

MICROVISION INC
Form 10-K/A
October 30, 2012

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

FORM 10-K/A

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the fiscal year ended December 31, 2011

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

For the transition period from _____ to _____

Commission file number 0-21221

MicroVision, Inc.

(Exact name of Registrant as Specified in its Charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

91-1600822

(I.R.S. Employer Identification Number)

6222 185th Ave NE
Redmond, Washington 98052

(Address of Principal Executive Offices including Zip Code)

(425) 936-6847

(Registrant's Telephone Number, Including Area Code)

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

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

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

No x

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 x

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

x No o

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

x No o

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.

x

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 x Non-accelerated filer .. Smaller reporting company ..
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes

o No x

The aggregate market value of the common stock held by non-affiliates of the registrant as of June 30, 2011 was approximately \$131.8 million (based on the closing price for the registrant's Common Stock on the NASDAQ Global Market of \$9.76 per share, as adjusted for the reverse stock split discussed herein).

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The number of shares of the registrant's common stock outstanding as of March 1, 2012 was 17,019,000.

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 2012 Annual Meeting of Shareholders are incorporated herein by reference into Part III of this report.

Explanatory Note

MicroVision, Inc. is filing this Amendment No. 1 on Form 10-K/A (the "Form 10-K/A") to amend its annual report on Form 10-K for the fiscal year ended December 31, 2011 (the "2011 Form 10-K") as originally filed with the Securities and Exchange Commission (the "SEC") on March 9, 2012. The Report of Independent Registered Public Accounting Firm in the Consolidated Financial Statements (the "Report") attached to the 2011 Form 10-K did not include an opinion on the financial statement schedule (the "Schedule"), presented on page 53 in the 2011 Form 10-K. This amendment corrects that inadvertent omission and replaces that Report with the correct version of the Report (the "Revised Report") referring to the above mentioned Schedule. Although only the Revised Report changed, the entire item 8 is included in this Form 10-K/A with the original 2011 Form 10-K page numbers retained. This amendment does not contain any changes to data and footnotes in the Consolidated Financial Statements of MicroVision, Inc. and its consolidated subsidiaries.

Other than as expressly set forth above, this Form 10-K/A does not, and does not purport to, revise, update, amend or restate the information presented in any Item of the 2011 Form 10-K or reflect any events that have occurred after the filing of the 2011 Form 10-K.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Report of Independent Registered Public Accounting Firm

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, shareholders' equity, comprehensive loss, and cash flows present fairly, in all material respects, the financial position of MicroVision, Inc. and its subsidiaries (the "Company") at December 31, 2011 and December 31, 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included 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. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 1 to the 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 financial statements do not include any adjustments that might result from the outcome of this uncertainty.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
Seattle, Washington
March 8, 2012

MicroVision, Inc.

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

	December 31,	
	2011	2010
Assets		
Current assets		
Cash and cash equivalents	\$ 13,075	\$ 19,413
Investment securities, available-for-sale	8	13
Accounts receivable, net of allowances of \$243 and \$588	463	1,116
Costs and estimated earnings in excess of billings on uncompleted contracts	70	137
Inventory	4,254	6,075
Current restricted investments	-	306
Other current assets	785	564
Total current assets	18,655	27,624
Property and equipment, net	2,347	4,169
Restricted investments	786	1,189
Intangible assets	2,048	2,233
Other assets	34	18
Total assets	\$ 23,870	\$ 35,233
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable	\$ 7,341	\$ 7,665
Accrued liabilities	5,113	4,135
Billings in excess of costs and estimated earnings on uncompleted contracts	156	81
Current portion of capital lease obligations	39	40
Current portion of long-term debt	93	85
Total current liabilities	12,742	12,006
Capital lease obligations, net of current portion	72	114
Long-term debt, net of current portion	67	159
Deferred rent, net of current portion	187	697
Other long-term liabilities	-	424
Total liabilities	13,068	13,400
Commitments and contingencies		
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; 17,019 and 12,809 shares issued and outstanding	17	13
Additional paid-in capital	425,658	400,880
Accumulated other comprehensive loss	(35)	(30)
Accumulated deficit	(414,838)	(379,030)
Total shareholders' equity	10,802	21,833
Total liabilities and shareholders' equity	\$ 23,870	\$ 35,233

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,		
	2011	2010	2009
Product revenue	\$ 4,338	\$ 3,850	\$ 1,016
Contract revenue	1,279	890	2,817
Total revenue	5,617	4,740	3,833
Cost of product revenue	11,640	15,779	2,363
Cost of contract revenue	1,425	443	1,531
Total cost of revenue	13,065	16,222	3,894
Gross margin	(7,448)	(11,482)	(61)
Research and development expense	15,279	21,600	24,577
Sales, marketing, general and administrative expense	13,314	15,252	14,540
Gain on disposal of fixed assets	(11)	-	-
Total operating expenses	28,582	36,852	39,117
Loss from operations	(36,030)	(48,334)	(39,178)
Interest income	47	112	212
Interest expense	(46)	(62)	(68)
Realized loss on sale of investment securities	-	(127)	-
Gain (loss) on derivative instruments, net	-	842	(506)
Other income	221	109	11
Net loss	\$ (35,808)	\$ (47,460)	\$ (39,529)
Net loss per share basic and diluted	\$ (2.57)	\$ (4.17)	\$ (4.29)
Weighted-average shares outstanding basic and diluted	13,919	11,379	9,220

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

MicroVision, Inc.

