

F&M BANK CORP
Form 10-Q
May 15, 2015

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

FORM 10-Q

Quarterly report Under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2015.

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 000-13273

F & M BANK CORP.

Virginia	54-1280811
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

P. O. Box 1111
Timberville, Virginia 22853
(Address of Principal Executive Offices) (Zip Code)

(540) 896-8941
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file 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 website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files. Yes No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting Company	<input checked="" type="checkbox"/>

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

State the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Class	Outstanding at May 14, 2015
Common Stock, par value - \$5	3,294,005 shares

F & M BANK CORP.

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Part I Financial Information
Item 1 Financial Statements

F & M BANK CORP.
Consolidated Statements of Income

(In Thousands of Dollars Except per Share Amounts)
(Unaudited)

	Three Months Ended March 31,	
	2015	2014
Interest income		
Interest and fees on loans held for investment	\$6,772	\$6,226
Interest and fees on loans held for sale	191	15
Interest on federal funds sold	5	12
Interest on debt securities	43	38
Total interest income	7,011	6,291
Interest expense		
Interest on demand deposits	157	167
Interest on savings accounts	33	28
Interest on time deposits over \$100,000	123	158
Interest on other time deposits	241	304
Total interest on deposits	554	657
Interest on short-term debt	11	2
Interest on long-term debt	120	291
Total interest expense	685	950
Net interest income	6,326	5,341
Provision for loan losses	300	750
Net interest income after provision for loan losses	6,026	4,591
Noninterest income		
Service charges	226	257
Insurance and other commissions	235	22
Other	323	381
Income on bank owned life insurance	118	116
Total noninterest income	902	776
Noninterest expense		
Salaries	1,818	1,655
Employee benefits	624	520
Occupancy expense	178	160
Equipment expense	163	144
FDIC insurance assessment	192	180
Other	1,407	1,079
Total noninterest expense	4,382	3,738
Income before income taxes	2,546	1,629

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Income tax expense	649	476
Consolidated net income – F & M Bank Corp.	1,897	1,153
Net income - Noncontrolling interest (income) loss	(26)	30
Net Income – F & M Bank Corp	\$1,871	\$1,183
Dividends paid/accumulated on preferred stock	128	-
Net income available to common stockholders	\$1,743	\$1,183
Per share data		
Net income – basic	\$.53	\$.46
Net income – diluted	.50	.46
Cash dividends	\$.18	\$.17
Weighted average shares outstanding – basic	3,292,646	2,598,639
Weighted average shares outstanding – diluted	3,737,046	2,598,639

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

Principles of Consolidation

Our condensed consolidated financial statements include the accounts of MicroVision, Inc. and MicroVision Innovations Singapore Pte. Ltd. ("MicroVision Singapore"), a wholly owned foreign subsidiary. MicroVision Singapore was incorporated in April 2011 and is engaged in operational support functions for MicroVision, Inc. There were no material intercompany accounts and transactions during the three and six months ended June 30, 2013.

2. NET LOSS PER SHARE

Basic net loss per share is calculated using the weighted-average number of common shares outstanding during the reporting periods. Diluted net loss per share is calculated using the weighted-average number of common shares outstanding and taking into account the dilutive effect of all potentially dilutive securities, including common stock equivalents and convertible securities outstanding. Potentially dilutive common stock equivalents primarily consist of warrants, employee stock options and nonvested equity shares. Diluted net loss per share for the three and six months ended June 30, 2013 and 2012 is equal to basic net loss per share because the effect of all potential common stock outstanding during the periods, including options, warrants and nonvested equity shares is anti-dilutive. The components of basic and diluted net loss per share were as follows (in thousands, except loss per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Numerator:				
Net loss available for common shareholders - basic and diluted	\$ (3,436)	\$ (4,971)	\$ (7,090)	\$ (14,774)
Denominator:				
Weighted-average common shares outstanding - basic and diluted	26,493	19,167	25,870	18,097
Net loss per share - basic and diluted	\$ (0.13)	\$ (0.26)	\$ (0.27)	\$ (0.82)

