legal and regulatory requirements, and (4) the performance of our

internal finance and accounting personnel and our independent auditors. The Audit Committee conducts discussions related to our earnings announcements and periodic filings, as well as numerous other informal meetings and communications among the Chair, various Audit Committee members, the independent auditors and/or members of our management. Messrs. Cowell, Mulligan and Turner currently serve on the Audit Committee, with Mr. Cowell serving as Chairman. The Audit Committee met 12 times during 2012.

Among other matters, the Audit Committee monitors the activities and performance of our external auditors, including the audit scope, external audit fees, auditor independence matters and the extent to which the independent auditor may be retained to perform non-audit services. The Audit Committee and the Board of Directors have ultimate authority and responsibility to select, evaluate and, when appropriate, replace our independent auditor. The Audit Committee also reviews the results of the external audit work with regard to the adequacy and appropriateness of our financial accounting and internal controls. Management and independent auditor presentations to and discussions with the Audit Committee also cover various topics and events that may have significant financial impact or are the subject of discussions between management and the independent auditor. In addition, the Audit Committee generally oversees our internal financial controls and financial disclosure procedures.

The “audit committee financial experts” designated by the Board are Col. Richard A. Cowell (Ret.) and Brian Turner, each an independent director. Col. Cowell holds a degree in accounting and has served for ten years as Chair of our Audit Committee. During his twenty-five years of service in the United States Army, Col. Cowell oversaw and actively supervised various complex governmental projects that involved government accounting with a breadth and level of complexity comparable to accounting issues raised by our financial statements, including issues relating to estimates, accruals, and reserves. Since retiring from the Army, Col. Cowell served as a Principal at Booz Allen Hamilton, Inc., where he provided consulting services relating to significant government projects and grants which involve significant and complex accounting issues. Mr. Turner has eight years experience as a chief financial officer of three public companies and has thirteen years of experience in various roles at PricewaterhouseCoopers LLP, including Director, Corporate Finance. Mr. Turner has been actively involved in and has supervised the preparation of financial statements that present a breadth and complexity of issues comparable to accounting issues raised by our financial statements.

The Compensation Committee

The Compensation Committee makes decisions on behalf of, and recommendations to, the Board regarding salaries, incentives and other forms of compensation for directors, officers, and other key employees, and administers policies relating to compensation and benefits. The Compensation Committee also serves as the Plan Administrator for our stock option plans. Messrs. Gorton and Turner and Ms. Horan currently serve as members of the Compensation Committee, with Mr. Turner serving as chairman. The Compensation Committee met 2 times during 2012.

The Nominating Committee

The Nominating Committee counsels the Board of Directors with respect to Board and Committee structure and membership. In fulfilling its duties, the Nominating Committee, among other things, will:

- establish criteria for nomination to the Board and its committees, taking into account the composition of the Board as a whole;
- identify, review, and recommend director candidates for the Board;
- recommend directors for election at the annual meeting of shareholders and to fill new or vacant positions;
- establish policies with respect to the process by which our shareholders may recommend candidates to the Nominating Committee for consideration for nomination as a director;

- assess and monitor, with Board involvement, the performance of the Board; and
- recommend directors for membership on Board Committees.

Messrs. Cowell, Gorton and Mulligan currently serve as members of the Nominating Committee, with Mr. Mulligan serving as Chairman. The Nominating Committee met one time during 2012.

The Nominating Committee will consider recommendations for directorships submitted by shareholders, or groups of shareholders, that have beneficially owned at least 5% of our outstanding shares of common stock for at least one year prior to the date the nominating shareholder submits a candidate for nomination as a director. A nominating shareholder or group of nominating shareholders may submit only one candidate for consideration. Shareholders who wish the Nominating Committee to consider their recommendations for nominees for the position of director should submit their request in writing no later than the 120th calendar day before the anniversary of the date of the prior year's annual meeting proxy statement was released to shareholders. Such written requests should be submitted to the Nominating Committee care of the Corporate Secretary, MicroVision, Inc., 6222 185th Avenue NE, Redmond, Washington 98052, and must contain the following information:

- The name, address, and number of shares of common stock beneficially owned by the nominating shareholder and each participant in a nominating shareholder group (including the name and address of all beneficial owners of more than 5% of the equity interests of an nominating shareholder or participant in a nominating shareholder group);
- A representation that the nominating shareholder, or nominating shareholder group, has been the beneficial owner of more than 5% of our outstanding shares of common stock for at least one year and will continue to beneficially own at least 5% of our outstanding shares of common stock through the date of the annual meeting;
- A description of all relationships, arrangements, or understandings between or among the nominating shareholder (or any participant in a nominating shareholder group) and the candidate or any other person or entity regarding the candidate, including the name of such person or entity;
- All information regarding the candidate that we would be required to disclose in a proxy statement filed pursuant to the rules and regulations of the SEC with respect to a meeting at which the candidate would stand for election;
- Confirmation that the candidate is independent, with respect to the Company, under the independence requirements established by us, the SEC, and NASDAQ listing requirements, or, if the candidate is not independent with respect to the Company under all such criteria, a description of the reasons why the candidate is not independent;
- The consent of the candidate to be named as a nominee and to serve as a member of the Board if nominated and elected;
- A representation signed by the candidate that if elected he or she will: (1) represent all shareholders of the Company in accordance with applicable laws, and our certificate of incorporation, by-laws, and other policies; (2) comply with all rules, policies, or requirements generally applicable to non-employee directors; and (3) upon request, complete and sign customary Directors and Officers Questionnaires.

In its assessment of each potential candidate, the Nominating Committee will review the nominee's judgment, experience, independence, understanding of our or other related industries and such other factors the Nominating Committee determines are pertinent in light of the current needs of the Board. The Nominating Committee will also take into account the ability of a director to devote the time and effort necessary to fulfill his or her responsibilities.

Nominees may be suggested by directors, members of management, and, as described above, by shareholders. In identifying and considering candidates for nomination to the Board, the Nominating Committee considers, in addition to the requirements set out in the Nominating Committee charter, quality of experience, our needs and the range of talent and experience represented on the Board.

Shareholder Communication with the Board of Directors

We have adopted written procedures establishing a process by which our shareholders can communicate with the Board of Directors regarding various topics related to the Company. A shareholder desiring to communicate with the Board, or any individual director, should send his or her written message to the Board of Directors (or the applicable director or directors) care of the Corporate Secretary, MicroVision, Inc., 6222 185th Avenue NE, Redmond, Washington 98052. Each submission will be forwarded, without editing or alteration, by the Secretary to the Board, or the applicable director or directors, on or prior to the next scheduled meeting of the Board. The Board will determine the method by which such submission will be reviewed and considered. The Board may also request the submitting shareholder to furnish additional information it may reasonably require or deem necessary to sufficiently review and consider the submission of such shareholder.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires that our directors, executive officers, and greater-than 10% shareholders file reports with the SEC relating to their initial beneficial ownership of our securities and any subsequent changes. They must also provide us with copies of the reports.

Based solely on a review of the copies of such forms in our possession, and on written representations from reporting persons, we believe that all of these reporting persons complied with their filing requirements during 2012, except that (i) two reports – one Form 3 and one Form 5 – covering two transactions were filed by Mr. Shmuel Farhi after the filing deadline, and (ii) one report on Form 3 covering one transaction was filed by Mr. Ben Lawrence Farhi after the filing deadline.

Code of Ethics

We have adopted a code of ethics applicable to our principal executive officer, principal financial officer, principal accounting officer and general counsel, known as the Code of Ethics for MicroVision Executives. We have also adopted a code of conduct applicable to our directors, officers, and employees, known as the Code of Conduct. The Code of Ethics for MicroVision Executives and the Code of Conduct are available on our website. In the event that we amend or waive any of the provisions of the Code of Ethics for MicroVision Executives applicable to our principal executive officer, principal financial officer, and principal accounting officer, we intend to disclose the same on our website at www.microvision.com.

Proposal Two—Approval of the 2013 MicroVision, Inc. Incentive Plan

The Board of Directors believes that equity incentives are an important tool that is used to attract, retain and motivate employees. As we have been working to conserve cash used in operations, we expect approval of this proposal will provide us an important compensation tool. The Seattle labor market is highly competitive. For example, offices for Microsoft, Amazon, Yahoo, Google, Facebook, F5 Networks, Intellectual Ventures, Phillips and others are in our vicinity.

The Board, approved the 2013 MicroVision, Inc. Incentive Plan (the “Incentive Plan”), subject to shareholder approval. The Incentive Plan amends, restates and renames our 2006 MicroVision, Inc. Incentive Plan (as amended to date, the “Existing Plan”). Under the Existing Plan, a maximum of 2,750,000 shares of common stock may be delivered in satisfaction of awards. The Incentive Plan, if approved, would increase the shares of common stock by 1,600,000 to a maximum of 4,350,000 shares of common stock that may be delivered in satisfaction of awards. In addition, the Incentive Plan will terminate on the tenth anniversary of the date of approval by shareholders, unless earlier terminated by the Board. Except for the share increase and new termination date, the substantive terms of the Incentive Plan are the same as the Existing Plan.

The Board believes that the Incentive Plan promotes the interests of stockholders consistent with principles of good corporate governance. In particular:

- *Independent Committee.* The Incentive Plan will continue to be administered by the compensation committee and its authorized delegates. The compensation committee is composed entirely of independent directors who meet Nasdaq’s and the Company’s standards for independence and who meet the definition of “outside directors” for purposes of the performance-based compensation exemption under Internal Revenue Code Section 162(m).
- *Limits on Awards.* The Incentive Plan limits the number of stock options, SARs or performance awards that may be granted to any participant in a three-year period, and also limits the annual deferred stock awards for non-employee directors.
- *No Discounted Stock Options or SARs.* All stock option and SAR awards must have an exercise or strike price that is not less than the fair market value of the underlying common stock on the date of grant.
- *No Repricing.* The Incentive Plan prohibits, without stockholder approval, (a) the cancellation of outstanding awards requiring exercise and the grant in substitution therefor of new awards having a lower exercise price that has the effect of a repricing and (b) the amendment of such awards to reduce the exercise price thereof.
- *Performance Awards.* Under the Incentive Plan, the compensation committee may grant performance-based awards intended to qualify as exempt performance-based compensation under Section 162(m) of the Code.

Below is a summary of the material features of the Incentive Plan. It may not contain all of the information important to you. We urge you to read the entire Incentive Plan, a copy of which appears as *Appendix A* to this Proxy Statement.

On April 12, 2013, the last reported sale price of the Company’s common stock on the Nasdaq Global Market was \$1.85 per share.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE “FOR” THE FOREGOING APPROVAL OF THE 2013 MICROVISION, INC. INCENTIVE PLAN.

Summary of the Incentive Plan

The Incentive Plan amends, restates and renames the Existing Plan. The Existing Plan was originally adopted by the Board in April 2006 and approved by the shareholders in September 2006. The Incentive Plan will terminate on the tenth anniversary of the date of approval by the shareholders, unless earlier terminated by the Board. Under the Existing Plan, a maximum of 2,750,000 shares of common stock may be delivered in satisfaction of awards. Under the Incentive Plan, if approved, a maximum of 4,350,000 shares of common stock may be delivered in satisfaction of awards. The maximum number of shares of common stock for which stock options may be granted to any person in any calendar year and the maximum number of shares of common stock subject to stock appreciation rights, or “SARs,” granted to any person in any calendar year will each be 250,000. The maximum benefit that will be paid to any person under other awards in any calendar year will be, to the extent paid in shares, 250,000 shares, and, to the extent paid in cash, \$3,000,000. In the event of a stock dividend, stock split or other change in our capital structure, the Administrator will make appropriate adjustments to the limits described above and will also make appropriate adjustments to the number and kind of shares of stock or securities subject to awards, any exercise prices relating to awards and any other provisions of awards affected by the change. The Administrator may also make similar adjustments to take into account other distributions to stockholders or any other event, if the Administrator determines that adjustments are appropriate to avoid distortion in the operation of the Incentive Plan and to preserve the value of awards.