Consolidated Statements of Comprehensive Loss (in thousands)

	Years Ended December 31,		
	2011	2010	2009
Net loss	\$ (35,808)	\$ (47,460)	\$ (39,529)
Other comprehensive gain (loss)			
Unrealized gain (loss) on investment securities, available-for-sale:			
Unrealized holding gain (loss) arising during period	(5)	3	5
Comprehensive loss	\$ (35,813)	\$ (47,457)	\$ (39,524)

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

MicroVision, Inc.

Consolidated Statements of Shareholders' Equity (in thousands)

	Common Stock		Additional paid-in capital	Shareholders' Equity (Deficit)		Total Shareholders' equity
	Shares	Par value		Accumulated other comprehensive loss	Accumulated deficit	
Balance at December 31, 2008	8,510	\$ 9	\$ 319,721	\$ (38)	\$ (292,041)	\$ 27,651
Share-based compensation expense	3	-	3,335	-	-	3,335
Exercise of warrants and options	184	-	4,794	-	-	4,794
Sales of common stock and warrants	2,389	2	45,633	-	-	45,635
Other comprehensive income	-	-	-	5	-	5
Net loss	-	-	-	-	(39,529)	(39,529)
Balance at December 31, 2009	11,086	11	373,483	(33)	(331,570)	41,891
Share-based compensation expense	11	-	3,601	-	-	3,601
Exercise of warrants and options	30	-	478	-	-	478
Sales of common stock and warrants	1,578	2	21,618	-	-	21,620
Issuance of common stock for payment of intellectual property	104	-	1,700	-	-	1,700
Other comprehensive income	-	-	-	3	-	3
Net loss	-	-	-	-	(47,460)	(47,460)
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

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,		
	2011	2010	2009
Cash flows from operating activities			
Net loss	\$ (35,808)	\$ (47,460)	\$ (39,529)
Adjustments to reconcile net loss to net cash used in operations:			
Depreciation	2,406	1,731	1,138
Amortization of intangible assets	185	32	2
Gain on disposal of property and equipment	(11)	-	-
Realized loss on sale of short-term investments	-	127	-
Non-cash stock-based compensation	3,356	3,450	3,373
Loss (gain) on derivative instruments	-	(842)	506
Inventory write-downs	1,563	9,579	1,257
Non-cash deferred rent	(340)	(276)	(276)
Change in:			
Accounts receivable	653	(203)	(376)
Costs and estimated earnings in excess of billings on uncompleted contracts	67	(67)	625
Inventory	258	(14,728)	(658)
Other current assets	(221)	187	115
Other assets	(16)	15	(3)
Accounts payable	(532)	2,591	1,477
Accrued liabilities	808	(358)	646
Billings in excess of costs and estimated earnings on uncompleted contracts	75	26	(7)
Other long-term liabilities	(330)	-	-
Net cash used in operating activities	(27,887)	(46,196)	(31,710)
Cash flows from investing activities			
Sales of investment securities	-	2,573	-
Purchases of restricted investment securities	-	(305)	-
(Increase)/Decrease in restricted investment	709	(1)	143
Proceeds on sale of property and equipment	11	-	-
Purchases of property and equipment and intangible assets	(550)	(1,886)	(1,360)
Net cash provided by (used in) investing activities	170	381	(1,217)
Cash flows from financing activities			
Principal payments under capital leases	(43)	(65)	(60)
Principal payments under long-term debt	(84)	(78)	(71)
Net proceeds from issuance of common stock and warrants	21,506	22,346	50,550
Net cash provided by financing activities	21,379	22,203	50,419
Net increase (decrease) in cash and cash equivalents	(6,338)	(23,612)	17,492
Cash and cash equivalents at beginning of period	19,413	43,025	25,533
Cash and cash equivalents at end of period	\$ 13,075	\$ 19,413	\$ 43,025
Supplemental disclosure of cash flow information			
Cash paid for interest	\$ 46	\$ 62	\$ 68
Supplemental schedule of non-cash investing and financing activities			
Property and equipment acquired under capital leases	\$ -	\$ -	\$ 95
Other non-cash additions to property and equipment	\$ 229	\$ 101	\$ 85
Issuance of common stock for payment of intellectual property	\$ -	\$ 1,700	\$ -

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

MicroVision, Inc.
Notes to Consolidated Financial Statements

1. The Company

MicroVision, Inc. (the "Company") is developing high-resolution miniature laser display and imaging engines based upon our proprietary PicoP[®] display engine technology. Our PicoP 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 engines to original equipment manufacturers (OEMs) that would embed them into a variety of consumer, automotive, enterprise and industrial products.