We excluded the following convertible securities from diluted net loss per share, as the effect of including them would have been anti-dilutive:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Publicly Traded Warrants Exercisable	753,000	753,000	753,000	753,000
Options and Private Warrants Exercisable	7,612,000	5,302,000	7,612,000	5,302,000
Nonvested Equity Shares	215,000	80,000	215,000	80,000
Total	8,580,000	6,135,000	8,580,000	6,135,000

3. KEY ACCOUNTING POLICY - REVENUE RECOGNITION

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

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

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

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

For the three and six months ended June 30, 2013, two commercial customers accounted for approximately 93% and 89% of our total revenue. The accounts receivable balance from these customers was approximately 98% of our net accounts receivable balance at June 30, 2013.

4. INVENTORY

Inventory consists of the following:

	June 30, 2013	December 31, 2012
Raw materials	\$ 11,000	\$ 361,000
Finished goods	33,000	136,000
	\$ 44,000	\$ 497,000

The inventory at June 30, 2013 and December 31, 2012 consisted of components supplied under our "Image by PicoP[®]" ingredient brand business model, and finished goods primarily composed of our accessory pico projectors. Inventory is stated at the lower of cost or market. Management periodically assesses the need to provide for obsolescence of inventory and adjusts the carrying value of inventory to its net realizable value when required. In addition, we reduce the value of our inventory to our estimated scrap value when management determines that it is not probable that the inventory will be consumed through normal production during the next twelve months. During the six months ended June 30, 2013, we recorded inventory write-downs of \$303,000. In 2012, we recorded inventory

write-downs of \$1,094,000. At June 30, 2013 and December 31, 2012, we have aggregate write-downs recorded of \$10,279,000 and \$9,916,000, respectively, offsetting inventory on hand deemed to be obsolete or scrap inventory.

5. SHARE-BASED COMPENSATION

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Cost of contract revenue	\$ -	\$ 4,000	\$ 4,000	\$ 10,000
Cost of product revenue	-	-	1,000	20,000
Research and development expense	(72,000)	87,000	88,000	224,000
Sales, marketing, general and administrative expense	168,000	390,000	388,000	600,000
Total share-based employee compensation expense	\$ 96,000	\$ 481,000	\$ 481,000	\$ 854,000

Options Activity and Positions

The following table summarizes shares, weighted average exercise price, weighted average remaining contractual term and aggregate intrinsic value of options outstanding and options exercisable as of June 30, 2013:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate
				Intrinsic Value
Outstanding as of June 30, 2013	1,255,000	\$ 12.63	6.9	\$ 376,000
Exercisable as of June 30, 2013	770,000	\$ 18.80	5.6	\$ 97,000

As of June 30, 2013, our unamortized share-based employee compensation was \$941,000 which we plan to amortize over the next 1.9 years and our unamortized nonvested equity share-based employee compensation was \$366,000 which we plan to amortize over the next 0.9 years.

6. COMMITMENTS AND CONTINGENCIES

Litigation

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

Adverse purchase commitments

We have periodically entered into noncancelable purchase contracts in order to ensure the availability of materials to support production of products based on our PicoP display technology. We periodically assess the need to provide for impairment on these purchase contracts and record a loss on purchase commitments when required. As of June 30, 2013 and December 31, 2012 we had approximately \$500,000 and \$634,000, respectively, accrued for adverse purchase commitments related to these purchase contracts.

7. COMMON STOCK AND WARRANTS

In May 2013, we raised \$5.85 million before issuance costs of approximately \$362,000 from the sale of 2.6 million shares of common stock and warrants to purchase up to an aggregate of 2.0 million shares of our common stock in a registered direct offering. The warrants have an exercise price of \$2.886 per share, a five year term, and are exercisable beginning on the date of issuance. Each warrant to purchase a share of common stock may also be exchanged during its term for a number of shares of common stock (but not more than one share of common stock for each warrant so exchanged) with a value determined by a negotiated formula if, among other things, our common stock is then trading at a price at or lower than the warrant exercise price per share. Subject to limitations in the warrants, we may require the warrants be exercised for cash if the closing bid price of our stock is over \$3.61 for 20 consecutive trading days and the average daily dollar volume over that period is equal to or exceeds \$300,000.