Administration. The Board of Directors administers the Incentive Plan. The term “Administrator” is used in this proxy statement to refer to the person (the Board and its delegates) charged with administering the Incentive Plan. The Administrator has full authority to determine who will receive awards and to determine the types of awards to be granted as well as the amounts, terms, and conditions of any awards. Awards may be in the form of options, SARs, restricted or unrestricted stock, deferred stock, other stock-based awards, or cash awards, and any such award may be a performance-based award. The Administrator has the right to determine any questions that may arise regarding the interpretation and application of the provisions of the Incentive Plan and to make, administer, and interpret such rules and regulations as it deems necessary or advisable. Determinations of the Administrator made under the Incentive Plan are conclusive and bind all parties.

Eligibility. Participation is limited to employees, non-employee directors, as well as consultants and advisors who are selected by the Administrator to receive an award. The group of persons from which the Administrator will select participants consisted of approximately 75 individuals as of April 12, 2013.

Stock Options. The Administrator may, from time to time, award options to any participant subject to the limitations described above. Stock options give the holder the right to purchase shares of common stock of the Company within a specified period of time at a specified price. Two types of stock options may be granted under the Incentive Plan: incentive stock options, or “ISOs”, which are subject to special tax treatment as described below, and nonstatutory options, or “NSOs.” Eligibility for ISOs is limited to employees of the Company and its subsidiaries.

The exercise price of an ISO cannot be less than the fair market value of the common stock at the time of grant. In addition, the expiration date of an ISO cannot be more than ten years after the date of the original grant. In the case of NSOs, the exercise price and the expiration date are determined in the discretion of the Administrator. The Administrator also determines all other terms and conditions related to the exercise of an option, including the consideration to be paid, if any, for the grant of the option, the time at which options may be exercised and conditions related to the exercise of options.

Stock Appreciation Rights. The Administrator may grant SARs under the Incentive Plan. An SAR entitles the holder upon exercise to receive an amount in cash or common stock or a combination thereof (as determined by the Administrator) computed by reference to appreciation in the value of a share of common stock above a base amount which may not be less than fair market value on the date of grant.

Stock Awards; Deferred Stock. The Incentive Plan provides for awards of nontransferable shares of restricted common stock, as well as unrestricted shares of common stock. Awards of restricted stock and unrestricted stock may be made in exchange for past services or other lawful consideration. Generally, awards of restricted stock are subject to the requirement that the shares be forfeited or resold to the Company unless specified conditions are met. Subject to these restrictions, conditions and forfeiture provisions, any recipient of an award of restricted stock will have all the rights of a stockholder of the Company, including the right to vote the shares and to receive dividends. Other awards under the Incentive Plan may also be settled with restricted stock. The Incentive Plan also provides for deferred grants (“deferred stock”) entitling the recipient to receive shares of common stock in the future on such conditions as the Administrator may specify. Any stock award or award of deferred stock resulting in a deferral of compensation subject to Section 409A of the Code will be construed to the maximum extent possible consistent with the requirements of Section 409A of the Code.

Performance Awards. The Administrator may also make awards subject to the satisfaction of specified performance criteria. Performance awards may consist of common stock or cash or a combination of the two. The performance criteria used in connection with a particular performance award will be determined by the Administrator. In the case of performance awards intended to qualify for exemption under Section 162(m) of the Internal Revenue Code, the Administrator will use objectively determinable measures of performance in accordance with Section 162(m) that are based on any or any combination of the following (determined either on a consolidated basis or, as the context permits, on a divisional, subsidiary, line of business, project or geographical basis or in combinations thereof): sales; revenues; assets; expenses; earnings before or after deduction for all or any portion of interest, taxes, depreciation, or amortization, whether or not on a continuing operations or an aggregate or per share basis; return on equity, investment, capital or assets; one or more operating ratios; borrowing levels, leverage ratios or credit rating; market share; capital expenditures; cash flow; stock price; stockholder return; sales of particular products or services; customer acquisition or retention; acquisitions and divestitures (in whole or in part); joint ventures and strategic alliances; spin-offs, split-ups and the like; reorganizations; or recapitalizations, restructurings, financings (issuances of debt or equity) or refinancings. The Administrator will determine whether the performance targets or goals that have been chosen for a particular performance award have been met.

General Provisions Applicable to All Awards. Neither ISOs nor, except as the Administrator otherwise expressly provides, other awards may be transferred other than by will or by the laws of descent and distribution. During a recipient’s lifetime an ISO and, except as the Administrator may provide, other non-transferable awards requiring exercise may be exercised only by the recipient. Shares delivered under the Incentive Plan may consist of either authorized but unissued or treasury shares. The number of shares delivered upon exercise of a stock option is determined net of any shares transferred by the optionee to the Company (including through the holding back of shares that would otherwise have been deliverable upon exercise) in payment of the exercise price or tax withholding.

Mergers and Similar Transactions. In the event of a consolidation or merger in which the Company is not the surviving corporation or which results in the acquisition of substantially all of the Company’s stock by a person or entity or by a group of persons or entities acting together, or in the event of a sale of substantially all of the Company’s assets or a dissolution or liquidation of the Company, the following rules will apply except as otherwise provided in an Award:

- If the transaction is one in which there is an acquiring or surviving entity, the Administrator may provide for the assumption of some or all outstanding awards or for the grant of new awards in substitution therefor by the acquiror or survivor.
- If the transaction is one in which holders of common stock will receive a payment (whether cash, non-cash or a combination), the Administrator may provide for a “cash-out”, with respect to some or all awards, equal in the case of each affected award to the excess, if any, of (A) the fair market value of one share of common stock times the number of shares of common stock subject to the award, over

(B) the aggregate exercise or purchase price, if any, under the award (in the case of an SAR, the aggregate base price above which appreciation is measured), in each case on such payment terms and other terms, and subject to such conditions, as the Administrator determines.

- If there is no assumption or substitution of any award requiring exercise, each such outstanding award will become fully exercisable prior to the completion of the transaction on a basis that gives the holder of the award a reasonable opportunity to exercise the award and participate in the transaction as a stockholder.
- Each award, other than outstanding shares of restricted stock, unless assumed will terminate upon consummation of the transaction.
- Any share of common stock delivered pursuant to the “cash-out” or acceleration of an award, as described above, may, in the discretion of the Administrator, contain such restrictions, if any, as the Administrator deems appropriate to reflect any performance or other vesting conditions to which the award was subject. In the case of restricted stock, the Administrator may require that any amounts delivered, exchanged or otherwise paid in respect of such stock in connection with the transaction be placed in escrow or otherwise made subject to such restrictions as the Administrator deems appropriate to carry out the intent of the Incentive Plan.

Amendment. The Administrator may at any time or times amend the Incentive Plan or any outstanding Award for any purpose which may at the time be permitted by law, and may at any time terminate the Incentive Plan as to any future grants of awards. The Administrator may not, however, alter the terms of an Award so as to affect adversely the Participant’s rights under the Award without the Participant’s consent, unless the Administrator expressly reserved the right to do so at the time of the Award.

Federal Income Tax Consequences

The following discussion summarizes certain federal income tax consequences of the grant and exercise of stock options under the Incentive Plan under the law as in effect on the date of this proxy statement. The summary does not purport to cover federal employment tax or other federal tax consequences that may be associated with stock options or federal tax consequences associated with other awards under the Incentive Plan, nor does it cover state, local or non-U.S. taxes.

ISOs. In general, an optionee realizes no taxable income for regular income tax purposes upon the grant or exercise of an ISO. However, the exercise of an ISO may result in an alternative minimum tax liability to the optionee. With certain exceptions, a disposition of shares purchased under an ISO within two years from the date of grant or within one year after exercise (a “disqualifying disposition”) produces ordinary income to the optionee equal to the value of the shares at the time of exercise less the exercise price. A corresponding deduction is available to the Company. Any additional gain recognized in the disqualifying disposition is treated as a capital gain for which the Company is not entitled to a deduction. In general, if the disqualifying disposition is an arm’s length sale at less than the fair market value of the shares at time of exercise, the optionee’s ordinary income, and the Company’s corresponding deduction, are limited to the excess, if any, of the amount realized on the sale over the amount paid by the optionee for the stock. If the optionee does not dispose of the shares until after the expiration of these one- and two-year holding periods, any gain or loss recognized upon a subsequent sale is treated as a long-term capital gain or loss for which the Company is not entitled to a deduction.

NSOs. In general, in the case of a NSO, the optionee has no taxable income at the time of grant but realizes income in connection with exercise of the option in an amount equal to the excess (at the time of exercise) of the fair market value of the shares acquired upon exercise over the exercise price; a corresponding deduction is available to the Company; and upon a subsequent sale or exchange of the shares, any recognized gain or loss after the date of exercise is treated as a capital gain or loss for which the Company is not entitled to a deduction.

In general, an ISO that is exercised by the optionee more than three months after termination of employment is treated as an NSO. ISOs are also treated as NSOs to the extent they first become exercisable by an individual in any calendar year for shares having a fair market value (determined as of the date of grant) in excess of \$100,000.

The Administrator may award stock options that are exercisable for restricted stock. Under Section 83 of the Code, an optionee who exercises an NSO for restricted stock will generally have income only when the stock vests. The income will equal the fair market value of the stock at that time less the exercise price. However, the optionee may make a so-called “83(b) election” in connection with the exercise to recognize taxable income at that time. Assuming no other applicable limitations, the amount and timing of the deduction available to the Company will correspond to the income recognized by the optionee. If an ISO is exercised for restricted stock, a timely 83(b) election will have the effect, in general, of fixing the amount taken into account for alternative minimum tax purposes at the excess of the fair market value of the shares at time of exercise over the exercise price. However, for regular income tax purposes the ordinary income and corresponding Company deduction associated with a disqualifying disposition of stock acquired upon exercise of an ISO, where the stock was restricted at time of exercise but vested prior to the disposition, would be determined by reference to the fair market value of the shares on the date of vesting whether or not the optionee made an 83(b) election.

Under the so-called “golden parachute” provisions of the Code, the accelerated vesting of awards in connection with a change in control of the Company may be required to be valued and taken into account in determining whether a participant has received compensatory payments, contingent on the change in control, in excess of certain limits. If these limits are exceeded, a substantial portion of amounts payable to the participant, including the payment consisting of accelerated vesting of awards, may be subject to an additional 20% federal tax and may be nondeductible to the Company.

Under Section 162(m) of the Code, certain remuneration in excess of \$1 million may be nondeductible if paid to any “covered employee” of a publicly held corporation (generally the corporation’s chief executive officer and its next three most highly compensated executive officers, excluding the chief financial officer, in the year that the compensation is paid). Stock options issued under the Incentive Plan are intended to qualify for exemption from the Section 162(m) deduction limit.

Stock options awarded under the Incentive Plan are intended to be exempt from the rules of Section 409A of the Code and guidance issued thereunder and will be administered accordingly. However, neither the Company nor the Administrator, nor any person affiliated with or acting on behalf of the Company or the Administrator, will be liable to any participant or to the estate or beneficiary of any participant by reason of any acceleration of income, or any additional tax or interest penalties, resulting from the failure of an award to satisfy the requirements of Section 409A of the Code.

Proposal Three—Ratification of the Selection of Independent Registered Public Accounting Firm

The Audit Committee of the Board has selected Moss Adams LLP as the Company’s independent registered public accounting firm for the current fiscal year, subject to ratification by the Company’s stockholders at the Annual Meeting. The Company has been advised by Moss Adams LLP that it is a registered public accounting firm with the Public Company Accounting Oversight Board (the “PCAOB”) and complies with the auditing, quality control, and independence standards and rules of the PCAOB and the SEC. A representative of Moss Adams LLP is expected to be present at the Annual Meeting to respond to appropriate questions and to make a statement if he or she so desires. A representative of Pricewaterhouse Coopers LLP, the firm’s independent registered public accounting firm for the 2011 fiscal year, is not expected to be present at the Annual Meeting.