The primary objective for consumer applications is to provide users of mobile consumer devices such as smartphones, media players, tablet PCs and other consumer electronic products with a large screen viewing experience produced by a small embedded projector. 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. The PicoP 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.

The PicoP with some modification could be embedded into a vehicle or integrated into a portable standalone aftermarket device to create a high-resolution head-up display (HUD) that could project point-by-point navigation, critical operational, safety and other information important to the vehicle operator.

The enterprise products employing our technology would allow users in field-based professions such as service repair or sales to view and share information such as schematics for equipment repair and sales data and orders within CRM applications on a larger, more user-friendly interface. We also see potential for embedding the PicoP laser display engine in industrial products where our displays could be used for 3D measuring and digital signage, enhancing the overall user experience of these applications.

We currently market and sell our SHOWWX[™] line of accessory pico projectors that use our PicoP display engine through a network of global distributors. 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.

Based on our current operating plan, we anticipate that we have sufficient cash and cash equivalents to fund our operations through June 2012. 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 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 resulting in reductions in staff, operating costs, capital expenditures and investment in research and development.

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, 2011 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.

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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, inventory valuation and valuation of derivative financial instruments.

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 year ended December 31, 2011.

Cash and cash equivalents; investment securities, available-for-sale; and fair value of financial instruments

Our financial instruments include cash and cash equivalents, investments available-for-sale, 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, 2011 and 2010 was not materially different from the fair value based on rates available for similar types of arrangements.

The fair value of financial instruments is defined as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a

market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the authoritative guidance establishes a three level fair value inputs hierarchy, with Level 1 being observable inputs such as quoted market prices in active markets, Level 2 being observable inputs that are not sufficiently active to qualify as Level 1, and Level 3 being inputs that are unobservable by market participants outside of the Company and must be estimated using assumptions we develop. We use market data, assumptions and risks we believe market participants would use in measuring the fair value of the asset or liability, including the risks inherent in the inputs and the valuation techniques. We disclose the lowest level input significant to each category of asset or liability. We use inputs which are as observable as possible and the methods most applicable to the specific situation of each company or valued item.

We consider fair valued assets impaired when the fair value is less than cost. When the impairment is significant, we judge whether the impairment is temporary or other-than-temporary. An impairment is generally considered to be other-than-temporary and recorded as such in the period when there is deemed sufficient reason to conclude that the fair value of the asset is not expected to recover to the recorded fair value prior to the expected time of sale or maturity. We classify other-than-temporary fair value impairments into one of two categories: "credit" or "other factors". Other-than-temporary impairments are charged to current earnings if they are of the "credit" type or recorded to other comprehensive loss if they are due to "other factors".

Our cash equivalents and investment securities available-for-sale 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. Investment securities purchased with more than 90 days until contractual maturities are classified as current investment securities available-for-sale on the consolidated balance sheet with unrealized gains and losses included in the consolidated statement of comprehensive loss. Interest income, realized gains and losses, and other-than-temporary credit type impairments are recognized in the period earned or incurred and presented separately in the consolidated statement of operations. Changes in the fair values of derivatives are realized in the period of remeasurement and recorded in Gain (loss) on derivative instruments, net in the consolidated statement of operations. The cost of securities sold is based on the specific identification method.

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.

Inventory

Inventory consists of 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, 2011, restricted investments were in money market savings accounts and serve as collateral for \$786,000 in irrevocable letters of credit. The restricted investments balance includes two letters of credit totaling \$436,000 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. Also included in the restricted investments balance was a \$350,000 letter of credit which was

outstanding under the terms of a supplier agreement, and expired in January 2012.

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, investment securities available-for-sale and accounts receivable. We typically do not require collateral from our customers. Our investment policy generally directs investment managers to select investments to achieve the following goals: preservation of principal, adequate liquidity and return. As of December 31, 2011, our cash and cash equivalents and investments securities portfolio are comprised of short-term highly rated money market savings accounts and equity investments.

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As of December 31, 2009, we held \$3.0 million par value student loan auction rate securities (SLARS), fair valued at approximately \$2.7 million. In March and December 2010, one of the issuers redeemed a total of \$200,000 of our SLARS at par value through a voluntary lottery redemption program. In December 2010, we sold our remaining SLARS for \$2.4 million, resulting in a realized loss of \$127,000 during the period. As of December 31, 2010, all of our total cash and cash equivalents and investment securities available-for-sale had variable interest rates or were equity investments traded in active markets.