Based on the terms of the agreement, we have determined that the warrant instruments should be classified as a liability given that the warrants could result in the issuance of a variable number of common shares based on a conditional exercise provision that is outside of our control at any point when the share price of our common stock is equal to or less than the stated exercise price of \$2.886 per share. At the date of issuance, and as of June 30, 2013, our common stock was trading at a value less than the stated exercise price, as such upon expiration of the 45 day lock up period, the holders may elect to exchange the warrants for a variable number of shares of common stock as determined by a negotiated formula included in the warrant agreement. However, the agreement contains a limit that restricts the number of shares that may be issued under this exchange provision, such that we will not issue any more common shares than could be issued on a one-for-one basis upon exercise of the warrants. As of June 30, 2013, based upon the terms of the agreement and the quoted market price of our common stock, if the exchange feature were to be fully exercised, we would be required to issue approximately 1,490,000 shares of common stock, equal to an estimated fair market value of \$3,755,000, which we believe is the best indication of the fair value of the warrant obligation as of June 30, 2013. Changes in the market value of our common stock will increase or decrease the number of shares to be issued under this exchange feature; however the aggregate fair market value of shares to be issued under this provision will not change significantly due to the negotiated and fixed exchange formula in the agreement. Due to the limiting provisions on the exchange agreement, the maximum number of shares of common stock that we could be required to issue is 1,976,352.

At each balance sheet date, we will evaluate the fair value of the warrants and any change in value will be recorded as a non-operating gain or loss on the statement of operations. We will re-assess the appropriate valuation model for determining the estimated fair value of the warrant instruments, which may include a binomial valuation model to take into consideration the other features of the warrants. Determination of the fair market value of the warrant instruments includes consideration of Level 3 inputs. Level 3 inputs are 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.

8. NEW ACCOUNTING PRONOUNCEMENTS

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

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

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

Forward-Looking Statements

The information set forth in this report in Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Item 3, "Quantitative and Qualitative Disclosure about Market Risk," includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and is subject to the safe harbor created by that section. Such statements may include, but are not limited to, projections of revenues, income or loss, capital expenditures, plans for product development and cooperative arrangements, future operations, financing needs or plans of MicroVision, as well as assumptions relating to the foregoing. The words "anticipate," "believe," "estimate," "expect," "goal," "may," "plan," "project," "will," and similar expressions identify forward-looking statements, which speak only as of the date the statement was made. Factors that could cause actual results to differ materially from those projected in our forward-looking statements include the following: our ability to obtain financing; market acceptance of our technologies and products; our financial and technical resources relative to those of our competitors; our ability to keep up with rapid technological change; government regulation of our technologies; our ability to enforce our intellectual property rights and protect our proprietary technologies; the ability to obtain additional contract awards and to develop partnership opportunities; the timing of commercial product launches; the ability to achieve key technical milestones in key products; and other risk factors identified in this report under the caption "Item 1A - Risk Factors."

Overview

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

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

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

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

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

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

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

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

Results of Operations

Product revenue

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(in thousands)	2013	2012	\$ change	% change
Three months ended June 30	\$ 917	\$ 750	\$ 167	22.3

(in thousands)	2013	2012	\$ change	% change
Six months ended June 30	\$ 2,136	\$ 2,279	\$ (143)	(6.3)

Product revenue during the three and six months ended June 30, 2013 primarily includes sales of components to Pioneer under our "Image by PicoP" ingredient brand business model. Product revenue during the three and six months ended June 30, 2012 included sales of components to Pioneer, sales of our SHOWWX™ line of accessory pico projectors and sales of our PicoP display engines.