Although stockholder ratification of the selection of Moss Adams LLP as the Company’s independent registered public accounting firm is not required, the Board is nevertheless submitting the selection of Moss Adams LLP to the stockholders for ratification. Unless contrary instructions are given, shares represented by proxies solicited by the Board will be voted for the ratification of the selection of Moss Adams LLP as the independent registered public accounting firm of the Company for the year ending December 31, 2013. Should the selection of Moss Adams LLP not be ratified by the stockholders, the Audit Committee will reconsider the matter. Even in the event the selection of Moss Adams LLP is ratified, the Audit Committee, in its discretion, may direct the appointment of a different independent registered public accounting firm at any time during the year if it determines that such a change is in the best interests of the Company and its stockholders.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE “FOR” THE RATIFICATION OF THE SELECTION OF MOSS ADAMS LLP AS THE COMPANY’S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.

OTHER BUSINESS

The Company knows of no other matters to be voted on at the Annual Meeting or any adjournment or postponement of the meeting. If, however, other matters are presented for a vote at the meeting, the proxy holders (the individuals designated on the proxy card) will vote your shares according to their judgment on those matters.

EXECUTIVE COMPENSATION

Summary Compensation Table for 2012

This table shows certain information about the compensation we paid our Chief Executive Officer and our two other most highly compensated executive officers who were serving as executive officers as of December 31, 2012. These officers are referred to as named executive officers.

<u>Name and Principal Position</u>	<u>Fiscal Year</u>	<u>Salary (\$)</u>	<u>Bonus (\$)</u>	<u>Stock Awards (\$)(2)</u>	<u>Option Awards (\$)(2)</u>	<u>All Other Compensation (\$)(3)(4)</u>	<u>Total (\$)</u>
Alexander Y. Tokman President and Chief Executive Officer and Director	2012	359,443	—	—	104,888	2,247	466,578
	2011	359,443	—	455,000	—	7,350	821,793
Jeff T. Wilson Chief Financial Officer(1)	2012	220,460	—	—	—	—	220,460
	2011	218,489	—	143,000	—	—	361,489
Dale E. Zimmerman Vice President, Research and Development	2012	189,167	28,988	—	52,444	—	270,599
	2011	100,444	—	—	17,469	—	117,913

- (1) On September 21, 2012, we announced that Mr. Wilson resigned as Chief Financial Officer but would continue to work in that capacity through a transition period.
- (2) Reflects the fair value of stock and option awards on the grant date in accordance with FASB ASC Topic 718.
- (3) Perquisites and other personal benefits are valued on an aggregate incremental cost basis. All figures shown below in footnote 4 represent the direct dollar cost incurred in providing these perquisites and other personal benefits to the named executive officers.
- (4) The table below shows all other amounts under All Other Compensation for fiscal 2011 and 2012:

<u>Name and Principal Position</u>	<u>Fiscal Year</u>	<u>Employer contribution to 401(k) account (5)</u>
Alexander Y. Tokman	2012	2,247
	2011	7,350
Jeff T. Wilson	2012	—
	2011	—
Dale E. Zimmerman	2012	—
	2011	—

- (5) This column represents the amount of matching contributions made to our qualified 401(k) retirement plan for each of our named executive officers.

Outstanding Equity Awards at Year-End 2012

The following table shows outstanding equity awards for our named executive officers as of December 31, 2012:

Name		Option Awards				Stock Awards		
		Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date	Number of Shares of Stock That Have Not Vested (#)	Market Value of Shares of Stock That Have Not Vested (\$)	
Alexander Y. Tokman	1	37,500	—	22.16	07/07/2015			
	2	47,500	—	27.44	04/13/2016			
	2	37,500	—	35.68	04/13/2016			
	2	26,969	—	35.12	04/19/2017			
	2	18,509	—	17.84	03/25/2018			
	4	8,594	—	17.84	03/25/2018			
	2	12,535	4,179	14.88	04/23/2019			
	4	8,750	—	14.88	04/23/2019			
	2	6,964	6,964	27.28	04/26/2020			
	4	5,878	—	27.28	04/26/2020	5	5,969	27.28
	7	26,667	53,333	1.80	08/03/2022	6	43,750	10.40
	Jeff T. Wilson	3	9,829	—	22.16	06/13/2013		
		2	1,250	—	27.44	04/05/2016		
2		13,452	—	35.12	04/19/2017			
2		4,510	—	17.84	03/25/2018			
4		3,151	—	17.84	03/25/2018			
2		3,013	1,004	14.88	04/23/2019			
4		3,163	—	14.88	04/23/2019			
2		1,673	1,674	27.28	04/26/2020	5	1,435	27.28
4		2,125	—	27.28	04/26/2020	6	13,750	10.40
Dale E. Zimmerman	2	937	2,813	7.62	08/04/2021			
	7	13,334	26,666	1.80	08/03/2022			

- (1) The indicated option vested 20% on the grant date and 20% on each subsequent annual anniversary of the grant date.
- (2) The indicated option vests 25% on each anniversary of the grant date.
- (3) The indicated options vested 25% on the grant date and 25% on each subsequent anniversary of the grant date.
- (4) The indicated options vested 100% on the date of grant.
- (5) The indicated stock awards vest 100% on the third anniversary of the date of grant.
- (6) The indicated stock award vests based on satisfying both a service condition and a milestone achievement related to the sales of direct green laser PicoP display engine technology.
- (7) The indicated options vested 34% on 8/15/2012, 33% on 8/15/2013 and 33% on 8/15/2014.

Potential Payments upon Termination or Change in Control

All of our named executive officers, except for Alexander Tokman, are employed at will and do not have employment agreements. Mr. Tokman's employment agreement is summarized below. Under the 2006 Incentive Plan, 100% of each of the named executive officers' options which have not been exercised will become fully vested and immediately exercisable upon a change of control of the Company that does not result in an assumption, substitution or pay off of such award by the acquiring company. In addition, 100% of each named executive officers restricted stock units will become fully vested upon a change of control at the Company.

In addition, as more fully described below under the heading “Severance and Employment Agreements—Change of Control Severance Agreement,” in November 2011 the Company entered into a Change of Control Severance Agreement pertaining to certain of its executive officers, including Messrs. Walker and Wilson, and in September 2012 the Company entered into a Severance and General Release Agreement with Mr. Wilson.

Severance and Employment Agreements

Mr. Tokman’s Employment Agreement

Payment upon Termination. Under Mr. Tokman’s employment agreement with the Company dated April 7, 2009, as amended, if he dies, becomes disabled, retires, terminates his employment other than for “good reason” or is terminated by us for “cause,” he will be provided his earned but unpaid base salary, earned but unused vacation time, any bonus compensation for the prior year which is unpaid on the date of termination to the extent bonuses are paid to other officers, 18 months of certain group and medical benefits for Mr. Tokman’s family and any business expenses which have not yet been reimbursed by us. If we terminate him “other than for cause,” or if he terminates his employment for “good reason,” he will receive, in addition to the amounts listed in the foregoing sentence, his base salary for 18 months following the date of his termination, plus an amount equal to his target bonus for the year prior to the termination, and we will continue to pay certain group medical and dental expenses in that 18-month period. We do not accelerate the vesting of equity incentives for our executive officers in the event of a termination of employment. In the event of a change in control of the Company, all unvested stock options vest upon the change in control if the change in control does not result in an assumption, substitution or pay off of such award by the acquiring company, and the Compensation Committee has the discretion to remove the vesting restrictions on all unvested restricted shares.

In determining whether a termination occurred with or without “cause,” “cause” is deemed to exist under Mr. Tokman’s employment agreement when there is a repeated willful failure to perform or gross negligence in the performance of his duties; fraud, embezzlement or other dishonesty with respect to us; a material breach of his obligations of confidentiality, non-competition, or non-solicitation against us; or commission of a felony or other crime involving moral turpitude.

In determining whether Mr. Tokman has “good reason” to terminate his employment, “good reason” is deemed to exist when: we have failed to continue him in a certain position; there is a substantial diminution in the nature and scope of his responsibilities; there is a material failure of us to provide him with base salary and benefits, excluding an inadvertent failure which is cured within a certain time period; or his office is relocated more than thirty-five miles from the then-current location of our principal offices without his consent. Mr. Tokman may only terminate his employment for good reason if he (a) gives notice to us within ninety (90) days of the initial occurrence of the event or condition constituting good reason, setting forth in reasonable detail the nature of such good reason; (b) we fail to cure within thirty (30) days following such notice; and (c) Mr. Tokman terminates his employment within thirty (30) days following the end of the thirty (30)-day cure period (if we fail to cure).

Payment upon a Change in Control. In the event of a change of control and the termination of Mr. Tokman’s employment “other than for cause” by us within two years following a change of control or if Mr. Tokman terminates his employment for “good reason” within six months following a change of control, we must pay Mr. Tokman an amount equal to two times the sum of one year of base salary plus a payment equal to his target bonus. The foregoing amount will be paid in a single lump sum. We must also pay the full cost of Mr. Tokman’s continued participation in our group health and dental plans for two years or, if less, for so long as he remains entitled to continue such participation under applicable law. In addition, 100% of his options, restricted stock or other equity awards which have not been exercised and have not expired or been surrendered or cancelled, will become exercisable in accordance with the applicable award agreement.

Our obligation to pay the severance amounts mentioned in this “Payments upon a Termination or Change in Control” section is subject to Mr. Tokman signing an employee release. Also, Mr. Tokman must comply with

certain confidential information and assignment of intellectual property obligations. Further, Mr. Tokman is subject to a non-compete and non-solicit obligation for 12 months following his termination.

Mr. Wilson's Severance and General Release Agreement

On September 21, 2012, we announced that Mr. Wilson resigned as Chief Financial Officer but would continue to work in that capacity through a transition period. In connection with his resignation, we and Mr. Wilson entered into a Severance and General Release Agreement. Under that agreement, we agreed to pay to Mr. Wilson his regular monthly salary and employee benefits through the date of his separation and to make a severance payment of \$163,345.00. Further, we agreed that 15,185 unvested restricted stock units and 13,750 unvested restricted shares would vest immediately as of the separation date. In consideration of our agreement to extend Mr. Wilson's employment through as outlined in the agreement and provision of severance pay and other benefits, Mr. Wilson agreed to a general release of claims.

Change of Control Severance Plan

In November 2011, the Company adopted a Change of Control Severance Plan (the "Severance Plan"). Under the Severance Plan, a "change of control" is defined as the occurrence of any of the following events: (i) the acquisition by any person or group of more than 50% of the then outstanding securities of the Company entitled to vote generally in the election of directors; (ii) individuals who constitute the board of directors cease for any reason to constitute at least a majority of the board, provided, however, that any individual becoming a director whose election, or nomination for election, by the Company's shareholders, was approved by a vote of at least a majority of the incumbent directors are considered as though such individual were a member of the incumbent board; (iii) certain reorganizations, recapitalizations, mergers or consolidations; (iv) the sale, transfer or other disposition of all or substantially all of the assets of the Company; or (v) approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

In the event that a "designated participant," including the Chief Financial Officer and the General Counsel, is terminated on, or during the two-year period following, a change of control, for any reason other than by the Company for cause (or, in the case of a participant other than a designated participant, any termination of the participant's employment, on or during the eighteen-month period following a change of control, by the Company other than for cause or by the participant for good reason), the Company will pay the participant an amount equal to one year of base salary at the rate in effect at the date of termination or, if higher, on the date of the change of control, plus a payment equal to the target bonus for which the participant is eligible, which amount shall be payable within ten business days following the later of the effective date of the release of claims described below or the date it is received by the Company. If, however, the timing associated with the execution, revocation and effectiveness of the release of claims would otherwise allow the payment described above to be made in either of two taxable years, such payment will not be made prior to the first day of the second taxable year. The Company will also pay the full cost of the participant's continued participation in the Company's group health and dental plans for one year or, if less, for so long as the participant remains entitled to continue such participation under applicable law. In addition, all options held by the participant which are not exercisable, and which have not been exercised and have not expired or been surrendered or cancelled, will become initially exercisable upon termination and will otherwise be and remain exercisable in accordance with their terms, and all other equity-based compensation awards granted to the participant, including, restricted stock and restricted stock units, will become vested and become free of restrictions.

Payment under the Plan is contingent upon the participant executing and delivering to the Company a release from all claims in any way resulting from, arising out of or connected with such participant's employment with the Company.