Concentration of Sales to Major Customers

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. During 2010, one commercial customer accounted for approximately 26% of total revenue and the same customer accounted for 62% of the accounts receivable balance at December 31, 2010. During 2009, the U.S. government accounted for approximately 43% of total revenue, with two government customers accounting for 24% and 17%, respectively, of total revenue. The U.S. government accounted for approximately 37% of the accounts receivable balance at December 31, 2009.

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, 2011, 2010, and 2009, 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.

	2011	December 31, 2010	2009
Publicly traded warrants	753,000	753,000	753,000
Options and private warrants	2,498,000	1,381,000	1,586,000
Nonvested equity shares	132,000	57,000	50,000
	3,383,000	2,191,000	2,389,000

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

We have one share-based incentive compensation plan. The plan is more fully described in Note 12.

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,		
	2011	2010	2009
Cost of contract revenue	\$ 143,000	\$ 29,000	\$ 101,000
Cost of product revenue	136,000	42,000	18,000
Research and development expense	1,329,000	1,343,000	1,213,000
Sales, marketing, general and administrative expense	1,648,000	1,994,000	1,956,000
	\$ 3,256,000	\$ 3,408,000	\$ 3,288,000

New accounting pronouncements

In May 2011, the FASB issued a new accounting standard on fair value measurements that clarifies the application of existing guidance and disclosure requirements, changes certain fair value measurement principles and requires additional disclosures about fair value measurements. The standard is effective for interim and annual periods beginning after December 15, 2011. The adoption of this standard is not expected to have a material impact on our financial statements.

In June 2011, the FASB issued a new accounting standard on the presentation of comprehensive income. The new standard requires the presentation of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The new standard also requires presentation of adjustments for items that are reclassified from other comprehensive income to net income in the statement where the components of net income and the components of other comprehensive income are presented. The standard is effective for fiscal years, and interim periods within these years, beginning after December 15, 2011. The adoption of this standard is not expected to 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, 2011 and 2010. The following table summarizes when we will be contractually able to bill the balance as of December 31, 2011 and 2010.

	Year Ended December 31,	
	2011	2010
Billable within 30 days	\$ 63,000	\$ 130,000
Billable between 31 and 90 days	-	-
Billable after 90 days	7,000	7,000
	\$ 70,000	\$ 137,000

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:

	December 31,	
	2011	2010
Costs and estimated earnings incurred on uncompleted contracts	\$ 1,822,000	\$ 3,266,000
Billings on uncompleted contracts	(1,908,000)	(3,210,000)
	\$ (86,000)	\$ 56,000
Included in accompanying consolidated balance sheets under the following captions:		
Costs and estimated earnings in excess of billings on uncompleted contracts	\$ 70,000	\$ 137,000
Billings in excess of costs and estimated earnings on uncompleted contracts	(156,000)	(81,000)
	\$ (86,000)	\$ 56,000

4. Cash equivalents, investment securities, available-for-sale, and fair value measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the authoritative guidance establishes a three level fair value inputs hierarchy, and requires an entity to maximize the use of observable valuation inputs and minimize the use of unobservable inputs. We use market data, assumptions and risks we believe market participants would use in measuring the fair value of the asset or liability, including the risks inherent in the inputs and the valuation techniques. The hierarchy is summarized below.

Level 1 - Observable inputs such as quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs such as quoted prices for similar assets or liabilities in markets that are not sufficiently active to qualify as Level 1 or, other inputs that are observable by market data.

Level 3 - Unobservable inputs for which there is little or no market data, which requires us to develop our own assumptions, which are significant to the measurement of the fair values.

As of December 31, 2011, our cash and cash equivalents and investments available-for-sale securities portfolio are comprised of short-term highly rated money market savings accounts and an equity investment with a quoted price in an active market. Prior to December 31, 2010, our investment securities were comprised of debt securities and equity investments. Generally, they were issued by the U.S. government, its agencies, corporations, and student loan financial aid organizations. Accounting for these investments is discussed in Note 2.

Prior to December 2010, we held student loan auction-rate securities (SLARS), fair valued at \$2.7 million. During 2010, we redeemed a total of \$200,000 of our SLARS at par value through a voluntary lottery redemption program and sold our remaining SLARS for proceeds of approximately \$2.4 million.

The valuation inputs hierarchy classification for assets and liabilities measured at fair value on a recurring basis are summarized below as of December 31, 2011 and 2010. These tables do not include cash held in our money market savings accounts.

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As of December 31, 2011:	Level 1	Level 2	Level 3	Total
Assets				
Corporate equity securities	\$ -	\$ 8,000	\$ -	\$ 8,000
	\$ -	\$ 8,000	\$ -	\$ 8,000

As of December 31, 2010:	Level 1	Level 2	Level 3	Total
Assets				
Corporate equity securities	\$ -	\$ 13,000	\$ -	\$ 13,000
	\$ -	\$ 13,000	\$ -	\$ 13,000

The corporate equity securities are classified within Level 2 of the fair value hierarchy because they are valued using inputs and common methods with sufficient levels of transparency and observability. Because these securities are traded on the OTC market with lower average trading volumes we have deemed them not sufficiently active to qualify as Level 1.

Our investments are summarized below as of December 31, 2011 and December 31, 2010.

	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Classification on Balance Sheet	
					Cash Equivalents	Investment Securities, Available- For-Sale
As of December 31, 2011:						
Assets						
Corporate equity securities	\$ 43,000	\$ -	\$ (35,000)	\$ 8,000	\$ -	\$ 8,000
	\$ 43,000	\$ -	\$ (35,000)	\$ 8,000	\$ -	\$ 8,000

	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Classification on Balance Sheet	
					Cash Equivalents	Investment Securities, Available- For-Sale
As of December 31, 2010:						
Assets						
Corporate equity securities	\$ 43,000	\$ -	\$ (30,000)	\$ 13,000	\$ -	\$ 13,000
	\$ 43,000	\$ -	\$ (30,000)	\$ 13,000	\$ -	\$ 13,000

As of December 31, 2011, the unrealized losses on our investments in equity securities were due primarily to declines in the pricing of these securities.

Our significant nonfinancial assets and liabilities that are subject to consideration for recognition and disclosure at fair value in the financial statements on a nonrecurring basis primarily include property and equipment, capital lease obligations, a tenant improvement loan agreement and deferred rent. If we conclude there has been an event indicating the potential impairment of a nonfinancial asset or liability, or periodically if no such indicating event is deemed to have occurred, we determine the fair value, test for impairments, and record significant impairments, in the period of determination.

The maturities of the investment securities available-for-sale as of December 31, 2011 are shown below:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Maturity date:				
Less than one year	\$ 43,000	\$ -	\$ (35,000)	\$ 8,000
Due in 1-3 years	-	-	-	-
	\$ 43,000			\$ 8,000

5. Inventory

Inventory consists of the following:

	December 31,	
	2011	2010
Raw materials	\$ 2,741,000	\$ 3,924,000
Finished goods	1,513,000	2,151,000
	\$ 4,254,000	\$ 6,075,000

The inventory at December 31, 2011 and December 31, 2010 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 2011, 2010, and 2009, we recorded inventory write-downs of \$1.6 million, \$9.6 million, and \$1.3 million, respectively.

6. Accrued liabilities

Accrued liabilities consist of the following:

	December 31,	
	2011	2010
Bonuses	\$ 1,214,000	\$ 649,000
Payroll and payroll taxes	590,000	629,000
Compensated absences	508,000	647,000
Deferred rent credit	261,000	373,000
Warranty	490,000	227,000
Adverse purchase commitments	134,000	341,000
Accelerated rent expense	402,000	-
Professional fees	415,000	391,000
Purchased patents	330,000	220,000
Other	769,000	658,000
	\$ 5,113,000	\$ 4,135,000

7. Property and equipment, net

Property and equipment consists of the following:

	December 31,	
	2011	2010
Production equipment	\$ 5,144,000	\$ 4,749,000
Leasehold improvements	3,344,000	3,317,000
Computer hardware and software/lab equipment	8,917,000	8,802,000
Office furniture and equipment	1,485,000	1,591,000
	18,890,000	18,459,000
Less: Accumulated depreciation	(16,543,000)	(14,290,000)
	\$ 2,347,000	\$ 4,169,000

Depreciation expense was \$2.4 million, \$1.7 million, and \$1.1 million, in 2011, 2010, and 2009, respectively.

8. 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, \$2.3 million, and \$58,000 as of December 31, 2011, 2010, and 2009, respectively. Amortization expense was \$184,000, \$32,000, and \$2,000 in 2011, 2010, and 2009, respectively. We estimate that we have no significant residual value related to our intangible assets and no material impairments of intangible assets were identified during any of the periods presented.

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 a cash payment of \$220,000 in June 2011 and are obligated to make a final cash payments of \$330,000 in June 2012.

The following table outlines the estimated future amortization expense related to intangible assets held at December 31, 2011:

Year ended December 31,	Amount
2012	\$ 184,000
2013	184,000
2014	184,000
2015	184,000
2016 and thereafter	1,312,000
Total	\$ 2,048,000

9. Committed equity financing facility

In August 2010, we entered into a committed equity financing facility (CEFF) with Azimuth Opportunity, Ltd., ("Azimuth"), under which we may sell to Azimuth up to the lesser of \$60.0 million or 2,221,488 of our shares of common stock over a 24-month term, which began on September 9, 2010. During 2011, we completed two draws from this facility 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 may sell to Azimuth up to the lesser of \$40.0 million or 2,627,304 of our shares of common stock over a 24-month term, which began on July 8, 2011. In August 2011, 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 may sell to Azimuth up to the lesser of \$35.0 million or 2,753,842 of our shares of common stock over a 24-month term, which began on September 13, 2011. In September 2011, 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.