Our product sales generally include acceptance provisions. We recognize product revenue upon acceptance of the product by the customer or expiration of the contractual acceptance period, after which there are no rights of return. Provisions are made for warranties at the time revenue is recorded. Warranty expense was not material for any periods presented.

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

Product revenue was higher during the three months ended June 30, 2013 than the same period in 2012, due to higher sales of components to Pioneer. These increases were partially offset by lower sales of our accessory pico projectors. Product revenue was lower during the six months ended June 30, 2013 than the same period in 2012, due to decreased sales of our PicoP display engines and finished units. These decreases were partially offset by increased component sales. The backlog of product orders at June 30, 2013 was approximately \$282,000, compared to \$4.4 million at June 30, 2012. The product backlog is scheduled for delivery within one year.

Contract revenue

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(in thousands)	2013	% of contract revenue	2012	% of contract revenue	\$ change	% change
Three months ended June 30						
Government revenue	\$ -	-	\$ 53	9.7	\$ (53)	(100.0)
Commercial revenue	73	100.0	492	90.3	(419)	(85.2)
Total contract revenue	\$ 73	100.0	\$ 545	100.0	\$ (472)	(86.6)

(in thousands)	2013	% of contract revenue	2012	% of contract revenue	\$ change	% change
Six months ended June 30						
Government revenue	\$ -	-	\$ 156	20.9	\$ (156)	(100.0)
Commercial revenue	355	100.0	590	79.1	(235)	(39.8)
Total contract revenue	\$ 355	100.0	\$ 746	100.0	\$ (391)	(52.4)

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

We recognize contract revenue on the sale of prototype units and evaluation kits, upon acceptance of the deliverables by the customer or expiration of the contractual acceptance period, after which there are no rights of return. While we anticipate future revenue from these units, quarterly revenue may vary substantially due to the timing of orders from customers and potential constraints on resources.

We recognize contract revenue as work progresses on long-term, cost plus fixed fee, and fixed price contracts using the percentage-of-completion method, which relies on estimates of total expected contract revenue and costs. We have developed processes that allow us to make reasonable estimates of the cost to complete a contract. When we begin work on the contract and at the end of each accounting period, we estimate the costs required to complete the contract and compare these estimates to costs incurred to date. Since our contracts generally require some level of technology development, the actual costs required to complete a contract can vary from our estimates. Recognized revenues are subject to revisions as actual cost becomes certain. Revisions in revenue estimates are reflected in the period in which the facts that give rise to the revision become known. In the future, revisions in these estimates could significantly impact recognized revenue in any one reporting period.

Contract revenue was lower during the three and six months ended June 30, 2013 than the same period in 2012 primarily due to lower sales of test equipment and reduced activity on government contracts in 2013 compared to the prior year.

Our contract backlog at June 30, 2013 was \$104,000 compared to \$1.0 million at June 30, 2012. The backlog is scheduled for completion during the next twelve months.

Development revenue

(in thousands)	2013	2012	\$ change	% change
Three months ended June 30	\$ 880	\$ -	\$ 880	-

(in thousands)	2013	2012	\$ change	% change
Six months ended June 30	\$ 1,180	\$ -	\$ 1,180	-

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

In March 2013, we entered into a \$4.6 million collaborative research and development agreement with a prominent

electronics company to incorporate our PicoP® display technology into a display engine that could enable a variety of new products. During the three and six months ended June 30, 2013, \$880,000 and \$1.2 million of revenue was recognized on this agreement.

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

Our backlog of collaborative research and development agreements at June 30, 2013 was \$3.4 million compared to zero at June 30, 2012. The backlog is scheduled for completion during the next twelve months.