Director Compensation for 2012

The following table provides information concerning our non-employee directors during 2012. Alexander Tokman was not paid additional compensation for his service as director and his compensation is fully reflected in the other tables contained in this report.

<u>Name</u>	<u>Fees Earned or Paid in Cash (\$)</u>	<u>Option Awards (\$)(1)(2)</u>	<u>Total (\$)</u>
Richard A. Cowell	49,000	33,708	82,708
Slade Gorton	40,000	33,708	73,708
Jeanette Horan	38,000	33,708	71,708
Perry Mulligan	44,000	33,708	77,708
Brian Turner	50,000	33,708	83,708

- (1) Reflects the fair value of option awards on the grant date in accordance with FASB ASC Topic 718.
- (2) The following table shows the number of outstanding shares underlying option and stock awards for each of our non-employee directors as of December 31, 2012:

<u>Name</u>	<u>Option Awards (#)</u>	<u>Stock Awards (#)(3)</u>
Richard A. Cowell	31,875	1,974
Slade Gorton	33,750	1,974
Jeanette Horan	30,000	1,974
Perry Mulligan	20,625	1,087
Brian Turner	30,000	1,974

- (3) The indicated awards represent one-half of each non-employee directors' annual fee for 2008 and 2011, which was paid in shares of common stock.

Each non-employee director is granted a non-statutory option to purchase 15,000 shares of common stock on the date on which he or she is first elected or appointed to the Board of Directors. These options are fully vested and immediately exercisable upon the date of grant. Each of our non-employee directors also receives, upon his or her initial appointment or election and upon each subsequent reelection to the Board of Directors, an option to purchase 15,000 shares that vests in full on the earlier of (i) the day prior to the date of our annual meeting of shareholders next following the date of grant, or (ii) one year from the date of grant, provided the non-employee director continues to serve as a director on the vesting date. If a non-employee director ceases to be a director for any reason other than death or disability before his or her term expires, then any outstanding unvested options issued to such Independent Director will be forfeited. Options vested as of the date of termination for any reason other than death or disability are exercisable through the date of expiration. The exercise price for each option is equal to the closing price of our common stock as reported on the NASDAQ Global Market on the date of grant. The options generally expire on the tenth anniversary of the date of grant.

In addition, each non-employee director generally receives the following cash compensation for his or her service as a director:

- A fee of \$20,000 that accrues as of the date of appointment or election to the Board of Directors, and as of the date of each subsequent reelection;
- A fee of \$3,000 for the Board chair or \$2,000 per director for each Board meeting attended by the director; and
- A fee of \$3,000 for the committee chair or \$2,000 per committee member for each committee meeting attended by the director that is held on a day other than a day on which a Board meeting is held.

All directors are reimbursed for reasonable travel and other out-of-pocket expenses incurred in attending meetings of the Board of Directors.

INFORMATION ABOUT MICROVISION COMMON STOCK OWNERSHIP

Security Ownership of Certain Beneficial Owners and Management

The following table shows as of April 12, 2013, the number of shares of our common stock beneficially owned by our directors and nominees, the named executive officers, and all directors and executive officers as a group and each person known by us to own beneficially more than 5% of our outstanding common stock.

<u>Name of Beneficial Owner</u>	<u>Number of Shares (1)</u>	<u>Percent of Common Stock (2)</u>
Alexander Y. Tokman (3)	287,668	1.1%
Jeff T. Wilson (4)	31,975	*
Dale E. Zimmerman (5)	14,271	*
Richard A. Cowell (6)	36,311	*
Slade Gorton (7)	39,099	*
Jeanette Horan (8)	32,411	*
Perry Mulligan (9)	22,962	*
Brian Turner (10)	33,224	*
Ben Lawrence Farhi (11)	3,011,443	11.9%
All executive officers and directors as a group (9 persons) (12)	525,131	2.0%

* Less than 1% of the outstanding shares of common stock.

- (1) Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Shares of common stock subject to options or warrants that are currently exercisable or convertible or may be exercised or converted within sixty days are deemed to be outstanding and to be beneficially owned by the person holding these options or warrants for the purpose of computing the number of shares beneficially owned and the percentage of ownership of the person holding these securities, but are not outstanding for the purpose of computing the percentage ownership of any other person or entity. Subject to community property laws where applicable, and except as otherwise noted, we believe that each shareholder named in this table has sole voting and investment power with respect to the shares indicated as beneficially owned thereby.
- (2) Percentage of common stock is based on 25,263,387 shares of common stock outstanding as of April 12, 2013.
- (3) Includes 245,027 shares issuable upon exercise of options.
- (4) Includes 13,837 shares issuable upon exercise of options.
- (5) Includes 14,271 shares issuable upon exercise of options.
- (6) Includes 31,875 shares issuable upon exercise of options.
- (7) Includes 33,750 shares issuable upon exercise of options.
- (8) Includes 30,000 shares issuable upon exercise of options.
- (9) Includes 20,625 shares issuable upon exercise of options.
- (10) Includes 30,000 shares issuable upon exercise of options.
- (11) Based on information known to us as of the time of the acquisition of Mr. Farhi's shares.
- (12) Includes 459,253 shares issuable upon exercise of options.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Under the Code of Conduct adopted by us, officers, directors and employees must avoid even the appearance of a conflict of interest. Under the Code of Ethics for MicroVision Executives we have adopted, our chief executive officer, chief financial officer and other senior operating and financial executives must report any material transaction or relationship that reasonably could be expected to give rise to a conflict of interest. We also review questionnaires completed by all directors and executive officers for potential “related-person transactions” between us and related persons. The Board’s Audit Committee is responsible for review, approval, or ratification of related-person transactions. The Audit Committee determines whether the related person has a material interest in a transaction and may approve, ratify, rescind, or take other action with respect to the transaction in its discretion.

AUDIT COMMITTEE REPORT

Review of the Company’s Audited Financial Statements

The Audit Committee serves as the representative of the Board for general oversight of Company’s financial accounting and reporting, systems of internal control, audit process, and monitoring compliance with laws and regulations and standards of business conduct. Management has responsibility for preparing Company’s financial statements, as well as for Company’s financial reporting process. Moss Adams LLP, acting as an independent registered public accounting firm, is responsible for expressing an opinion on the conformity of Company’s audited financial statements with generally accepted accounting principles.

The Audit Committee has reviewed and discussed the audited consolidated financial statements of the Company for the fiscal year ended December 31, 2012 with the Company’s management, and management represented to the Audit Committee that the Company’s consolidated financial statements were prepared in conformity with generally accepted accounting principles. The Audit Committee has discussed with Moss Adams LLP, the Company’s independent auditors for the fiscal year ended December 31, 2012, the matters required to be discussed by the Statement on Auditing Standards No. 61, as amended (Communication with Audit Committees).

The Audit Committee received from Moss Adams LLP the written disclosures and the letter required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) and discussed with the firm its independence. Based on the review and discussions noted above, and subject to the limitations on the role and responsibilities of the Audit Committee referred to in the Charter of the Audit Committee, the Audit Committee recommended to the Board that the Company’s audited consolidated financial statements be included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2012 for filing with the SEC.

This report of the Audit Committee shall not be deemed to be incorporated by reference by any general statement incorporating by reference this Proxy Statement into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the Company specifically incorporates this information by reference.

Audit Committee

Richard A. Cowell, Chairman
Perry M. Mulligan
Brian Turner

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

PricewaterhouseCoopers LLP was our independent registered public accounting firm for the fiscal year ended December 31, 2011. Following a competitive bid process, the Audit Committee dismissed PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm. This action was taken with the goal of significantly reducing audit fees and lowering operating expenses of the Company. The Company notified PricewaterhouseCoopers LLP in writing of the change on September 27, 2012 and an engagement with Moss Adams LLP was approved by the Audit Committee on September 28, 2012.

During the fiscal years ended December 31, 2011 and 2010 and through September 27, 2012, there were (i) no disagreements between the Company and PricewaterhouseCoopers LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreement, if not resolved to the satisfaction of PricewaterhouseCoopers LLP, would have caused PricewaterhouseCoopers LLP to make reference thereto in their reports on the consolidated financial statements for such years, and (ii) no "reportable events" as that term is defined in Item 304(a)(1)(v) of Regulation S-K.

The reports of PricewaterhouseCoopers LLP on the financial statements of the Company for the fiscal years ended December 31, 2011 and December 31, 2010 contained no adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principle, except that PricewaterhouseCoopers LLP's reports for each of the fiscal years ended December 31, 2011 and 2010 included an explanatory paragraph noting that there was substantial doubt about the Company's ability to continue as a going concern.

A letter from PricewaterhouseCoopers LLP addressed to the Commission stating whether it agrees with the above statements was filed as Exhibit 16.1 to the Company's Form 8-K filed with the Commission on October 2, 2012.

Accountant Fees and Services

Our independent auditors, Moss Adams LLP, billed the following fees to us for audit and other services for the fiscal year 2012:

Audit Fees

The aggregate fees billed for professional services rendered by Moss Adams LLP for the audit of our annual financial statements and the review of the financial statements included in our Quarterly Report as of and for the period ended September 30, 2012 on Form 10-Q were \$146,597.

Audit Related Fees

Audit related fees include the aggregate fees billed for professional services rendered by Moss Adams LLP in connection with the audit of the Company's 401(k) plan. Fees for audit related services totaled \$12,791 in 2012.

Tax Fees

Tax fees include the aggregate fees billed for professional services rendered by Moss Adams LLP in connection with federal, state and foreign tax compliance and tax advice. Fees for tax services totaled \$38,433 in 2012.

All Other Fees

Fees for all other services not described above include fees for subscriptions to online accounting research tools. Fees for these services totaled \$907 billed by Moss Adams LLP for 2012.

The Audit Committee has considered whether the provision of services under the heading “All Other Fees” is compatible with maintaining the accountants’ independence and has determined that it is consistent with such independence.

Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditor

The Audit Committee pre-approves all audit services and all permitted non-audit services by the independent auditors. The Audit Committee has delegated the authority to take such action between meetings to the Audit Committee chairman, who reports the decisions made to the full Audit Committee at its next scheduled meeting.

The Audit Committee evaluates whether our use of the independent auditors for permitted non-audit services is compatible with maintaining the independence of the independent auditors. The Audit Committee’s policies prohibit us from engaging the independent auditors to provide any services relating to bookkeeping or other services related to accounting records or financial statements, financial information systems design and implementation, appraisal or valuation services, fairness opinions or contribution-in-kind reports, actuarial services, or internal audit outsourcing services unless it is reasonable to conclude that the results of these services will not be subject to audit procedures. The Audit Committee’s policies completely prohibit us from engaging the independent auditors to provide any services relating to any management function, expert services not related to the audit, legal services, broker-dealer, investment adviser, or investment banking services or human resource consulting.

INFORMATION ABOUT SHAREHOLDER PROPOSALS

In order for a shareholder proposal to be considered for inclusion in the Company's proxy statement for the 2014 Annual Meeting, the written proposal must be received by the Company no later than the 120th calendar day before the anniversary of the date of the prior year's annual meeting proxy statement was released to shareholders. Shareholder proposals must comply with SEC regulations regarding the inclusion of shareholder proposals in company sponsored proxy materials and must contain the information required in the Company's bylaws for shareholder proposals. If you wish to obtain a free copy of the Company's bylaws, please contact Investor Relations, MicroVision, Inc., 6222 185th Avenue NE, Redmond, Washington 98052.

If a shareholder proposal is not included in the Company's proxy statement for the 2014 Annual Meeting, it may be raised from the floor during the meeting if written notice of the proposal is received by the Company not less than 60 nor more than 90 days prior to the meeting or, if less than 60 days' notice of the date of the meeting is given, by the close of business on the 10th business day following the first public announcement of the meeting.

You also may propose candidates for consideration by the Nominating Committee for nomination as directors by writing to us. In order to nominate a director for election at next year's annual meeting of shareholders, you must comply with the Director recommendation procedures described on pages 9 and 10.

ADDITIONAL INFORMATION

Annual Report

The Company's Annual Report for the fiscal year ended December 31, 2012, was first made available to the shareholders of the Company with this Proxy Statement on or about April 22, 2013. The Annual Report is not to be treated as part of the proxy solicitation material or as having been incorporated by reference herein.

Incorporation by Reference

To the extent that this Proxy Statement is incorporated by reference into any other filing by the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934, the sections of this Proxy Statement entitled "Compensation Committee Report" and "Audit Committee Report" will not be deemed incorporated, unless otherwise specifically provided in such filing.

A copy of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012, as filed with the SEC may be obtained by shareholders without charge by written or oral request to Investor Relations, MicroVision, Inc., 6222 185th Avenue NE, Redmond, Washington 98052, telephone (425) 882-6629, or may be accessed on the Internet at www.sec.gov.

Householding

Only one copy of the Notice of Internet Availability of Proxy Materials is being delivered to shareholders residing at the same address, unless such shareholders have notified the Company of their desire to receive multiple copies. The Company will promptly deliver, upon oral or written request, a separate copy of the Notice of Internet Availability of Proxy Materials to any shareholder residing at an address to which only one copy was mailed. Requests for additional copies should be directed to Investor Relations. Shareholders residing at the same address and currently receiving only one copy of the Notice of Internet Availability of Proxy Materials may contact Investor Relations to request multiple copies of the proxy statement in the future. Shareholders residing at the same address and currently receiving multiple copies of the Notice of Internet Availability of Proxy Materials may contact Investor Relations to request that only a single copy of the Notice of Internet Availability of Proxy Materials be mailed in the future. Contact Investor Relations by phone at (425) 882-6629, by fax at (425) 936-4415, by mail to Investor Relations, MicroVision, Inc., 6222 185th Avenue NE, Redmond, Washington 98052, or by e-mail to ir@microvision.com.

Voting by Telephone or the Internet

Provision has been made for you to vote your shares of common stock by telephone or via the Internet. You may also vote your shares by mail. Please see the proxy card or voting instruction form accompanying this Proxy Statement for specific instructions on how to cast your vote by any of these methods.

Votes submitted by telephone or via the Internet must be received by 5:00 p.m., Seattle, Washington time, on June 5, 2013. Submitting your vote by telephone or via the Internet will not affect your right to vote in person should you decide to attend the Annual Meeting.

The telephone and Internet voting procedures are designed to authenticate shareholders' identities, to allow shareholders to give their voting instructions and to confirm that shareholders' instructions have been recorded properly. The Company has been advised that the Internet voting procedures that have been made available to you are consistent with the requirements of applicable law. Shareholders voting via the Internet should understand that there may be costs associated with electronic access, such as usage charges from Internet access providers and telephone companies, which must be borne by the shareholder.

Proxy

2013 MICROVISION, INC. INCENTIVE PLAN**1. DEFINED TERMS**

Exhibit A, which is incorporated by reference, defines the terms used in the Plan and sets forth certain operational rules related to those terms.

2. EFFECTIVE DATE

This 2013 MicroVision, Inc. Incentive Plan, amends, restates and renames the Company's 2006 MicroVision, Inc. Incentive Plan. The Plan was originally adopted by the Board in April 2006 and approved by the stockholders of the Company in September 2006. This amendment and restatement of the Plan shall become effective if, and at such time as, the stockholders of the Company have approved this amendment and restatement.

3. PURPOSE

The purpose of the Plan is to provide means by which the Company may attract, reward and retain the services or advice of current or future employees, officers, consultants or independent contractors of, and other advisors to, the Company and to provide added incentives to them by encouraging stock ownership in the Company.

4. ADMINISTRATION

The Administrator has discretionary authority, subject only to the express provisions of the Plan, to interpret the Plan; determine eligibility for and grant Awards; determine, modify or waive the terms and conditions of any Award; prescribe forms, rules and procedures; and otherwise do all things necessary to carry out the purposes of the Plan. In the case of any Award intended to be eligible for the performance-based compensation exception under Section 162(m), the Administrator will exercise its discretion consistent with qualifying the Award for that exception. Determinations of the Administrator made under the Plan will be conclusive and will bind all parties.

5. LIMITS ON AWARDS UNDER THE PLAN

- a. **Number of Shares.** A maximum of 4,350,000 shares of Stock may be delivered in satisfaction of Awards under the Plan. The number of shares of Stock delivered in satisfaction of Awards shall, for purposes of the preceding sentence, be determined net of shares of Stock withheld by the Company in payment of the exercise price of the Award or in satisfaction of tax withholding requirements with respect to the Award. The limit set forth in this Section 5(a) shall be construed to comply with Section 422 of the Code and regulations thereunder. To the extent consistent with the requirements of Section 422 of the Code and regulations thereunder, and with other applicable legal requirements (including applicable stock exchange requirements), Stock issued under awards of an acquired company that are converted, replaced, or adjusted in connection with the acquisition shall not reduce the number of shares available for Awards under the Plan.
- b. **Type of Shares.** Stock delivered by the Company under the Plan may be authorized but unissued Stock or previously issued Stock acquired by the Company. No fractional shares of Stock will be delivered under the Plan.
- c. **Section 162(m) Limits.** The maximum number of shares of Stock for which Stock Options may be granted to any person in any calendar year and the maximum number of shares of Stock subject to SARs granted to any person in any calendar year will each be 250,000. The maximum number of shares subject to other Awards granted to any person in any calendar year will be 250,000 shares. The maximum amount payable to any person in any year under Cash Awards will be \$3,000,000. The foregoing provisions will be construed in a manner consistent with Section 162(m).

6. ELIGIBILITY AND PARTICIPATION

The Administrator may grant Awards to any current or future Employee, officer, director, consultant or independent contractor of, or other advisor to, the Company or its subsidiaries. Eligibility for ISOs is limited to employees of the Company or of a “parent corporation” or “subsidiary corporation” of the Company as those terms are defined in Section 424 of the Code.

7. RULES APPLICABLE TO AWARDS

a. All Awards

1. **Award Provisions.** The Administrator will determine the terms of all Awards, subject to the limitations provided herein. By accepting any Award granted hereunder, the Participant agrees to the terms of the Award and the Plan. Notwithstanding any provision of this Plan to the contrary, awards of an acquired company that are converted, replaced or adjusted in connection with the acquisition may contain terms and conditions that are inconsistent with the terms and conditions specified herein, as determined by the Administrator.
2. **Term of Plan.** No Awards may be made after June 6, 2023, but previously granted Awards may continue beyond that date in accordance with their terms.
3. **Transferability.** Neither ISOs nor, except as the Administrator otherwise expressly provides, other Awards may be transferred other than by will or by the laws of descent and distribution, and during a Participant’s lifetime ISOs (and, except as the Administrator otherwise expressly provides, other non-transferable Awards requiring exercise) may be exercised only by the Participant.
4. **Vesting, Etc.** The Administrator may determine the time or times at which an Award will vest or become exercisable and the terms on which an Award requiring exercise will remain exercisable. Without limiting the foregoing, the Administrator may at any time accelerate the vesting or exercisability of an Award, regardless of any adverse or potentially adverse tax consequences resulting from such acceleration. Unless the Administrator expressly provides otherwise, however, the following rules will apply: immediately upon the cessation of the Participant’s Employment, each Award requiring exercise that is then held by the Participant or by the Participant’s permitted transferees, if any, will cease to be exercisable and will terminate, and all other Awards that are then held by the Participant or by the Participant’s permitted transferees, if any, to the extent not already vested will be forfeited, except that:
 - A. subject to (B) and (C) below, all Stock Options and SARs held by the Participant or the Participant’s permitted transferees, if any, immediately prior to the cessation of the Participant’s Employment, to the extent then exercisable, will remain exercisable for the lesser of (i) a period of three months or (ii) the period ending on the latest date on which such Stock Option or SAR could have been exercised without regard to this Section 7(a)(4), and will thereupon terminate;
 - B. all Stock Options and SARs held by a Participant or the Participant’s permitted transferees, if any, immediately prior to the Participant’s death or Disability, to the extent then exercisable, will remain exercisable for the lesser of (i) the one year period ending with the first anniversary of the Participant’s death or Disability or (ii) the period ending on the latest date on which such Stock Option or SAR could have been exercised without regard to this Section 7(a)(4), and will thereupon terminate; and

- C. all Stock Options and SARs held by a Participant or the Participant's permitted transferees, if any, immediately prior to the cessation of the Participant's Employment will immediately terminate upon such cessation if the Administrator in its sole discretion determines that such cessation of Employment has resulted for reasons which cast such discredit on the Participant as to justify immediate termination of the Award.
5. **Taxes.** The Administrator will make such provision for the withholding of taxes as it deems necessary. The Administrator may, but need not, hold back shares of Stock from an Award or permit a Participant to tender previously owned shares of Stock in satisfaction of tax withholding requirements (but not in excess of the minimum withholding required by law).
 6. **Dividend Equivalents, Etc.** The Administrator may provide for the payment of amounts in lieu of cash dividends or other cash distributions with respect to Stock subject to an Award. Any entitlement to dividend equivalents or similar entitlements shall be established and administered consistent either with exemption from, or compliance with, the requirements of Section 409A to the extent applicable.
 7. **Foreign Qualified Grants.** Awards under this Plan may be granted to officers and Employees of the Company and other persons described in Section 6 who reside in foreign jurisdictions as the Administrator may determine from time to time. The Administrator may adopt supplements to the Plan as needed to comply with the applicable laws of such foreign jurisdictions and to give Participants favorable treatment under such laws; *provided, however* that no award shall be granted under any such supplement on terms more beneficial to such Participants than those permitted by this Plan.
 8. **Corporate Mergers, Acquisitions, Etc.** The Administrator may grant Awards under this Plan having terms, conditions and provisions that vary from those specified in this Plan provided that such Awards are granted in substitution for, or in connection with the assumption of, existing Awards granted or issued by another corporation and assumed or otherwise agreed to be provided for by the Company pursuant to or by reason of a transaction involving a corporate merger, consolidation, acquisition of property or stock, reorganization or liquidation to which the Company is a party.
 9. **Rights Limited.** Nothing in the Plan will be construed as giving any person the right to continued employment or service with the Company or its Affiliates, or any rights as a stockholder except as to shares of Stock actually issued under the Plan. The loss of existing or potential profit in Awards will not constitute an element of damages in the event of termination of Employment for any reason, even if the termination is in violation of an obligation of the Company or Affiliate to the Participant.
 10. **Section 162(m).** This Section 7(a)(10) applies to any Performance Award intended to qualify as performance-based for the purposes of Section 162(m) other than a Stock Option or SAR. In the case of any Performance Award to which this Section 7(a)(10) applies, the Plan and such Award will be construed to the maximum extent permitted by law in a manner consistent with qualifying the Award for such exception. With respect to such Performance Awards, the Administrator will preestablish, in writing, one or more specific Performance Criteria no later than 90 days after the commencement of the period of service to which the performance relates (or at such earlier time as is required to qualify the Award as performance-based under Section 162(m)). Prior to grant, vesting or payment of the Performance Award, as the case may be, the Administrator will certify whether the applicable Performance Criteria have been attained and such determination will be final and conclusive. No Performance Award to which this

Section 7(a)(10) applies may be granted after the first meeting of the stockholders of the Company held in 2018 until the listed performance measures set forth in the definition of “Performance Criteria” (as originally approved or as subsequently amended) have been resubmitted to and reapproved by the stockholders of the Company in accordance with the requirements of Section 162(m) of the Code, unless such grant is made contingent upon such approval.

b. Awards Requiring Exercise

1. **Time And Manner Of Exercise.** Unless the Administrator expressly provides otherwise, an Award requiring exercise by the holder will not be deemed to have been exercised until the Administrator receives a notice of exercise (in form acceptable to the Administrator) signed by the appropriate person and accompanied by any payment required under the Award. If the Award is exercised by any person other than the Participant, the Administrator may require satisfactory evidence that the person exercising the Award has the right to do so. Awards may be exercised in whole or in part.
2. **Exercise Price.** The exercise price (or the base value from which appreciation is to be measured) of each Award requiring exercise shall be 100% (in the case of an ISO granted to a ten-percent shareholder within the meaning of Section 422(b)(6) of the Code, 110%) of the fair market value of the Stock subject to the Award, determined as of the date of grant, or such higher amount as the Administrator may determine in connection with the grant. Fair market value shall be determined by the Administrator consistent with the requirements of Section 422 and Section 409A. Without the affirmative vote of holders of a majority of the shares of Stock cast in person or by proxy at a meeting of the stockholders of the Company at which a quorum representing a majority of all outstanding shares of Stock is present or represented by proxy, the Committee shall not approve a program providing for either (a) the cancellation of outstanding Awards requiring exercise and the grant in substitution therefor of new Awards having a lower exercise price that has the effect of a repricing or (b) the amendment of such Awards to reduce the exercise price thereof. The preceding sentence shall not be construed to apply to: (i) “issuing or assuming a stock option in a transaction to which section 424(a) applies,” within the meaning of Section 424 of the Code or (ii) the substitution or assumption of an Award by reason of or pursuant to a corporate transaction, to the extent such substitution or assumption would not be treated as a grant of a new stock right or a change in the form of payment for purposes of Section 409A of the Code within the meaning of Prop. Treas. Reg. Section 1.409A-1(b)(5)(iii)(D)(3), Notice 2005-1, A-4(d) and any subsequent Section 409A guidance.
3. **Payment Of Exercise Price.** Where the exercise of an Award is to be accompanied by payment, the Administrator may determine the required or permitted forms of payment, subject to the following: all payments will be by cash or check acceptable to the Administrator, or, if so permitted by the Administrator and if legally permissible, (i) through the delivery of shares of Stock that have been outstanding for at least six months (unless the Administrator approves a shorter period) and that have a fair market value equal to the exercise price, (ii) by delivery to the Company of a promissory note of the person exercising the Award, payable on such terms as are specified by the Administrator, (iii) through a broker-assisted exercise program acceptable to the Administrator, (iv) by other means acceptable to the Administrator, or (v) by any combination of the foregoing permissible forms of payment. The delivery of shares in payment of the exercise price under clause (a)(i) above may be accomplished either by actual delivery or by constructive delivery through attestation of ownership, subject to such rules as the Administrator may prescribe.

4. **409A Exemption.** Except as the Administrator otherwise determines, no Award requiring exercise shall have deferral features, or shall be administered in a manner, that would cause such Award to fail to qualify for exemption from Section 409A.

c. **Awards Not Requiring Exercise**

Restricted Stock and Unrestricted Stock, whether delivered outright or under Awards of Stock Units or other Awards that do not require exercise, may be made in exchange for such lawful consideration, including services, as the Administrator determines. Any Award resulting in a deferral of compensation subject to Section 409A shall be construed to the maximum extent possible, as determined by the Administrator, consistent with the requirements of Section 409A.

8. **EFFECT OF CERTAIN TRANSACTIONS**

- a. **Mergers, etc.** Except as otherwise provided in an Award, the following provisions shall apply in the event of a Covered Transaction:
 1. **Assumption or Substitution.** If the Covered Transaction is one in which there is an acquiring or surviving entity, the Administrator may provide for the assumption of some or all outstanding Awards or for the grant of new awards in substitution therefor by the acquiror or survivor or an affiliate of the acquiror or survivor.
 2. **Cash-Out of Awards.** If the Covered Transaction is one in which holders of Stock will receive upon consummation a payment (whether cash, non-cash or a combination of the foregoing), the Administrator may provide for payment (a “cash-out”), with respect to some or all Awards, equal in the case of each affected Award to the excess, if any, of (A) the fair market value of one share of Stock (as determined by the Administrator in its reasonable discretion) times the number of shares of Stock subject to the Award, over (B) the aggregate exercise or purchase price, if any, under the Award (in the case of an SAR, the aggregate base price above which appreciation is measured), in each case on such payment terms (which need not be the same as the terms of payment to holders of Stock) and other terms, and subject to such conditions, as the Administrator determines.
 3. **Acceleration of Certain Awards.** If the Covered Transaction (whether or not there is an acquiring or surviving entity) is one in which there is no assumption, substitution or cash-out, each Award requiring exercise will become fully exercisable, and the delivery of shares of Stock deliverable under each outstanding Award of Stock Units (including Restricted Stock Units and Performance Awards to the extent consisting of Stock Units) will be accelerated and such shares will be delivered, prior to the Covered Transaction, in each case on a basis that gives the holder of the Award a reasonable opportunity, as determined by the Administrator, following exercise of the Award or the delivery of the shares, as the case may be, to participate as a stockholder in the Covered Transaction.
 4. **Termination of Awards Upon Consummation of Covered Transaction.** Each Award (unless assumed pursuant to Section 8(a)(1) above), other than outstanding shares of Restricted Stock (which shall be treated in the same manner as other shares of Stock, subject to Section 8(a)(5) below), will terminate upon consummation of the Covered Transaction.
 5. **Additional Limitations.** Any share of Stock delivered pursuant to Section 8(a)(2) or Section 8(a)(3) above with respect to an Award may, in the discretion of the Administrator, contain such restrictions, if any, as the Administrator deems appropriate to reflect any performance or other vesting conditions to which the Award was subject. In the case of Restricted Stock, the Administrator may require that any amounts delivered, exchanged or otherwise paid in respect of such Stock in connection with the Covered Transaction be placed in escrow or otherwise made subject to such restrictions as the Administrator deems appropriate to carry out the intent of the Plan.

b. Change in and Distributions With Respect to Stock

1. **Basic Adjustment Provisions.** In the event of a stock dividend, stock split or combination of shares (including a reverse stock split), recapitalization or other change in the Company's capital structure, the Administrator will make appropriate adjustments to the maximum number of shares specified in Section 5(a) that may be delivered under the Plan and to the maximum share limits described in Section 5(c), and will also make appropriate adjustments to the number and kind of shares of stock or securities subject to Awards then outstanding or subsequently granted, any exercise prices relating to Awards and any other provision of Awards affected by such change.
2. **Certain Other Adjustments.** The Administrator may also make adjustments of the type described in Section 8(b)(1) above to take into account distributions to stockholders other than those provided for in Section 8(a) and 8(b)(1), or any other event, if the Administrator determines that adjustments are appropriate to avoid distortion in the operation of the Plan and to preserve the value of Awards made hereunder, having due regard for the qualification of ISOs under Section 422 of the Code, the performance-based compensation rules of Section 162(m), and the requirements of Section 409A, where applicable.
3. **Continuing Application of Plan Terms.** References in the Plan to shares of Stock will be construed to include any stock or securities resulting from an adjustment pursuant to this Section 8.

9. LEGAL CONDITIONS ON DELIVERY OF STOCK

The Company will not be obligated to deliver any shares of Stock pursuant to the Plan or to remove any restriction from shares of Stock previously delivered under the Plan until: (i) the Company is satisfied that all legal matters in connection with the issuance and delivery of such shares have been addressed and resolved; (ii) if the outstanding Stock is at the time of delivery listed on any stock exchange or national market system, the shares to be delivered have been listed or authorized to be listed on such exchange or system upon official notice of issuance; and (iii) all conditions of the Award have been satisfied or waived. If the sale of Stock has not been registered under the Securities Act of 1933, as amended, the Company may require, as a condition to exercise of the Award, such representations or agreements as counsel for the Company may consider appropriate to avoid violation of such Act. The Company may require that certificates evidencing Stock issued under the Plan bear an appropriate legend reflecting any restriction on transfer applicable to such Stock, and the Company may hold the certificates pending lapse of the applicable restrictions.

10. AMENDMENT AND TERMINATION

The Administrator may at any time or times amend the Plan or any outstanding Award for any purpose which may at the time be permitted by law, and may at any time terminate the Plan as to any future grants of Awards; *provided*, that except as otherwise expressly provided in the Plan the Administrator may not, without the Participant's consent, alter the terms of an Award so as to affect adversely the Participant's rights under the Award, unless the Administrator expressly reserved the right to do so at the time of the Award. Any amendments to the Plan shall be conditioned upon stockholder approval only to the extent, if any, such approval is required by law (including the Code and applicable stock exchange requirements), as determined by the Administrator.

11. OTHER COMPENSATION ARRANGEMENTS

The existence of the Plan or the grant of any Award will not in any way affect the Company's right to Award a person bonuses or other compensation in addition to Awards under the Plan.

12. MISCELLANEOUS

- a. **Waiver of Jury Trial.** By accepting an Award under the Plan, each Participant waives any right to a trial by jury in any action, proceeding or counterclaim concerning any rights under the Plan and any Award, or under any amendment, waiver, consent, instrument, document or other agreement delivered or which in the future may be delivered in connection therewith, and agrees that any such action, proceedings or counterclaim shall be tried before a court and not before a jury. By accepting an Award under the Plan, each Participant certifies that no officer, representative, or attorney of the Company has represented, expressly or otherwise, that the Company would not, in the event of any action, proceeding or counterclaim, seek to enforce the foregoing waivers.
- b. **Limitation of Liability.** Notwithstanding anything to the contrary in the Plan, neither the Company, any Affiliate, nor the Administrator, nor any person acting on behalf of the Company, any Affiliate, or the Administrator, shall be liable to any Participant or to the estate or beneficiary of any Participant or to any other holder of an Award by reason of any acceleration of income, or any additional tax, asserted by reason of the failure of an Award to satisfy the requirements of Section 422 or Section 409A or by reason of Section 4999 of the Code; provided, that nothing in this Section 12(b) shall limit the ability of the Administrator or the Company to provide by separate express written agreement with a Participant for a gross-up payment or other payment in connection with any such tax or additional tax.

EXHIBIT A
Definition of Terms

The following terms, when used in the Plan, will have the meanings and be subject to the provisions set forth below:

“Administrator”: The Board, except that the Board may delegate (i) to one or more of its members such of its duties, powers and responsibilities as it may determine; *provided*, that with respect to any delegation described in this clause (i) only the Board may amend or terminate the Plan as provided in Section 10; (ii) to one or more officers of the Company the power to grant rights or options to the extent permitted by Section 157(c) of the Delaware General Corporation Law; (iii) to one or more officers of the Company the authority to allocate other Awards among such persons (other than officers of the Company) eligible to receive Awards under the Plan as such delegated officer or officers determine consistent with such delegation; *provided*, that with respect to any delegation described in this clause (iii) the Board (or a properly delegated member or members of the Board) shall have authorized the issuance of a specified number of shares of Stock under such Awards and shall have specified the consideration, if any, to be paid therefor; and (iv) to such Employees or other persons as it determines such ministerial tasks as it deems appropriate. In the event of any delegation described in the preceding sentence, the term “Administrator” shall include the person or persons so delegated to the extent of such delegation.

“Affiliate”: Any corporation or other entity owning, directly or indirectly, 50% or more of the outstanding Stock of the Company, or in which the Company or any such corporation or other entity owns, directly or indirectly, 50% of the outstanding capital stock (determined by aggregate voting rights) or other voting interests. However, for purposes of determining eligibility for the grant of a Stock Option or SAR, the term “Affiliate” shall mean a person standing in a relationship to the Company such that the Company and such person are treated as a single employer under Section 414(b) and Section 414(c) of the Code, in accordance with the definition of “service recipient” under Section 409A of the Code.

“Award”: Any or a combination of the following:

- (i) Stock Options.
- (ii) SARs.
- (iii) Restricted Stock.
- (iv) Unrestricted Stock.
- (v) Stock Units, including Restricted Stock Units.
- (vi) Performance Awards.
- (vii) Cash Awards.
- (viii) Awards (other than Awards described in (i) through (vii) above) that are convertible into or otherwise based on Stock.

“Board”: The Board of Directors of the Company.

“Cash Award”: An Award denominated in cash.

“Code”: The U.S. Internal Revenue Code of 1986 as from time to time amended and in effect, or any successor statute as from time to time in effect.

“Company”: MicroVision, Inc.

“Covered Transaction”: Any of (i) a consolidation, merger, or similar transaction or series of related transactions, including a sale or other disposition of stock, in which the Company is not the surviving corporation or which results in the acquisition of all or substantially all of the Company’s then outstanding common stock by a single person or entity or by a group of persons and/or entities acting in concert, (ii) a sale or transfer of all or substantially all the Company’s assets, or (iii) a dissolution or liquidation of the Company. Where a Covered Transaction involves a tender offer that is reasonably expected to be followed by a merger described in clause (i) (as determined by the Administrator), the Covered Transaction shall be deemed to have occurred upon consummation of the tender offer.

“Disability”: The total and permanent disability of any Participant, as determined by the Administrator in its sole discretion. Without limiting the generality of the foregoing, the Administrator may, but is not required to, rely on a determination of disability by the Company’s long term disability carrier or the Social Security Administration.

“Employee”: Any person who is employed by the Company or an Affiliate.

“Employment”: A Participant’s employment or other service relationship with the Company and its Affiliates. Employment will be deemed to continue, unless the Administrator expressly provides otherwise, so long as the Participant is employed by, or otherwise is providing services in a capacity described in Section 6 to the Company or its Affiliates. If a Participant’s employment or other service relationship is with an Affiliate and that entity ceases to be an Affiliate, the Participant’s Employment will be deemed to have terminated when the entity ceases to be an Affiliate unless the Participant transfers Employment to the Company or its remaining Affiliates.

“ISO”: A Stock Option intended to be an “incentive stock option” within the meaning of Section 422 of the Code. Each option granted pursuant to the Plan will be treated as providing by its terms that it is to be a non-incentive stock option unless, as of the date of grant, it is expressly designated as an ISO.

“Participant”: A person who is granted an Award under the Plan.

“Performance Award”: An Award subject to Performance Criteria. The Committee in its discretion may grant Performance Awards that are intended to qualify for the performance-based compensation exception under Section 162(m) and Performance Awards that are not intended so to qualify.

“Performance Criteria”: Specified criteria, other than the mere continuation of Employment or the mere passage of time, the satisfaction of which is a condition for the grant, exercisability, vesting or full enjoyment of an Award. For purposes of Awards that are intended to qualify for the performance-based compensation exception under Section 162(m), a Performance Criterion will mean an objectively determinable measure of performance relating to any or any combination of the following (measured either absolutely or by reference to an index or indices and determined either on a consolidated basis or, as the context permits, on a divisional, subsidiary, line of business, project or geographical basis or in combinations thereof): sales; revenues; assets; expenses; earnings before or after deduction for all or any portion of interest, taxes, depreciation, or amortization, whether or not on a continuing operations or an aggregate or per share basis; return on equity, investment, capital or assets; one or more operating ratios; borrowing levels, leverage ratios or credit rating; market share; capital expenditures; cash flow; stock price; stockholder return; sales of particular products or services; customer acquisition or retention; acquisitions and divestitures (in whole or in part); joint ventures and strategic alliances; spin-offs, split-ups and the like; reorganizations; or recapitalizations, restructurings, financings (issuance of debt or equity) or refinancings. A Performance Criterion and any targets with respect thereto determined by the Administrator need not be based upon an increase, a positive or improved result or avoidance of loss. To the extent consistent with the requirements for satisfying the performance-based compensation exception under Section 162(m), the Administrator may provide in the case of any Award intended to qualify for such exception that one or more of the Performance Criteria applicable to such Award will be adjusted in an objectively determinable manner to reflect events (for example, but without limitation, acquisitions or dispositions) occurring during the performance period that affect the applicable Performance Criterion or Criteria.

“Plan”: The 2013 MicroVision, Inc. Incentive Plan, as from time to time amended and in effect.

“Restricted Stock”: Stock subject to restrictions requiring that it be redelivered or offered for sale to the Company if specified conditions are not satisfied.

“Restricted Stock Unit”: A Stock Unit that is, or as to which the delivery of Stock or cash in lieu of Stock is, subject to the satisfaction of specified performance or other vesting conditions.

“Section 162(m)”: Section 162(m) of the Code.

“Section 409A”: Section 409A of the Code.

“SAR”: A right entitling the holder upon exercise to receive an amount (payable in shares of Stock of equivalent value) equal to the excess of the fair market value of the shares of Stock subject to the right over the fair market value of such shares at the date of grant.

“Stock”: Common Stock of the Company, par value \$.001 per share.

“Stock Option”: An option entitling the holder to acquire shares of Stock upon payment of the exercise price.

“Stock Unit”: An unfunded and unsecured promise, denominated in shares of Stock, to deliver Stock or cash measured by the value of Stock in the future.

“Unrestricted Stock”: Stock not subject to any restrictions under the terms of the Award.

Annual Report

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

FORM 10-K

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
for the fiscal year ended December 31, 2012
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____
Commission File Number 0-21221

MICROVISION, INC.

(Exact name of Registrant as specified in its charter)

Delaware **91-1600822**
(State or Other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification Number)
6222 185th Ave NE, Redmond, WA 98052
(Address of Principal Executive Offices including Zip Code)
(425) 936-6847
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Exchange Act:
Title of each class Name of each exchange on which registered
Common Stock, \$.001 par value NASDAQ Global Market
Securities registered pursuant to Section 12(g) of the Exchange Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Act.

Yes No

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

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

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

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

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

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

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

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

Documents Incorporated by Reference

Portions of the registrant's definitive Proxy Statement to be filed with the Commission pursuant to Regulation 14A in connection with the registrant's 2013 Annual Meeting of Shareholders are incorporated herein by reference into Part III of this report.

MicroVision, Inc.
2012 ANNUAL REPORT ON FORM 10-K

TABLE OF CONTENTS

	<u>Page</u>
Part I.	
Item 1. Description of Business	3
Item 1A. Risk Factors	8
Item 1B. Unresolved Staff Comments	15
Item 2. Properties	15
Item 3. Legal Proceedings	15
Item 4. Mine Safety Disclosures	15
Item 4A. Executive Officers of the Registrant	15
Part II.	
Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	17
Item 6. Selected Financial Data	18
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations	19
Item 7A. Quantitative and Qualitative Disclosures About Market Risks	26
Item 8. Financial Statements and Supplementary Data	28
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	51
Item 9A. Controls and Procedures	51
Item 9B. Other Information	53
Part III.	
Item 10. Directors, Executive Officers and Corporate Governance	53
Item 11. Executive Compensation	53
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	53
Item 13. Certain Relationships and Related Transactions, and Director Independence	53
Item 14. Principal Accountant Fees and Services	53
Part IV.	
Item 15. Exhibits, Financial Statements Schedules	54
Signatures	57

PART I

Preliminary Note Regarding Forward-Looking Statements

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

ITEM 1. BUSINESS

Overview

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

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

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

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

PicoP enabled devices can be used in field-based professions such as service repair or sales to view and share information such as schematics for equipment repair, sales data, orders or contact information within a CRM application on a larger, more user-friendly display. We also see potential for embedding PicoP display technology in industrial products where our displays could be used for 3D measuring and digital signage,

enhancing the overall user experience of these applications. We continue to enter into a limited number of development agreements with commercial and U.S. government customers to develop advanced prototypes and demonstration units based on our light scanning technologies.

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

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

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

Technology

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

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

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

Business Strategy

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

- Continue rapid advancement of our technology platform and value-add applications.

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

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

Marketing Focus:

Mobile Device Displays

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

Vehicle Displays

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

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

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

Go-To-Market Strategy

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

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

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

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

Human Factors, Ergonomics and Safety

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

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

Competitive Conditions

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

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

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

Intellectual Property and Proprietary Rights

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

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

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

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

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

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

Additional Information

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

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

Employees

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

Further Information

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

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

ITEM 1A. RISK FACTORS

Risk Factors Relating to the MicroVision Business

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our backlog of open orders totaled \$1.8 million as of December 31, 2012. We may be unable to meet the performance requirements, including performance specifications or delivery dates, required by such purchase

orders. Further, our customers may be unable or unwilling to perform their obligations thereunder on a timely basis or at all if, among other reasons, our products and technologies do not achieve market acceptance, our customers' products and technologies do not achieve market acceptance or our customers otherwise fail to achieve their operating goals. To the extent we are unable to perform under such purchase orders or to the extent customers are unable or unwilling to perform, our operating results and cash flows could be adversely affected.

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

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

If we are unable to continue to meet NASDAQ'S listing maintenance standards for any reason, our common stock could be delisted from The NASDAQ Global Market. If our common stock were delisted, we likely would seek to list the common stock on the NASDAQ Capital Market, the American Stock Exchange or on a regional stock exchange. Listing on such other market or exchange could reduce the liquidity of our common stock. If our common stock were not listed on the NASDAQ Capital Market or an exchange, trading of our common stock would be conducted in the over-the-counter market on an electronic bulletin board established for unlisted securities or directly through market makers in our common stock. If our common stock were to trade in the over-the-counter market, an investor would find it more difficult to dispose of, or to obtain accurate quotations for the price of, the common stock. A delisting from The NASDAQ Global Market and failure to obtain listing on such other market or exchange would subject our securities to so-called penny stock rules that impose additional sales practice and market-making requirements on broker-dealers who sell or make a market in such securities. Consequently, removal from The NASDAQ Global Market and failure to obtain listing on another market or exchange could affect the ability or willingness of broker-dealers to sell or make a market in our common stock and the ability of purchasers of our common stock to sell their securities in the secondary market. In addition, when the market price of our common stock is less than \$5.00 per share, we become subject to penny stock rules even if our common stock is still listed on The NASDAQ Global Market. While the penny stock rules should not affect the quotation of our common stock on The NASDAQ Global Market, these rules may further limit the market liquidity of our common stock and the ability of investors to sell our common stock in the secondary market. The market price of our stock has mostly traded below \$5.00 per share during 2012 and 2011. On March 7, 2013, the closing price of our stock was \$1.68.

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

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

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

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

We may not succeed in these efforts because of:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Intellectual property protection for our products is important and uncertain. If we do not obtain effective intellectual property protection for our products, processes and technology, we may be subject to increased competition. Our commercial success will depend in part on our ability and the ability of our licensors to

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

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

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

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

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

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

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

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

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

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT

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

Alexander Tokman, age 51, has served as President, Chief Executive Officer and a director of MicroVision since January 2006. Mr. Tokman served as MicroVision's President and Chief Operating Officer from July 2005 to January 2006. Mr. Tokman, a former GE executive, joined MicroVision after a 10-year tenure at GE Healthcare, a subsidiary of General Electric, where he led several global businesses, most recently as General Manager of its Global Molecular Imaging and Radiopharmacy multi-technology business unit from 2003 to 2005. Prior to that, between 1995 and 2003, Mr. Tokman served in various cross-functional and cross-business leadership roles at GE where he led the definition and commercialization of several medical modalities product segments including PET/CT, which added over \$500 million of revenue growth to the company within the first three years of its commercial introduction. Mr. Tokman is a certified Six Sigma and Design for Six Sigma

(DFSS) Black Belt and Master Black Belt and as one of GE's Six Sigma pioneers, he drove the quality culture change across GE Healthcare in the late 1990s. From November 1989 to March 1995 Mr. Tokman served as new technologies programs lead and a head of I&RD office at Tracor Applied Sciences a subsidiary of then Tracor, Inc. Mr. Tokman has both an M.S. and B.S. in Electrical Engineering from the University of Massachusetts, Dartmouth.

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

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

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

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

PART II

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

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

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

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

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

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

ITEM 6. SELECTED FINANCIAL DATA

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

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

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

Overview

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

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

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

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

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

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

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

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

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

Key Accounting Policies and Estimates

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

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

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

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

We establish an allowance for estimated losses if the estimated cost to complete a contract exceeds the remaining contract value. The entire estimated loss is recorded in the period in which the loss is first determined. We determine the estimated cost to complete a contract through a detailed review of the work to be completed, the resources available to complete the work and the technical difficulty of the remaining work. If the revised estimated cost to complete the contract is higher than the total contract revenue, the entire contract loss is recognized. The actual cost to complete a contract can vary significantly from the estimated cost, due to a variety of factors including availability of technical staff, availability of materials and technical difficulties that arise

during a project. Most of our development contracts are cost plus fixed fee type contracts. Under these types of contracts, we are not required to spend more than the contract value to complete the contracted work.

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

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

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

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

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

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

result to our consolidated financial statements. Additional information about our accounting policies, and other disclosures required by generally accepted accounting principles, are set forth in the notes to our consolidated financial statements.

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

Results of Operations

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

Product Revenue.

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

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

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

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

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

Contract Revenue.

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

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

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

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

Cost of Product Revenue.

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

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

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

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

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

Cost of Contract Revenue.

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

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

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

Research and Development Expense.

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

Research and development expense consists of compensation related costs of employees and contractors engaged in internal research and product development activities, direct material to support development programs, laboratory operations, outsourced development and processing work, and other operating expenses. We allocate our research and development resources based on the business opportunity of the available projects, the skill mix of the resources available and the contractual commitments we have made to customers.

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

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

Sales, Marketing, General and Administrative Expense.

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

Sales, marketing, general and administrative expense includes compensation and support costs for marketing, sales, management and administrative staff, and for other general and administrative costs, including legal and accounting services, consultants and other operating expenses. We believe that under the ingredient brand business model we will have lower sales, marketing, general and administrative spending in the future than had we not implemented the strategy.

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

Other Income and Expense.

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

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

Income Taxes.

No provision for income taxes has been recorded because we have experienced net losses from inception through December 31, 2012. At December 31, 2012, we had net operating loss carry-forwards of approximately \$305.9 million for federal income tax reporting purposes. In addition, we have research and development tax

credits of \$6.0 million. The net operating loss carry-forwards and research and development credits available to offset future taxable income, if any, will expire in varying amounts from 2017 to 2032 if not previously utilized. The research and development tax credits and the remaining net operating losses are scheduled to expire between 2017 and 2032. In certain circumstances, as specified in the Internal Revenue Code, a 50% or more ownership change by certain combinations of our shareholders during any three-year period would result in a limitation on our ability to utilize a portion of our net operating loss carry-forwards.

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

Liquidity and Capital Resources

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

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

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

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

Investing Activities

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

Financing Activities

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

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

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

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

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

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

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

New accounting pronouncements

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate and Market Liquidity Risks

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

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

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

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

Foreign Exchange Rate Risk

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	<u>Page</u>
Reports of Independent Registered Public Accounting Firms	29
Consolidated Balance Sheets as of December 31, 2012 and 2011	31
Consolidated Statements of Operations for the years ended December 31, 2012 and 2011	32
Consolidated Statements of Comprehensive Loss for the years ended December 31, 2012 and 2011	33
Consolidated Statements of Shareholders' Equity for the years ended December 31, 2012 and 2011	34
Consolidated Statements of Cash Flows for the years ended December 31, 2012 and 2011	35
Notes to Consolidated Financial Statements	36

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
MicroVision, Inc.

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

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

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

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

Moss Adams LLP

Seattle, Washington
March 13, 2013

Report of Independent Registered Public Accounting Firm

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

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

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

PricewaterhouseCoopers LLP

Seattle, Washington
March 8, 2012

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

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

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

MicroVision, Inc.

Consolidated Statements of Operations
(in thousands, except per share information)

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

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

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

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

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

MicroVision, Inc.

**Consolidated Statements of Shareholders' Equity
(in thousands)**

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

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

MicroVision, Inc.
Consolidated Statements of Cash Flows
(in thousands)

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

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

MicroVision, Inc.

Notes to Consolidated Financial Statements

1. The Company and liquidity

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

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

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

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

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

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

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

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

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

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

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

2. Summary of significant accounting policies

Use of estimates

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

Principles of consolidation

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

Cash and cash equivalents and fair value of financial instruments

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

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

Intangible assets

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

Inventory

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

Property and equipment

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

Restricted investments

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

Revenue recognition

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

Contract revenue has primarily been generated from contracts to develop the light scanning technology and to produce demonstration units for commercial enterprises and the U.S. government. We recognize contract

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

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

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

Cost of revenue

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

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

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

Concentration of credit risk and sales to major customers

Concentration of Credit Risk

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

Concentration of Sales to Major Customers

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

Income taxes

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

Net loss per share

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

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

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

Research and development

Research and development costs are expensed as incurred.

Long-lived assets

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

Share-based compensation

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

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

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

Reclassifications

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

New accounting pronouncements

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

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

3. Long-term contracts

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

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

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

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

	December 31,	
	2012	2011
Costs and estimated earnings incurred on uncompleted contracts	\$ 1,977	\$ 1,822
Billings on uncompleted contracts	(2,063)	(1,908)
	<u>\$ (86)</u>	<u>\$ (86)</u>
Included in accompanying consolidated balance sheets under the following captions:		
Costs and estimated earnings in excess of billings on uncompleted contracts . . .	\$ 12	\$ 70
Billings in excess of costs and estimated earnings on uncompleted contracts . . .	(98)	(156)
	<u>\$ (86)</u>	<u>\$ (86)</u>

4. Inventory

Inventory consists of the following:

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

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

5. Accrued liabilities

Accrued liabilities consist of the following:

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

6. Property and equipment, net

Property and equipment consists of the following:

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

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

7. Intangible assets

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

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

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

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

8. Committed equity financing facility

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

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

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

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

9. Common stock

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

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

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

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

10. Warrants

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

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

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

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

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

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

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

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

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

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

11. Share-based compensation

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

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

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

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

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

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

Description of Incentive Plans

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

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

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

Options Valuation Methodology and Assumptions

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

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

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

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

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

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

Options Activity and Positions

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

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

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

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

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

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

12. Receivables from related parties

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

13. Commitments and contingencies

Litigation

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

Lease commitments

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

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

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

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

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

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

Long-term debt

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

Adverse purchase commitments

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

14. Income taxes

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

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

Deferred tax assets are summarized as follows:

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

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

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

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

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

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

15. Retirement savings plan

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

16. Quarterly financial information (Unaudited)

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

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

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

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

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

ITEM 9A. CONTROLS AND PROCEDURES

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

(b) *Management's Report on Internal Control Over Financial Reporting.* Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in

Exchange Act Rules 13a-15(f) and 15d-15(f). Our management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its evaluation under the framework in *Internal Control — Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2012.

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

ITEM 9B. OTHER INFORMATION

None

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

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

ITEM 11. EXECUTIVE COMPENSATION.

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

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

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

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

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

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

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

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

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

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of the report:

Financial Statements

Reports of Independent Registered Public Accounting Firms

Consolidated Balance Sheets as of December 31, 2012 and 2011

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

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

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

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

Notes to Consolidated Financial Statements

(b) Exhibits

The following exhibits are referenced or included in this report.

- 3.1 Amended and Restated Certificate of Incorporation of MicroVision, Inc., as amended ⁽⁹⁾
- 3.2 Certificate of Amendment to the Amended and Restated Certificate of Incorporation of MicroVision, Inc.⁽¹⁴⁾
- 3.3 Bylaws of MicroVision, Inc. ⁽²⁾
- 4.1 Form of Specimen Stock Certificate for Common Stock.⁽²⁾
- 4.2 Form of Warrant issued under the Placement Agency Agreement dated as of July 18, 2008 by and between MicroVision, Inc. and FTN Securities Corp., as representative of the several placement agents named therein. ⁽⁷⁾
- 4.3 Warrant Agreement dated November 16, 2011 by and between MicroVision, Inc. and American Stock Transfer and Trust Company, LLC.⁽¹³⁾
- 4.4 Form of Warrant issued under the Securities Purchase Agreement dated as of May 9, 2012 by and between MicroVision, Inc. and the investors named therein, as amended.
- 4.5 Warrant Agreement dated June 20, 2012 by and between MicroVision, Inc. and American Stock Transfer and Trust Company, LLC ⁽¹⁵⁾
- 10.1 Assignment of License and Other Rights between The University of Washington and the Washington Technology Center and the H. Group, dated July 25, 1993.⁽¹⁾
- 10.2 Project II Research Agreement between The University of Washington and the Washington Technology Center and MicroVision, Inc., dated October 28, 1993.^{(1)†}
- 10.3 Exclusive License Agreement between The University of Washington and MicroVision, Inc., dated October 28, 1993.^{(1)†}
- 10.4 Exclusive License Agreement between the University of Washington and MicroVision, Inc. dated March 3, 1994.⁽⁴⁾
- 10.5 MicroVision, Inc. 2006 Incentive Plan, as amended.^{(6)*}

10.6	Independent Director Stock Option Plan, as amended. ^{(3)*}
10.7	Employment Agreement between MicroVision, Inc. and Alexander Y. Tokman dated April 7, 2009. ⁽¹⁰⁾
10.8	Lease Agreement between CarrAmerica Reality Operating Partnership, L.P. and MicroVision, Inc., dated July 15, 2005. ⁽⁵⁾
10.9	Change of Control Severance Plan
10.10	Jeff T. Wilson Severance and General Release Agreement. ⁽¹⁶⁾
16.1	Letter from PricewaterhouseCoopers LLP to the Securities and Exchange Commission dated October 2, 2012. ⁽¹⁷⁾
23.1	Consent of Independent Registered Public Accounting Firm – Moss Adams LLP.
23.2	Consent of Independent Registered Public Accounting Firm – PricewaterhouseCoopers LLP.
31.1	Principal Executive Officer certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Principal Financial Officer certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Principal Executive Officer certification pursuant to Rule 13a-14(b) or Rule 15d-14(b) and Section 1350, Chapter 63 of Title 18 United States Code (18 U.S.C. 1350), as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002.
32.2	Principal Financial Officer certification pursuant to Rule 13a-14(b) or Rule 15d-14(b) and Section 1350, Chapter 63 of Title 18 United States Code (18 U.S.C. 1350), as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002.
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase
101.DEF**	XBRL Taxonomy Extension Definition Linkbase
101.LAB**	XBRL Taxonomy Extension Label Linkbase
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase

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

- (14) Incorporated by reference to the Company's Current Report on Form 8-K filed on February 17, 2012.
- (15) Incorporated by reference to the Company's Current Report on Form 8-K filed on June 16, 2012.
- (16) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended September 30, 2012.
- (17) Incorporated by reference to the Company's Current Report on Form 8-K filed on October 3, 2012.

† Subject to confidential treatment.

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

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MICROVISION, INC.

Date: March 13, 2013

By ALEXANDER TOKMAN
Alexander Tokman
President and Chief Executive Officer

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

<u>Signature</u>	<u>Title</u>
<u>/s/ ALEXANDER TOKMAN</u> Alexander Tokman	Chief Executive Officer and Director (Principal Executive Officer)
<u>/s/ JEFF WILSON</u> Jeff Wilson	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)
<u>/s/ RICHARD A. COWELL</u> Richard A. Cowell	Director
<u>/s/ SLADE GORTON</u> Slade Gorton	Director
<u>/s/ JEANETTE HORAN</u> Jeanette Horan	Director
<u>/s/ PERRY MULLIGAN</u> Perry Mulligan	Director
<u>/s/ BRIAN TURNER</u> Brian Turner	Director

Corporate Information

Board of Directors	Richard A. Cowell Slade Gorton Jeanette Horan Perry Mulligan Alexander Y. Tokman Brian Turner	Retired Principal, Booz Allen Hamilton, Inc. Former of Counsel, K&L Gates, LLP; Former U.S. Senator Chief Information Officer, IBM Senior Vice President, Operations, QLogic President and Chief Executive Officer, MicroVision, Inc. Former Chief Financial Officer, Coinstar, Inc.
Executive Officers	Alexander Y. Tokman Thomas M. Walker Dale Zimmerman Michael Franzi	President and Chief Executive Officer Executive Vice President, Corporate Vice President, Research and Development Vice President, Marketing and Business Development
Transfer Agent	American Stock Transfer and Trust Company 59 Maiden Lane, New York, NY 10038 Shareholder Services P: 800-937-5449	
Stock Listing	MicroVision, Inc. common stock is traded on the NASDAQ Stock Market under the Symbol MVIS	
Investor Inquiries	MicroVision, Inc. Attn: Investor Relations, 6222 185th Ave NE, Redmond, WA 98052 P: 425-936-6847 ir@microvision.com	
Corporate Counsel	Ropes & Gray LLP Prudential Tower, 800 Boylston St., Boston, MA 02199-3600	
Independent Accountants	Moss Adams LLP	



MicroVision

www.microvision.com

MicroVision, Inc. 6222 185th Ave NE, Redmond, WA 98052 USA Tel 425.936.MVIS (6847) Fax 425.936.4411