10. Common stock

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 11.

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.

During 2010, we raised approximately \$22.4 million, before issuance costs of \$768,000, through the sale of approximately 1.6 million shares of our common stock under our 2010 committed equity financing facility.

In November and December 2009, we raised an aggregate of \$33.1 million, before issuance costs of \$2.3 million, through underwritten public offerings of 1.4 million shares of our common stock.

In June 2009, we raised approximately \$15.0 million, before issuance costs of approximately \$218,000, from the sale of 1.0 million shares of common stock and warrants to purchase approximately 252,000 shares of our common stock to Max Display Enterprises Limited, a subsidiary of Walsin Lihwa. Walsin Lihwa is the parent company of Touch Micro-system Technology Corp. (TMT). We have worked for a number of years with both Walsin Lihwa and TMT, as manufacturers of our Micro-Electrical Mechanical systems (MEMS) chips. Based on filings by Max Display Enterprises Limited with the Securities Exchange Commission, as of December 31, 2011, Max Display Enterprises Limited beneficially owned 7.3% of our common stock, as determined in accordance with the rules of the Securities Exchange Commission.

11. Warrants

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.

In June 2009, we raised approximately \$15.0 million, before issuance costs of approximately \$218,000, from the sale of 1.0 million shares of common stock and warrants to purchase approximately 252,000 shares of our common stock to Max Display Enterprises Limited, a subsidiary of Walsin Lihwa. The warrants have an exercise price of \$17.48 per share, a three year term, and are exercisable on the date of issuance. We can call the warrants if the average closing bid price of our stock is over \$69.92 for any 20 consecutive trading days.

The following summarizes activity with respect to MicroVision common stock warrants during the three years ended December 31, 2011:

	Warrants to purchase common shares	Weighted average exercise price
Outstanding at December 31, 2008	1,189,000	\$ 34.56
Granted:		
Exercise price greater than intrinsic value	252,000	17.52
Exercised	(142,000)	27.68
Canceled/expired	-	
Outstanding at December 31, 2009	1,299,000	31.68
Granted:		
Exercise price greater than intrinsic value	-	-
Exercised	-	-
Canceled/expired	(257,000)	55.20
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	(33,000)	22.08
Outstanding at December 31, 2011	2,287,000	\$ 14.96
Exercisable at December 31, 2011	2,287,000	\$ 14.96

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

	Year Ended December 31,		
	2011	2010	2009
Exercise price greater than fair value	\$ 2.06	\$ -	\$ -
Exercise price equal to fair value	-	-	-
Exercise price less than fair value	-	-	10.16

There were no warrants issued during 2010. 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 2011 and 2009, respectively: dividend yield of zero percent for both years; expected volatility of 83% and 75%; risk-free interest rates of 1.0% and 1.5% and expected lives of 5 and 3 years, respectively.

The following table summarizes information about our common stock warrants outstanding and exercisable at December 31, 2011:

Range of exercise prices	Warrants outstanding			Warrants exercisable	
	Number outstanding at December 31, 2011	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable at December 31, 2011	Weighted average exercise price
\$6.24	1,278,000	4.88	\$ 6.24	1,278,000	\$ 6.24
\$17.48	253,000	0.47	17.48	253,000	17.48
\$27.36	3,000	0.12	27.36	3,000	27.36
\$28.80	753,000	1.56	28.80	753,000	28.80
\$6.24-\$28.80	2,287,000			2,287,000	

12. 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 2011 plan to conserve cash used in operations, we implemented two share-based compensation programs during the second quarter of 2011 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 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 2.1 million shares authorized, of which 609,000 shares were available for awards as of December 31, 2011. 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 88,000 are issued and outstanding as of December 31, 2011. 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:

Assumptions (weighted average)	Year Ended December 31,		
	2011	2010	2009
Volatility	85%	84%	75%
Expected term (in years)	4.0	4.3	5.1
Risk-free rate	1.3%	2.0%	2.0%
Expected dividends	0.0%	0.0%	0.0%
Pre-vest forfeiture rate	7.5%	5.0%	5.0%
Grant date fair value of options granted	\$ 6.10	\$ 16.19	\$ 9.62

Options Activity and Positions

The following table summarizes activity and positions with respect to options for the year ended December 31, 2011:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2008	875,000	\$ 31.84	7.2	\$ 63,000
Granted	249,000	15.76		
Exercised	(42,000)	20.64		
Forfeited or expired	(43,000)	24.08		
Outstanding as of December 31, 2009	1,039,000	28.72	7.0	4,823,000
Granted	220,000	25.68		
Exercised	(30,000)	15.92		
Forfeited or expired	(137,000)	38.64		
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	\$ -
Vested and expected to vest as of December 31, 2011	946,000	\$ 24.16	5.7	\$ -
Exercisable as of December 31, 2011	716,000	\$ 26.72	5.0	\$ -

The total intrinsic value of options exercised during the years ended December 31, 2011, 2010, and 2009 were \$12,000, \$185,000, and \$455,000, respectively.

The total grant date fair value of options vested during the years ended December 31, 2011, 2010, and 2009, was \$4.1 million, \$4.1 million, and \$1.6 million, respectively. As of December 31, 2011, our unamortized share-based compensation was \$2.0 million which we plan to amortize over the next 2.1 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.

In April 2010, we issued 11,000 nonvested equity shares of the Company's common stock to executive employees under the 2006 Incentive Plan.

In April 2009, we issued 36,000 nonvested equity shares of the Company's common stock to executive employees under the 2006 Incentive Plan. Included was a grant of 21,000 shares to one executive which vests conditionally upon completion of certain service and performance objectives the later of three years from the date of grant or the first day thereafter that the executive is not in a closed window, and 2,000 shares to the same executive in lieu of a cash salary increase which vested in four equal installments through December 31, 2009. The remaining shares vest over a three year period from the date of grant. 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, 2011, our unamortized nonvested equity share-based compensation was \$655,000 which we plan to amortize over the next 1.9 years.

13. Receivables from related parties

Our revenue for the year ended December 31, 2011 includes \$409,000 from a sale of PicoP engines to Walsin Lihwa Corporation which integrated the engines into its product sold in China during 2011, compared to revenue of \$39,000 for the year ended December 31, 2010 from the sale of evaluation kits to this customer. Our accounts receivable balance at December 31, 2011 included \$159,000 remaining due from this customer, compared to \$30,000 at December 31, 2010. Based on filings with the SEC as of December 31, 2011, Walsin Lihwa beneficially owns approximately 7.3% of our common stock as determined in accordance with SEC rules, through its wholly owned subsidiary Max Display Enterprises Limited.

14. 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:

	Capital leases	Operating leases
2012	\$ 62,000	\$ 938,000
2013	62,000	564,000
2014	21,000	-
2015	-	-
2016	-	-
Thereafter	-	-
Total minimum lease payments	145,000	\$ 1,502,000
Less: Amount representing interest	(34,000)	
Present value of capital lease obligations	111,000	
Less: Current portion	(39,000)	
Long-term obligation at December 31, 2011	\$ 72,000	

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 \$942,000, respectively, at December 31, 2011 and \$1,106,000 and \$1,043,000, respectively, at December 31, 2010.

Net rent expense was \$1,156,000, \$860,000, and \$862,000 for 2011, 2010, and 2009, 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 \$160,000 at December 31, 2011.

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 records a loss on purchase commitments when required. During 2011, no losses on purchase commitments were recorded. During 2010, we recorded a loss of \$220,000 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. In December 2009, we recorded a loss of \$55,000 to cost of product revenue as a result of commitments to purchase materials for the ROV scanner that were in excess of its estimated future proceeds from the sale of the ROV scanners.

15. Income taxes

A provision for income taxes has not been recorded for 2011, 2010, and 2009 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, 2011, we have net operating loss carry-forwards of approximately \$283.2 million, for federal income tax reporting purposes. In addition, we have research and development tax credits of \$5.8 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 2031 if not previously utilized. In 2011, \$2.1 million in net operating loss carry-forwards expired. The research and development tax credits and the remaining net operating losses are scheduled to expire between 2017 and 2031. 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. We have determined that such a change occurred during 1996 and the annual utilization of loss carry-forwards generated through the period of that change will be limited to approximately \$1.6 million.

Deferred tax assets are summarized as follows:

	December 31,	
	2011	2010
Deferred tax assets, current		
Reserves	\$ 4,395,000	\$ 4,281,000
Other	806,000	853,000
Total gross deferred tax assets, current	5,201,000	5,134,000
Deferred tax assets, noncurrent		
Net operating loss carryforwards	97,156,000	88,425,000
R&D credit carryforwards	5,754,000	5,428,000
Depreciation/amortization deferred	26,510,000	24,956,000
Other	6,958,000	5,815,000
Total gross deferred tax assets, noncurrent	136,378,000	124,624,000
Deferred tax liabilities, noncurrent		
Convertible debt	-	-
Total gross deferred tax liabilities, noncurrent	-	-
Net deferred taxes before valuation allowance	141,579,000	129,758,000
Less: Valuation allowance	(141,579,000)	(129,758,000)
Deferred tax assets	\$ -	\$ -

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, 2011 and at December 31, 2010.

We recognize interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2011, 2010, and 2009, we recognized no interest or penalties.

We file income tax returns in the U.S. federal jurisdiction and various states. The tax years 2008-2010 generally remain open to examination by major taxing jurisdictions in the United States to which we are subject.

16. 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.

Under the plan, we match 50% of employee contributions to the plan up to 6% of the employee's per pay period compensation. During 2011, 2010, and 2009 we contributed \$242,000, \$349,000, and \$369,000, respectively, to the plan under the matching program.

17. Subsequent event

A 1:8 reverse stock split of MicroVision's common stock became effective on February 17, 2012 and reduced the number of shares of our common stock issued and outstanding from approximately 136.1 million to approximately 17.0 million. We amended our Certificate of Incorporation on February 17, 2012 in order to effect the reverse stock split, and on a post-split basis, reduce the number of authorized shares of our common stock from 200,000,000 to 100,000,000 and maintain 25,000,000 authorized shares of our preferred stock. The effects of the reverse stock split have been reflected in the financial statements and the footnotes.

18. Quarterly financial information (Unaudited)

The following table presents our unaudited quarterly financial information for the years ending December 31, 2011 and 2010:

	Year Ended December 31, 2011			
	December 31,	September 30,	June 30,	March 31,
Revenue	\$ 1,504,000	\$ 1,839,000	\$ 1,155,000	\$ 1,119,000
Gross margin (loss)	(2,922,000)	(881,000)	(2,225,000)	(1,420,000)
Net loss	(9,806,000)	(7,790,000)	(9,175,000)	(9,037,000)
Net loss per share basic and diluted	(0.62)	(0.57)	(0.69)	(0.70)

	Year Ended December 31, 2010			
	December 31,	September 30,	June 30,	March 31,
Revenue	\$ 683,000	\$ 1,301,000	\$ 2,088,000	\$ 668,000
Gross margin (loss)	(6,782,000)	(2,811,000)	(1,270,000)	(619,000)
Net loss	(15,420,000)	(11,850,000)	(11,073,000)	(9,117,000)
Net loss per share basic and diluted	(1.27)	(1.06)	(1.00)	(0.82)

MICROVISION, INC.
VALUATION AND QUALIFYING ACCOUNTS AND RESERVES SCHEDULE
(in thousands)

Description	Balance at beginning of fiscal period	Additions		Deductions	Balance at end of fiscal period
		Charges to costs and expenses	Charges to other accounts		
Year Ended December 31, 2009					
Allowance for receivables from related parties	\$ 1,851	\$ -	\$ -	\$ (1,451)	\$ 400
Tax valuation allowance	99,206	-	14,100	-	113,306
Year Ended December 31, 2010					
Allowance for receivables from related parties	400	-	-	-	400
Tax valuation allowance	113,306	-	16,452	-	129,758
Year Ended December 31, 2011					
Allowance for receivables from related parties	400	-	-	-	400
Tax valuation allowance	129,758	-	11,821	-	141,579

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: October 29, 2012

By /s/ Jeff Wilson

Jeff Wilson
Chief Financial Officer
(Principal Financial Officer, Principal Accounting Officer)

EXHIBIT INDEX

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

- 3.1 Amended and Restated Certificate of Incorporation of MicroVision, Inc., as amended ⁽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 Registration Rights Agreement, dated as of May 4, 2011, by and between MicroVision, Inc. and Azimuth Opportunities Ltd. ⁽¹¹⁾
- 4.4 Warrant Agreement dated November 16, 2011 by and between MicroVision, Inc. and American Stock Transfer and Trust Company, LLC.⁽¹³⁾
- 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 Registration Rights Agreement dated June 22, 2009 by and between the Company and Max Display Enterprises Limited⁽⁹⁾
- 10.10 Warrant No. 120 to Purchase Common Stock of MicroVision, Inc. issued June 22, 2009 to Max Display Enterprises Limited⁽⁹⁾
- 10.11 Common Stock Purchase Agreement, dated as of May 4, 2011, by and between MicroVision, Inc. and Azimuth Opportunities Ltd. ⁽¹¹⁾
- 10.12 Engagement Letter, dated as of May 4, 2011, by and between MicroVision, Inc. and Reedland Capital Partners.⁽¹¹⁾
- 10.13 Common Stock Purchase Agreement, dated as of September 13, 2011, by and between MicroVision, Inc. and Azimuth Opportunities Ltd. ⁽¹²⁾
- 10.14

Engagement Letter, dated as of September 13, 2011, by and between MicroVision, Inc. and Reedland Capital Partners.⁽¹²⁾

- 10.15 Change of Control Severance Plan.⁽¹⁵⁾
- 23 Consent of Independent Registered Public Accounting Firm.
- 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.
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- 101.INS** XBRL Instance Document
- 101.SCH** XBRL Taxonomy Extension Schema
- 101.CAL** XBRL Taxonomy Extension Calculation Linkbase
- 101.DEF** XBRL Taxonomy Extension Definition Linkbase
- 101.LAB** XBRL Taxonomy Extension Label Linkbase
- 101.PRE** XBRL Taxonomy Extension Presentation Linkbase

- (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 Form 10-K for the annual period ended December 31, 2011.

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