Cost of product revenue

(in thousands)	2013	% of product revenue	2012	% of product revenue	\$ change	% change
Three months ended June 30	\$ 837	91.3	\$ (281)	(37.5)	\$ 1,118	(397.9)
Six months ended June 30	1,501	70.3	3,894	170.9	(2,393)	(61.5)

Cost of product revenue includes the direct and allocated indirect cost of manufacturing products sold to customers. Direct costs include labor, materials and other costs incurred directly in the manufacture of these products. Indirect costs include labor, manufacturing overhead, and other costs associated with operating our manufacturing capabilities and capacity. Manufacturing overhead includes the costs of procuring, inspecting and storing material, and facility and depreciation costs, and is allocated to cost of product revenue based on the proportion of direct material purchased to support production. In the event that we maintain production capacity in excess of production requirements, cost of product revenue may also include manufacturing overhead associated with the excess capacity.

Cost of product revenue was higher during the three months ended June 30, 2013 than the same period in 2012 because, during the three months ended June 30, 2012, we negotiated a lower price for certain components in inventory that had previously been written down to net realizable value. As a result of this renegotiation, the aggregate purchase price was reduced and we recorded a credit of \$1.4 million to cost of product revenue during second quarter of 2012. This change was partially offset by lower costs in 2013 resulting from a change in product mix from sales of lower margin SHOWWX™ products in 2012 to sales of higher margin components to support Pioneer's Cyber Navi production.

Cost of product revenue was lower during the six months ended June 30, 2013 than the same period in 2012 primarily because of the change in product mix from lower margin SHOWWX™ products to sales of higher margin components, decreased inventory write downs and lower manufacturing overhead associated with excess production capacity compared to the prior year. During the six months ended June, 2013 and 2012, cost of product revenue included inventory write downs of \$303,000 and \$1.1 million, respectively. During the six months ended June 30, 2013, cost of product revenue did not include any manufacturing overhead associated with production capacity in excess of production requirements, compared to \$411,000 during the same period in 2012.

The cost of product revenue as a percentage of product revenue can fluctuate significantly from period to period, depending on the product mix and volume, the level of overhead expense and the volume of direct material purchased. It decreased substantially during the six months ended June 30, 2013 than the same period in 2012 due to costs incurred in 2012 associated with aligning our operations to our ingredient brand strategy per above.

Cost of contract revenue

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(in thousands)	2013	% of contract revenue	2012	% of contract revenue	\$ change	% change
Three months ended June 30	\$ 26	35.6	\$ 248	45.5	\$ (222)	(89.5)
Six months ended June 30	163	45.9	403	54.0	(240)	(59.6)

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

Cost of contract revenue was lower during the three and six months ended June 30, 2013 than the same period in 2012 as a result of the decreased sales of test equipment and reduced activity on government contracts.

The cost of revenue as a percentage of revenue can fluctuate significantly from period to period, depending on the contract cost mix and the levels of direct and indirect costs incurred.

Research and development expense.

(in thousands)	2013	2012	\$ change	% change
Three months ended June 30	\$ 2,339	\$ 3,227	\$ (888)	(27.5)
Six months ended June 30	4,591	7,167	(2,576)	(35.9)

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

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

The decrease in research and development expense during the three and six months ended June 30, 2013, compared to the same period in 2012, is primarily attributable to decreased payroll costs associated with reductions in staffing levels and lower subcontracted services compared to the prior year.

Sales, marketing, general and administrative expense.

(in thousands)	2013	2012	\$ change	% change
Three months ended June 30	\$ 2,101	\$ 3,064	\$ (963)	(31.4)
Six months ended June 30	4,504	6,352	(1,848)	(29.1)

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 costs in sales, marketing, general and administrative expense in the future than had we not implemented the strategy.

The decrease in sales, marketing, general and administrative expense during the three and six months ended June 30, 2013, compared to the same period in 2012, is primarily due to decreased payroll costs associated with reductions in staffing levels compared to the prior year.

Other income (expense).

(in thousands)	2013	2012	\$ change	% change
Three months ended June 30	\$ (3)	\$ (9)	\$ 6	(66.7)
Six months ended June 30	(4)	16	(20)	(125.0)

The change in other income (expense) for the six months ended June 30, 2013 compared to the same period in 2012 resulted primarily from prior year sales of excess inventory.

Liquidity and Capital Resources

We have incurred significant losses since inception. We have funded operations to date primarily through the sale of common stock, convertible preferred stock, warrants, the issuance of convertible debt and, to a lesser extent, from contract revenues, collaborative research and development agreements and product sales. At June 30, 2013, we had \$6.0 million in cash and cash equivalents and a working capital deficit of \$2.6 million.

Based on our current operating plan, we anticipate that we have sufficient cash and cash equivalents to fund our operations through October of 2013. We will require additional cash to fund our operating plan past that time. We plan to obtain additional cash through the issuance of equity or debt securities. There can be no assurance that additional cash will be available or that, if available, it will be available on terms acceptable to us on a timely basis. If adequate funds are not available on a timely basis, we intend to consider limiting our operations substantially. This limitation of operations could include reducing our planned investment in development projects resulting in reductions in staff, operating costs, capital expenditures and investment in research and development.

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

Cash used in operating activities totaled \$6.3 million during the six months ended June 30, 2013, compared to \$13.0 million during the same period in 2012. During the six months ended June 30, 2013, the decrease in net cash used in operating activities was primarily driven by lower personnel costs and increased margins on product sales, as well as savings resulting from steps taken to lower our cash use as we aligned our operations with our ingredient brand strategy.

Net cash used in investing activities totaled \$83,000 for the six months ended June 30, 2013 compared to net cash used in investing activities of \$38,000 during the six months ended June 30, 2012. During the six months ended June 30, 2013, the change in net cash used in investing activities was primarily driven by prior year activity which did not occur in the current year. Prior year activity included a \$350,000 decrease of our restricted cash offset by purchases of property and equipment totaling \$400,000.

Net cash provided by financing activities totaled \$5.5 million for the six months ended June 30, 2013 compared to \$14.7 million during the same period in 2012.

In May 2013, we raised \$5.85 million before issuance costs of approximately \$362,000 from the sale of 2.6 million shares of common stock and warrants to purchase up to an aggregate of 2.0 million shares of our common stock in a registered direct offering. The warrants have an exercise price of \$2.886 per share, a five year term, and are exercisable beginning on the date of issuance. Each warrant to purchase a share of common stock may also be exchanged during its term for a number of shares of common stock (but not more than one share of common stock for each warrant so exchanged) with a value determined by a negotiated formula if, among other things, our common stock is then trading at a price at or lower than the warrant exercise price per share. Subject to limitations in the warrants, we may require the warrants be exercised for cash if the closing bid price of our stock is over \$3.61 for 20

consecutive trading days and the average daily dollar volume over that period is equal to or exceeds \$300,000.

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 \$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 a strategic investor. The warrants have an exercise price of \$2.12 per share, a three year term, and are exercisable beginning on the date of issuance.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate and Market Liquidity Risks

As of June 30, 2013, all of our cash and cash equivalents have variable interest rates. Therefore, we believe our exposure to market and interest rate risks is not material.

Our investment policy generally directs that the investment managers should select investments to achieve the following goals: principal preservation, adequate liquidity and return. As of June 30, 2013, our cash and cash equivalents are comprised of short-term highly rated money market savings accounts.

The values of cash and cash equivalents by maturity date as of June 30, 2013, are as follows:

(amount in thousands)	Amount	Percent
Cash and cash equivalents	\$ 6,003	100.00 %
Less than one year	-	- %
One to two years	-	- %
Greater than five years	-	- %
	\$ 6,003	100.00 %

Foreign Exchange Rate Risk

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

ITEM 4.

CONTROLS AND PROCEDURES

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

PART II

OTHER INFORMATION

ITEM 1A

- RISK FACTORS

Risk Factors Relating to the MicroVision Business

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

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

- As of June 30, 2013, we had an accumulated deficit of \$444.6 million.
- We incurred consolidated net losses of \$414.8 million from inception through 2011, \$22.7 million in 2012, and a net loss of \$7.1 million in the six months ended June 30, 2013.

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

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

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

Based on our current operating plan, we anticipate that we have sufficient cash and cash equivalents to fund our operations through October of 2013. We will require additional cash to fund our operating plan past that time. We plan to obtain additional cash through the issuance of equity or debt securities.

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

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

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

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

display engine would not be feasible. To the extent that we enter into cooperative development, sales and marketing or other joint venture arrangements, our revenues will depend upon the performance of third parties. We cannot be certain that any such arrangements will be successful.

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

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

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

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

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

Since 2010, most of our revenues have been generated from product sales to a limited number of customers and distribution partners. In 2012, 61% of our revenue was generated from sales to one commercial customer. For the six months ended June 30, 2013, two commercial customers accounted for approximately 89% of our total revenue. Our quarterly operating results may vary significantly based on:

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

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

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

Our backlog totaled \$3.8 million as of June 30, 2013. We may be unable to meet the performance requirements, including performance specifications or delivery dates, required by such collaborative research and development

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

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

Our common stock is listed for quotation on The NASDAQ Global Market. To keep our listing on this market, we must meet NASDAQ's listing maintenance standards. If we are unable to continue to meet NASDAQ'S listing maintenance standards for any reason, our common stock could be delisted from The NASDAQ Global Market. If our common stock were delisted, we likely would seek to list the common stock on the NASDAQ Capital Market, the American Stock Exchange or on a regional stock exchange. Listing on such other market or exchange could reduce the liquidity of our common stock. If our common stock were not listed on the NASDAQ Capital Market or an exchange, trading of our common stock would be conducted in the over-the-counter market on an electronic bulletin board established for unlisted securities or directly through market makers in our common stock. If our common stock were to trade in the over-the-counter market, an investor would find it more difficult to dispose of, or to obtain accurate quotations for the price of, the common stock. A delisting from The NASDAQ Global Market and failure to obtain listing on such other market or exchange would subject our securities to so-called penny stock rules that impose additional sales practice and market-making requirements on broker-dealers who sell or make a market in such securities. Consequently, removal from The NASDAQ Global Market and failure to obtain listing on another market or exchange could affect the ability or willingness of broker-dealers to sell or make a market in our common stock and the ability of purchasers of our common stock to sell their securities in the secondary market. In addition, when the market price of our common stock is less than \$5.00 per share, we become subject to penny stock rules even if our common stock is still listed on The NASDAQ Global Market. While the penny stock rules should not affect the quotation of our common stock on The NASDAQ Global Market, these rules may further limit the market liquidity of our common stock and the ability of investors to sell our common stock in the secondary market. The market price of our stock has traded below \$5.00 per share during 2013 and 2012. On August 6, 2013, the closing price of our stock was \$2.43.

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

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

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

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

We may not succeed in these efforts because of:

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

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

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

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

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

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

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

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

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

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

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

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

us, including:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ITEM 6. Exhibits

- 31.1 Chief Executive Officer Certification Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Chief Financial Officer Certification Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Chief Executive Officer Certification pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Chief Financial Officer Certification pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101.INS* XBRL Instance Document
- 101.SCH* XBRL Taxonomy Extension Schema
- 101.CAL* XBRL Taxonomy Extension Calculation Linkbase
- 101.DEF* XBRL Taxonomy Extension Definition Linkbase

101.LAB* XBRL Taxonomy Extension Label Linkbase

101.PRE* XBRL Taxonomy Extension Presentation Linkbase

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MICROVISION, INC.

Date: August 9, 2013

BY: /s/ Alexander Y. Tokman
Alexander Y. Tokman
Chief Executive Officer
(Principal Executive Officer)

Date: August 9, 2013

BY: /s/ Stephen P. Holt
Stephen P. Holt
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT INDEX

The following documents are filed herewith.

<u>Exhibit Number</u>	<u>Description</u>
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101.DEF*	XBRL Taxonomy Extension Definition Linkbase
101.LAB*	XBRL Taxonomy Extension Label Linkbase
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase
*	Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability.