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

FORM 10-K

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

For the fiscal year ended December 31, 2004

Commission file number 0-21221

MICROVISION

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

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

19910 North Creek Parkway
Bothell, Washington 98011-3008
(Address of Principal Executive Offices including Zip Code)

(425) 415-6847
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, par value $0.001

(Title of class)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ☒ No ☐

The aggregate market value of the common stock held by non-affiliates of the registrant as of June 30, 2004 was approximately $175,047,000 (based on the closing price for the registrant's Common Stock on the Nasdaq National Market of $8.40 per share).

The number of shares of the registrant's Common Stock outstanding as of March 1, 2005 was 21,481,000.

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 Annual Meeting of Shareholders to be held on June 30, 2005 are incorporated herein by reference into Part III of this report.

Microvision, Inc.
2004 ANNUAL REPORT ON FORM 10-K

TABLE OF CONTENTS

Portions of the registrant's definitive Proxy Statement to be filed with the Commission pursuant to Regulation 14A in connection with the Registrant's Annual Meeting of Shareholders to be held on June 30, 2005 are incorporated herein by reference into Part III of this report.

PART I

Preliminary Note Regarding Forward-Looking Statements

The information set forth in this report in Item 1 "Description of Business" and in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" includes "forward-looking statements" within the meaning of 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 the Company, as well as assumptions relating to the foregoing. The words "believe," "expect," "will," "anticipate," "estimate," "target," "project," "plan," and similar expressions identify forward-looking statements, which speak only as of the date the statement was made. Certain factors that realistically could cause actual results to differ materially from those projected in the forward-looking statements are set forth in Item 1 "Description of Business - Risk Factors Related to the Company's Business."

ITEM 1. DESCRIPTION OF BUSINESS

Overview

The company has historically included both Microvision, Inc. ("Microvision" or the "Company") and Lumera Corporation ("Lumera"), a subsidiary that was consolidated prior to July 2004. In July 2004, Lumera completed an initial public offering of its common stock. After July 2004, due to the change in ownership percentage, Microvision changed to the equity method of accounting for its investment in Lumera. Microvision designs and markets information display and image capture products.

Scanned Beam Displays

Microvision is producing and selling the Nomad® Expert Technician System, a wireless, wearable computer with a head-worn see-through display. Microvision introduced this second generation version of the Nomad Augmented Vision System in March 2004 and is initially targeting the automotive repair market and military applications. Microvision has also developed prototype color scanned beam displays, including hand-held, head-worn and projection versions, and is currently refining and further developing its scanned beam display technology for potential automotive, defense, aerospace, industrial, medical and consumer applications. Microvision believes the scanned beam display technology may be useful in a variety of applications, including mobile communications, head-up displays for vehicles, entertainment and consumer displays, and computing and visual simulation applications. Microvision expects that, in contrast to display solutions that use non- scanning technologies, its scanned beam display technology will enable the production of high quality displays that are small and lightweight, use low power, can be held or worn comfortably, and are competitively priced.

Microvision's scanned beam technology includes proprietary technology it has developed, technology licensed from other companies and the Virtual Retinal Display ™ technology licensed from the University of Washington.

Image Capture Devices

Microvision also sells the Flic® Laser Bar Code Scanner, a hand-held bar code scanner that uses its proprietary scanning technology. Microvision has introduced a Bluetooth wireless version, the Flic Cordless Laser Bar Code Scanner. Microvision believes that the basic scanning components of the scanned beam display technology may also be used to develop image capture products, such as miniature high-resolution laser cameras and 2D bar code readers that may have higher performance and lower cost than those currently available.

Technology

Microvision's scanned beam display technology is fundamentally different from existing commercialized display technologies in that it uses a fast-moving beam of light to create an image. By continuously scanning a rapidly moving low power beam of light, the scanned beam display creates a high resolution, full motion image in the eye or on an intermediate screen.

The drive electronics of the scanned beam display acquire and process signals from the image or data source to control and synchronize the color mix and placement. Color pixels are generated by modulated red, green and blue light sources. The intensity of each of the light sources is varied to generate a complete palette of colors and shades. Optical elements direct the beam of light into the viewer's eye or onto an intermediate screen. The pixels are arranged by a horizontal scanner motion that sweeps the light beam to place the pixels into a row and a vertical scanner motion that moves the light beam up/downward where successive rows of pixels are drawn. This process is continued until an entire field of rows has been placed and a full image appears to the user.

The scanned beam technology can be used to create an augmented vision display that allows the user to annotate the user's normal view with electronically displayed information. The user is able to retain full binocular vision and full hand-eye coordination while having electronic information displayed on the user's field of view. The image, in the form of light, is directed to the eye in much the same way as light is commonly reflected from our natural environment. With the scanned beam technology, an image can be overlaid on a user's field of view.

The scanned beam display technology can also be used to achieve a more conventional front or rear projection display. The screen may be transparent, providing the user with a head-up display capability and overlaying the digital information on the view of the outside world. Projection could be used for head-up display applications that demand high brightness, high-resolution and long life in a rugged environment, such as automotive displays. Scanned beam display technology could also be incorporated into other products such as video projectors, large-screen monitors, or rear-projection televisions.

Display Components

Scanned beam display technology consists of the following primary components:

Scanners. To produce an image, a horizontal and a vertical scanner or a single micro-electro- mechanical system ("MEMS") bi-axial scanner directs the light beam that creates the image. Microvision currently uses these scanners in Nomad products and in other prototype displays. Microvision expects to continue development to reduce the size, cost and power consumption of the bi-axial MEMS scanner for use in miniature displays.

Continued development of the scanning sub-system will be required to allow scanning capability to meet standard video formats, including high definition television, HDTV, as well as new digital video standards.

Optics. For applications where the scanned beam display is to be worn, it is desirable to have an exit pupil (the range within which the viewer's eye can move and continue to see the image) of 10 to 15 millimeters. Microvision has developed optics and system designs that produce exit pupils up to 15 millimeters. Additional design and engineering of the optics and systems designs will improve Microvision's competitive position for commercial applications. Microvision has refined optics designs for both monocular (one-eye) and biocular (two-eye) systems. Microvision also has developed a full binocular system, which incorporates two separate video channels (one for each eye) to provide the user with full stereoscopic viewing of three-dimensional imagery. Microvision's ongoing optics development is directed at the creation of optical systems that exhibit lower distortion, are lighter weight and are more cost-effective to manufacture than previous optical systems.

Light Sources. The light source creates the light beam that paints the image on a screen or on the viewer's eye. In a full-color scanned beam display, red, green and blue light sources are modulated and mixed to generate the desired color and brightness. Low power solid-state lasers, laser diodes and light-emitting diodes are suitable light sources for the scanned beam display. Blue and green solid-state lasers are currently available but are useful only for scanned beam display applications where cost and size are less important. Miniaturized laser diodes are commercially available in red, and a number of companies are developing blue laser diodes in anticipation of high volume consumer electronics applications. Miniaturized light-emitting diodes are less expensive and consume less power than laser diodes. Microvision is working with companies that have developed custom red, blue and green light-emitting diodes that provide sufficient brightness for many scanned beam display applications. Microvision has built working prototype full- color scanned beam displays with these light-emitting diodes.

Microvision expects to continue using laser diodes for augmented vision and projection display applications that require enhanced brightness. Microvision intends to rely on third party developments or to contract with other companies to continue development of the desired wavelengths of blue and green laser diodes.

Drive Electronics. The drive electronics of the scanned beam display are the components that convert an image to a signal to drive the light sources and scanner to create the image. Microvision has identified three areas where additional development of the drive electronics is necessary:

- Further miniaturization using integrated circuits or ASICs and improved packaging techniques,

- Refining the techniques of driving the light sources and scanners to improve display quality and reduce power consumption and,
- Improving the compatibility of the drive electronics with existing and emerging video standards. Microvision's current product and demonstration units are compatible with North American video format standards and accommodate output from most personal computers.

Human Factors, Ergonomics and Safety

As part of its research and development activities, Microvision conducts ongoing research on the cognitive, physiological and ergonomic factors that must be addressed by products incorporating the scanned beam display technology and the safety of scanned beam display technology, including such issues as the maximum permissible laser exposure limits established by American National Standards Institute ("ANSI") and others. Researchers from the University of Washington Human Interface Technology Lab and other independent institutions have concluded that laser exposure to the eye resulting from use of the scanned beam displays under normal operating conditions would be below the calculated maximum permissible exposure level set by ANSI. The Nomad display has been certified as a Class 1 laser product ("safe for eye viewing") by Underwriters Laboratories.

Products

Nomad

In March 2004, Microvision introduced a new version of the Nomad System. The Nomad Expert Technician System, ("Nomad") is a hands free wearable computer with a head worn display that enables technicians and other mobile workers to overlay relevant information on their task thereby reducing task time. The new version is about 40% smaller, lighter and costs less to manufacture than the prior version. Microvision is working closely with automotive companies to develop the Nomad for automotive maintenance applications. In maintenance applications, the automotive technician uses the Nomad to provide repair instructions and other information directly in his or her field of view while he or she is performing the repair. The Nomad functions as a wireless thin client computer and is linked to a remote server computer. In trials, technicians using the Nomad have reported substantial efficiency gains in performing repairs.

The U.S. Army has deployed 100 Nomad systems in the US Army's Stryker Brigade Combat Team in Iraq. The helmet-mounted Nomad Augmented Vision System provides the vehicle commander with a head- up, daylight-readable, remote display from the Stryker vehicle's onboard battlefield computer while allowing the commander to operate from the hatch opening. The Nomad allows the commander to observe the surroundings, while choosing the optimum path ahead, commanding the vehicle and using tactical information.

Microvision is producing Nomad at its headquarters facility in Washington State. Microvision is distributing the Nomad to end customers in the United States through its sales force, through independent manufacturers' representatives and through original equipment manufacturers. Microvision is also selling Nomad in Europe and Asia through a small number of independent manufacturer's representatives.

Microvision believes Nomad will compete with other products that bring information to the point of task, including laptop and notebook computers, tablet computers, and personal digital assistants. These other devices must be held, wrist mounted, or placed on a stationary object to be used and the user must look away from the task to get information. In contrast, the Nomad is head-worn (i.e. hands free) and allows images to be painted on the viewer's eye with no screen to block the viewer's field of vision. Other companies are marketing head-worn displays, but the displays are generally occluded and typically provide a fraction of the full-page view provided by the Nomad. Microvision believes that Nomad provides higher brightness, higher resolution, and higher contrast than competing devices and provides true "see through" capability with lower power consumption. Microvision also believes that the manufacturing cost of Nomad and potential future displays using its scanned beam display technology could be less than that of competing technologies, due principally to the lower cost of scanned beam display components and lower capital investment to build high volume manufacturing capacity compared to other technologies.

Flic

Microvision sells the Flic Scanner, a hand held laser bar code scanner and the Flic Cordless Scanner, a Bluetooth version of the Flic Scanner. All Flic Scanners feature a proprietary design that provides for lower power consumption and total operating cost than many other bar code scanners currently available. Microvision expects that the sales volume for Flic Scanner will grow as potential customers complete their trials and application developers release solutions incorporating Flic Scanners.

Flic Scanners are manufactured for Microvision by a contract manufacturer located in Batam, Indonesia. Microvision distributes branded and private-labeled Flic Scanners directly to end users through value added resellers, original equipment manufacturers and phone and internet orders.

The bar code scanning industry is highly competitive. Flic Scanners compete with existing laser wand and CCD imager scanners produced by established bar code scanner companies. Flic Scanners compete on the basis of price, form factor, and performance. The bar code industry is dominated by Symbol Technologies, which sells products that directly compete with the Flic and Flic cordless products.

Image capture

Microvision is applying its scanned beam and other proprietary technology to develop products that capture images and other information. Such products include bar code readers and miniature high-resolution "laser cameras". In December 2004, Microvision entered into an agreement with Ethicon Endo-Surgery Inc. a subsidiary of Johnson & Johnson to integrate Microvision's scanned beam technology into certain medical products for human medical applications. Under the agreement, Microvision is developing prototype units that will be used in product evaluation. The agreement includes terms for product development and a supply agreement for certain products.

Microvision believes that certain components of the scanned beam technology can also be used to develop two-dimensional bar code readers as well as high resolution laser cameras that have cost and performance advantages over existing imaging technologies for certain applications.

Automotive Head-Up Displays

During 2004, Microvision continued to improve upon its prototype automotive head-up displays for automotive companies and Tier 1 suppliers to automotive companies. These head-up displays use scanners, light sources and electronic components similar to those in the Nomad display, but use optics that are unique for this head-up display application. These prototypes demonstrate that scanned beam display technology can be used in a head-up display that projects a day-light or night- light readable image onto the windscreen of an automobile to provide the vehicle operator with a variety of information related to the car's operation. Microvision believes that it can further develop these prototypes into products that will meet the automotive companies' specifications for size, brightness, image quality and cost. Microvision plans to continue this sponsored research and development work in 2005.

Microdisplays

Microvision continues to develop color prototype microdisplays that could be integrated into an electronic viewfinder in a digital still camera, a digital video camera or a cell phone. Microvision continues to reduce the size, cost and power requirements of its prototype microdisplays. Microvision believes that the advances in the scanned beam display technology that are achieved for the microdisplay platform will migrate to Nomad and other products resulting in lower cost. Microvision is performing sponsored and internally funded research and development to improve the performance and reduce the cost of its color microdisplay product development.

Business Strategy

Microvision's objective is to be a leading provider of personal display and imaging products and technologies for a broad range of professional and consumer applications. Key elements of Microvision's strategy to achieve this objective include:

Strategic Partnering to Extend Marketing and Technical Reach

Microvision's key technologies have applications in several markets and products. Microvision has contracted with, and plans to continue to pursue, strategic partners who can provide resources and services that otherwise would require substantial time and additional cost for Microvision to develop independently. Microvision will select strategic partners to provide support depending on the specific requirements of markets and products. Examples of activities that Microvision plans to continue to pursue through strategic partnering are:

Engineering Services to Develop Custom Products. Microvision expects that some customers will require unique designs for displays. Microvision expects that such relationships will generally involve a period of co-development during which engineering and marketing professionals from potential customers or original equipment manufacturers would work with Microvision's technical staff to specify, design and develop a product appropriate for the targeted market and application. Microvision would charge fees to its customers or original equipment manufacturers to fund the costs of the engineering effort incurred on such development projects. The nature of the relationships with such customers or original equipment manufacturers may vary from partner to partner depending on the proposed specifications for the scanned beam technology, the product to be developed, and the customers' or original equipment manufacturers' design, manufacturing and distribution capabilities. Microvision believes that by limiting its own direct manufacturing investment for consumer products, it will reduce the capital requirements and risks inherent in taking the scanned beam technology to the consumer market.

Manufacture and Sale of High Performance Products. Microvision anticipates providing high performance products to professional end-users in markets with lower product volume requirements. Microvision expects that end-users in this category will include professionals in defense, industry and medicine. Depending upon the circumstances, Microvision may manufacture these products using standard component suppliers and contract manufacturers as required, may license its technology to original equipment manufacturers or may seek to form one or more joint ventures to manufacture the products.

Sale of Components or "Engines" of Scanning Technology. Certain potential applications of the scanned beam display technology, such as electronic viewfinders, cellular phones or two-dimensional bar code readers could require integration of Microvision's technology with other unrelated technologies. In markets requiring high volume production of scanned beam components or subsystems that can be integrated with other components, Microvision may provide designs for components, subsystems and systems to original equipment manufacturers under licensing agreements.

Licensing of Proprietary Technology to Original Equipment Manufacturers for Volume Manufacture of Products Microvision believes that, in consumer markets, the ability of personal display products to compete effectively is largely driven by the ability to price aggressively for maximum market penetration. Significant economies of scale in volume purchasing, manufacturing and distribution are important factors in driving costs down to achieve pricing objectives and profitability. Microvision may seek both initial license fees from such arrangements as well as ongoing per unit royalties.

Platform Model to Leverage Core Technologies and Components

Microvision is developing the scanned beam display technology as a platform technology. Microvision believes that modularized scanning components or subsystems could be integrated with a variety of other interchangeable system components to more efficiently create a wide range of commercial and defense products. Such products could use the same platform scanning component or subsystem but would be configured for a particular application by using other interchangeable system components. Microvision has currently identified the following key product categories that could benefit from further modular scanning component development:

- High Performance Helmet-Mounted Displays
- Augmented Vision and Augmented Reality Displays
- Near-Eye, Mass-Market Color Displays
- Image Capture / Professional Cameras
- Projection Systems (Front- or Rear-Projection)

For example, products in any of these categories could utilize a common MEMS scanner to direct the beam of light. A wearable Nomad display and a projection display could use the same MEMS scanner combined with different optics, light source or drive electronics components. Microvision believes that this leverage of the MEMS scanner with other components will allow greater economies of scale in its fabrication.

Development of an Intellectual Property Portfolio

Microvision believes that it can enhance its competitive position by reducing the cost and improving the performance of its scanned beam technology and by developing an extensive portfolio of intellectual property and proprietary rights. A key part of Microvision's technology development strategy includes developing and protecting (i) concepts relating to the function, design and application of the scanned beam display system; (ii) component technologies and integration techniques essential to the commercialization of the scanned beam display technology that are expected to reduce the cost and improve the performance of the system; and (iii) component technologies and integration techniques that reduce technical requirements and accelerate the pace of commercial development. Microvision is continuing to develop a portfolio of patents and proprietary processes and techniques that relate directly to the functionality and commercial viability of the scanned beam technology.

Additional Information

Microvision performs research and development to achieve advances necessary for large-scale application, full-color capability in highly miniaturized versions and design of new architectures for specific applications. Research and development expense for the Company for the fiscal years ended December 31, 2004, 2003 and 2002 was $14.7 million, $23.3 million and $25.5 million respectively. Excluding Lumera, research and development expense was $13.6 million, $16.8 million, and $18.4 million respectively.

Prior to 2004, substantially all of Microvision's revenue has been generated from development contracts to develop the scanned beam display technology to meet customer specifications. Microvision's customers have included both the United States government and commercial enterprises. In 2004, 42% of revenue was derived from performance on development contracts with the United States government, 35% from performance on development contracts with commercial customers and the remainder from sales of Nomad and Flic units. In 2004, one commercial customer accounted for 11% of total of total revenue. In 2003, 27% of Microvision's revenue was earned from development contracts with a single commercial customer. Each of Microvision's contracts with the United States government can be terminated for convenience by the United States government at any time. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Microvision had a backlog of $7.1 million at December 31, 2004 compared to a backlog of $2.6 million at December 31, 2003. The backlog is composed of $7.0 million in development contracts, including amendments, entered into through December 31, 2004 and $114,000 and $43,000 in orders for Nomad and Flic respectively. Microvision plans to complete all of the backlog contracts during 2005.

Competitive Conditions

The information display industry is highly competitive. Microvision's products and the scanned beam display technology will compete with established manufacturers of miniaturized cathode ray tube and flat panel display devices. Microvision's competitors include companies such as Sony Corporation and Texas Instruments Incorporated, most of which have substantially greater financial, technical and other resources than Microvision and many of which are developing alternative miniature display technologies. Microvision will also compete with other developers of miniaturized display devices. Microvision's competitors may succeed in developing information display technologies and products that could render the scanned beam display technology or Microvision's proposed products commercially infeasible or technologically obsolete.

The electronic information display industry has been characterized by rapid and significant technological advances. The scanned beam display technology and Microvision's proposed products may not remain competitive with such advances, and Microvision may not have sufficient funds to invest in new technologies, products or processes. Although Microvision believes that its scanned beam display technology and proposed display products could deliver images of a quality and resolution substantially better than those of commercially available miniaturized liquid crystal displays and cathode ray tube based display products, manufacturers of liquid crystal displays and cathode ray tubes may develop further improvements of screen display technology that could reduce or eliminate the anticipated advantages of Microvision's proposed products.

Microvision competes with other companies in the display industry and other technologies for government funding. In general, Microvision's government customers plan to integrate Microvision's technology into larger systems. Ongoing contracts are awarded based on Microvision's past performance on government contracts, the customer's progress in integrating Microvision's technology into the customer's overall program objectives, and the status of the customer's overall program.

The image capture industry is also highly competitive. Microvision's current and planned bar code products will compete with existing laser and wand type scanners produced by established bar code companies. Microvision's current products compete on the basis of price and performance. The bar code industry is dominated by Symbol Technologies. Symbol Technologies sells products that directly compete with Microvision's current and planned bar code products.

Intellectual Property and Proprietary Rights

University of Washington

In 1993, Microvision acquired the exclusive rights to the Virtual Retinal Display technology under a license agreement with the University of Washington. Additional development of the Virtual Retinal Display technology took place at the University of Washington Human Interface Technology Laboratory pursuant to Microvision's research agreement. The University of Washington has received forty-five patents on the Virtual Retinal Display technology and has an additional fourteen U.S. patent applications pending in the United States and twenty-four foreign counterpart applications in certain foreign countries.

Microvision's ability to compete effectively in the information display market will depend, in part, on its ability and the ability of the University of Washington and other licensors to maintain the proprietary nature of the Virtual Retinal Display technology or other technologies, including claims related to the ability to superimpose images on the user's field of view, a Virtual Retinal Display using optical fibers, an expanded exit pupil and the mechanical resonance scanner.

The Virtual Retinal Display technology comprises a substantial part of Microvision's scanned beam display technology. The Virtual Retinal Display technology was originally developed at the University of Washington's Human Interface Technology Lab. The scope of the license covers all commercial uses of the Virtual Retinal Display technology worldwide, including the right to grant sublicenses. The license expires upon the expiration of the last of the University of Washington's patents that relate to the Virtual Retinal Display, unless sooner terminated by Microvision or the University of Washington as discussed below. In granting the license, the University of Washington retained limited, non-commercial rights with respect to the Virtual Retinal Display technology, including the right to use the technology for non-commercial research and for instructional purposes and the right to comply with applicable laws regarding the non-exclusive use of the technology by the United States government. The University of Washington also has the right to consent to Microvision's sublicensing arrangements and to the prosecution and settlement by Microvision of infringement disputes. In addition, the University of Washington retains the right to publish for academic purposes information it creates regarding the Virtual Retinal Display technology.

Microvision could lose the exclusivity under the license agreement if it fails to respond to any infringement action relating to the Virtual Retinal Display technology within 90 days of learning of such claim. In the event of the termination of its exclusivity, Microvision would lose its rights to grant sublicenses and would no longer have the first right to take action against any alleged infringement. In addition, each of Microvision or the University of Washington has the right to terminate the license agreement in the event that the other party fails to cure a material breach within 30 days of written notice. Microvision may terminate the license agreement at any time by serving 90 days prior written notice on the University of Washington. In the event of any termination of the license agreement, the license granted to Microvision would terminate.

Under the terms of the license agreement, Microvision agreed to pay a non-refundable fee of $5.1 million, which was fully paid in August 1997, and to issue to the University of Washington shares of Microvision's common stock, which shares have been issued. In addition, the University of Washington is entitled to receive ongoing royalties. Microvision also entered into a research agreement with the University of Washington to further develop the Virtual Retinal Display technology, payments of which were credited to the license fee.

Other Licenses and Intellectual Property

During 1998, Microvision entered into a license agreement with a third party whereby it acquired the exclusive license to certain intellectual property related to the design and fabrication of micro miniature devices using semiconductor fabrication techniques. The licensor has received thirteen patents and has twenty-nine patent applications pending pertaining to the Microvision field of use.

Microvision also generates intellectual property as a result of its ongoing performance on development contracts and as a result of its internal research and development activities. Microvision has filed fifty-four patent applications and received thirty patents in its own name resulting from these activities. The inventions covered by such applications generally relate to component miniaturization, specific implementation of various system components and design elements to facilitate mass production.

Microvision considers protection of these key enabling technologies and components to be a fundamental aspect of its strategy to penetrate diverse markets with unique products. As such, it intends to continue to develop its portfolio of proprietary and patented technologies at the system, component and process levels.

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

Microvision has registered the mark "Microvision" with its associated "tri- curve" logo with the United States Patent and Trademark Office. Microvision has filed for registration of various other marks including "Virtual Retinal Display," "VRD," "Nomad," and "Flic" in the United States Patent and Trademark Office. These marks were examined and entered into the opposition phase, where an opposition was filed against the Virtual Retinal Display mark. Microvision believes the opposition filing is without merit and that it should prevail in the proceedings. Regardless of the outcome, Microvision believes that it will be entitled to continue to use the terms "Virtual Retinal Display," "VRD," "Nomad," and "Flic".

Employees

As of March 1, 2005, Microvision had 166 employees.

Further Information

Microvision was founded in 1993 as a Washington corporation and reincorporated in 2003 under the laws of the State of Delaware. Our principal office is located at 19910 North Creek Parkway, Bothell, Washington 98011 and our telephone number is (425) 415-6847.

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

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 and we anticipate an operating loss at least through the year ending December 31, 2005. We cannot assure you that we will ever become or remain profitable.

- As of December 31, 2004, we had an accumulated deficit of $187.5 million.
- We incurred consolidated net losses of $100.9 million from inception through 2001, $27.2 million in 2002, $26.2 million in 2003, and $33.2 million in 2004.

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 the scanned beam technology and development of demonstration units. We introduced our first two commercial products during 2002. We are unable to accurately estimate future revenues and operating expenses based upon historical performance.

We cannot be certain that we will succeed in obtaining additional development contracts or that we will be able to obtain substantial customer orders for our products. In light of these factors, we expect to continue to incur substantial losses and negative cash flow at least through 2005 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 continue to fund our operations and to implement our business plan. If we do not obtain additional capital, we may be required to limit our operations substantially. Raising additional capital may dilute the value of current shareholders' shares.

Based on our current operating plan and budgeted cash requirements, we believe that we can fund our operations from existing sources of liquidity though 2005. We will require additional capital to continue to fund our operations, including to:

- Further develop the scanned beam technology,
- Add manufacturing capacity,
- Develop and protect our intellectual property rights, and
- Fund long-term business development opportunities.

We will require additional capital to fund our operations in 2006. If revenues are less than we anticipate, if the level and mix of revenues vary from anticipated amounts and allocations or if expenses exceed the amounts budgeted, we may require additional capital earlier 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. Additional financing may not be available to us or, if available, may not be available on terms acceptable to us on a timely basis. If adequate funds are not available to satisfy either short-term or long-term capital requirements, we may be required to limit our operations substantially. 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 the scanned beam and optical material technologies and the market acceptance and competitive position of such products. 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.

Our Senior Secured Exchangeable Convertible Notes may adversely impact our common stockholders or limit our ability to obtain additional financing.

In March 2005, we issued the Senior Secured Exchangeable Convertible Notes (the "Notes") described in Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operation - Liquidity and Capital Resources. Among other provisions, the Notes include material limitations on our ability to incur additional debt or incur liens while the Notes are outstanding. These limitations could materially adversely affect our ability to raise funds we expect to need in 2006.

We cannot be certain that the scanned beam technology or products incorporating this technology will achieve market acceptance. If the scanned beam technology does not achieve market acceptance, our revenues may not grow.

Our success will depend in part on customer acceptance of the scanned beam technology. The scanned beam 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 consumers of these products. To be accepted, the scanned beam technology must meet the expectations of our potential customers in the defense, industrial, medical and consumer markets. If our technology fails to achieve market acceptance, we may not be able to continue to develop the scanned beam technology.

It may become more difficult to sell our stock in the public market.

Our common stock is listed for quotation on the NASDAQ National 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, our common stock could be delisted from the NASDAQ National Market. If our common stock were delisted, we likely would seek to list the common stock on the NASDAQ SmallCap Market, the American Stock Exchange or on a regional stock exchange. Listing on such other market or exchange could reduce the liquidity for our common stock. If our common stock were not listed on the SmallCap 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 National 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 National 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 National Market. While the penny stock rules should not affect the quotation of our common stock on the NASDAQ National 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. During the second, third and fourth quarters of 2002, the first and second quarter of 2003, and the third quarter of 2004, the market price of our stock traded below $5.00 per share. On March 1, 2005 the closing price of our stock was $5.59.

Our lack of the 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 us. 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 the scanned beam technology 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 the scanned beam 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 scanned beam 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 the scanned beam technology and other technologies 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 the scanned beam 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 cost, to require others and us to cease selling products that incorporate scanned beam technology, to cease licensing scanned beam 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.

Our planned future products are dependent on advances in technology by other companies.

We rely on and will continue to rely on technologies, such as light sources and optical components that are developed and produced by other companies. The commercial success of certain of our planned future products will depend in part on advances in these and other technologies by other companies. Due to the current business environment, many companies that are developing new technologies are reducing expenditures on research and development. This may delay the development and commercialization of components we would use to manufacture certain of our planned future products.

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

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

If we cannot manufacture products at competitive prices, our financial results will be adversely affected

To date, we have produced limited quantities of Nomad and Flic and demonstration units for research, development and demonstration purposes. The cost per unit for these units currently exceeds the level at which we could expect to profitably sell these products. If we cannot lower our cost of production, we may face increased demands on our financial resources, possibly requiring additional equity and/or debt financing to sustain our business operations.

Our future growth will suffer if we do not achieve sufficient market acceptance of our products to compete effectively

Our success depends, in part, on our ability to gain acceptance of our current and future products by a large number of customers. Achieving market-based acceptance for our products will require marketing efforts and the expenditure of financial and other resources to create product awareness and demand by potential customers. We may be unable to offer products consistently or at all that compete effectively with products of others on the basis of price or performance. Failure to achieve broad acceptance of our products by potential customers and to effectively compete would have a material adverse effect on our operating results.

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 a contract manufacturer in Asia to manufacture Flic, and we plan to continue using foreign manufacturers to manufacture some of our 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; and
- changes in tariff rates or other trade and monetary policies.

If we experience delays or failures in developing commercially viable products, we may have lower revenues.

We began production of the current version of Nomad in the first quarter of 2004. In September 2002, we introduced Flic. In addition, we have developed demonstration units incorporating the scanned beam technology. However, we must undertake additional research, development and testing before we are able to develop additional products for commercial sale. Product development delays by us or our potential product development partners, or the inability to enter into relationships with these partners, may delay or prevent us from introducing products for commercial sale.

If we cannot supply products in commercial quantities, we will not achieve commercial success.

We are developing our capability to manufacture products in commercial quantities. 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 the University of Washington and our other licensors to maintain the proprietary nature of the scanned beam 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 the University of Washington and other 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 our scanned beam 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.

We rely heavily on a limited number of development contracts with the U.S. government, which are subject to immediate termination by the government for convenience at any time, and the termination of one or more of these contracts could have a material adverse impact on our operations.

During 2004 and 2003, 42%, and 49% respectively, of Microvision's consolidated revenue was derived from performance on a limited number of development contracts with the U.S. government. Therefore, any significant disruption or deterioration of our relationship with the U.S. government would significantly reduce our revenues. Our government programs must compete with programs managed by other contractors for limited amounts and uncertain levels of funding. The total amount and levels of funding are susceptible to significant fluctuations on a year-to-year basis. Our competitors continuously engage in efforts to expand their business relationships with the government and are likely to continue these efforts in the future. Our contracts with the government are subject to immediate termination by the government for convenience at any time. The government may choose to use contractors with competing display technologies or it may decide to discontinue any of our programs altogether. In addition, those development contracts that we do obtain require ongoing compliance with applicable government regulations. Termination of our development contracts, a shift in government spending to other programs in which we are not involved, a reduction in government spending generally, or our failure to meet applicable government regulations could have severe consequences for our results of operations.

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

Our products have lengthy sales cycle that involve numerous steps including discussion 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 sales will occur. Delays in sales could cause significant variability in our revenues and operating results for any particular quarterly period.

Our exploratory arrangements may not lead to products that will be profitable.

Our developmental contracts, including our relationships with parties such as the U.S. government, Ethicon Endo-Surgery, Inc., Canon, BMW and Volkswagen of America, 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.

Our revenues are highly sensitive to developments in the defense industry.

Our revenues to date have been derived principally from product development research relating to defense applications of the scanned beam display technology. We believe that development programs and sales of potential products in this market will represent a significant portion of our future revenues. Developments that adversely affect the defense sector, including delays in government funding and a general economic downturn, could cause our revenues to decline substantially.

Our Virtual Retinal Display technology depends on our licenses from the University of Washington. If we lose our rights under the licenses, our operations would be adversely affected.

We have acquired the exclusive rights to the Virtual Retinal Display under a license from the University of Washington. The license expires upon expiration of the last of the University of Washington's patents that relate to this technology, which we currently anticipate will not occur until after 2011. We could lose our exclusivity under the license if we fail to respond to an infringement action or fail to use our best efforts to commercialize the licensed technology. In addition, the University of Washington may terminate the license upon our breach and has the right to consent to all sublicense arrangements. If we were to lose our rights under the license, or if the University of Washington were to refuse to consent to future sublicenses, we would lose a competitive advantage in the market, and may even lose the ability to commercialize our products completely. Either of these results could substantially decrease our revenues.

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

Our strategy for commercializing the scanned beam technology and products incorporating the scanned beam 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 the scanned beam technology or find that the development, manufacture or sale of products incorporating the scanned beam technology 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.

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.

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.

Our revenues to date have been generated from a limited number of development contracts with U.S. government entities and commercial partners. Our quarterly operating results may vary significantly based on:

- reductions or delays in funding of development programs involving new information display technologies by the U.S. government or our current or prospective commercial partners;
- 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.

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. We have significantly expanded the scope of our operations. 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.

The value of our investment in Lumera may decrease.

A significant portion of our assets and present source of liquidity are constituted by our investment in Lumera. Lumera's stock price is subject to fluctuation and may decrease, lowering the value of our investment. We own approximately 33% of Lumera's common stock. Since we hold a large percentage of Lumera's common stock, if an active market does not develop or is not sustained, it may be difficult for us to sell our shares of Lumera's common stock at an attractive price or at all. The likelihood of Lumera's success, and the value of the common stock we hold, must be considered in light of the risks frequently encountered by early stage companies, especially those formed to develop and market new technologies. These risks include Lumera's potential inability to establish product sales and marketing capabilities; to establish and maintain markets for their potential products; and to continue to develop and upgrade their technologies to keep pace with changes in technology and the growth of markets using polymer materials. If Lumera is unsuccessful in meeting these challenges, its stock price, and the value of our investment, could decrease.

ITEM 2. DESCRIPTION OF PROPERTY

The Company currently leases approximately 92,500 square feet of combined use office, laboratory and manufacturing space at its headquarters facility in Bothell, Washington. The seven-year lease expires in 2006.

Lumera rents approximately 16,000 square feet space from Microvision within the Company's headquarters facility in Bothell, Washington.

The Company also leases approximately 5,200 square feet of combined use office and laboratory space in San Mateo, California. The 42 month lease expires in 2005. Microvision closed its branch office in San Mateo, California during 2003 and currently subleases this office space.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of shareholders during the fourth quarter of the year ending December 31, 2004.

ITEM 4A EXECUTIVE OFFICERS

Executive officers are appointed by our Board of Directors and hold office until their successors are elected and duly qualified. Messrs. Rutkowski and Willey, also serve as directors of Microvision. The following persons serve as executive officers of Microvision:

Richard F. Rutkowski, age 49, has served as Chief Executive Officer of Microvision since September 1995 and as a director since August 1995. Mr. Rutkowski also served as Microvision's President from July 1996 to August 2002. From November 1992 to May 1994, Mr. Rutkowski served as Executive Vice President of Medialink Technologies Corporation (formerly Lone Wolf Corporation), a developer of high-speed digital networking technology for multimedia applications in audio-video computing, consumer electronics and telecommunications. From February 1990 to April 1995, Mr. Rutkowski was a principal of Rutkowski, Erickson, Scott, a consulting firm. Mr. Rutkowski also serves as a director of CMT Crimble Microtest.

Stephen R. Willey, age 51, has served as president of Microvision since August 2002 and a director since June 1995. Mr. Willey served as Microvision's Executive Vice President from October 1995 to August 2002. Prior to that, he served as an outside consultant to the company through The Development Group (DGI) a business and technology consulting firms that he founded. As principal of DGI, Willey had also provided senior management consulting services to CREO Products, Inc., an electro-optics equipment manufacturer, between June 1989 and December 1992. In 1993, Willey co- founded PRO.NET Communications, Inc., an Internet service company. Willey holds an M.B.A. from the University of California, Los Angeles, and an M.A.Sc. in Electronics from the University of British Columbia, Vancouver. He earned a B.Sc., Engineering (Physics) from McMaster University, Hamilton.

Richard A. Raisig, age 57, has served as Chief Financial Officer of Microvision since August 1996 and Vice President, Operations from August 1996 to August 2002. Mr. Raisig served as Microvision's Secretary from April 1998 to May 2002 and as a director of Microvision from March 1996 to August 2002. From June 1995 to August 1996, Mr. Raisig was Chief Financial Officer of Videx Equipment Corporation, a manufacturer and rebuilder of wire processing equipment for the cabling industry. From July 1992 to May 1995, Mr. Raisig was Chief Financial Officer and Senior Vice President-Finance for Killion Extruders, Inc., a manufacturer of plastic extrusion equipment. From February 1990 to July 1992, Mr. Raisig was Managing Director of Crimson Capital Company, an investment banking firm. Prior to 1990, Mr. Raisig was a Senior Vice President of Dean Witter Reynolds, Inc. Mr. Raisig is a Certified Public Accountant. Mr. Raisig holds an MBA from the University of Southern California and a BS in Social Sciences from the University of California, Irvine.

Todd R. McIntyre, age 43, has served as Senior Vice President of Business Development since November 2003, and Vice President of Business Development of Microvision from January 1996 to November 2003. Mr. McIntyre's experience in emerging markets includes business development and marketing with development stage companies in a variety of technology segments including wireless telecommunications products and services, internet software products, and digital and print media. Mr. McIntyre holds an M.B.A. from Stanford University and a B.A. from Hendrix College.

Dr. V. G. Veeraraghavan, age 54, has served as Senior Vice President, Research & Product Development of Microvision since July 2001. Prior to joining Microvision, from 1998 to 2001, Dr. Veeraraghavan served in senior management with Standard MEMS, a MEMS semiconductor fabrication, end- product packaging and systems integration firm. During his service with Standard MEMS, Dr. Veeraraghavan was, first, Vice President of its operations wafer foundry responsible for engineering and production of MEMS wafers and, second, was Vice President Business Development. From 1991 to 1998, Dr. Veeraraghavan served in various management positions at Lexmark International, Inc., a developer and manufacturer of novel color laser and inkjet solutions. Dr. Veeraraghavan holds an M.S. and a Doctorate in Materials Engineering from Purdue University and an M.B.A. from the University of Kentucky. He also received a B.S. in Science from the University of Madras (India) and a B.S. in Metallurgy from the Indian Institute of Science.

Thomas M. Walker, age 40, joined Microvision in May 2002 and serves as Vice President, General Counsel and Secretary. Prior to joining Microvision, Mr. Walker served as Senior Vice President, General Counsel and Secretary of Advanced Radio Telecom Corp., a publicly held technology and services company where he managed domestic and international legal affairs from April 1996 to April 2002. Prior to that, Mr. Walker advised publicly and privately held businesses while practicing in the Los Angeles offices of the law firms of Pillsbury Winthrop and Buchalter, Nemer Fields and Younger. Mr. Walker holds a B.A. from Claremont McKenna College and a J.D. from the University of Oregon.

Andrew U. Lee, age 53, has served as Vice President, Sales of Microvision since 1997. Prior to joining Microvision, from 1992 to 1997, Mr. Lee was Senior Director, National Systems Sales for AEI Music Network, Inc., the largest audio-visual systems integrator in the United States. From 1988 to 1991, Mr. Lee was Vice President of Sales and Marketing for ADB Industries, Inc., a manufacturer of precision mechanical assemblies for the medical, defense and aerospace industries. Mr. Lee holds a B.S. in Political Science from the University of California at Berkeley.

Thomas E. Sanko, age 50, has served as Vice President of Marketing and Product Management at Microvision since February 2001. Prior to joining Microvision, from 1999 to 2001, Mr. Sanko was a consultant to Guidant Corp., a manufacturer of cardiovascular surgery products. From 1996 to 1999, Mr. Sanko was Business Manager at InControl, Inc., a manufacturer of electrophysiology products. Prior to 1996, Mr. Sanko served as Director of Marketing for Heart Technology, Inc., and earlier, for Davis and Geck. Both companies are medical device manufacturers. Mr. Sanko has a M.B.A. from the University of Michigan and a B.S. in Mechanical Engineering from the University of Pittsburgh.

Jeff T. Wilson, age 44, has served as Vice President, Accounting of Microvision since April 2002, and Principal Accounting Officer of Microvision since August 1999 and as Director of Accounting of Microvision from August 1999 to March 2002. Prior to joining Microvision, from 1991 to 1999 Mr. Wilson served in various accounting positions for Siemens Medical Systems, Inc., a developer and manufacturer of medical imaging equipment. Prior to 1991, Mr. Wilson served as a manager with the accounting firm Price Waterhouse (currently PricewaterhouseCoopers LLP). Mr. Wilson is a Certified Public Accountant. Mr. Wilson holds a B.S. in Accounting from Oklahoma State University.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED SHAREHOLDER MATTERS.

The Company's common stock trades on the NASDAQ National Market under the symbol "MVIS." As of March 1, 2005, there were 375 holders of record of 21,481,000 shares of common stock outstanding. The Company has never declared or paid cash dividends on the common stock. The Company currently anticipates that it will retain all future earnings to fund the operation of its business and does not anticipate paying dividends on the common stock in the foreseeable future.

The Company's common stock began trading publicly on August 27, 1996. The quarterly high and low sales prices of the Company's common stock for each full quarterly period in the last two fiscal years and the year to date as reported by the NASDAQ National Market are as follows:

	Common Stock	
Quarter Ended	**HIGH**	**LOW**
2003		
March 31, 2003	$ 8.20	$ 3.43
June 30, 2003	6.76	3.85
September 30, 2003	9.38	5.89
December 31, 2003	9.09	6.50
2004		
March 31, 2004	$ 10.93	$ 7.34
June 30, 2004	10.00	5.06
September 30, 2004	8.95	3.75
December 31, 2004	8.00	5.04
2005		
January 1, 2005 to March 1, 2005	$ 7.70	$ 5.03

ITEM 6. SELECTED FINANCIAL DATA

A summary of selected financial data as of and for the five years ended December 31, 2004 is set forth below:

	Years Ended December 31,				
	2004	**2003**	**2002**	**2001**	**2000**
	(in thousands, except per share data)				
Statement of Operations Data:					
Revenue	$ 11,418	$ 14,652	$ 15,917	$ 10,762	$ 8,121
Net loss available for common shareholders	(33,543)	(26,163)	(27,176)	(34,794)	(26,601)
Basic and diluted net loss per share	(1.56)	(1.46)	(1.93)	(2.85)	(2.33)
Weighted average shares outstanding basic and diluted	21,493	17,946	14,067	12,200	11,421
Balance Sheet Data:					
Cash, cash equivalents and investments available-for-sale	$ 1,268	$ 21,778	$ 15,176	$ 33,652	$ 40,717
Working capital	903	19,781	14,511	33,098	40,551
Total assets	25,538	33,918	32,267	54,055	56,172
Long-term liabilities	52	2,204	1,480	552	714
Mandatorily redeemable preferred stock	7,647	--	--	--	--
Total shareholders' equity	7,190	23,295	17,416	32,326	50,042

Lumera was deconsolidated in July 2004.:

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

Overview

The Company commenced operations in May 1993 to develop and commercialize technology for displaying images and information onto the retina of the eye. In 1993, the Company acquired an exclusive license to the Virtual Retinal Display technology from the University of Washington and entered into a research agreement with the University of Washington to further develop the Virtual Retinal Display technology. The Company has continued to develop the Virtual Retinal Display technology as part of its broader research and development efforts relating to the scanned beam technology.

In February 2004, Microvision introduced a new version of its see-through monochrome head-worn display called Nomad Expert Technician System. The Company also produces and sells Flic, a hand-held bar code scanner. The Company has also developed demonstration scanned beam displays, including hand-held and head-worn color versions and is currently refining and developing its scanned beam display technology for potential medical, defense, industrial, aerospace and consumer applications. The Company expects to continue funding prototype and demonstration versions of products incorporating the scanned beam technology at least through 2005. Future revenues, profits and cash flow and the Company's ability to achieve its strategic objectives as described herein will depend on a number of factors, including acceptance of the scanned beam technology by various industries and original equipment manufacturers, market acceptance of products incorporating the scanned beam technology and the technical performance of such products.

The Company has incurred substantial losses since its inception and expects to incur a substantial loss during the year ended December 31, 2005.

Key Accounting Policies and Estimates

The Company's discussions and analysis of its financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent liabilities. On an on-going basis, the Company evaluates its estimates, including those related to revenue recognition, contract losses, bad debts, investments and contingencies and litigation. The Company bases its estimates on historical experience, terms of existing contracts, its evaluation of trends in the display and image capture industries, information provided by its current and prospective customers and strategic partners, information available from other outside sources, and on various other assumptions management believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The Company believes the following key accounting policies require its more significant judgments and estimates used in the preparation of its consolidated financial statements:

Revenue Recognition. The Company recognizes 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. The Company uses this revenue recognition methodology because it can make reasonably dependable estimates of the revenue and costs. 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.

The Company's product sales generally include acceptance provisions. The Company recognizes revenue for product shipments upon acceptance of the product by the customer or expiration of the contractual acceptance period.

Losses on Uncompleted Contracts. The Company maintains an allowance for estimated losses if a contract has an estimated cost to complete that is in excess of the remaining contract value. The entire estimated loss is recorded in the period in which the loss is first determined. The Company determines the estimated cost to complete a contract through a detail review of the work to be completed, the resources available to complete the work and the technical difficulty of the remaining work. If the actual cost to complete the contract is higher than the estimated cost, the entire loss is recognized. The actual cost to complete a contract can vary significantly from the estimated cost, due to a variety of factors including availability of technical staff, availability of materials and technical difficulties that arise during a project. Most of the Company's development contracts are cost plus fixed fee type contracts. Under these types of contracts, the Company is not required to spend more than the contract value to complete the contracted work.

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

Inventory. The Company values inventory at the lower of cost or market with cost determined on a weighted average cost basis. The Company reviews several factors in determining the market value of its inventory including evaluating the replacement cost of the raw materials and the net realizable value of the finished goods. If we do not achieve our targeted sales prices or if market conditions for our components or products were to decline, additional reductions in the carrying value of the inventory would be required.

Litigation. The Company believes that the probability of an unfavorable outcome to any potential pending or threatened litigation is low and therefore has not recorded an accrual for any potential loss. The Company's current estimated range of liability related to any potential pending litigation is based on claims for which our management can estimate the amount and range of potential loss. As additional information becomes available, the Company will assess the potential liability related to any pending litigation and, if appropriate, revise its estimates. Such revisions in the Company's estimates of the potential liability could materially impact our results of operation and financial position.

The key accounting policies described above are not intended to be a comprehensive list of all of our accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by generally accepted accounting principles, with no need for management to apply its judgment or make estimates. There are also areas in which management's judgment in selecting any available alternative would not produce a materially different result to the Company's consolidated financial statements. Additional information about Microvision's accounting policies, and other disclosures required by generally accepted accounting principles, are set forth in the notes to the Company's consolidated financial statements, which begin on page 37 of this Annual Report on Form 10-K.

Inflation has not had a material impact on the Company's net sales, revenues, or income from continuing operations over the Company's three most recent fiscal years.

Results of Operations

Until July 2004, the Company was organized into two segments - Microvision, which is engaged in scanned beam displays and related technologies, and Lumera, which is engaged in optical systems components technology. The segments were determined based on how management views and evaluates the Company's operations.

A portion of each segments' administration expenses arose from shared services and infrastructure that Microvision provided to both segments in order to realize economies of scale and to efficiently use resources. These efficiencies included costs of certain legal, accounting, human resources and other Microvision corporate and infrastructure costs. These expenses were allocated to the segments and the allocation was determined on a basis that the Company considered to be a reasonable reflection of the utilization of services provided to, or benefits received by, the segments.

In connection with the Lumera initial public offering, all Lumera Series A and Series B Preferred Stock was converted into Lumera common stock. Immediately after the offering, Microvision owned 5,434,000 shares, or 33%, of the common stock of Lumera. As a result of the change in ownership percentage, Microvision changed the method of accounting for its investment in Lumera to the equity method. Microvision recorded a non-cash change in ownership interest gain of $13.7 million to stockholders equity as a component of additional paid-in capital during the third quarter. Microvision consolidated Lumera's results through July 2004 in its consolidated financial statements.

The following tables reflect the results of the Company's segments under the Company's management system. The performance of each segment is measured based on several metrics. These results were used, in part, by management, in evaluating the performance of, and in allocation of resources to, each of the segments (in thousands).

	Year Ended December 31, 2004			
	Microvision	**Lumera**	**Elimination**	**Total**
Contract Revenue	$ 8,135	$ 686	$ --	$ 8,821
Product Revenue	2,597	--	--	2,597
Cost of Contract Revenue	5,106	433	--	5,539
Cost of Product Revenue	3,868	--	--	3,868
Research and development expense	13,581	1,129		14,710
Marketing, general and administrative expense	17,795	1,433	--	19,228
Non-cash compensation expense	821	1,297	--	2,118
Interest income	270	2	--	272
Interest expense	31	120	--	151
Segment loss	32,257	3,724	(2,438)	33,543
Depreciation	1,711	695	--	2,406
Expenditures for capital assets	970	70	--	1,040
Segment assets	25,538	--		25,538

	Year Ended December 31, 2003			
	Microvision	**Lumera**	**Elimination**	**Total**
Contract Revenue	$ 11,792	$ 1,725	$ --	$ 13,517
Product Revenue	1,135	--	--	1,135
Cost of Contract Revenue	5,015	1,014		6,029
Cost of Product Revenue	1,017			1,017
Research and development expense	16,755	6,561	--	23,316
Marketing, general and administrative expense	14,557	1,270	--	15,827
Non-cash compensation expense	1,115	1,041	--	2,156
Interest income	342	39	--	381
Interest expense	51	--	--	51
Segment loss	25,205	8,083	(7,125)	26,163
Depreciation	1,924	1,185	--	3,109
Expenditures for capital assets	1,094	455	--	1,549
Segment assets	37,224	4,058	(7,364)	33,918

	Year Ended December 31, 2002			
	Microvision	**Lumera**	**Elimination**	**Total**
Contract Revenue	$ 14,443	$ 946	$ --	$ 15,389
Product Revenue	528	--	--	528
Cost of Contract Revenue	6,139	330		6,469
Cost of Product Revenue	528			528
Research and development expense	18,362	7,157	--	25,519
Marketing, general and administrative expense	15,577	1,221	--	16,798
Non-cash compensation expense	841	1,143	--	1,984
Interest income	860	199	--	1,059
Interest expense	59	--	--	59
Segment loss	26,219	8,698	(7,741)	27,176
Depreciation	1,894	1,049	--	2,943
Expenditures for capital assets	792	562	--	1,354
Segment assets	30,144	8,589	(6,466)	32,267

YEAR ENDED DECEMBER 31, 2004 COMPARED TO YEAR ENDED DECEMBER 31, 2003

Contract Revenue.

Contract revenue decreased by $4.7 million, or 35%, to $8.8 million from $13.5 million in 2003. The decrease resulted from a lower level of development contract business performed in 2004 than that performed in 2003 on contracts entered into in both 2004 and 2003.

Contract revenue is earned from the Company's work on development contracts with the United States government and commercial enterprises. In 2004, 55% of contract revenue was derived from performance on development contracts with the United States government and 45% from performance on development contracts with commercial customers. In comparison to 53% of revenue was derived from performance on development contracts with the United States government and 47% from performance on development contracts with commercial customers in 2003. In 2003, 29% of consolidated contract revenue was earned from development contracts with a single commercial customer. The Company expects contract revenue to fluctuate significantly from year to year.

In May 2004, Microvision entered into a $3.9 million contract modification with the U.S. Army's Aviation Applied Technology Directorate to continue work on an advanced helmet mounted display and imaging system to be used in the Virtual Cockpit Optimization Program.

In December 2004, Microvision entered into a $6.2 million contract with Ethicon Endo-Surgery, Inc., a subsidiary of Johnson & Johnson, to integrate Microvision's technology into certain medical products. The contract includes an exclusive license for Microvision's technology for certain human medical applications during the term of the development agreement.

The Company had a contract revenue backlog of $7.0 million at December 31, 2004. The backlog is composed of development contracts, including amendments, entered through December 31, 2004. The Company plans to complete all of the contract backlog during 2005.

Product Revenue.

Microvision earns product revenue from the sale of Nomad and Flic. Microvision recognizes revenue on product sales upon customer acceptance or when the right to return has expired. Product revenue increased $1.5 million or 129% to $2.6 million from $1.1 million in 2003. The increase resulted from increased sales of both Flic and Nomad in 2004.

During 2004, Microvision earned $864,000 from the sale of 208 Nomads compared to $855,000 from the sale of 133 Nomads in 2003. Microvision introduced a new version of the Nomad in March 2004. The new version is 40% smaller than the previous version and cost less to produce. Microvision is targeting automotive repair applications for the Nomad. The Nomad is currently installed in 62 automotive repair facilities.

During 2004 and 2003, Microvision recorded $1,732,000 and $280,000 respectively, in revenue from sales of Flic barcode scanners.

The Company had a product revenue backlog of $157,000 at December 31, 2004. The backlog is composed of orders for Nomad and Flic received through December 31, 2004. The Company plans to deliver all products in backlog during 2005.

Cost of Contract Revenue.

Cost of contract revenue includes both the direct and allocated indirect costs of performing on development contracts. Direct costs include labor, materials and other costs incurred directly in performing specific projects. Indirect costs include labor and other costs associated with operating the Company's research and product development department and building the technical capabilities of the Company. Cost of revenue is determined both by the level of direct costs incurred on development contracts and by the level of indirect costs incurred in managing and building the technical capabilities and capacity of the Company. The cost of contract revenue can fluctuate substantially from period to period depending on the level of both the direct costs incurred in the performance of projects and the level of indirect costs incurred.

Cost of contract revenue decreased by $449,000, or 8%, to $5.5 million from $6.0 million. On a percentage of revenue basis, cost of contract revenue increased by 43 % to 63% from 44% in 2003. The change in cost of revenue as a percentage of revenue is primarily attributable to changes in the contract costs mix. Total direct costs in 2004 decreased approximately 6% from 2003. The direct labor cost portion of direct cost decreased by approximately 6% from 2003. The decrease in direct labor cost resulted from a lower volume of contract work performed during 2004 compared to 2003.

During 2004, the Company experienced unplanned technical difficulties on one significant project. As a result of the difficulties, more direct costs than planned were incurred in completing the project resulting in a lower gross margin during 2004 than in 2003.

Research and development overhead is allocated to both cost of contract revenue and research and development expense based on the proportion of direct labor cost incurred in cost of contract revenue and research and development, respectively.

The Company expects that cost of contract revenue on an absolute dollar basis will increase in the future. This increase will likely result from planned additional development contract work that the Company expects to perform, and commensurate growth in the Company's personnel and technical capacity required to perform on such contracts. The cost of contract revenue, as a percentage of contract revenue, can fluctuate significantly from period to period depending on the contract mix and the level of direct and indirect cost incurred.

Cost of Product Revenue.

Cost of product revenue includes both the direct and allocated indirect costs of manufacturing Nomads and Flics sold to customers. Direct costs include labor, materials and other costs incurred directly in the manufacture of Flic and Nomad. Indirect costs include labor and other costs associated with maintaining Microvision manufacturing capabilities and capacity. Cost of product revenue increased $2.8 million or 266% to $3.9 million from $1.1 million in 2003.

Microvision's costs to produce Nomad units during 2004 were substantially higher than product revenue. Until October 2004, Microvision classified production cost in excess of product revenue as research and development expense. In October 2004, management determined that Nomad production and manufacturing processes were sufficiently mature to support "commercial production" as described in SFAS No. 2 "Accounting for Research and Development Costs". As a result of this determination Microvision began full absorption of manufacturing overhead cost. During the fourth quarter of 2004, the cost of product revenue exceeded product revenue for both the Flic and Nomad products.

Cost of product revenue in 2004 includes the write off of $764,000 of Flic inventory and $479,000 of Nomad inventory. The write off's were due to changes in product design and customer demand that caused components and accessories to become obsolete or slow moving. Microvision values inventory at the lower of cost or market. Microvision also reduces the value of its inventory to its estimated scrap value when management determines that it is not probable that the inventory will be utilized through normal production during the next 12 months.

The Company expects that cost of product revenue on an absolute dollar basis will increase in the future. This increase will likely result from increased shipments of commercial products. The Company expects that cost of product revenue will be higher than product revenue until the Company achieves sales volumes that match its production capability.

Research and Development Expense.

Research and development expense consists of:

- compensation related costs of employees and contractors engaged in internal research and product development activities,
- research fees paid to the University of Washington under the Lumera Sponsored Research Agreement,
- laboratory operations, outsourced development and processing work,
- fees and expenses related to patent applications, prosecution and protection,
- related operating expenses and
- cost relating to acquiring and maintaining licenses.

Research and development expense decreased by $8.6 million, or 37%, to $14.7 million from $23.3 million in 2003.

Research and Development expense attributable to Lumera decreased $5.5 million, or 83%, to $1.1 million from $6.6 million in 2003. The decrease in Research and Development expense attributable to Lumera accounts for 64% of the decrease in consolidated Research and Development expense.

In April 2004, Lumera and the University of Washington entered into a fourth amendment to the Sponsored Research Agreement that requires payments of $125,000 for quarters ending March 31, 2004 and June 30, 2004 and eliminates the contingent payment of $2.0 million. For each of the quarters ending September 30, 2004 and December 31, 2004, Lumera was required to pay $250,000. The agreement will terminate in 2005 after payments of $375,000 are made in quarters ending March 31, 2005 and June 30, 2005. Total payments under the Sponsored Research Agreement will be $5.8 million instead of the original $9.0 million. Lumera recognizes research and development expense under the Sponsored Research Agreement on a straight line basis over the term of the agreement. At the time of the fourth amendment to the Sponsored Research Agreement, Lumera had recognized $6.5 million in expense related to the Sponsored Research Agreement. In April 2004, Lumera recorded a reduction in its liability and an offsetting reduction in expense of $2.4 million to reduce the cumulative expense recognized under the Sponsored Research Agreement to the expense incurred under the fourth amendment on a straight line basis.

Research and development expense in 2003 included $645,000 for the closure of Microvision's research and development facility in San Mateo, California. Microvision consolidated its research and development activities in Bothell, Washington in May 2003.

The Company believes that a substantial level of continuing research and development expense will be required to develop commercial products using the scanned beam technology. Accordingly, the Company anticipates that its research and development expenditures will continue to be significant. These expenses could be incurred as a result of:

- subcontracting work to development partners,
- expanding and equipping in-house laboratories,
- acquiring rights to additional technologies,
- incurring related operating expenses, and
- hiring additional technical and support personnel.

The Company expects that the amount of spending on research and product development will remain high in future quarters as we:

- continue development and commercialization of the Company's scanned beam technology,
- accelerate development of microdisplays and imaging products to meet emerging market opportunities, and
- pursue other potential business opportunities.

Sales, Marketing, General and Administrative Expense.

Sales, marketing, general and administrative expenses include compensation and support costs for sales, marketing, management and administrative staff, and for other general and administrative costs, including legal and accounting, consulting and other operating expenses.

The Company's marketing activities include corporate awareness campaigns, such as web site development and participation at trade shows, corporate communications initiatives, and working with potential customers and joint venture partners to identify and evaluate product applications in which the Company's technology could be integrated or otherwise used.

Sales, marketing, general and administrative expenses increased by $3.4 million, or 22%, to $19.2 million from $15.8 million in 2003. The increase in Sales, marketing, general and administrative expenses are due to the increase in sales and marketing activity related to Nomad and Flic sales. The Company has added sales staff, demonstration equipment and promotion materials to support increased sales of Nomad and Flic. The Company expects sales, marketing, general and administrative expenses to increase as product revenue increases in future periods as the Company:

- adds to its sales and marketing staff,
- makes additional investments in sales and marketing activities, and
- increases the level of corporate and administrative activity.

Non-Cash Compensation Expense.

Non-cash compensation expense includes the amortization of the value of stock options granted to individuals who are not employees or directors of the Company for services provided to the Company as well as employee stock based compensation expenses. Non-cash compensation expense decreased by $38,000 or 2% to $2.1 million from $2.2 million in 2003.

In September 2003, Microvision issued two warrants to purchase an aggregate of 70,000 shares of common stock to a third party for services provided to Microvision. One warrant grants the holder the right to purchase up to 60,000 shares of common stock at a price of $7.50 per share. The warrant vested in three equal tranches on the date of grant, in December 2003 and in March 2004. The other warrant to purchase up to 10,000 shares of common stock at a price of $12.00 per share vested in March 2004. The deferred compensation related to these warrants was amortized to non- cash compensation expense over the fourteen month service period of the agreement. There is no amortization remaining at December 31, 2004. Non-cash amortization expense related to these warrants was $140,000 and $192,000 for 2004 and 2003 respectively. The total value of the warrants was estimated on December 31, 2003 and the grant date at $318,000 and $328,000, respectively. The fair values of the warrants were estimated on the date of grant and December 31, 2003, using the Black-Scholes option-pricing model with the following weighted-average assumptions: expected volatilities of 83%, risk-free interest rates of 2.7% and dividend yields of zero percent. The expected lives used at the measurement dates above were 4 years and 3.9 years, respectively.

In August 2000, Microvision entered into five-year consulting agreements with two independent consultants to provide strategic business and financial consulting services. Under the terms of the agreements, each consultant received a warrant to purchase 100,000 shares of common stock at an exercise price of $34.00 per share. The warrants vested over three years and the unvested portions were subject to remeasurement at each balance sheet date during the vesting period until the end of the vesting period on June 7, 2003. The original value of the warrants was estimated at $5.5 million, however, due to decreases in the Company stock price, the value in June 2003 was estimated to be $3.0 million. In 2004 and 2003, total non-cash amortization for these agreements was $447,000 and $595,000, respectively. The fair values of the warrants were determined in June 2003 and the issue date, using the Black-Scholes option-pricing model with the following weighted-average assumptions: dividend yield of zero percent, expected volatility of 83% for both measurement dates, risk-free interest rates of 4.0% and 5.9%, and expected lives of 7.4 and 9.2 years. Deferred compensation related to these warrants at December 31, 2004 was $270,000.

During 2004, Lumera granted options to purchase 415,000 shares of Class A common stock to Lumera employees and directors with a weighted-average exercise price of $2.00. Lumera subsequently determined that the fair market value of its common stock was greater than the exercise price of the options. Lumera recorded aggregate charges of $216,000 during 2004 related to these grants.

During 2004, Lumera granted vested options to purchase 40,000 shares of Class A common stock to Microvision employees with a weighted-average exercise price of $2.00. Lumera subsequently determined that the fair market value of its common stock was greater than the exercise price of the options. The Company recorded aggregate charges of $134,000 during 2004 related to these grants.

The following table shows the components of non-cash compensation expense for 2004 and 2003, respectively.

	2004	2003
Microvision stock options issued to third parties	587,000	849,000
Microvision stock options issued to employees	54,000	265,000
Microvision stock and options issued to Independent Directors	46,000	1,000
Lumera options issued to Microvision employees	134,000	--
Lumera non-cash compensation expense	1,297,000	1,041,000
	$ 2,118,000	$ 2,156,000

At December 31, 2004, the Company had $305,000 of unamortized non-cash compensation expense that will be amortized over the next year.

Interest Income and Expense.

Interest income in 2004 decreased by $109,000, or 29%, to $272,000 from $381,000 in 2003. This decrease resulted primarily from lower average cash and investment securities balances in 2004 than the average cash and investment securities balances in the prior year.

Interest expense was consistent with 2004 because the amount of borrowings did not change significantly.

Loss on equity in investment subsidiary.

In July 2004, Lumera completed an initial public offering of its common stock. In connection with the offering, all Lumera Series A and Series B Preferred Stock was converted to Lumera common stock. Immediately after the offering, Microvision owned 5,434,000 shares, or 33%, of the common stock of Lumera. As a result of the change in ownership percentage, Microvision has changed the method of accounting for its investment in Lumera to the equity method. Under the equity method, Microvision recorded its ownership interest in the net book value of Lumera immediately following the initial public offering as an investment in equity method subsidiary of $11.9 million. Microvision records its pro rata share of Lumera's income or loss as an adjustment in the value of its investment in Lumera. For the period from July 2004 to December 31, 2004 Microvision's share in Lumera's losses was $1.7 million.

Income Taxes.

No provision for income taxes has been recorded because the Company has experienced net losses from inception through December 31, 2004. At December 31, 2004, Microvision had net operating loss carry-forwards of approximately $168.0 million for federal income tax reporting purposes. In addition, Microvision has research and development tax credits of $2.2 million. The net operating losses begin expiring in 2008 if not previously utilized. In certain circumstances, as specified in the Internal Revenue Code, a 50% or more ownership change by certain combinations of Microvision's shareholders during any three-year period would result in a limitation on Microvision's ability to utilize a portion of its net operating loss carry-forwards. Microvision has determined that such a change of ownership occurred during 1995 and that the annual utilization of loss carry-forwards generated through the period of that change will be limited to approximately $761,000. An additional change of ownership occurred in 1996 and the limitation for losses generated in 1996 is approximately $1.6 million.

Non-cash Beneficial Conversion Feature of Preferred Stock.

In September 2004, Microvision raised $10.0 million before issuance costs of $90,000 from the sale of 10,000 shares of convertible preferred stock and a warrant to purchase 361,795 shares of common stock. The preferred stock is convertible on demand by the holder into common stock at a conversion price of $6.91 per share of common stock. The initial conversion price is subject to adjustment in the event Microvision issues common stock or derivative securities at a price per share of common stock below the market price or the conversion price of the preferred stock. In addition, upon the request of the preferred stockholder, Microvision is required to redeem the preferred stock for cash in certain circumstances, including in the event of a material breach of our representations, warranties or covenants under the purchase agreement or a change in control. Accordingly, Microvision has classified the preferred stock as "mandatorily redeemable convertible preferred stock" in its consolidated balance sheet.

The preferred stock terms include a dividend of 3.5% per annum, payable quarterly in cash or registered common stock, at the election of the Company, subject to certain conditions. The preferred stock matures on September 10, 2007, at which time it is payable in cash or registered common stock, at the election of the Company, subject to certain conditions. Some of the conditions which would preclude the Company from paying in common stock are not within the Company's immediate control. The Company can elect to convert the preferred stock into common stock if the common stock price exceeds $12.09 per share, subject to certain conditions.

The warrant vested on the date of grant, has an exercise price of $8.16 per share and expires on September 10, 2009. The initial exercise price is subject to adjustment in the event the Company issues common stock or derivative securities at a price per share of common stock below the market price or the exercise price of the warrant.

The net cash proceeds of $9,910,000 were allocated to the preferred stock and the warrant based on the relative fair values of the securities. The warrants were valued using the Black-Scholes option-pricing model with the following assumptions: expected volatility, 75%, risk free interest rate of 3.4%, and a contractual life 5 years. $1.3 million of the proceeds were allocated to the warrant and were recorded as an increase to additional paid-in capital.

Subsequent to the relative fair value allocation, the effective accounting conversion price of the convertible preferred stock was less than the closing price of Microvision's common stock on the date of commitment to purchase the preferred stock. This beneficial conversion feature was measured as $1.2 million, which represents the difference between the fair value of the common stock and the effective accounting conversion price. This beneficial conversion feature was recorded to additional paid-in capital and will be recorded as a deemed dividend to preferred stockholders (accretion) over the stated life of the preferred stock which is three years.

YEAR ENDED DECEMBER 31, 2003 COMPARED TO YEAR ENDED DECEMBER 31, 2002

Contract Revenue.

Contract revenue decreased by $1.9 million, or 12%, to $13.5 million from $15.4 million in 2002. The decrease resulted from a lower level of development contract business in 2003 than that performed in 2002 on contracts entered into in both 2003 and 2002.

In 2003, 53% of contract revenue was derived from performance on development contracts with the United States government, 47% from performance on development contracts with commercial customers. In comparison, to 86% of revenue was derived from performance on development contracts with the United States government and 14% from performance on development contracts with commercial customers in 2002. In 2003, 29% of consolidated contract revenue was earned from development contracts with a single commercial customer.

During 2003, the Company entered into several development contracts with both commercial and government entities for further development of the scanned beam technology to meet specific customer applications.

- In February 2003, Microvision extended a development agreement with Canon to further develop miniature displays for use in consumer products including digital cameras and digital video equipment.
- In April 2003, Microvision entered into a $2.2 million contract modification with the U.S. Army's Aviation Applied Technology Directorate to continue work on an advanced helmet mounted display and imaging system to be used in the Virtual Cockpit Optimization Program.
- In April 2003, Microvision entered into a $1.6 million contract modification with the U.S. Army's Medical Research Acquisition Activities, Telemedicine and Advanced Technology Research Center to continue development of a mobile wireless personal display system for medical applications.
- In October 2003, Microvision entered into a new agreement with Canon to further develop miniature displays for use in consumer products including digital cameras and digital video equipment.
- In December 2003, Lumera entered into a contract extension with a U.S. government agency to continue development of electro-optical polymer materials and devices for wideband optical modulators.
- During 2003, Microvision performed development work for several automotive companies including BMW and Volkswagen of America, to develop automotive displays using the scanned beam technology. The total value of these contracts was approximately $1.3 million.

The Company had a contract revenue backlog of $3.8 million at December 31, 2003.

Product Revenue.

Product revenue increased by $607,000, or 115 % to $1.1 million from $528,000 in 2002.

During 2003, Microvision recorded $855,000 in product revenue from the sale of 133 Nomads. In September 2003, Microvision entered into a contract with the Program Executive Office Soldier within the U.S. Army to supply the Stryker Brigade Combat Team with 100 Nomads. In addition, Microvision continued development of a next generation Nomad that was launched in February 2004.

During 2003, Microvision recorded $280,000 in product revenue from sales of Flic barcode scanners. In January 2003, Microvision entered into a supply agreement to provide a private labeled Flic bar code scanner to NCR. During 2003, Microvision and NCR worked together to optimize the Flic performance for NCR's customers. NCR placed orders for $392,000 of product during the fourth quarter of 2003. Microvision ended the year with a backlog of $378,000 in Flic product and accessories

Cost of Contract Revenue.

Cost of contract revenue decreased by $481,000, or 7%, to $6.0 million from $6.5 million in 2002. On a percentage of revenue basis, cost of contract revenue increased by 5 % to 44% from 42% in 2002. The change in cost of revenue as a percentage of revenue is primarily attributable to changes in the contract mix. Total direct costs decreased by approximately 14% from 2002. The direct labor cost portion of direct cost decreased by approximately 10% from 2002. The decrease in direct labor cost resulted from a lower volume of contract work performed during 2003 compared to 2002.

Cost of Product Revenue.

Cost of product revenue increased by $530,000, or 100%, to $1.1 million from $528,000 in 2002. Microvision's costs to produce Nomad units during 2003 were substantially higher than product revenue. In 2003, Microvision classified production cost in excess of product revenue as research and development expense. Through December 31, 2003, Nomad production and the design and manufacturing processes had not become sufficiently mature to support "commercial production" as described in SFAS No. 2 "Accounting for Research and Development Costs."

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. During 2003, Microvision recorded a write down of Nomad inventory of approximately $450,000.

Research and Development Expense

Research and development expense decreased by $2.2 million, or 9%, to $23.3 million from $25.5 million in 2002. During 2002, the Company recorded $1.5 million in expense relating to light source research performed for the Company by Cree Inc. The Company's research agreement with Cree ended in April 2002, resulting in a $1.4 million expense reduction in 2003 from 2002.

In 2003, Lumera recorded $1.9 million expense on its sponsored research agreement with the University of Washington compared to $2.4 million in 2002. The reduction in expense came as a result of two modifications to the sponsored research agreement with the University of Washington.

In May 2003, Microvision closed its research and development facility in San Mateo, California and consolidated its research and development activities in Bothell, Washington. Research and development expense for 2003 included $540,000 for the closing of Microvision's approximately 5,200 square foot facility in San Mateo and $290,000 for severance and relocation of 11 employees. Microvision paid $270,000 in severance and relocation costs in 2003. The accrual related to the closing of the facility at December 31, 2003 is $431,000.

Marketing, General and Administrative Expense.

Marketing, general and administrative expenses decreased by $971,000, or 6%, to $15.8 million from $16.8 million in 2002. The decrease was primarily attributable to a reduction in the charge to the allowance for doubtful accounts for receivables from senior officers.

The Board of Directors authorized Microvision to provide unsecured lines of credit to each of its three senior officers. No loans have been made under either Microvision's Executive Option Exercise Note Plan or the Executive Loan Plan since July 2002, and Microvision does not intend to make any additional loans under these plans.

In 2002 and again in 2003, Microvision determined that certain of its senior officers may have had insufficient net worth and short-term earnings potential to repay their outstanding loans. As a result, Microvision recorded an allowance for doubtful accounts for the receivables from senior officers of $200,000 and $700,000 during 2003 and 2002, respectively. The balance of the allowance for doubtful accounts for receivables from senior officers was $900,000 at December 31, 2003. Microvision has no plans to forgive any portion of the principal of the outstanding receivable balance.

Non-Cash Compensation Expense.

Non-cash compensation expense increased by $172,000 or 9% to $2.2 million from $2.0 million in 2002.

In September 2003, Microvision issued two warrants to purchase an aggregate of 70,000 shares of common stock to a third party for services provided to Microvision. The deferred compensation related to these warrants is being amortized to non-cash compensation expense over the fourteen month service period of the agreement. Non-cash amortization expense related to these warrants was $192,000 for 2003.

In August 2003, Lumera issued options to purchase an aggregate of 164,000 shares of its Class A Common Stock to two consultants in connection with entering into consulting agreements. Each holder was granted a warrant to purchase up to 82,000 shares of Class A Common Stock at a price of $3.65 per share with a ten year life. In aggregate, 41,000 of the options were vested on the grant date. The remaining 123,000 shares vest one-third on each subsequent annual anniversary of the grant date and are subject to remeasurement at each balance sheet date during the vesting period. The deferred compensation and liability related to these options is being amortized to non-cash compensation expense over the two year period of service under the agreements. The aggregate value of both options was estimated at $136,000 at the grant date and December 31, 2003. Total non-cash compensation expense was $32,000 for the year ended December 31, 2003. The fair values of the options were estimated at the grant date and December 31, 2003, using the Black-Scholes option pricing model with the following weighted-average assumptions: underlying security fair market value of $0.98, dividend yield of zero percent; expected volatility of 100% for both measurement dates, risk-free interest rates of 4.4% and 4.3%; and expected lives of 10 and 9.7 years, respectively.

In January 2001, Lumera issued 802,000 shares of its Class A Common Stock to the University of Washington pursuant to the Sponsored Research Agreement. The shares were valued at the fair market price of $3.75 per share, as determined by the Board of Directors. The total value of the stock of $3.0 million was recorded as a prepaid research expense and is being amortized over the term of the Sponsored Research Agreement. The total amortization expense relating to the Sponsored Research Agreement was $1.0 million in both 2003 and 2002.

In August 2000, Microvision entered into five-year consulting agreements with two independent consultants to provide strategic business and financial consulting services. Under the terms of the agreements, each consultant received a warrant to purchase 100,000 shares of common stock at an exercise price of $34.00 per share. In 2003, total non-cash amortization for these agreements was $595,000 compared to $542,000 recognized in 2002.

The following table shows the components of non-cash compensation expense for 2003 and 2002, respectively.

	2003	2002
Lumera stock issued to the University of Washington	$ 1,003,000	$ 1,003,000
Microvision and Lumera stock options issued to third parties	882,000	571,000
Lumera stock warrant issued to Arizona Microsystems	--	133,000
Microvision and Lumera stock options issued to employees	270,000	219,000
Microvision stock and options issued to Independent Directors	1,000	58,000
	$ 2,156,000	$ 1,984,000

Interest Income and Expense.

Interest income in 2003 decreased by $678,000, or 64%, to $381,000 from $1.1 million in 2002. This decrease resulted primarily from lower average cash and investment securities balances in 2003 than the average cash and investment securities balances in the prior year.

Interest expense was consistent with 2003 because the amount of borrowings did not change significantly.

Income Taxes.

No provision for income taxes was recorded because the Company has experienced net losses from inception through December 31, 2003. At December 31, 2003, Microvision had net operating loss carry-forwards of approximately $139.3 million for federal income tax reporting purposes. In addition, Microvision has research and development tax credits of $1.9 million.

Liquidity and Capital Resources

The Company has funded operations to date primarily through the sale of common stock, convertible preferred stock, warrants and, to a lesser extent, from development contract revenues and product sales. At December 31, 2004, Microvision had $1.3 million in cash and cash equivalents. Microvision has incurred significant losses since inception

Cash used in operating activities totaled $30.8 million during 2004, compared to $26.4 million during 2003. Cash used in operating activities for each period resulted primarily from the net loss for the period.

The Company had the following material changes in assets and liabilities during the year ended December 31, 2004.

- *"Inventory"* increased by $2.8 million to $3.2 million at December 31, 2004 from $331,000 at December 31, 2003. The increase was primarily attributable to purchases of raw materials to produce Nomad. The Company made commitments to purchase certain minimum quantities of inventory at the start of Nomad production. Microvision has taken delivery of most of this inventory and plans for inventory as a percent of revenue to decline as Nomad product revenue is expected to increase. The Company values inventory at the lower of cost or market with cost determined on a weighted average cost basis. The following table shows the composition of the inventory at December 31, 2004 and December 31, 2003, respectively:

	December 31, 2004	December 31, 2003
Raw materials	$ 1,607,000	$ 98,000
Work in process	77,000	--
Finished goods	1,483,000	233,000

$ 3,167,000	$ 331,000

- *"Investment in Lumera"* In July 2004, Lumera completed an initial public offering of its common stock. In connection with the offering, all Lumera Series A and Series B Preferred Stock was converted to Lumera common stock. Immediately after the offering, Microvision owned 5,434,000 shares, or 33%, of the common stock of Lumera. As a result of the change in ownership percentage, Microvision has changed the method of accounting for its investment in Lumera to the equity method. Under the equity method, Microvision recorded it ownership interest in the net book value of Lumera immediately following the initial public offering as an investment in equity subsidiary of $11.9 million. Microvision records its pro rata share of Lumera's income or loss as an adjustment in the value of its investment in Lumera. Microvision recorded a non-cash change in ownership interest gain of $13.7 million to stockholders equity as a component of additional paid-in capital during the third quarter as a result of the public offering.

- *"Property and equipment, net"* decreased $3.6 million to $2.3 million at December 31, 2004 from $6.0 million at December 31, 2003. The decline is principally due to the deconsolidation of Lumera in July 2004. Lumera had $2.2 million in net property and equipment at the time of the deconsolidation. Depreciation expense accounts for the remaining decrease.
- *"Accounts Payable"* increased $1.4 million to $2.6 million at December 31, 2004 from $1.2 million at December 31, 2003. The increase in Accounts Payable is directly attributable to the increase in inventory.
- *"Research liability"* decreased $1.9 million to $0 at December 31, 2004 from $1.9 million at December 31, 2003. The decline is due to the deconsolidation of Lumera in July 2004. The entire research liability was attributable to Lumera.

Cash provided by investing activities totaled $10.0 million in 2004 compared to cash used in investing activities of $7.3 million in 2003. During 2004, the Company had net sales of investment securities of $11.1 million compared to net purchases of investment securities of $5.8 million during 2003. The proceeds from the sales of investment securities were used to fund the Company's operations.

The Company used cash of $1.0 million for capital expenditures in 2004, compared to $1.5 million in 2003. Capital expenditures include leasehold improvements to leased office space and computer hardware and software, laboratory equipment and furniture and fixtures to support operations.

Cash provided by financing activities totaled $12.8 million in 2004, compared to $34.5 million in 2003.

In March 2005, Microvision raised $10.0 million before issuance costs, from the issuance of senior secured exchangeable convertible notes (the "Notes") and warrants to purchase an aggregate of 462,330 shares of Microvision common stock. The Notes are payable in six equal quarterly payments starting in December 2005. The Notes are convertible on demand by the holders into Microvision common stock at a conversion price of $6.84 per share of Microvision common stock and exchangeable on demand by the holders into Lumera common stock at an exchange price of $5.64 per share of Lumera common stock. The terms include a limit on the aggregate number of Lumera common shares that can be used to pay principal of 1,750,000 shares. The Notes are secured by the same 1,750,000 shares of Lumera common stock. The initial conversion price is subject to adjustment in the event Microvision issues common stock or derivative securities, other than employee options, at a price per share of common stock below the conversion price of the Note. In addition, upon the request of the Note holders, Microvision is required to redeem the Notes for cash in certain circumstances, including in the event of a material breach of representations, warranties or covenants under the purchase agreement or a change in control.

The Note terms include variable interest at a rate of LIBOR plus 3% within a range of 6% to 8%, payable quarterly Each principal payment is payable in cash or registered common stock, at the election of the Company, subject to certain conditions. If the Company elects to pay principal in registered common stock, the Note holder can elect to receive payment in either Microvision or Lumera common stock. Interest is payable in cash or Microvision common stock subject to certain conditions. Some of the conditions which would preclude the Company from paying in common stock are not within the Company's immediate control. The Company can elect to convert the Notes into Microvision common stock if the stock price equals or exceeds $11.97 per share for any 20 out of any 30 consecutive days, subject to certain conditions. The warrants are immediately exercisable, have an exercise price of $6.84 per share and expire in March 2010. The initial exercise price is subject to adjustment in the event Microvision issues common stock or derivative securities at a price per share of common stock below the exercise price of the warrant.

The following is a list of stock issuances during 2004 and 2003.

- In September 2004, Microvision raised $10.0 million before issuance costs of $90,000 from the sale of 10,000 shares of convertible preferred stock and a warrant to purchase 361,795 shares of common stock. The preferred stock is convertible on demand by the holder into common stock at a conversion price of $6.91 per share of common stock. The initial conversion price is subject to adjustment in the event Microvision issues common stock or derivative securities at a price per share of common stock below the market price or the conversion price of the preferred stock. In addition, upon the request of the preferred stockholder, Microvision is required to redeem the preferred stock for cash in certain circumstances, including in the event of a material breach of representations, warranties or covenants under the purchase agreement or a change in control. Accordingly, Microvision has classified the preferred stock as "mandatorily redeemable convertible preferred stock" in its consolidated balance sheet. The preferred stock terms include a dividend of 3.5% per annum, payable quarterly in cash or registered common stock, at the election of the Company, subject to certain conditions. The preferred stock matures on September 10, 2007, at which time it is payable in cash or registered common stock, at the election of the Company, subject to certain conditions. Some of the conditions which would preclude the Company from paying in common stock are not within the Company's immediate control. The Company can elect to convert the preferred stock into common stock if the stock price exceeds $12.09 per share, subject to certain conditions. The warrant vested on the date of grant, has an exercise price of $8.16 per share and expires on September 10, 2009. The initial exercise price is subject to adjustment in the event Microvision issues common stock or derivative securities at a price per share of common stock below the market price or the exercise price of the warrant.

  The net cash proceeds of $9.9 million were allocated to the preferred stock and the warrant based on the relative fair values of the securities. The warrants were valued using the Black-Scholes option-pricing model with the following assumptions: expected volatility, 75%, risk free interest rate, 3.4%, and contractual life five years. $1.3 million of the proceeds were allocated to the warrant and were recorded as an increase to additional paid-in capital.

  Subsequent to the relative fair value allocation, the effective conversion price of the convertible preferred stock was less than the closing price of Microvision's common stock on the date of commitment to purchase the preferred stock. This beneficial conversion feature was measured as $1.2 million which represents the difference between the fair value of the common stock and the effective conversion price. This beneficial conversion feature was recorded to additional paid-in capital and will be recorded as a deemed dividend to preferred stockholders (accretion) over the stated life of the preferred stock which is three years.

- In April 2004, Lumera raised $2.3 million from the issuance of convertible promissory notes. The notes accrue interest at a rate of 6.5% per annum and are payable on demand upon the closing of an underwritten public offering of Lumera's common stock. Lumera completed an initial public offering in July 2004. The principal amount and any accrued but unpaid interest in respect of each note is convertible at any time, at the option of the holder, into shares of Lumera's Class A common stock. The conversion price is $6.00 per share of common stock. In connection with the sale of these convertible notes, Lumera also issued warrants to purchase shares of common stock. The number of shares is based on a formula based on the exercise price of the warrant and the face amount of the holder's convertible note. The exercise price of the warrants is equal to $7.20 per share. All of the warrants are exercisable on the date of grant and expire in April 2009. The value of the warrants granted was estimated to be approximately $344,000 using the Black Scholes option pricing model. The relative fair value of the warrants of $299,000 was treated as a debt issuance cost and amortized to interest expense over the one year term of the convertible notes.

- In March 2004 Lumera raised $500,000, before issuance costs, from the sale of 250,000 shares of Series B convertible preferred stock to a group of private investors. Microvision did not participate in the offering.

- In November 2003, Microvision raised $22.3 million before issuance costs of $1.5 million from the sale of 3,560,000 shares of common stock.

- In August 2003, Lumera raised $1.9 million before issuance costs of $34,000 from the sale of 944,000 shares of Series B convertible preferred stock to Microvision and other purchasers. Microvision purchased 434,000 of these shares of Series B preferred stock for an aggregate purchase price of $868,000. On October 30, 2003, Lumera raised $782,000, before issuance costs, from the sale of 391,000 shares of Series B preferred stock to a group of investors. Microvision did not purchase additional shares of the Series B preferred stock in the October 2003 offering.

- In March 2003, Microvision raised $12.6 million before issuance costs of $970,000 from the sale of 2,644,000 shares of common stock and warrants to purchase 529,000 shares of common stock at an exercise price of $6.50 per share to a group of investors. Each share of common stock and accompanying partial warrant was sold for $4.75. The five year warrants are first exercisable in September 2003 and expire in March 2008.

The Company's investment policy restricts investments to ensure principal preservation and liquidity. Generally, the Company invests cash that it expects to use within approximately sixty days in U.S. treasury-backed instruments. The Company invests the balance of its cash in high quality investment securities. The investment securities portfolio is limited to U.S. government and U.S. government agency debt securities and other high-grade securities generally with maturities of three years or less.

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

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

In order to maintain its exclusive rights under the Company's license agreement with the University of Washington, the Company is obligated to make royalty payments to the University of Washington with respect to the Virtual Retinal Display technology. If the Company is successful in establishing original equipment manufacturer co-development and joint venture arrangements, the Company expects its partners to fund certain non-recurring engineering costs for technology development and/or for product development. Nevertheless, the Company expects its cash requirements to increase at a rate consistent with revenue growth as it expands its activities and operations with the objective of commercializing the scanned beam technology.

The following table lists the Company's contractual obligations (in thousands):

	December 31,						
	2005	2006	2007	2008	2009	After 2009	Total
Contractual Obligations:							
Open purchase orders *	$ 1,719	$ 44	$ 34	$ --	$ --	$	$ 1,797

Minimum payments under senior secured convertable notes	1,667	6,667	1,666				10,000
Minimum payments under capital leases	42	6	4	--	--		52
Minimum payments under operating leases	1,985	473	46	--	--		2,504
Minimum payments under research, royalty							--
and licensing agreements	215	390	390	215	215	t	1,425
Total	$ 5,628	$ 7,580	$ 2,140	$ 215	$ 215	$ --	$ 15,778

* Open purchase orders represent commitments to purchase inventory, materials, capital equipment and other goods used in the normal course of the Company's business.

+ License and royalty obligations continue through the lives of the underlying patents, which is currently at least 2017.

Microvision's cash balance at December 31, 2004 was $1.3 million. In addition Microvision raised $10.0 million, before issuance costs, in March 2005. To the extent required to implement the Microvision's operating plan, Microvision may sell or pledge as collateral, its unpledged shares of Lumera common stock. As of March 11, 2005 Microvision owns 3.7 million shares of unpledged Lumera common stock with a market value of $17.1 million based on the closing price of $4.65 per share as of March 15, 2005. Microvision believes that the combination of cash and Lumera common stock will satisfy its budgeted cash requirements through 2005 based on Microvision's current operating plan. Since we hold a large percentage of Lumera's common stock, if an active market is not sustained, it may be difficult for us to sell our shares of Lumera's common stock at value sufficient to fund our operating plans.

Microvision may also raise financing through future sales of Microvision preferred or common stock, issuance of debt securities or other borrowings,. In addition, there can be no assurance that other additional financing will be available to Microvision or that, if available, it will be available on terms acceptable to Microvision on a timely basis. If adequate funds are not available to satisfy either short-term or long-term capital requirements, Microvision will be required to limit its operations substantially. This limitation of operations may include reduction in capital expenditures, as well as reductions in staff and operating costs.

Should expenses exceed the amounts budgeted, the Company may require additional capital earlier to further the development of its technology, for expenses associated with product development, and to respond to competitive pressures or to meet unanticipated development difficulties. In addition, the Company's operating plan calls for the addition of sales, marketing, technical and other staff and the purchase of additional laboratory and production equipment. The operating plan also provides for the development of strategic relationships with systems and equipment manufacturers that may require additional investments by the Company. There can be no assurance that additional financing will be available to the Company or that, if available, it will be available on terms acceptable to the Company on a timely basis. If adequate funds are not available to satisfy either short-term or long-term capital requirements or planned revenues are not generated, the Company may be required to limit its operations substantially. This limitation of operations may include reduction in capital expenditures and reductions in staff and discretionary costs, which may include non-contractual research costs. The Company's capital requirements will depend on many factors, including, but not limited to, the rate at which the Company can, directly or through arrangements with original equipment manufacturers, introduce products incorporating the scanned beam technology and the market acceptance and competitive position of such products.

Recently Issued Accounting Pronouncements - On December 16, 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123(R), "Share-Based Payment", which is a revision of SFAS No. 123 and supersedes APB Opinion No. 25. SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be valued at fair value on the date of grant, and to be expensed over the applicable vesting period. Pro forma disclosure of the income statement effects of share-based payments is no longer an alternative. SFAS No. 123(R) is effective for all share-based awards granted on or after July 1, 2005. In addition, companies must also recognize compensation expense related to any awards that are not fully vested as of the effective date. Compensation expense for the unvested awards will be measured based on the fair value of the awards previously calculated in developing the pro forma disclosures in accordance with the provisions of SFAS No. 123. The Company is evaluating the alternative methods for implementing SFAS No. 123(R). If the Company elects to implement SFAS No. 123(R) on July 1, 2005 using the modified prospective method it expects that the impact on 2005 earnings will be in the range of $0.6 to $1.6 million.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Substantially all of the Company's cash equivalents and investment securities are at fixed interest rates and, as such, the fair value of these instruments is affected by changes in market interest rates. Due to the generally short-term maturities of these investment securities, the Company believes that the market risk arising from its holdings of these financial instruments is not significant.

The Company's investment policy restricts investments to ensure principal preservation and liquidity. The Company invests cash that it expects to use within approximately sixty days in U.S. treasury-backed instruments. The Company invests cash in excess of sixty days of its requirements in high quality investment securities. The investment securities portfolio is limited to U.S. government and U.S. government agency debt securities and other high-grade securities generally with maturities of three years or less.

The maturities of cash equivalents and investment securities, available-for-sale, as of December 31, 2004, are as follows:

	Amount	**Percent**
Cash	$ 695,000	54.8 %
Less than one year	573,000	45.2
	$ 1,268,000	100.0 %

Presently, the Company has one immaterial development contract denominated in yen; all of the Company's other development contract payments are made in U.S. dollars. However, in the future the Company may enter into additional development contracts in foreign currencies that may subject the Company to additional foreign exchange rate risk. The Company intends to enter into foreign currency hedges to offset the exposure to currency fluctuations when it can determine the timing and amounts of the foreign currency exposure.

The Company owns 5.4 million shares of Lumera common stock with a market value of $25.3 million based on the closing price of $4.65 per share on March 15, 2005. This investment represents a significant portion of the Company's assets and present source of liquidity. Lumera's stock price is subject to fluctuation and may decrease, lowering the value of our investment. The Company owns approximately 33% of Lumera's common stock. Since the Company holds a large percentage of Lumera's common stock, if an active market does not develop or is not sustained, it may be difficult to sell the shares of Lumera's common stock at an attractive price or at all. The likelihood of Lumera's success, and the value of the Company's common stock, must be considered in light of the risks frequently encountered by early stage companies, especially those formed to develop and market new technologies. These risks include Lumera's potential inability to establish product sales and marketing capabilities; to establish and maintain markets for their potential products; and to continue to develop and upgrade their technologies to keep pace with changes in technology and the growth of markets using polymer materials. If Lumera is unsuccessful in meeting these challenges, its stock price, and the value of the Company's investment, could decrease.

ITEM 8. FINANCIAL STATEMENTS

INDEX TO FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

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

We have completed an integrated audit of Microvision's 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2004 and audits of its 2003and 2002 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements and financial statement schedule

In our opinion, the consolidated financial statements listed in the accompanying index, present fairly, in all material respects, the financial position of Microvision and its subsidiary at December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 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. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in *Management's Report on Internal Control Over Financial Reporting* appearing in Item 9A (b) the Company maintained effective internal control over financial reporting as of December 31, 2004 based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control - Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

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.

PricewaterhouseCoopers LLP

Seattle, Washington
March 15, 2005

Microvision, Inc.

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

	December 31, 2004	December 31, 2003
Assets		
Current assets		
Cash and cash equivalents	$ 1,268	$ 10,700
Investment securities, available-for-sale	--	11,078
Accounts receivable, net of allowances of $193 and $109	5,227	1,896
Costs and estimated earnings in excess of billings on uncompleted contracts	597	664
Inventory	3,167	331
Other current assets	1,293	1,684
Total current assets	11,552	26,353
Investment in Lumera	10,201	--
Property and equipment, net	2,318	5,958
Restricted investments	1,238	1,269
Other assets	229	338
Total assets	$ 25,538	$ 33,918
Liabilities, Mandatorily Redeemable Convertible Preferred Stock and Shareholders' Equity		
Current liabilities		
Accounts payable	$ 2,624	$ 1,223
Accrued liabilities	4,538	5,164
Allowance for estimated contract losses	53	--
Billings in excess of costs and estimated earnings on uncompleted contracts	3,318	53
Current portion of capital lease obligations	39	62
Current portion of long-term debt	77	70
Total current liabilities	10,649	6,572
Research liability, net of current portion	--	1,948
Capital lease obligations, net of current portion	9	34
Long-term debt, net of current portion	22	99
Deferred rent, net of current portion	21	107
Other long-term liabilities	--	16
Total liabilities	10,701	8,776
Commitments and contingencies (note 14)	--	--
Minority interests	--	1,847
Mandatorily redeemable convertible preferred stock, par value $.001 25,000 shares authorized; 10 and 0 shares issued and outstanding (liquidation preference of $10,000)	7,647	--
Shareholders' equity		
Common stock, par value $.001; 73,000 shares authorized; 21,509 and 21,449 shares issued and outstanding	22	21
Additonal paid-in capital	196,929	180,354
Deferred compensation	(305)	(846)
Subscriptions receivable from related parties	(166)	(166)
Receivables from related parties, net	(1,823)	(1,823)
Accumulated other comprehensive income	--	25
Accumulated deficit	(187,467)	(154,270)
Total shareholders' equity	7,190	23,295
Total liabilities, minority interests and shareholders' equity	$ 25,538	$ 33,918

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

Microvision, Inc.

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

	Years Ended December 31, 2004	2003	2002
Contract revenue	$ 8,821	$ 13,517	$ 15,389
Product revenue	2,597	1,135	528
Total revenue	11,418	14,652	15,917
Cost of contract revenue	5,539	5,988	6,469
Cost of product revenue	3,868	1,058	528
Total cost of revenue	9,407	7,046	6,997
Gross margin	2,011	7,606	8,920
Research and development expense (exclusive of non-cash compensation expense of $548, $1,006 and $1,138 for 2004, 2003 and 2002, respectively)	14,709	23,316	25,519
Sales, Marketing, general and administrative expense (exclusive of non-cash compensation expense of $1,570, $1,150 and $846 for 2004, 2003 and 2002, respectively)	19,228	15,827	16,798
Non-cash compensation expense	2,118	2,156	1,984
Loss (gain) on disposal of fixed assets, net	1	(36)	--
Total operating expenses	36,056	41,263	44,301
Loss from operations	(34,045)	(33,657)	(35,381)
Interest income	272	381	1,059
Interest expense	(151)	(51)	(59)
Realized gain on sale of investment securities	--	39	88
Loss due to impairment of long-term investment	--	--	(624)
Loss before minority interests and equity in losses of Lumera	(33,924)	(33,288)	(34,917)
Minority interests in loss of consolidated subsidiary	2,438	7,125	7,741
Equity in losses of Lumera	(1,711)	--	--
Net loss	$ (33,197)	$ (26,163)	$ (27,176)
Less: Stated dividend on mandatorily redeemable convertible preferred stock	(108)	--	--
Non-cash accretion on preferred stock	(238)	--	--
Net loss available for common shareholders	$ (33,543)	$ (26,163)	$ (27,176)
Net loss per share basic and diluted	$ (1.56)	$ (1.46)	$ (1.93)
Weighted-average shares outstanding basic and diluted	21,493	17,946	14,067

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

Microvision, Inc.

Consolidated Statements of Stockholders' Equity
(in thousands)

	Mandatorily redeemable convertible preferred stock		Shareholders' Equity								
			Common Stock		Paid in Capital and Common Stock	Deferred	Subscriptions receivable from related	Receivables from related	Accumulated other comprehensive	Accumulated	Shareholders'
	Shares	Par Value	Shares	Par Value	no par value	Compensation	parties	parties	(loss) income	defecit	Equity
Balances at December 31, 2001	--	$ --	12,998	$ --	$ 135,954	$ (2,803)	$ (321)	$ --	427	$ (100,931)	$ 32,326
Exercise of warrants and options			8		15						15
Sales of common stock			2,148		11,560						11,560
Revaluations of warrants and options					(471)	471					--
Collection of subscriptions receivable							155				155
Amortization of deferred compensation						842					842
Other comprehensive income									(306)		(306)
Net loss										(27,176)	(27,176)
Balance at December 31, 2002	--	--	15,154	--	147,058	(1,490)	(166)	--	121	(128,107)	17,416
Issuance of options to board members for services					1	(1)					--
Issuance of stock, options and warrants to non-employees for services			9		252	(189)					63
Exercise of warrants and options			82		538						538
Sales of common stock			6,204		32,385						32,385
Revaluations of warrants and options					(4)	4					--
Extension of expiring employee options					145						145
Amortization of deferred compensation						830					830
Reclassification of receivables from related parties								(1,823)			(1,823)
Establishment of par value of common stock				21	(21)						--
Other comprehensive income									(96)		(96)
Net loss										(26,163)	(26,163)
Balance at December 31, 2003	--	--	21,449	21	180,354	(846)	(166)	(1,823)	25	(154,270)	23,295
Issuance of options to board members for services					81	(81)					--
Issuance of stock, options and warrants to non-employees for services					143	(143)					--
Issuance of Lumera options to Microvision employees					134						134
Amortization of deferred compensation						765					765
Exercise of warrants and options			60	1	382						383
Sales of common stock					(8)						(8)
Sales of preferred stock and warrants	10	8,590			1,281						1,281
Beneficial conversion feature of mandatorily redeemable convertible preferred stock		(1,181)			1,181						1,181
Dividend on preferred stock					(108)					--	(108)
Non-cash accretion on mandatorily redeemable convertible preferred stock		238			(238)						(238)
Net change in interest gain on Lumera											--
initial public offering					13,727						13,727
Other comprehensive income									(25)		(25)
Net loss										(33,197)	(33,197)
Balance at December 31, 2004	10	$ 7,647	21,509	$ 22	$ 196,929	$ (305)	$ (166)	$ (1,823)	$ --	$ (187,467)	$ 7,190

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

Microvision, Inc.

Consolidated Statements of Comprehensive Income
(in thousands)

	Years Ended December 31,		
	2004	2003	2002
Net loss	$ (33,197)	$ (26,163)	$ (27,176)
Other comprehensive income (loss)			
Unrealized gain (loss) on investment securities, available-for-sale:			
Unrealized holding gains (losses) arising during period	(25)	(57)	(218)
Less: reclassification adjustment for gains realized in net loss	--	(39)	(88)
Net unrealized gain (loss)	(25)	(96)	(306)
Comprehensive loss	$ (33,222)	$ (26,259)	$ (27,482)

The accompanying notes are an integral part of these financial statements

Microvision, Inc.

Consolidated Statement of Cash Flows
(in thousands)

	Years Ended December 31, 2004	2003	2002
Cash flows from operating activities			
Net loss	$ (33,197)	$ (26,163)	$ (27,176)
Adjustments to reconcile net loss to net cash used in operations			
Depreciation	2,406	3,113	2,943
Loss (gain) on disposal of fixed assets, net	1	(36)	--
Non-cash expenses related to issuance of stock, warrants, and options, and amortization of deferred compensation	2,118	2,156	1,984
Impairment of long-term investment	--	--	624
Allowance for receivables from related parties	--	200	700
Realized gain on sale of investment securities	--	(39)	--
Minority interests in loss of consolidated subsidiary	(2,438)	(7,125)	(7,741)
Equity in losses of Lumera	1,711	--	--
Non-cash deferred rent	(86)	(85)	(9)
Non-cash interest on notes payable	125	--	--
Allowance for estimated contract losses	53	--	(155)
Change in			
Accounts receivable	(3,420)	(581)	397
Intercompany receivable	38	--	--
Costs and estimated earnings in excess of billings on uncompleted contracts	35	409	511
Inventory	(2,836)	416	(648)
Other current assets	(427)	(93)	(46)
Other assets	87	40	(206)
Accounts payable	2,631	(68)	(325)
Accrued liabilities	865	705	(47)
Billings in excess of costs and estimated earnings on uncompleted contracts	3,265	(177)	170
Research liability, current and long-term	(1,762)	923	1,025
Net cash used in operating activities	(30,831)	(26,405)	(27,999)
Cash flows from investing activities			
Sales of investment securities	12,053	3,249	12,701
Purchases of investment securities	(1,000)	(9,080)	(246)
Sales of restricted investment securities	1,269	1,356	1,536
Purchases of restricted investment securities	(1,238)	(1,269)	(1,356)
Collections of receivables from related parties	--	20	--
Advances under receivables from related parties	--	--	(491)
Purchases of property and equipment	(1,040)	(1,549)	(1,354)
Net cash provided by (used in) investing activities	10,044	(7,273)	10,790
Cash flows from financing activities			
Principal payments under capital leases	(63)	(90)	(180)
Proceeds from issuance of notes	2,300	--	--
Principal payments under long-term debt	(70)	(63)	(57)
Payment of preferred dividend	(108)	--	--
Payments received on subscriptions receivable	--	--	155
Net proceeds from issuance of common stock and warrants	360	32,924	11,576
Net proceeds from issuance of preferred stock and warrants	9,886	--	--
Net proceeds from sale of subsidiary's equity to minority interests	500	1,735	--
Net cash provided by financing activities	12,805	34,506	11,494
Net increase (decrease) in cash and cash equivalents	(7,982)	828	(5,715)
Cash and cash equivalents at beginning of year	10,700	9,872	15,587
Change in cash due to Lumera deconsolidation	(1,450)	--	--
Cash and cash equivalents at end of year	$ 1,268	$ 10,700	9,872
Supplemental disclosure of cash flow information			
Cash paid for interest	$ 151	$ 51	$ 59
Supplemental schedule of non-cash investing and financing activities			
Property and equipment acquired under capital leases	$ 15	$ 8	$ 127
Other non-cash additions to property and equipment	$ 18	$ 66	$ 173
Issuance of common stock and warrants for services	$ --	$ 159	$ --

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

Microvision, Inc.

Notes to Consolidated Financial Statements

1. The Company

The consolidated financial statements include the accounts of Microvision, Inc. ("Microvision"), a Delaware corporation, and, Lumera Corporation ("Lumera"), a Delaware corporation, (collectively the "Company") a subsidiary that was consolidated prior to July 2004. In July 2004 Lumera completed an initial public offering of its common stock. Microvision was established to acquire, develop, manufacture and market scanned beam technology, which projects images using a single beam of light. Microvision has entered into contracts with commercial and U.S. government customers to develop applications using the scanned beam technology. Microvision has introduced two commercial products, Nomad, a see through head-worn display, and Flic, a hand-held bar code scanner. In addition, Microvision has produced and delivered various demonstration units using Microvision's display technology. Microvision is working to commercialize additional products for potential medical, defense, industrial, aviation, and consumer applications.

Lumera was established to develop, manufacture and market optical devices using organic non- linear electro-optical chromophore materials. Lumera is working to commercialize the devices for potential wireless networking and optical networking applications.

Microvision has incurred significant losses since inception. Microvision believes that its cash, cash equivalent and investment securities balances totaling $1,268,000 at December 31, 2004, in addition to proceeds of $10,000,000, from the sale of convertible notes before issuance costs, raised in March 2005 and potential sales of Lumera common stock will satisfy its budgeted cash requirements through December 31, 2005 based on its current operating plan.

The Company's operating plan calls for the addition of sales, marketing, technical and other staff and the purchase of additional laboratory and production equipment. The Company's future expenditures and capital requirements will depend on numerous factors, including the progress of its research and development program, the progress in commercialization activities and arrangements, the cost of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights, competing technological and market developments and the ability of the Company to establish cooperative development, joint venture and licensing arrangements. There can be no assurance that additional financing will be available to the Company or that, if available, it will be available on terms acceptable to the Company on a timely basis. If adequate funds are not available to satisfy either short-term or long-term capital requirements or planned revenues are not generated, the Company may be required to limit its operations substantially. This limitation of operations may include reduction in capital expenditures and reductions in staff and discretionary costs, which may include non-contractual research costs. The Company's capital requirements will depend on many factors, including, but not limited to, the rate at which the Company can, directly or through arrangements with original equipment manufacturers, introduce products incorporating the scanned beam technology and optical polymer based products and the market acceptance and competitive position of such products.

2. Summary of significant accounting policies

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management 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. The Company's management has identified the following areas where significant estimates and assumptions have been made in preparing the financial statements: revenue recognition, allowance for uncollectible receivables, inventory valuation and potential losses from litigation.

Principles of consolidation

The company has historically included both Microvision and Lumera Corporation ("Lumera"), a subsidiary that was consolidated through July 2004. In July 2004, Lumera completed an initial public offering of its common stock.

In connection with the Lumera initial public offering, all Lumera Series A and Series B Preferred Stock was converted into Lumera common stock. Immediately after the offering, Microvision owned 5,434,000 shares, or 33%, of the common stock of Lumera. As a result of the change in ownership percentage, Microvision changed the method of accounting for its investment in Lumera to the equity method and after July 2004 recorded its share of Lumera income or losses. Microvision recorded a non-cash change in ownership interest gain of $13.7 million to stockholders equity as a component of additional paid-in capital during 2004.

Cash, cash equivalents and investment securities

The Company considers all investments that mature within 90 days of the date of purchase to be cash equivalents.

Short-term investment securities are primarily debt securities. The Company has classified its entire investment portfolio as available-for-sale. Available-for-sale securities are stated at fair value with unrealized gains and losses included in other comprehensive income (loss). Dividend and interest income are recognized when earned. Realized gains and losses are presented separately on the income statement. The cost of securities sold is based on the specific identification method.

Inventory

Inventory consists of raw material; work in process and finished goods for the Company's Nomad and Flic products. Inventory is recorded at the lower of cost or market with cost determined on the weighted-average method. 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, Microvision reduces the value of its inventory to its 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.

Restricted Investments

Restricted investments represents certificates of deposit held as collateral for letters of credit issued in connection with a lease agreement for the corporate headquarters building. Substantially all of the balance is required to be maintained for the term of the lease, which expires in 2006.

Long-term investment

In December 1999, the Company invested $624,000 in Gemfire Corporation ("Gemfire"), a privately held corporation. Gemfire is a developer of diode laser components for display applications. The Company accounts for the investment in Gemfire using the cost method.

In June 2002, Gemfire announced a recapitalization plan that reduced the value of the Company's investment. As a result, in June 2002, the Company recorded an impairment for the entire value of the investment in Gemfire.

Property and equipment

Property and equipment is stated at cost and depreciated over the estimated useful lives of the assets (three to five years) using the straight-line method. Leasehold improvements are depreciated over the shorter of estimated useful lives or the lease term.

Revenue recognition

Revenue has primarily been generated from contracts for further development of the scanned beam technology and to produce demonstration units for commercial enterprises and the United States government. Revenue on such contracts is recorded using the percentage-of-completion method measured on a cost incurred basis. The percentage of completion method is used because the Company can make reasonably dependable estimates of the contract cost. Changes in contract performance, contract conditions, and estimated profitability, including those arising from contract penalty provisions, and final contract settlements, may result in revisions to costs and revenues and are recognized in the period in which the revisions are determined. Profit incentives are included in revenue when realization is assured.

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

Revenue from product shipments is recognized in accordance with Staff Accounting Bulletin No. 104 "Revenue Recognition." Revenue is recognized when there is sufficient evidence of an arrangement, the selling price is fixed and determinable and collection is reasonably assured. Revenue for product shipments is recognized upon acceptance of the product by the customer or expiration of the contractual acceptance period, after which there are no rights of return. Provision is made for warranties at the time revenue is recorded. Warranty expense was not material during 2004, 2003, or 2002.

Concentration of credit risk and sales to major customers

Financial instruments that potentially subject the Company to concentrations of credit risk are primarily cash equivalents, investments and accounts receivable. The Company typically does not require collateral from its customers. The Company has a cash investment policy that generally restricts investments to ensure preservation of principal and maintenance of liquidity.

The United States government accounted for approximately 42%, 49%, and 83% of total revenue during 2004, 2003 and 2002, respectively. Contracts with three commercial customers represented 25%, 35%, and 14% of total revenues during 2004, 2003, and 2002, respectively. At December 31, 2004 one commercial customer accounted for 65% of the accounts receivable balance. The receivable was paid in full in January 2005. The United States government accounted for approximately 21% and 34% of the accounts receivable balance at December 31, 2004 and 2003, respectively. In 2004 and 2003, 11% and 27%, respectively, of consolidated revenue was earned from development contracts with a single commercial customer.

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 on the basis of the weighted-average number of common shares outstanding during the periods. Net loss per share assuming dilution is calculated on the basis of 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 for 2004, 2003 and 2002 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. The dilutive securities and convertible securities that were not included in earnings per share were 6,836,000, 6,295,000, and 4,051,000, at December 31, 2004, 2003 and 2002, respectively.

Research and development

Research and development costs are expensed as incurred. As described in Note 9, Lumera issued shares of its common stock in connection with a research agreement. The value of these shares was amortized over the period of the research agreement.

Fair value of financial instruments

The Company's financial instruments include cash and cash equivalents, investment securities, accounts receivable, accounts payable, accrued liabilities and long-term debt. The carrying amount of long-term debt at December 31, 2004 and 2003 was not materially different from the fair value based on rates available for similar types of arrangements.

Long-lived assets

The Company evaluates the recoverability of its long-lived assets when an impairment is indicated based on expected undiscounted cash flows and recognizes impairment of the carrying value of long-lived assets, if any, based on the fair value of such assets.

Research liability

The Company recognized expense under the Lumera Sponsored Research Agreement with the UW on a straight-line basis over the remaining term of the agreement. The Company has recorded a liability for the difference between the expense recognized and cash payments. As of December 31, 2003, the Company had recognized cumulative expense of $6.3 million and made cumulative cash payments of $4.4million.

In April 2004, Lumera and the University of Washington entered into a fourth amendment to the Sponsored Research Agreement. Total payments under the Sponsored Research Agreement were reduced to $5.8 million instead of the original $9.0 million. Lumera recognizes research and development expense under the Sponsored Research Agreement on a straight line basis over the term of the agreement. At the time of the fourth amendment to the Sponsored Research Agreement, Lumera had recognized $6.5 million in expense related to the Sponsored Research Agreement. In April 2004, Lumera recorded a reduction in its liability and an offsetting reduction in expense of $2.4 million to reduce the cumulative expense recognized under the Sponsored Research Agreement to the expense incurred under the fourth amendment on a straight line basis. During 2004, the Company recognized a credit to expense of $1.8 million as a result of the changes to the agreement.

Stock-based compensation

The Company and its subsidiary each have stock-based employee compensation plans, which are more fully described in Note 12.

The Company accounts for stock-based employee compensation arrangements in accordance with the provisions of Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees" and related amendments and interpretations, including FASB Interpretation Number ("FIN") 44, "Accounting for Certain Transactions Involving Stock Compensation," and complies with the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." The Company accounts for equity instruments issued to non-employees in accordance with the provisions of SFAS No. 123 and Emerging Issues Task Force Issue No. 96-18.

Total non-cash stock option expense related to employee and director awards was $1,057,000, $271,000, and $277,000 for the years ended December 31, 2004, 2003 and 2002, respectively. Had compensation cost for employee and director options been determined using the fair values at the grant dates consistent with the methodology prescribed under SFAS 123, the Company's consolidated net loss available to common shareholders and associated net loss per share would have increased to the pro forma amounts indicated below (in thousands):

	Year Ended December 31,		
	2004	2003	2002
Net loss available for common shareholders, as reported	$ (33,543)	$ (26,163)	$ (27,176)
Add: Stock-based employee compensation expense included in net loss available for common shareholders, as reported	339	266	270
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	(5,886)	(8,915)	(16,410)
Net loss available for common shareholders, pro forma	$ (39,090)	$ (34,812)	$ (43,316)
Net loss per share As reported	$ (1.56)	$ (1.46)	$ (1.93)
Basic and diluted Pro forma	$ (1.82)	$ (1.94)	$ (3.08)

New accounting pronouncements

On December 16, 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123(R), "Share-Based Payment", which is a revision of SFAS No. 123 and supersedes APB Opinion No. 25. SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be valued at fair value on the date of grant, and to be expensed over the applicable vesting period. Pro forma disclosure of the income statement effects of share-based payments is no longer an alternative. SFAS No. 123(R) is effective for all share-based awards granted on or after July 1, 2005. In addition, companies must also recognize compensation expense related to any awards that are not fully vested as of the effective date. Compensation expense for the unvested awards will be measured based on the fair value of the awards previously calculated in developing the pro forma disclosures in accordance with the provisions of SFAS No. 123. The Company is evaluating the alternative methods for implementing SFAS No. 123(R). If the Company elects to implement SFAS No. 123(R) on July 1, 2005 using the modified prospective method, it expects that the impact on 2005 earnings will be in the range of $600,000 to $1,600,000.

3. Long-term contracts

Cost and estimated earnings in excess of billings on uncompleted contracts comprises amounts of revenue recognized on contracts that the Company has not yet billed to customers because the amounts were not contractually billable at December 31, 2004 and 2003. The following table summarizes when the Company will be contractually able to bill the balance as of December 31, 2004 and 2003.

	Year Ended December 31,	
	2004	2003
Billable within 30 days	$ 577,000	$ 392,000
Billable between 31 and 90 days	2,000	204,000
Billable after 90 days	18,000	68,000
	$ 597,000	$ 664,000

The Company's 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 the Company for negotiated actual direct and indirect cost incurred in performing the contracted services. The Company is under no

obligation to spend more than the contract value to complete the contracted services. The period of performance is generally one year. Each of the Company's contracts with the United States government can be terminated for convenience by the government at any time.

In May 2004, Microvision entered into a $3,900,000 contract modification with the U.S. Army's Aviation Applied Technology Directorate to continue work on an advanced helmet mounted display and imaging system to be used in the Virtual Cockpit Optimization Program.

In December 2004, Microvision entered into a $6,200,000 contract with Ethicon Endo-Surgery, Inc a subsidiary of Johnson & Johnson to integrate Microvision's technology into certain medical products. The

contract includes an exclusive license for Microvision's technology for certain human medical applications during the term of the development agreement.

In April 2003, the Company entered into a $2,200,000 contract modification with the U.S. Army's Aviation Applied Technology Directorate to continue work on an advanced helmet mounted display and imaging system to be used in the Virtual Cockpit Optimization Program.

In April 2003, the Company entered into a $1,600,000 contract modification with the U.S. Army's Medical Research Acquisition Activities, Telemedicine and Advanced Technology Research Center to continue development of a mobile wireless personal display system for medical applications.

In May 2002, the Company entered into a $3,300,000 contract modification with the U.S. Army's Aviation Applied Technology Directorate to continue work on an advanced helmet-mounted display and imaging system to be used in the Virtual Cockpit Optimization Program.

In July 2002, the Company entered into a $1,900,000 contract with the NASA Langley Research Center to deliver a prototype cockpit helmet display for the Synthetic Visions Systems project.

In August 2002, the Company entered into a $1,100,000 contract modification with the U.S. Army's Medical Research Acquisition Activities Telemedicine and Advanced Technology Research Center to continue development of a mobile wireless personal display system for medical applications.

In November 2002, Lumera entered into a $1,000,000 contract modification with the U.S. government to design new Optical Materials appropriate for the fabrication of a wideband optical modulator demonstration system.

The following table summarizes the costs incurred on the Company's revenue contracts:

	December 31, 2004	December 31, 2003
Costs and estimated earnings incurred on uncompleted contracts	$ 6,410,000	$ 15,478,000
Billings on uncompleted contracts	(9,131,000)	(14,867,000)
	$ (2,721,000)	$ 611,000
Included in accompanying balance sheets under the following captions:		
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 597,000	$ 664,000
Billings in excess of costs and estimated earnings on uncompleted contracts	(3,318,000)	(53,000)
	$ (2,721,000)	$ 611,000

4. Investments available-for-sale

The following table summarizes the composition of the Company's available-for-sale investment securities at December 31, 2004 and 2003.

	Year Ended December 31,	
	2004	2003
U.S. governmnet debt securites	--	6,976,000
U.S. corporate debt securites	--	4,102,000
	$ --	$ 11,078,000

The available-for-sale investment securities and December 31, 2003 consisted of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Type of security:				
Corporate debt securities	$ 4,080,000	$ 24,000	$ (2,000)	$ 4,102,000
U.S. government and agency securities	6,973,000	3,000	--	6,976,000
	$11,053,000	$ 27,000	$ (2,000)	$ 11,078,000
Maturity date:				
Less than one year	$11,053,000	$ --	$ --	$ 11,078,000
Due in 1-3 years	--	--	--	--
	$11,053,000	$ --	$ --	$ 11,078,000

5. Inventory

Inventory consists of the following:

	December 31, 2004	December 31, 2003
Raw materials	$ 1,607,000	$ 98,000
Work in process	77,000	--
Finished goods	1,483,000	233,000
	$ 3,167,000	$ 331,000

6. Accrued liabilities

Accrued liabilities consist of the following:

	December 31,	
	2004	2003
Bonuses	$ 1,600,000	$ 1,487,000
Payroll and payroll taxes	763,000	858,000
Compensated absences	475,000	508,000
Taxes other than income taxes	43,000	429,000
Facility closing cost	253,000	431,000
Professional Fees	371,000	236,000
Relocation	90,000	205,000
Subcontractors		81,000
Other	943,000	929,000
	$ 4,538,000	$ 5,164,000

7. Property and equipment, net

Property and equipment consists of the following:

December 31,

	2004	2003
Lab and production equipment	$ 4,455,000	$ 7,152,000
Leasehold improvements	2,165,000	4,666,000
Computer hardware and software	3,873,000	3,874,000
Office furniture and equipment	1,057,000	1,030,000
	11,550,000	16,722,000
Less: Accumulated depreciation	(9,232,000)	(10,764,000)
	$ 2,318,000	$ 5,958,000

The property and equipment balance at December 31, 2003 included $6,105,000 and $3,238,000 of cost and accumulated depreciation, respectively, attributable to Lumera.

8. Receivables from related parties

In 2000, the Board of Directors authorized the Company to provide unsecured lines of credit to each of the Company's three senior officers. The limit of the line of credit is three times the executives' base salary less any amounts outstanding under the Executive Option Exercise Note Plan. In 2002 and 2001, the Board of Directors authorized a $200,000 and $500,000 addition, respectively, to the limit for one senior officer. The

lines of credit carry interest rates of 5.4% to 6.2%. The lines of credit must be repaid within one year of the senior officer's termination or within thirty days of demand by the Company in the event of a plan termination, provided that in the event of such a demand the senior officer may elect to deliver a promissory note with a one-year term in lieu of payment. At December 31, 2004 and 2003, a total of $2,723,000 and $2,723,000, respectively, was outstanding under the lines of credit.

The Company determined that one of its senior officers may have insufficient net worth and short- term earnings potential to repay loans outstanding under the Company's lines of credit. In 2003 and 2002, the Company recorded an allowance for doubtful accounts for receivables from senior officers of $200,000 and $700,000, respectively. The balance of the allowance for doubtful accounts for receivables from senior officers was $900,000 and $900,000 at December 31, 2004 and 2003, respectively.

Under current SEC rules, the Company is prohibited from changing the repayment terms of the lines of credit. No repayments have been made on the outstanding lines of credit. At December 31, 2003, the Company reclassified the loan balance to shareholder's equity under the guidance provided by the SEC for loans to shareholders due to the absence of any repayments of the loans to date. The Company has no plans to forgive the principal balance outstanding under the lines of credit.

In 2000, three executive officers of the Company exercised a total of 128,284 stock options, in exchange for full recourse notes totaling $285,000. These notes bear interest at 4.6% to 6.2% per annum. Each note is payable in full upon the earliest of (1) a fixed date ranging from January 31, 2001 to December 31, 2004 depending on the expiration of the options exercised; (2) the sale of all of the shares acquired with the note; (3) on a pro rata basis upon the partial sale of shares acquired with the note, or (4) within 90 days of the officer's termination of employment. At both December 31, 2004 and 2003, a total of $165,600 was outstanding under the full recourse notes. The $165,600 plus accrued interest was paid in full in February 2005. The notes are included as subscriptions receivable from related parties in shareholders' equity on the consolidated balance sheet.

The interest on both the lines of credit and the full recourse notes is forgiven if the executive is an employee of the Company at December 31 of the respective year. Compensation expense of $163,000 was recognized in both 2004 and 2003, respectively, for interest forgiven.

9. Lumera Subsidiary Equity Transactions

In March 2000, Lumera issued 4,700,000 shares of its Class B common stock to the Company for services provided by the Company to Lumera valued at $94,000. At the same time, Lumera issued 670,000 shares of its Class B common stock to certain Microvision employees for $12,000 in cash.

In January 2001, Lumera issued 802,000 shares of Lumera Class A common stock to the UW at a value of $3.75 per share in connection with the research agreement. The valuation of the shares issued to the UW was more than the per share carrying amount of the Company's interest in Lumera. Although the Company's percentage ownership in Lumera was reduced as a result of this transaction, the increased value of Lumera stock on the change in ownership interest resulted in a gain for the Company. The amount of the gain of $3,001,000 resulting from the revaluation of the Company's interest in Lumera was credited to paid-in capital.

In March 2001, Lumera issued 2,400,000 shares of its Series A preferred stock at a price of $10.00 per share. Included in this total were 264,000 shares issued to the Company in repayment of intercompany borrowings.

In September 2001, Lumera issued fully vested options to purchase 33,000 shares of Class A common stock at an exercise price of $10.00 per share to a consultant for services completed. The options expire 10 years following the date of issue. The options were valued at $137,000 on the grant date, are not subject to remeasurement and were fully expensed in the period granted. The estimated fair value was determined using the Black-Scholes option-pricing model with the following assumptions: underlying security fair market value

of $5.34, dividend yield of zero percent, expected volatility of 80%, risk-free interest rate of 4.0%, expected life of 10 years.

In October 2002, Lumera paid $200,000 and issued a warrant to purchase 164,000 shares of Lumera Class A Common Stock at an exercise price of $3.65 per share to Arizona Microsystems, Inc. in exchange for a license of certain Arizona Microsystems, Inc. technology. The warrant expires 10 years following the date of grant, and vests 25% on the date of grant and 25% annually from the date of grant. The warrant was valued at the date of grant at $133,000. The total purchase price of $333,000 was recorded as capitalized licensing costs . The fair value of the warrant was estimated using the Black Scholes option pricing model with a stock price of $0.98 per share, dividend yield of zero percent; expected volatility of 100%; risk-free interest rate of 4.0% and expected life of ten years.

In August 2003, Lumera raised $1,900,000, before issuance costs of $34,000, from the sale of 944,000 shares of Series B convertible preferred stock to Microvision and other purchasers. Microvision purchased 434,000 of these shares for an aggregate purchase price of $868,000. In October 2003, Lumera raised $782,000 before

issuance costs of $32,000, from the sale of 391,000 shares of Series B convertible preferred stock. Microvision did not purchase additional shares of Series B preferred stock in the October 2003 offering.

In August 2003, Lumera issued options to purchase an aggregate of 164,000 shares of its Class A Common Stock to two consultants in connection with entering into certain consulting agreements. Each holder was granted a warrant to purchase up to 82,000 shares of Class A Common Stock at a price of $3.65 per share with a ten year life. In aggregate, 41,000 of the options were vested on the grant date. The remaining 123,000 shares vest one-third on each subsequent annual anniversary of the grant date were subject to remeasurement at each balance sheet date during the vesting period. The deferred compensation and liability related to these options was amortized to non-cash compensation expense over the two year period of service under the agreements. The aggregate value of both options was estimated at $136,000 at the grant date and December 31, 2003. Total non-cash compensation expense was $315,000 for the period from January 1, 2004 through July 2004, and $32,000 for the year ended December 31,2003. The fair values of the options were estimated at the grant date and December 31, 2003, using the Black-Scholes option pricing model with the following weighted-average assumptions: underlying security fair market value of $0.98, dividend yield of zero percent; expected volatility of 100% for both measurement dates; risk-free interest rates of 4.4% and 4.3%; and expected lives of 10 and 9.7 years, respectively.

During 2004, Lumera granted options to purchase 415,000 shares of Class A common stock to Lumera employees and directors with a weighted-average exercise price of $2.00. Lumera subsequently determined that the fair market value of its common stock was greater than the exercise price of the options. Lumera recorded aggregate charges of $216,000 during 2004 related to these grants.

During 2004, Lumera granted vested options to purchase 40,000 shares of Class A common stock to Microvision employees with a weighted-average exercise price of $2.00. Lumera subsequently determined that the fair market value of its common stock was greater than the exercise price of the options. The Company recorded aggregate charges of $134,000 during 2004 related to these grants.

In July 2004, Lumera completed an initial public offering of its common stock. As a result of the offering, Microvision's ownership interest in Lumera was reduced to 33%. As a result of the reduction in ownership, Microvision changed to the equity method of accounting for its investment in Lumera. Microvision recorded a non-cash change in interest gain of $13.7 million during the third quarter. Because of uncertainty surrounding the ultimate realizability of the gain, the gain was recorded as an increase to stockholders' equity as a component of additional paid-in capital. As of December 31, 2004, Microvision owned 5,434,000 shares or 33% of Lumera's common stock.

During the period from inception to July 2004, losses in Lumera were first allocated to the holders of the common stock and then to the holders of the preferred shareholders pro rata in accordance with their respective ownership interest. Losses were not allocated to the options and warrants until exercised.

Lumera common stock, Series A preferred stock and Series B preferred stock were eliminated in consolidation with Microvision interests in Lumera common stock, Series A preferred stock, Series B preferred stock and options and warrants to purchase equity in Lumera held by investors other than the Company, and are presented as minority interests on the Company's consolidated balance sheet.

A reconciliation of the changes in ownership interests through Lumera's initial public offering is as follows (in thousands):

	Minority Interests				
	Common	Preferred	Total	Microvision	Total
Balance at December 31, 2001	$ 168	$ 14,656	$ 14,824	$ 517	$ 15,341
Options and warrants	140	--	140	--	140
Loss allocation for 2002	--	(7,741)	(7,741)	(957)	(8,698)
Balance at December 31, 2002	308	6,915	7,223	(440)	6,783
Issuance of preferred stock, net	--	1,735	1,735	868	2,603
Options and warrants	14	--	14	--	14
Loss allocation for 2003	--	(7,125)	(7,125)	(958)	(8,083)

Balance at December 31, 2003	322	1,525	1,847	(530)	1,317
Issuance of preferred stock, net	--	500	500	--	500
Preferred stock reallocation	--	413	413	(413)	
Options and warrants	342	--	342		342
Loss allocation for 2004		(2,438)	(2,438)	(1,286)	(3,724)
Balance at July 2004	$ 664	$ --	$ 664	$ (2,229)	$ (1,565)

As a result of the Series B stock issuance, the allocations of Lumera losses changed between Microvision and other minority interests and resulted in an additional $413,000 of losses being allocated to minority interest during 2004, with a resultant change in interest loss allocated to Microvision. In July 2004, Microvision's ownership interest in Lumera was reduced to 33% as a result of Lumera completing an initial public offering of its common stock. As a result of the reduction in ownership, Microvision changed to the equity method of accounting for its investment in Lumera. Microvision recorded a non-cash change in interest gain of $14,139,000 during the third quarter as a result of the change to the equity method. The net change in interest gain for 2004 was $13,727,000Because of uncertainty surrounding the ultimate realizability of the gain, the gain was recorded as an increase to stockholders' equity as a component of additional paid-in capital.

The following table shows the Lumera balances included in the consolidated balance sheet immediately prior to the change in interest and the reconciliation to the investment account shown at December 31, 2004.

Cash and cash equivalents	$ 657
Costs and estimated earnings in excess of billings on uncompleted contracts	117
Other current assets	1,077
Property and equipment, net	2,369
Other assets	33
Accounts payable	(434)
Accrued liabilities	(1,315)
Current portion of research liability	(78)
Notes payable - current	(2,386)
Other long-term liabilities	(245)
Net Assets	(205)
Less minority interest options and warrants	(664)
Cumulative losses in excess of investment	(1,360)
	(2,229)
Gain on change in interest	14,138
Investment losses from July 2004 to December 31,2004	(1,708)
Investment in Lumera	$ 10,201

10. Convertible Preferred Stock

In September 2004, Microvision raised $10,000,000 before issuance costs of $90,000 from the sale of 10,000 shares of convertible preferred stock and a warrant to purchase 361,795 shares of common stock. The

preferred stock is convertible on demand by the holder into common stock at a conversion price of $6.91 per share of common stock. The initial conversion price is subject to adjustment in the event Microvision issues common stock or derivative securities at a price per share of common stock below the market price or the conversion price of the preferred stock. In addition, upon the request of the preferred stockholder, Microvision is required to redeem the preferred stock for cash in certain circumstances, including in the event of a material breach of representations, warranties or covenants under the purchase agreement or a change in control. Accordingly, Microvision has classified the preferred stock as "mandatorily redeemable convertible preferred stock" in its consolidated balance sheet.

The preferred stock terms include a dividend of 3.5% per annum, payable quarterly in cash or registered common stock, at the election of the Company, subject to certain conditions. The preferred stock matures on September 10, 2007, at which time it is payable in cash or registered common stock, at the election of the Company, subject to certain conditions. Some of the conditions which would preclude the Company from paying in common stock are not within the Company's immediate control. The Company can elect to convert the preferred stock into common stock if the stock price exceeds $12.09 per share, subject to certain conditions. The warrant was vested on the date of grant, has an exercise price of $8.16 per share and expires on September 10, 2009. The initial exercise price is subject to adjustment in the event Microvision issues

common stock or derivative securities at a price per share of common stock below the market price or the exercise price of the warrant.

The net cash proceeds of $9,910,000 were allocated to the preferred stock and the warrant based on the relative fair values of the securities. The warrants were valued using the Black-Scholes option-pricing model

with the following assumptions: expected volatility of 75%, risk free interest rate of 3.4%, and contractual life of five years. $1.3 million of the proceeds were allocated to the warrant and were recorded as an increase to additional paid-in capital.

Subsequent to the relative fair value allocation, the effective conversion price of the convertible preferred stock was less than the closing price of Microvision's common stock on the date of commitment to purchase the preferred stock. This beneficial conversion feature was measured as $1,181,000 which represents the

difference between the fair value of the common stock and the effective conversion price. This beneficial conversion feature was recorded to additional paid-in capital and will be recorded as a deemed dividend to preferred stockholders (accretion) over the stated life of the preferred stock which is three years.

11. Common stock

In November 2003, the Company raised $22,250,000, before issuance costs of $1,454,000, from the sale of 3,560,000 shares of common stock to a group of private investors.

In August 2003, the Company issued 8,600 fully vested shares of Microvision common stock to a professional services firm in connection with consulting services provided to the Company. The shares were valued at $7.28, the closing price on the date of issuance, and the full value of the shares, $63,000, was charged to non-cash compensation at the time of issuance.

In March 2003, the Company raised $12,560,000, before issuance costs of $970,000, from the sale of 2,644,000 shares of common stock and warrants to purchase 529,000 shares of common stock at an exercise price of $6.50 per share. Each share of common stock and accompanying partial warrant was sold for $4.75. The warrants are first exercisable in September 2003 and expire in March 2008. The exercise price of the warrants was greater than the fair market value of the common stock on the date of issue.

In August 2002, the Company raised $3,000,000 (before issuance costs) upon issuance of 686,000 shares of common stock to a group of private investors. The investors also acquired fully vested warrants to purchase

137,000 shares of common stock at a price of $6.56 per share, for a period of five years. The exercise price of the warrants was greater than the fair market value of the common stock on the date of issue.

In July 2002, the Company raised $3,000,000 (before issuance costs) upon issuance of 938,000 shares of common stock to a group of private investors. The investors also acquired fully vested warrants to purchase 234,000 shares of common stock at a price of $4.80 per share, for a period of five years. The exercise price of the warrants was greater than the fair market value of the common stock on the date of issue.

In March 2002, the Company raised $6,028,000 (before issuance costs) upon issuance of 524,000 shares of common stock to a group of private investors.

12. Warrants

In September 2003, the Company issued two warrants to purchase an aggregate of 70,000 shares of common stock to a third party in exchange for services provided to the Company. One warrant grants the holder the right to purchase up to 60,000 shares of common stock at a price of $7.50 per share. The warrant vests in three equal tranches on the date of grant, in December 2003, and March 2004. The other warrant grants the holder the right to purchase up to 10,000 shares at a price of $12.00 per share and vests in March 2004. The unvested warrants were subject to remeasurement at each balance sheet date. The deferred compensation related to these warrants was being amortized to non- cash compensation expense over the fourteen month service period of the agreement. Non-cash amortization expense related to these warrants was $140,000 and $192,000 for 2004 and 2003 respectively. The total value of the warrants was estimated on December 31, 2003 and the grant date at $318,000 and $328,000, respectively. The fair values of the warrants were estimated on the date of grant and December 31, 2003, using the Black-Scholes option-pricing model with the following weighted-average assumptions: expected volatilities of 83%, risk-free interest rates of 2.7% and dividend yields of zero percent. The expected lives used at the measurement dates above were 4 years and 3.9 years, respectively.

In August 2000, the Company issued warrants to purchase an aggregate of 200,000 shares of common stock to two consultants in connection with entering into certain consulting agreements with the Company. One of the consultants subsequently became a director. The warrants grant each of the holders the right to purchase up to 100,000 shares of common stock at a price of $34.00 per share. The warrants to purchase an aggregate of 150,000 shares vested over three years and were subject to remeasurement at each balance sheet date during the vesting period. The remaining warrants to purchase an aggregate of 50,000 shares had a measurement date at the time of grant. The deferred compensation related to these warrants is being amortized to non-cash compensation expense over the five-year period of service under the agreements. The total original value of

both warrants was estimated at $5,476,000. Due to stock price fluctuations, the subsequent values for those warrants subject to remeasurement. On June 7, 2003, the warrants became fully vested and the value of both warrants was fixed. Total non-cash amortization expense was $447,000, $595,000, and $542,000 for the years ended

December 31, 2004, 2003 and 2002, respectively. The fair values of the warrants were estimated at June 7, 2003 and December 31, 2002 using the Black-Scholes option-pricing model with the following weighted-average assumptions: dividend yield of zero percent, and expected volatility of 83% for all measurement dates; risk-free interest rates of 4.0%, and 5.0% and expected lives of 7.4 and 8.1 years. Deferred compensation related to these warrants at December 31, 2004 was $270,000.

The following summarizes activity with respect to Microvision common stock warrants during the three years ended December 31, 2004:

	Shares	Weighted-average excercise price
Outstanding at December 31, 2001	615,000	$ 25.55
Granted:		
Exercise price greater than fair value	372,000	5.45
Exercised	(5,000)	8.00
Canceled/expired	(7,000)	8.00
Outstanding at December 31, 2002	975,000	18.10
Granted:		
Exercise price greater than fair value	539,000	6.60
Exercise price less than fair value	60,000	7.50
Exercised	--	--
Canceled/expired	--	--
Outstanding at December 31, 2003	1,574,000	13.76
Granted:		
Exercise price greater than fair value	362,000	8.16
Exercised	(22,000)	6.50
Canceled/expired	(196,000)	18.41
Outstanding at December 31, 2004	1,718,000	12.14
Exercisable at December 31, 2004	1,718,000	$ 12.14

The following table summarizes information about the weighted-average fair value of Microvision common stock warrants granted:

	Year Ended December 31,		
	2004	2003	2002
Exercise price greater than fair value	$ 4.07	$ 1.69	$ 1.29
Exercise price less than fair value		4.10	--

The following table summarizes information about Microvision common stock warrants outstanding and exercisable at December 31, 2004:

	Warrants outstanding			Warrants exercisable	
Range of exercise prices	Number outstanding at December 31, 2004	Weighted average remaining contractual life	Weighted average excercise price	Number excercisable at December 31, 2004	Weighted average excercise price
		(years)			
$4.80	234,000	2.56	$ 4.80	234,000	$ 4.80
$6.50-$6.56	645,000	3.07	6.51	645,000	6.51
$7.50-$8.16	422,000	4.41	8.07	422,000	8.07
$12.00-$19.20	162,000	0.88	14.64	162,000	14.64
$34.00	200,000	5.61	34.00	200,000	34.00
$53.00-$61.13	55,000	0.28	53.73	55,000	53.73
$4.80-$61.13	1,718,000			1,718,000	

The fair value of the Microvision common stock warrants granted was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 2004, 2003 and 2002, respectively: dividend yield of zero percent for all years; expected volatility of 75%, 83% and 83%; risk-free interest rates of 3.4%, 2.1%, and 2.2% and expected lives of 5, 3 and 2 years, respectively.

13. Options

The Company has several stock option plans ("Option Plans") that provide for granting incentive stock options ("ISOs") and nonqualified stock options ("NSOs") to employees, directors, officers and certain non-employees of the Company as determined by the Board of Directors, or its designated committee ("Plan Administrator"). The Company deems the fair market value of its stock on any given trading day to be the closing price of its stock on the NASDAQ National Market on that date.

In June 2004, the Company granted its independent directors options to purchase an aggregate of 90,000 shares of common stock at an exercise price of $8.35. The exercise price of the options was less than the fair market value of the shares at the date of grant. The Company recorded $81,000 of deferred compensation expense related to these options in June 2004. The deferred compensation is amortized to non cash compensation expense over the one-year vesting period of the grants. Deferred compensation expense of $46,000 was recorded in 2004, and the remaining $35,000 is recorded as deferred compensation at December 31, 2004.

In December 2003, the Board of Directors authorized extending the original expiration date for all outstanding employee options with original expiration terms of less than 10 years. Under terms of the offer, employees could extend the life of options that had original lives less than ten years by five years from the original expiration date. No other terms of the options were amended. All options were fully vested on the offer date. The extensions were voluntary and, in total, holders elected to extend 263,000 of the 264,000 eligible shares. At the time of the extensions the Company recorded $145,000 in non-cash compensation expense for the

excess of the fair market value of the common stock over the relevant exercise prices of the options on the modification date.

In November 2002, the Company offered to exchange most of its outstanding options to purchase common stock for new options scheduled to be granted on or after June 11, 2003. All eligible options that were properly submitted for exchange were accepted and cancelled effective December 10, 2002. Employees tendered options to purchase an aggregate of 2,521,714 shares of the Company's common stock. Under the terms of the exchange program, the Company granted new options to purchase an aggregate of 1,731,825 shares of the Company's common stock on June 13, 2003. The exercise price of the new options was $7.00 per share.

In May 2002, shareholders approved an amendment to the 1996 Stock Option Plan, increasing the number of shares reserved for the Plan by 2,500,000 to 8,000,000. The shareholders also approved amendments to the

Independent Director Stock Option Plan ("Director Option Plan") that increased the total shares reserved for the Plan by 350,000 to 500,000 shares; established a fully vested option grant to purchase 15,000 shares to each independent director upon initial election or appointment to the Board of Directors; increased the number of shares granted in the annual initial and reelection grants from 5,000 to 15,000; granted a one-time option to each independent director to purchase 10,000 shares; and, authorized the Board of Directors to make discretionary grants.

For Option Plan grants, other than non-discretionary grants to directors, the date of grant, option price, vesting period and other terms specific to options granted are determined by the Plan Administrator. The specific terms of Mandatory Director Grants are specified by the plan document.

Stock options issued under the Option Plans, other than the Director Option Plan, generally have vesting ranges from three years to four years; expirations of 10 years; and exercise prices greater than or equal to the fair market value of the Company's stock on the date of grant.

The Director Option Plan provides for two types of Mandatory Grants: a fully vested option to purchase 15,000 shares of common stock to each independent director upon initial election or appointment to the Board of Directors, and an additional initial or annual reelection option to purchase 15,000 shares of common stock, which the earlier of one year or no later than the Company's subsequent regularly scheduled annual shareholders' meeting. For both types of Mandatory Grants, the exercise prices are set equal to the average closing price of the Company's common stock as reported on the NASDAQ National Market during the ten trading days prior to the date of grant and have ten year terms. Upon leaving the Board, the director's grants remain exercisable until their expiration dates.

The following table summarizes activity with respect to Microvision common stock options for the three years ended December 31, 2004:

	Shares	Weighted-average excercise price
Outstanding at December 31, 2001	5,057,000	$ 21.52
Granted:		
Exercise price greater than fair value	106,000	10.23
Exercise price equal to fair value	694,000	9.71
Exercised	(3,000)	7.40
Cancelled under exchange program	(2,522,000)	24.63
Forfeited	(256,000)	20.28
Outstanding at December 31, 2002	3,076,000	16.03
Granted:		
Exercise price greater than fair value	1,935,000	7.15
Exercise price equal to fair value	378,000	6.76
Exercise price less than fair value	197,000	6.93
Exercised	(82,000)	6.60
Forfeited	(783,000)	10.06
Outstanding at December 31, 2003	4,721,000	12.43
Granted:		
Exercise price greater than fair value	177,000	7.55
Exercise price equal to fair value	487,000	6.76
Exercise price less than fair value	90,000	8.35
Exercised	(38,000)	6.25
Forfeited	(319,000)	12.03
Outstanding at December 31, 2004	5,118,000	11.72
Exercisable at December 31, 2004	3,908,000	$ 12.66

The following table summarizes information about the weighted-average fair value of Microvision common stock options granted:

	Year Ended December 31, 2004	2003	2002
Exercise price greater than fair value	$ 3.19	$ 3.19	$ 5.45
Exercise price equal to fair value	3.33	4.26	6.58
Exercise price less than fair value	4.58	2.69	--

The following table summarizes information about Microvision common stock options outstanding and exercisable at December 31, 2004:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding December 31, 2004	Weighted average aremaining contractual life	Weighted average excercise price	Number excercisable December 31, 2004	Weighted average excercise price
		(years)			
$3.25-$6.81	603,000	8.36	$ 5.87	514,000	$ 6.04
$7.00-$7.07	1,657,000	8.44	7.00	1,219,000	7.00
$7.20-$10.47	881,000	8.04	8.49	370,000	8.90
$10.60-$14.94	369,000	6.26	12.55	274,000	12.88
$15.00-$15.16	897,000	6.80	15.00	897,000	15.00
$15.63-$20.00	214,000	6.08	18.42	179,000	18.48
$20.25-$33.50	241,000	6.05	25.62	199,000	25.68
$34.00-$60.75	256,000	5.30	35.71	256,000	35.71
$3.25-$60.75	5,118,000			3,908,000	

Fair Value Disclosures

The fair values of Microvision common stock options granted were estimated on the date of each grant using the Black Scholes option pricing model with the following weighted average assumptions used for grants in 2004, 2003 and 2002, respectively: dividend yield of zero percent for all years; expected volatility of 76%, 83% and 83%; risk free interest rates of 3.0%, 2.2%, and 4.2%; and expected lives of 3, 3 and 5 years. Actual forfeitures of 6.8%, 25.4% and 54.9% were used for the years ended December 31, 2004, 2003, and 2002 respectively. Excluding shares cancelled under the voluntary extension for grants with terms less than ten years, the actual forfeiture rate for 2003 was 16.3%. Excluding shares cancelled under the November 1, 2002 voluntary stock option exchange offer, the actual forfeiture rate for 2002 was 5.0%.

14. Commitments and contingencies

Agreements with the University of Washington

In October 1993, the Company entered into a Research Agreement and an exclusive license agreement ("License Agreement") with the UW. The License Agreement grants the Company the rights to certain intellectual property, including the technology being subsequently developed under the Microvision research agreement ("Research Agreement"), whereby the Company has an exclusive, royalty-bearing license to make, use and sell or sublicense the licensed technology. In consideration for the license, the Company agreed to pay a one-time nonrefundable license issue fee of $5,134,000. Payments under the Research Agreement were credited to the license fee. In addition to the nonrefundable fee, which has been paid in full, the Company is required to pay certain ongoing royalties. Beginning in 2001, the Company is required to pay the UW a nonrefundable license maintenance fee of $10,000 per quarter, to be credited against royalties due.

Litigation

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

Lease commitments

The Company leases its office space and certain equipment under noncancelable capital and operating leases with initial or remaining terms in excess of one year. The Company entered into a facility lease that commenced in April 1999, which includes extension and rent escalation provisions over the seven-year term of the lease. Rent expense is recognized on a straight-line basis over the lease term.

The company entered into a 42 month facility lease that commenced in 2002 for office space in San Mateo, California. The Company has entered into a sublease agreement for this office space.

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

	Capital leases	Operating leases
2005	$ 42,000	$ 1,985,000
2006	6,000	473,000
2007	4,000	46,000
2008	--	--
2009	--	--
Thereafter	--	--
Total minimum lease payments	52,000	$ 2,504,000
Less: Amount representing interest	(4,000)	

Present value of capital lease obligations	48,000
Less: Current portion	(39,000)
Long-term obligation at December 31, 2004	$ 9,000

Operating lease commitments amounts do not include the impact of contractual sublease receipts of $474,000 and $79,000 for the years ended December 31, 2005 and 2006, respectively.

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 $1,175,000 and $1,053,000 respectively at December 31, 2004 and $1,160,000 and $928,000, respectively, at December 31, 2003.

Net rent expense was $1,689,000, $2,302,000, and $1,639,000 for 2004, 2003 and 2002, respectively. Rent expense in 2003 includes $540,000 for the closure of the Company's facility in San Mateo, California. Sub-lease income of $363,000, $226,000 and $77,000 for 2004, 2003, and 2002 respectively was included as a reduction in rent expense.

Long-term debt

During 1999, the Company entered into a loan agreement with the lessor of the Company's corporate headquarters to finance $420,000 in tenant improvements. The loan carries a fixed interest rate of 10% per annum, is repayable over the initial term of the lease, which expires in 2006, and is secured by a letter of credit. The balance of the loan was $99,000 and $169,000 at December 31, 2004 and 2003 respectively.

15. Income taxes

A provision for income taxes has not been recorded for 2004, 2003 or 2002 due to 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 because based on the Companies' history of losses

since inception, the available objective evidence creates sufficient uncertainty regarding the realizability of the deferred tax assets.

At December 31, 2004, Microvision has net operating loss carry forwards of approximately $168 million, for federal income tax reporting purposes. In addition, Microvision has research

and development tax credits of $2,218,000. 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 2008 to 2024 if not previously utilized. In certain circumstances, as specified in the Internal Revenue Code, a 50% or more ownership change by certain combinations of the Company's stockholders during any three-year period would result in limitations on the Company's ability to utilize its net operating loss carry-forwards. The Company has determined that such a change occurred during 1995 and the annual utilization of loss carry-forwards generated through the period of that change will be limited to approximately $761,000. An additional change occurred in 1996; and the limitation for losses generated in 1996 is approximately $1,600,000.

Deferred tax assets are summarized as follows:

	December 31, 2004	December 31, 2003
Net operating loss carry forwards Microvision	$ 57,112,000	$ 47,351,000
R&D credit carry forwards Microvision	2,218,000	1,927,000
Other	4,642,000	3,679,000
	63,972,000	52,957,000
Less: Valuation allowance	(63,972,000)	(52,957,000)
Deferred tax assets	$ --	$ --

The valuation allowance and the research and development credit carry forwards account for substantially all of the difference between the Company's 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.

16. Retirement savings plan

The Company has a retirement savings plan ("the Plan") that qualifies under Internal Revenue Code Section 401(k). The Plan covers all qualified employees. Contributions to the Plan by the Company are made at the discretion of the Board of Directors.

In February 2000, the Board of Directors approved a plan amendment to match 50% of employee contributions to the Plan up to 6% of the employee's per pay period compensation, starting on April 1, 2000. During 2004, 2003 and 2002, the Company contributed $337,000, $392,000 and $351,000 respectively, to the Plan under the matching program.

17. Segment Information

Prior to Lumera's initial public offering in July 2004, the Company was organized into two segments - Microvision, which is engaged in scanned beam displays and related technologies, and Lumera, which is engaged in optical systems components technology. The segments were determined based on how management views and evaluates the Company's operations.

The accounting policies used to derive reportable segment results are described in Note 2, "Summary of Significant Accounting Policies."

A portion of each segments' administration expenses arise from shared services and infrastructure that Microvision has provided to both segments in order to realize economies of scale and to efficiently use resources. These efficiencies include costs of certain legal, accounting, human resources and other Microvision corporate and infrastructure costs. These expenses are allocated to the segments and the allocation has been determined on a basis that the Company considered to be a reasonable reflection of the utilization of services provided to, or benefits received by, the segments.

Since 2000, Microvision has held an investment in Lumera. From inception to July 2004, Lumera was a consolidated subsidiary and treated as a seperate segment within Microvision. Subsequent to July 2004, Lumera became an equity method investment.:

At December 31, 2004, Lumera is a significant unconsolidated equity investment of Microvision. For the period that Lumera is an unconsolidated investment (July 2004 through December 31, 2004) Lumera revenue was $303,000, Gross profit was $85,000, Loss from operations was $5,205,000 and Net loss was $5,199,000. At December 31, 2004 Lumera had Current assets of $19,623,000, Noncurrent assets of $13,263,000, current liabilities of $1,493,000 and Shareholders equity of $31,393,000.:

The following tables reflect the results of the Company's reportable segments under the Company's management system. The performance of each segment is measured based on several metrics. These results are used, in part, by management, in evaluating the performance of, and in allocation of resources to, each of the segments (in thousands):

Year Ended December 31, 2004	Microvision	Lumera	Elimination	Total
Contract Revenue	$ 8,135	$ 686	$ --	$ 8,821
Product Revenue	2,597	--	--	2,597
Cost of Contract Revenue	5,106	433	--	5,539
Cost of Product Revenue	3,868	--	--	3,868
Research and development expense	13,581	1,129		14,710
Marketing, general and administrative expense	17,795	1,433	--	19,228
Non-cash compensation expense	821	1,297	--	2,118
Interest income	270	2	--	272
Interest expense	31	120	--	151
Segment loss	32,257	3,724	(2,438)	33,543
Depreciation	1,711	695	--	2,406
Expenditures for capital assets	970	70	--	1,040
Segment assets	25,538	--		25,538

Year Ended December 31, 2003	Microvision	Lumera	Elimination	Total
Contract Revenue	$ 11,792	$ 1,725	$ --	$ 13,517
Product Revenue	1,135	--	--	1,135
Cost of Contract Revenue	5,015	1,014		6,029
Cost of Product Revenue	1,017			1,017
Research and development expense	16,755	6,561	--	23,316
Marketing, general and administrative expense	14,557	1,270	--	15,827
Non-cash compensation expense	1,115	1,041	--	2,156

Interest income	342	39	--	381
Interest expense	51	--	--	51
Segment loss	25,205	8,083	(7,125)	26,163
Depreciation	1,924	1,185	--	3,109
Expenditures for capital assets	1,094	455	--	1,549
Segment assets	37,224	4,058	(7,364)	33,918

	Year Ended December 31, 2002			
	Microvision	Lumera	Elimination	Total
Contract Revenue	$ 14,443	$ 946	$ --	$ 15,389
Product Revenue	528	--	--	528
Cost of Contract Revenue	6,139	330		6,469
Cost of Product Revenue	528			528
Research and development expense	18,362	7,157	--	25,519
Marketing, general and administrative expense	15,577	1,221	--	16,798
Non-cash compensation expense	841	1,143	--	1,984
Interest income	860	199	--	1,059
Interest expense	59	--	--	59
Segment loss	26,219	8,698	(7,741)	27,176
Depreciation	1,894	1,049	--	2,943
Expenditures for capital assets	792	562	--	1,354
Segment assets	30,144	8,589	(6,466)	32,267

18. Quarterly Financial Information (Unaudited)

The following table presents the Company's unaudited quarterly financial information for the years ending December 31, 2004 and 2003:

	Year Ended December 31, 2004			
	December 31,	September 30,	June 30,	March 31,
Revenue	$ 3,317,000	$ 2,729,000	$ 2,398,000	$ 2,974,000
Gross Margin	76,000	263,000	568,000	1,104,000
Net loss available for common shareholders	(8,247,000)	(10,094,000)	(8,512,000)	(6,690,000)
Net loss per share basic and diluted	(0.38)	(0.47)	(0.40)	(0.31)

	Year Ended December 31, 2003			
	December 31,	September 30,	June 30,	March 31,
Revenue	$ 4,039,000	$ 2,565,000	$ 4,511,000	$ 3,537,000
Gross Margin	2,102,000	1,066,000	2,310,000	2,128,000
Net loss	(5,210,000)	(6,865,000)	(6,692,000)	(7,396,000)
Net loss per share basic and diluted	(0.26)	(0.39)	(0.38)	(0.46)

19. Subsequent Event

In March 2005, Microvision raised $10,000,000 before issuance costs, from the issuance of senior secured exchangeable convertible notes (the "Notes") and warrants to purchase an aggregate of 462,330 shares of Microvision common stock. The Notes are payable in six equal quarterly payments starting in December 2005. The Notes are convertible on demand by the holders into Microvision common stock at a conversion price of $6.84 per share of Microvision common stock and exchangeable on demand by the holders into Lumera common stock at an exchange price of $5.64 per share of Lumera common stock. The terms include a limit on the aggregate number of Lumera common shares that can be used to pay principal of 1,750,000 shares. The Notes are secured by the same 1,750,000 shares of Lumera common stock. The initial conversion price is subject to adjustment in the event Microvision issues common stock or derivative securities at a price per share of common stock below the conversion price of the Note. In addition, upon the request of the Note holders, Microvision is required to redeem the Notes for cash in certain circumstances, including in the event of a material breach of representations, warranties or covenants under the purchase agreement or a change in control.

The Note terms include variable interest at a rate of LIBOR plus 3% within a range of 6% and 8%, payable quarterly.

Each principal payment is payable in cash or registered common stock, at the election of the Company, subject to certain conditions. If the Company elects to pay principal in registered common stock, the Note holder can elect to receive payment in either Microvision or Lumera common stock. Interest is payable in cash or Microvision common stock, subject to certain conditions. Some of the conditions which would preclude the Company from paying in common stock are not within the Company's immediate control. The Company can elect to convert the Note into Microvision common stock if the stock price exceeds $11.97 per share for any 20 out of any 30 consecutive days, subject to certain conditions. The warrants are immediately exercisable, have an exercise price of $6.84 per share and expire in March 2010. The initial exercise price is subject to adjustment in the event Microvision issues common stock or derivative securities at a price per share of common stock below or the exercise price of the warrant.

MICROVISION, INC.

VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

(in thousands)

Description	Balance at beginning of fiscal period	Additions: Charges to costs and expenses	Additions: Charges to other accounts	Deductions	Balance at end of fiscal period
Year Ended December 31, 2002					
Allowance for receivables from related parties	$ --	$ 700	$ --	$ --	$ 700
Tax valuation allowance	39,971	--	12,088	--	52,059
Year Ended December 31, 2003					
Allowance for receivables from related parties	700	200	--	--	900
Tax valuation allowance	52,059	--	11,454	--	63,513
Year Ended December 31, 2004					
Allowance for receivables from related parties	900	--	--	--	900
Tax valuation allowance	63,513	--	11,015	(10,556)	63,972

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

There have been no changes in or disagreements with accountants in accounting or financial disclosure matters during the Company's fiscal years ended December 31, 2004 and 2003.

ITEM 9A. CONTROLS AND PROCEDURES

(a) *Evaluation of disclosure controls and procedures*. The Chief Executive Officer and the Chief Financial Officer evaluated our disclosure controls and procedures (as defined in Rules 13a- 15(e) and 15-d-15(e) under the Securites and Exchange Act of 1934) prior to the filing of this annual report. Based on that evaluation, they concluded that, as of the end of the period covered by this annual report, our disclosure controls and procedures were, in design and operation, effective to ensure that information required to be disclosed in the reports the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms.

(b) *Management's Report on Internal Control Over Financial Reporting.* Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Our management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its evaluation under the framework in *Internal Control - Integrated Framework,* our management concluded that our internal control over financial reporting was effective as of December 31, 2004.

Our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2004 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included in Item 8 of this Annual Report on Form 10-K.

(c) Changes in internal controls over financial reporting There have not been any changes in the Company's internal control over financial reporting during the quarter ended December 31, 2004 which have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information under the headings "Election of Directors," "Section 16(a) Beneficial Ownership Reporting Compliance," and "Audit Committee Report" in the Microvision, Inc., definitive Proxy Statement to be filed with the Securities and Exchange Commission in connection with the next Annual Meeting of Shareholders to be held on

June 30, 2005 (the "Proxy Statement") is incorporated herein by reference. See Item 4A in Part 1 of this report for information regarding executive officers of the Company.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to the Proxy Statement under the heading "Executive Compensation."

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table shows the number of shares of common stock that could be issued upon exercise of outstanding options and warrants, the weighted average exercise price of the outstanding options and warrants and the remaining shares available for future issuance as of December 31, 2004.

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon excercise of outstanding options, warrants and rights (a)	Weighted-average excercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for further issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by shareholders	4,763,000	$ 11.44	2,954,000
Equity compensation plans not approved by shareholders	686,000	23.20	--
Total	5,449,000	$ 12.92	2,954,000

As of December 31, 2004, there were non-plan options to purchase a total of 355,000 shares of Microvision common stock outstanding. 346,000 of these were options approved by the Board of Directors and issued in October 2001, with an exercise price in excess of the fair value of Microvision common stock on the date of grant. The October 2001 options have a $15.00 exercise price and vest 25% on the grant date and 25% at six-month intervals thereafter. The remaining 9,000 non-plan options were granted at fair value on the date of grant and vest 25% at each annual anniversary date of the grant.

All non-plan options are non-qualified options with 10 year terms granted to non-executive employees. The options are administered by the Compensation Committee of the Board of Directors or its authorized agents. Options surrendered, exchanged for another option, canceled or terminated without having been exercised in full will again be available for issuance by the Company. The options are not transferable other than by will or the laws of descent and distribution. Each option is exercisable during the lifetime of the optionee only by such optionee, upon its vest date and thereafter through the expiration date, subject to the termination of employment provisions. Following termination of employment by the Company other than for cause, resignation in lieu of dismissal, disability or death, an option holder may exercise options, vested as of the date of termination, within three months before the options will automatically expire, and any unvested options will automatically expire upon the termination date. The number and class of shares covered by the options and the exercise price per share shall be proportionately adjusted for any change in the number of issued shares of common stock of the Company resulting from a stock split, stock dividend or consolidation of shares or any like capital stock adjustment. In the event of a merger, consolidation or plan of exchange to which the Company is a party or a sale of all or substantially all of the Company's assets, the Board of Directors may elect to treat the options in one of the following ways: (i) outstanding options would remain in effect in accordance with their terms; (ii) outstanding options would be converted into options to purchase stock in the surviving or acquiring corporation in the transaction; or (iii) outstanding options would be exercised within a period determined by the Board of Directors prior to the consummation of the transaction, after which time the options automatically expire. The Board may accelerate the vesting of the options so they are exercisable in full.

In August 2000, the Company issued two non-plan warrants to purchase an aggregate of 200,000 shares of Microvision common stock to two consultants in connection with entering into certain consulting agreements with the Company. Subsequently, one of the consultants was elected to the Board of Directors by shareholders. The warrants were fully outstanding as of December 31, 2003. The warrants have an exercise price of $34.00 per share and are exercisable prior to their expiration in August 2010. As of the date of grant, all but 25,000 of the underlying shares of common stock issuable to each consultant upon exercise of the warrants were subject to lock-up restrictions that prevent the holder from transferring such shares. The number of shares subject to the lock-up restrictions is reduced by 25,000 for each consultant on each June 7 subsequent to the grant date. Rather than issue shares of common stock upon exercise of the warrants, the Company may elect to redeem the warrants if, in the opinion of the Board of Directors upon advice of counsel, it would be unlawful to issue the underlying securities. The warrants are transferable upon prior written approval of the Company. The Company cannot unreasonably withhold such approval with respect to transfers of warrants to purchase at least 10,000 shares that are not subject to the lock-up restrictions. If the Company terminates the consulting agreement due to the consultant's failure to provide consulting services during the first three years of the agreement, the consultant must return to the Company a pro-rata portion of the 75,000 warrants initially subject to the lock- up restrictions based on the number of calendar days remaining in the initial three year period. The number, class and price of securities for which the warrants may be exercised are subject to adjustment for certain changes in the Company's capital structure. The number of securities and exercise price per share will be proportionately adjusted if outstanding shares of the Company's common stock are divided into a greater number of shares or combined into a smaller number of shares, or a stock dividend is paid on the common stock. In the event of a change in the common stock from a merger, consolidation, reclassification, reorganization, partial or complete liquidation, or other change in the capital structure of the Company, the Company will, as a condition of the change in capital structure, make provision for the warrant holder to receive upon the exercise of the warrants the kind and amount of shares of stock, other securities or property to which the holder would have been entitled if, immediately prior to the change in capital structure, the warrant holder had held the number of shares of common stock obtainable upon the exercise of the warrants, and the exercise price will be proportionately adjusted.

The Company has a warrant outstanding to purchase 50,000 shares of Microvision common stock that was issued in April 2000 in exchange for equity placement services by a non-employee. The warrant was issued fully vested, has an exercise price of $53.00 per share and is exercisable prior to its expiration in April 2005. Rather than issue shares of common stock upon exercise of the warrant, the Company may elect to redeem the warrant if, in the opinion of the Board of Directors upon advice of counsel, it would be unlawful to issue the underlying securities. The warrant is not transferable without prior written approval of the Company. The number, class and price of securities for which the warrant may be exercised are subject to adjustment for certain changes in the Company's capital structure. The number of securities and exercise price per share shall all be proportionately adjusted where outstanding shares of common stock are divided into a greater number of shares or combined into a smaller number of shares, or a stock dividend is paid on the common stock. In the event of a change in the common stock from a merger, consolidation, reclassification, reorganization, partial or complete liquidation, or other change in the capital structure of the Company, the Company will, as a condition of the change in capital structure, make provision for the warrant holder to receive upon the exercise of the warrants the kind and amount of shares of stock, other securities or property to which the holder would have been entitled if, immediately prior to the change in capital structure, the warrant holder had held the number of shares of common stock obtainable upon the exercise of the warrants, and the exercise price will be proportionately adjusted.

The Company has a warrant outstanding to purchase 6,250 shares of Microvision common stock issued in exchange for equity placement services by a non-employee. The warrant was issued fully vested in June 2000 for 6,250 shares with an exercise price of $19.20 per share and is exercisable prior to its expiration in June 2005. Rather than issue shares of common stock upon exercise of the warrant, the Company may elect to redeem the warrant if, in the opinion of the Board of Directors upon advice of counsel, it would be unlawful to issue the underlying securities. The warrant is not transferable without prior written approval of the Company. The number, class and price of securities for which the warrants may be exercised are subject to adjustment for certain changes in the Company's capital structure. The number of securities and exercise price per share shall be proportionately adjusted where outstanding shares of common stock are divided into a greater number of shares or combined into a smaller number of shares, or a stock dividend is paid on the common stock. In the event of a change in the common stock from a merger, consolidation, reclassification, reorganization, partial or complete liquidation, or other change in the capital structure of the Company, the Company will, as a condition of the change in capital structure, make provision for the warrant holder to receive upon the exercise of the warrant the kind and amount of shares of stock, other securities or property to which the holder would have been entitled if, immediately prior to the change in capital structure, the warrant holder had held the number of shares of common stock obtainable upon the exercise of the warrant, and the exercise price will be proportionately adjusted.

The Company has a warrant outstanding to purchase 4,907 shares of Microvision common stock that was issued in December 2000 in exchange for equity placement services by a non-employee. The warrant was issued fully vested, has an exercise price of $61.13 per share and is exercisable prior to its expiration in April 2005. Rather than issue shares of common stock upon exercise of the warrant, the Company may elect to redeem the warrant if, in the opinion of the Board of Directors upon advice of counsel, it would be unlawful to issue the underlying securities. The warrant is not transferable without prior written approval of the Company. The number, class and price of securities for which the warrant may be exercised are subject to adjustment for certain changes in the Company's capital structure. The number of securities and exercise price per share shall all be proportionately adjusted where outstanding shares of common stock are divided into a greater number of shares or combined into a smaller number of shares, or a stock dividend is paid on the common stock. In the event of a change in the common stock from a merger, consolidation, reclassification, reorganization, partial or complete liquidation, or other change in the capital structure of the Company, the Company will, as a condition of the change in capital structure, make provision for the warrant holder to receive upon the exercise of the warrants the kind and amount of securities or property to which the holder would have been entitled if, immediately prior to the change in capital structure, the warrant holder had held the number of shares of common stock obtainable upon the exercise of the warrants, and the exercise price will be proportionately adjusted.

The Company has two warrants outstanding to purchase an aggregate of 70,000 shares of Microvision common stock that were issued in September 2003 to a third party for services. The first warrant for 60,000 shares has an exercise price of $7.50 per share and vests in three equal tranches. The first tranche vests on the issue date, the second and third tranches vest three and six months following the issue date, respectively. The second warrant for 10,000 shares has an exercise price of $12.00 per share and vests six months after the issue date. The Company may cancel unvested tranches or the second warrant prior to their respective vest dates if it determines in good faith, and notifies the holder, that it is not satisfied with the holder's performance under the agreement. Vested warrants are exercisable prior to their expiration in September 2007. The warrant holder may transfer any portion or all of the warrant shares by delivering the original warrant certificate and a form of assignment to the Company. The number and price of securities for which the warrant may be exercised are subject to adjustment for certain changes in the Company's capital structure. Where the outstanding shares of common stock are divided into a greater number of shares, combined into a smaller number of shares, or a stock dividend is paid on the common stock, the exercise price per share shall be proportionately adjusted by the ratio of common shares outstanding immediately before and after the transaction. In the event of a change in the common stock from a merger, consolidation, reclassification, tender offer or exchange offer, or partial or complete liquidation, the holder will be entitled to receive, upon the exercise of the warrants, the same amount and kind of securities, cash or property to which the holder would have been entitled if, immediately prior to the change in capital structure, the warrant holder had held the number of shares of common stock obtainable upon the exercise of warrants.

The other information required by this item is incorporated by reference in the Proxy Statement under the heading "Information about Microvision Common Stock Ownership."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is incorporated by reference to the Proxy Statement under the heading "Certain Relationships and Related Transactions."

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item is incorporated by reference to the Proxy Statement under the heading "Independent Accountants".

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

a) Documents filed as part of the report

(1) Financial Statements

Balance Sheets as of December 31, 2004 and 2003

Statements of Operations for the years ended December 31, 2004, 2003 and 2002

Statements of Shareholders' Equity for the years ended

December 31, 2004, 2003 and 2002

Statements of Comprehensive Loss for the years ended

December 31, 2004, 2003 and 2002

Statements of Cash Flows for the years ended December 31, 2004, 2003 and 2002

Valuation and Qualified Accounts and Reserves for the years ended December 31, 2004, 2003 and 2002

(2) None

(3) Exhibits

3.1	Certificate of Incorporation of Microvision, Inc., (2)
3.2	Bylaws of Microvision, Inc. (2)
3.3	Certificate of Designations, Preferences and Rights of the Series A Convertible Preferred Stock of Microvision, Inc.(24)
4.1	Form of Specimen Stock Certificate for Common Stock(2)
4.2	Microvision, Inc. Series 2 Stock Purchase Warrant, dated April 1, 1999 issued to Capital Ventures International(5)
4.3	Common Stock Purchase Warrant, dated as of April 1, 1999, issued to Josephthal & Co, Inc.(6)
4.4	Form of Indenture(14)
4.5	Form of Warrant issued on October 9, 2001(15)
4.6	Form of Warrant issued on July 22, 2002(19)

4.7	Form of Warrant issued on March 5, 2003[18]
4.8	Warrant to Purchase Common Stock of Microvision, Inc. issued September 10, 2004 to Satellite Strategic Finance Associates, LLC. [24]
4.9	Form of Note issued under the Securities Purchase Agreement dated as of March 11, 2005 by and among Microvision, Inc. and the investors listed on the Schedule of Buyers thereto.[25]
4.10	Form of Warrant issued under the Securities Purchase Agreement dated as of March 11, 2005 by and among Microvision, Inc. and the investors listed on the Schedule of Buyers thereto. [25]
4.11	Company Registration Rights Agreement executed in connection with the Securities Purchase Agreement dated as of March 11, 2005 by and among Microvision, Inc. and the investors listed on the Schedule of Buyers thereto. [25]
4.12	Lumera Registration Rights Agreement executed in connection with the Securities Purchase Agreement dated as of March 11, 2005 by and among Microvision, Inc. and the investors listed on the Schedule of Buyers thereto. [25]
4.13	Form of Pledge and Security Agreement executed in connection with the Securities Purchase Agreement dated as of March 11, 2005 by and among Microvision, Inc. and the investors listed on the Schedule of Buyers thereto. [25]
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[18]
10.5	1993 Stock Option Plan[1]*
10.6	1996 Stock Option Plan, as amended.[17]*
10.7	1996 Independent Director Stock Plan, as amended.[17]*
10.8	Form of Executive Option Exercise Loan Plan[3]*
10.9	Lease Agreement between S/I Northcreek II, LLC and Microvision, Inc., dated October 27, 1998[23]
10.9.1	Lease Amendment No 1 to Lease between S/I Northcreek II, LLC and Microvision, Inc., dated July 12, 1999[9]
10.9.2	Lease Amendment No 12 to Lease between S/I Northcreek II, LLC and Microvision, Inc., dated February 14, 2001[9]
10.10	Form of Consulting Agreement between Microvision, Inc. and Avram Miller and Jacqueline Brandwynne dated August 10, 2000[8]
10.11	Form of Common Stock Purchase Warrant issued to Avram Miller and Jacqueline Brandwynne dated August 10, 2000[8]
10.12	Exclusive Licensing Agreement between the University of Washington and Lumera Corporation dated October 20, 2000[11], +
10.13	Sponsored Research Agreement between the University of Washington and Lumera Corporation dated October 20, 2000[11].
10.14	Independent Director Stock Option Plan, as amended[16]*
10.15	Investors' Rights Agreement, dated as of March 14, 2001 by and between Lumera Corporation and certain investors[12]
10.16	Executive Loan Plan and Related Form of Note[16]*
10.17	Microvision, Inc. Series 1 Stock Purchase Warrant, dated April 1, 1999, issued to Capital Ventures International [18]
10.18	Form of Stock Purchase Agreement dated March 22, 2002[20]
10.19	Form of Stock Purchase Agreement dated July 22, 2002[19]
10.20	Form of Securities Purchase Agreement dated as of March 3, 2003[18]
10.21	Form of the Option Agreement for options granted outside of the Plans[21]
10.22	Common Stock Purchase Warrant, dated as of January 14, 1999, issued to Stan Berk[22]
10.23	Common Stock Purchase Warrant, dated as of July 13, 1999, issued to Stan Berk[22]
10.24	Common Stock Purchase Warrant, dated as of April 13, 2000, issued to Burt S. Davis[22]
10.25	Common Stock Purchase Warrant, dated as of June 21, 2000, issued to Stan Berk[22]
10.26	Common Stock Purchase Warrant, dated as of October 15, 2001, issued to Ladenburg Thalmann & Co. Inc. [22]
10.27	Registration Rights Agreement dated as of September 9, 2004 by and between Microvision, Inc. and Satellite Strategic Finance Associates, LLC. [24]
10.28	Securities Purchase Agreement dated as of September 9, 2004 by and between Microvision, Inc. and Satellite Strategic Finance Associates, LLC. [24]

10.29	License and Development Agreement dated as of December 30, 2004 by and between Microvision, Inc. and Ethicon Endo-Surgery, Inc. +
10.30	Securities Purchase Agreement dated as of March 11, 2005 by and among Microvision, Inc. and the investors listed on the Schedule of Buyers thereto.
23	Consent of Independent Registered Public Accounting Firm
24	Power of Attorney pursuant to which this report may be filed.
31.1	Chief Executive Officer certification pursuant to Rule 13a-14(a)/15d-14a 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(a)/15d-14a 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 Rule 13a-14(b) or Rule 13d-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	Chief 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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(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-QSB for the quarterly period ended

June 30, 1998.

(4) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1997.

(5) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1998.

(6) Incorporated by reference to Registration Statement on Form S-3, Registration No. 333- 33612.

(7) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended June 30, 2000.

(8) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended September 30, 2000.

(9) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1999.

(10) Incorporated by reference to Registration Statement on Form S-3, Registration No. 333- 33612.

(11) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

(12) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended March 31, 2001.

(13) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended June 30, 2001.

(14) Incorporated by reference to the Registration Statement on Form S-3, Registration No. 333-69652.

(15) Incorporated by reference to the Company's Current Report on Form 8-K filed on October 9, 2001.

(16) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2001.

(17) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended June 30, 2002.

(18) Incorporated by reference to the Company's Current Report on Form 8-K filed on March 5, 2003.

(19) Incorporated by reference to the Company's Current Report on Form 8-K filed on July 23, 2002.

(20) Incorporated by reference to the Company's Current Report on Form 8-K filed on March 26, 2002.

(21) Incorporated by reference to the Company's Schedule TO file on November 1, 2002.

(22) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

(23) Incorporated by reference to the Company's Form 10-QSB for the quarterly period ended September 30, 1998.

(24) Incorporated by reference to the Company's Current Report on Form 8-K filed on September 10, 2004.

(25) Incorporated by reference to the Company's Current Report on Form 8-K filed on March 14, 2005.

+ Subject to confidential treatment.

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

SIGNATURES

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

MICROVISION, INC.

Date: March 16, 2005	By	Richard F. Rutkowski
		Richard F. Rutkowski
		Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the following capacities on March 16, 2005.

Signature	Title
/s/ Richard F. Rutkowski	Chief Executive Officer and Director
Richard F. Rutkowski	(Principal Executive Officer)
/s/ Stephen R. Willey	President and Director
Stephen R. Willey	
/s/ Richard A. Raisig	Chief Financial Officer and Vice President,
Richard A. Raisig	Operations (Principal Financial Officer)
/s/ Jeff Wilson	Chief Accounting Officer (Principal Accounting Officer)
Jeff Wilson	
*	Director
Jacqueline Brandwynne	
/s/ Richard A. Cowell	Director
Richard A. Cowell	
*	Director
Slade Gorton	
*	Director
Walter J. Lack	
/s/ Robert A. Ratliffe	Director
Robert A. Ratliffe	
*	Director
Dennis J. Reimer	

*By: /s/ Jeff Wilson
Jeff Wilson
Attorney-in Fact

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	Certificate of Incorporation of Microvision, Inc., [(2)]
3.2	Bylaws of Microvision, Inc. [(2)]
3.3	Certificate of Designations, Preferences and Rights of the Series A Convertible Preferred Stock of Microvision, Inc.[(24)]
4.1	Form of Specimen Stock Certificate for Common Stock[(2)]
4.2	Microvision, Inc. Series 2 Stock Purchase Warrant, dated April 1, 1999 issued to Capital Ventures International[(5)]
4.3	Common Stock Purchase Warrant, dated as of April 1, 1999, issued to Josephthal & Co, Inc.[(6)]
4.4	Form of Indenture[(14)]
4.5	Form of Warrant issued on October 9, 2001[(15)]
4.6	Form of Warrant issued on July 22, 2002[(19)]
4.7	Form of Warrant issued on March 5, 2003[(18)]
4.8	Warrant to Purchase Common Stock of Microvision, Inc. issued September 10, 2004 to Satellite Strategic Finance Associates, LLC. [(24)]
4.9	Form of Note issued under the Securities Purchase Agreement dated as of March 11, 2005 by and among Microvision, Inc. and the investors listed on the Schedule of Buyers thereto.[(25)]

4.10	Form of Warrant issued under the Securities Purchase Agreement dated as of March 11, 2005 by and among Microvision, Inc. and the investors listed on the Schedule of Buyers thereto. (25)
4.11	Company Registration Rights Agreement executed in connection with the Securities Purchase Agreement dated as of March 11, 2005 by and among Microvision, Inc. and the investors listed on the Schedule of Buyers thereto. (25)
4.12	Lumera Registration Rights Agreement executed in connection with the Securities Purchase Agreement dated as of March 11, 2005 by and among Microvision, Inc. and the investors listed on the Schedule of Buyers thereto. (25)
4.13	Form of Pledge and Security Agreement executed in connection with the Securities Purchase Agreement dated as of March 11, 2005 by and among Microvision, Inc. and the investors listed on the Schedule of Buyers thereto. (25)
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(18)
10.5	1993 Stock Option Plan(1)*
10.6	1996 Stock Option Plan, as amended.(17)*
10.7	1996 Independent Director Stock Plan, as amended.(17)*
10.8	Form of Executive Option Exercise Loan Plan(3)*
10.9	Lease Agreement between S/I Northcreek II, LLC and Microvision, Inc., dated October 27, 1998(23)
10.9.1	Lease Amendment No 1 to Lease between S/I Northcreek II, LLC and Microvision, Inc., dated July 12, 1999(9)
10.9.2	Lease Amendment No 12 to Lease between S/I Northcreek II, LLC and Microvision, Inc., dated February 14, 2001(9)
10.10	Form of Consulting Agreement between Microvision, Inc. and Avram Miller and Jacqueline Brandwynne dated August 10, 2000(8)
10.11	Form of Common Stock Purchase Warrant issued to Avram Miller and Jacqueline Brandwynne dated August 10, 2000(8)
10.12	Exclusive Licensing Agreement between the University of Washington and Lumera Corporation dated October 20, 2000(11). +
10.13	Sponsored Research Agreement between the University of Washington and Lumera Corporation dated October 20, 2000(11).
10.14	Independent Director Stock Option Plan, as amended(16)*
10.15	Investors' Rights Agreement, dated as of March 14, 2001 by and between Lumera Corporation and certain investors(12)
10.16	Executive Loan Plan and Related Form of Note(16)*
10.17	Microvision, Inc. Series 1 Stock Purchase Warrant, dated April 1, 1999, issued to Capital Ventures International (18)
10.18	Form of Stock Purchase Agreement dated March 22, 2002(20)
10.19	Form of Stock Purchase Agreement dated July 22, 2002(19)
10.20	Form of Securities Purchase Agreement dated as of March 3, 2003(18)
10.21	Form of the Option Agreement for options granted outside of the Plans(21)
10.22	Common Stock Purchase Warrant, dated as of January 14, 1999, issued to Stan Berk(22)
10.23	Common Stock Purchase Warrant, dated as of July 13, 1999, issued to Stan Berk(22)
10.24	Common Stock Purchase Warrant, dated as of April 13, 2000, issued to Burt S. Davis(22)
10.25	Common Stock Purchase Warrant, dated as of June 21, 2000, issued to Stan Berk(22)
10.26	Common Stock Purchase Warrant, dated as of October 15, 2001, issued to Ladenburg Thalmann & Co. Inc. (22)
10.27	Registration Rights Agreement dated as of September 9, 2004 by and between Microvision, Inc. and Satellite Strategic Finance Associates, LLC. (24)
10.28	Securities Purchase Agreement dated as of September 9, 2004 by and between Microvision, Inc. and Satellite Strategic Finance Associates, LLC. (24)
10.29	License and Development Agreement dated as of December 30, 2004 by and between Microvision, Inc. and Ethicon Endo-Surgery, Inc. +
10.30	Securities Purchase Agreement dated as of March 11, 2005 by and among Microvision, Inc. and the investors listed on the Schedule of Buyers thereto. (25)
23	Consent of Independent Registered Public Accounting Firm
24	Power of Attorney pursuant to which this report may be filed.

31.1	Chief Executive Officer certification pursuant to Rule 13a-14(a)/15d-14a 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(a)/15d-14a 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 Rule 13a-14(b) or Rule 13d-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	Chief 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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(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-QSB for the quarterly period ended

June 30, 1998.

(4) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1997.

(5) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended

December 31, 1998.

(6) Incorporated by reference to Registration Statement on Form S-3, Registration No. 333-33612.

(7) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended June 30,

2000.

(8) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended September

30, 2000.

(9) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1999.

(10) Incorporated by reference to Registration Statement on Form S-3, Registration No. 333-33612.

(11) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended

December 31, 2000.

(12) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended March 31,

2001.

(13) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended June 30, 2001.

(14) Incorporated by reference to the Registration Statement on Form S-3, Registration No. 333-69652.

(15) Incorporated by reference to the Company's Current Report on Form 8-K filed on October 9, 2001.

(16) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2001.

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(18) Incorporated by reference to the Company's Current Report on Form 8-K filed on March 5, 2003.

(19) Incorporated by reference to the Company's Current Report on Form 8-K filed on July 23, 2002.

(20) Incorporated by reference to the Company's Current Report on Form 8-K filed on March 26, 2002.

(21) Incorporated by reference to the Company's Schedule TO file on November 1, 2002.

(22) Incorporated by reference to the Company's Annual Report on Form 10K for the year ended December 31, 2002.

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(24) Incorporated by reference to the Company's Current Report on Form 8-K filed on September 10, 2004.

(25) Incorporated by reference to the Company's Current Report on Form 8-K filed on March 14, 2005.

+ Subject to confidential treatment.

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

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-19011, No. 333-71373, No. 333-42276, No. 333-45534, No. 333-73652, and No. 333-89176), and on Form S-3 (No. 333-102244, No. 333-76432, No. 333-69652, No. 333-33612, No. 333-89257, No. 333-84587, No. 333-81311, No. 333-76395, No. 333-79753 and No. 333-119645) of Microvision, Inc. of our report dated March 15, 2005 relating to the financial statements, financial statement schedule, managements assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PRICEWATERHOUSECOOPERS LLP

Seattle, Washington
March 15, 2005

Exhibit 31.1

**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**

I, , Richard F. Rutkowski, Chief Executive Officer and Director of the Company, certify that:

1. I have reviewed this annual report on Form 10-K of Microvision, Inc. (the "registrant") for the period ended December 31, 2004.

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report.

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d- 14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 16, 2005

/s/ RICHARD F. RUTKOWSKI

Richard F. Rutkowski
Chief Executive Officer

Exhibit 31.2

**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**

I, Richard A. Raisig, Chief Financial Officer of the Company, certify that:

1. I have reviewed this annual report on Form 10-K of Microvision, Inc. (the "registrant") for the period ended December 31, 2004.

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report.

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d- 14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 16, 2005

/s/ RICHARD A. RAISIG

Richard A. Raisig
Chief Financial Officer

Exhibit 32.1

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

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

1) the Company's Form 10-K for the year ended December 31, 2004 fully complies with the requirements and of Section 13(a) or 15(d) of the Securities Exchange Act of 1934;

2) the information contained in the Company's Form 10-K for the year ended December 31, 2004 fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ RICHARD F. RUTKOWSKI

Richard F. Rutkowski
Chief Executive Officer

Date: March 16, 2005

Exhibit 32.2

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

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

1) the Company's Form 10-K for the year ended December 31, 2004 fully complies with the requirements and of Section 13(a) or 15(d) of the Securities Exchange Act of 1934;

2) the information contained in the Company's Form 10-K for the year ended December 31, 2004 fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ RICHARD A. RAISIG

Richard A. Raisig
Chief Financial Officer

Date: March 16, 2005

Exhibit 10.29

Execution Copy

LICENSE AND DEVELOPMENT AGREEMENT

THIS LICENSE AND DEVELOPMENT AGREEMENT is made as of December 30, 2004 (the " Effective Date") by and between **MICROVISION, INC.**, a corporation organized under the laws of the state of Delaware (hereinafter referred to as "MVIS"), and **ETHICON ENDO-SURGERY, INC.**, a wholly-owned subsidiary of Johnson & Johnson, and a corporation organized under the laws of Ohio (hereinafter referred to as "Ethicon"). Each of Ethicon and MVIS may hereafter be referred to as a "Party" or collectively as "Parties."

WHEREAS, MVIS and Ethicon entered into a Technology Feasibility Agreement (now terminated) in which the Parties collaborated in an initial development program directed to Micro-Electro-Mechanical Systems ("MEMS") resonant scanning mirror image capture devices for use in all medical endoscopic applications with the exception of photo dynamic therapy, confocal imaging, dental, arthroscopic and ear, nose and throat.

WHEREAS, The Parties wish to continue with the further development of the MEMS resonant scanning mirror image capture devices.

WHEREAS, If the product development is successful, the Parties wish to have the developed product commercialized for applications in the Field (defined below), and further, to grant Ethicon an option for MVIS to supply the developed product to Ethicon for use within the Field.

NOW, THEREFORE, in consideration of the foregoing recitals and the mutual covenants and agreements contained herein, the Parties hereto, intending to be legally bound, do hereby agree as follows:

ARTICLE 1
DEFINITIONS

1.1 "Agreement" means this License and Development Agreement and all exhibits, schedules, addenda and other attachments hereto, as amended from time to time.

1.2 "Affiliate" of a Party means any entity or person that directly or indirectly controls, is controlled by or is under common control with such Party. For purposes of this definition, "control" shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of an entity, whether through the ownership of voting securities, by contract or otherwise.

1.3 "Background MVIS Copyrights" means any original works of authorship fixed in any tangible medium of expression, including computer software (both source code and object code) and mask works as defined in Section 901 of the U.S. Copyright Act, whether developed prior to the Term or during the Term, that are owned or under the Control of MVIS, and that are incorporated into any Licensed Product or any documentation related to a Licensed Product.

1.4 "Background MVIS Intellectual Property" means, collectively, the Background MVIS Patent Rights, Background MVIS Copyrights and Background MVIS Know-How.

1.5 "Background MVIS Know-How" means all Know-How owned or under the Control of MVIS that directly relates to the Licensed Products that (a) is not Developed MVIS Know-How, and (b) is necessary to manufacture and commercialize the Licensed Product.

1.6 "Background MVIS Patent Rights" means all Patent Rights owned or Controlled by MVIS that relate to Licensed Products for use in the Field, whether existing prior to the Term or developed during the Term, including such Patent Rights under the patents and patent applications set forth in Exhibit A, which, with respect to Patent Rights owned by Third Parties, are subject to the terms and conditions of the license agreements between MVIS and the Third Party licensors.

1.7 "Bankruptcy Event" means (i) voluntary or involuntary proceedings are instituted by or against an entity in bankruptcy or under Title 7 of the U.S. Code, or (ii) proceedings are instituted by or against an entity for the dissolution of such entity, which proceedings, if involuntary, shall not have been dismissed within sixty (60) days after the date of filing, or (iii) substantially all of the assets of such entity are seized or attached and not released within sixty (60) days thereafter, or (iv) MVIS's bankruptcy trustee rejects this Agreement under Title 11.

1.8 **"Calendar Quarter"** means the usual and customary Ethicon calendar quarter, used for internal accounting purposes, of approximately three (3) months, in which each of the first two months consist of four weeks and the third month consists of five weeks.

1.9 "CPI" means the percent change over 12 months, not seasonally adjusted, of Consumer Price Index-All Urban Consumers, US City Average, All Items Less Food and Energy as published by the United States Department of Labor Bureau of Labor Statistics.

1.10 "Change in Control" means in respect of a Party hereto (i) the liquidation or dissolution of such Party or the sale or other transfer by such Party (excluding transfers to subsidiaries) of all or substantially all of its assets; or (ii) the occurrence of a tender offer, stock purchase, other stock acquisition, merger, consolidation, recapitalization, or other transaction, as a result of which any person, entity or group (a) becomes the beneficial owner, directly or indirectly, of securities of such Party representing more than 50% of the ordinary shares of such Party or representing more than 50% of the combined voting power with respect to the election of directors (or members of any other governing body) of such Party's then outstanding securities, (b) obtains the ability to appoint a majority of the Board of Directors (or other governing body) of such Party, or obtains the ability to direct the operations or management of such Party or any successor to such Party's business; provided, however, that Change in Control shall not include the issuance by a Party of equity to the public through a public offering or offerings.

1.11 "Control" means with respect to any Intellectual Property Right, possession by a Party of the ability to grant the other Party a license or sublicense without violating the terms of any agreement, or otherwise affecting any arrangement with any Third Party.

1.12 "Developed Ethicon Copyrights" means any original works of authorship fixed in any tangible medium of expression, including computer software (both source code and object code) and mask works, as defined in Section 901 of the U.S. Copyright Act, developed in the course of a Development Program that are owned or Controlled by Ethicon pursuant to Article 9.1 (Ownership of Intellectual Property Rights).

1.13 "Developed Ethicon Intellectual Property" means, collectively, the Developed Ethicon Patent Rights, Developed Ethicon Copyrights and Developed Ethicon Know-How.

1.14 "Developed Ethicon Know-How" means all Know-How developed in the course of a Development Program that is owned or Controlled by Ethicon pursuant to Article 9.1 (Ownership of Intellectual Property Rights).

1.15 "Developed Ethicon Patent Rights" means all Patent Rights under the patents and patent applications covering inventions made in the course of the Development Program that are owned or Controlled by Ethicon pursuant to Article 9.1 (Ownership of Intellectual Property Rights).

1.16 "Developed Joint Intellectual Property" means, collectively, the Developed Joint Patent Rights and all other Intellectual Property Rights developed in the course of a Development Program that are owned or Controlled jointly by the Parties pursuant to Article 9.1 (Ownership of Intellectual Property Rights).

1.17 "Developed Joint Patent Rights" means all Patent Rights to all inventions made in the course of a Development Program that are owned or Controlled jointly by the Parties pursuant to Article 9.1 (Ownership of Intellectual Property Rights).

1.18 "Developed MVIS Copyrights" means any original works of authorship fixed in any tangible medium of expression, including computer software (both source code and object code) and mask works, as defined in Section 901 of the U.S. Copyright Act, developed in the course of a Development Program that are owned or Controlled by MVIS pursuant to Article 9.1 (Ownership of Intellectual Property Rights).

1.19 "Developed MVIS Intellectual Property" means, collectively, the Developed MVIS Patent Rights, Developed MVIS Copyrights and Developed MVIS Know-How.

1.20 "Developed MVIS Know-How" means all Know-How developed in the course of a Development Program that is owned or Controlled by MVIS pursuant to Article 9.1 (Ownership of Intellectual Property Rights).

1.21 "Developed MVIS Patent Rights" means all Patent Rights to all inventions made in the course of a Development Program that are owned or Controlled by MVIS pursuant to Article 9.1 (Ownership of Intellectual Property Rights).

1.22 "Development Program" means collectively the Initial Development Program and future development programs to develop Licensed Products that the Parties mutually agree to undertake in accordance with the terms and conditions of this Agreement.

1.23 [ ]*

1.24 "Ethicon Improvement Patent Rights" means all Patent Rights owned or Controlled by Ethicon, excluding Developed Ethicon Patent Rights, directed to the Licensed Products (including Patent Rights directed to MEMS image capture technology generally).

1.25 "Ethicon Patented Product" means a product which, but for the licenses granted under this Agreement by Ethicon to MVIS, would infringe at least one Valid Claim of the Developed Ethicon Patent Rights or Ethicon Improvement Patent Rights in the country in which any such instrument or component thereof is made, used, offered for sale, sold, imported or otherwise disposed of solely within the Field.

1.26 "Ethicon Patent Rights" means all Developed Ethicon Patent Rights and Ethicon Improvement Patent Rights owned or Controlled by Ethicon.

1.27 "Ethicon Product" means [ ]*

1.28 "Events of Default" has the meaning given in Article 11.4.

1.29 "FDA" means the United States Food and Drug Administration.

1.30 "Field" means [ ]* as may be subsequently limited by MVIS exercising its Grant Back Option for one or more Sub-Field in accordance with Article 5.8 (MVIS Sub- Field Grant Back Option).

*This portion of the Exhibit has been omitted pursuant to a Request for Confidential Treatment under Rule 24b-2 under the Securities Exchange Act of 1934, as amended. The complete Exhibit, including the portions for which confidential treatment has been requested, has been filed separately with the Securities and Exchange Commission.

1.31 "Intellectual Property" or **"Intellectual Property Rights"** means patents, Patent Rights, design rights, trademarks, service marks, trade names, trade dress, copyrights, works of authorship, mask work rights, database rights, Know-How, and trade secrets, and any other intellectual property rights, and any and all registrations and applications for all of the foregoing throughout the world.

1.32 "Initial Development Program" means the Development Program set forth in Exhibit B under which the Parties develop a Licensed Product.

1.33 "Initial Development Statement of Work" means the statement of work as set forth in Exhibit B and amended from time to time as mutually agreed to by the Parties and where any inconsistencies between the terms of Articles 1 through 13 of this Agreement and Exhibit B shall be controlled by the terms of Articles 1 through 13.

1.34 "Know-How" means all know-how, trade secrets, inventions, disclosures of inventions, data, processes, techniques, procedures, compositions, devices, methods, formulas, protocols, and information, whether or not patentable, which are confidential, including, without limitation, all chemical, biochemical, toxicological and scientific research information.

1.35 "Licensed Products" means [

]*

1.36 "MVIS Intellectual Property" means collectively Background MVIS Intellectual Property and Developed MVIS Intellectual Property.

1.37 "MVIS Patent Rights" means collectively Background MVIS Patent Rights, Developed MVIS Patent Rights and MVIS's interests in Developed Joint Patent Rights.

1.38 "Medical Field" means [

]*

*This portion of the Exhibit has been omitted pursuant to a Request for Confidential Treatment under Rule 24b-2 under the Securities Exchange Act of 1934, as amended. The complete Exhibit, including the portions for which confidential treatment has been requested, has been filed separately with the Securities and Exchange Commission.

1.39 "Net Sales" means [

]*

1.40 "Patent Rights" means all rights under patents and patent applications and any and all patents issuing therefrom (including utility, model and design patents and certificates of invention), together with any and all substitutions, extensions (including supplemental protection certificates), registrations, confirmations, reissues, divisionals, continuations, continuations-in-part, re-examinations, renewals and foreign counterparts of the foregoing.

*This portion of the Exhibit has been omitted pursuant to a Request for Confidential Treatment under Rule 24b-2 under the Securities Exchange Act of 1934, as amended. The complete Exhibit, including the portions for which confidential treatment has been requested, has been filed separately with the Securities and Exchange Commission.

1.41 "Patented Product" means a Licensed Product which, but for the licenses granted under this Agreement, would infringe at least one Valid Claim of the MVIS Patent Rights in the country in which any such instrument or component thereof is made, used, offered for sale, sold, imported or otherwise disposed of solely within the Field.

1.42 "Phase 2 Initial Funding" means the initial funding of [

]* toward Phase 2 development that Ethicon provided to MVIS pursuant to that letter from Ethicon to MVIS dated October 14, 2004, Ethicon Purchase Orders [ ]*.

1.43 "Regulatory Agency" means the regulatory agency in a country other than the United States, which performs the same or equivalent function as the FDA in the United States with respect to the Licensed Product, and any reference to a rule or requirement of the FDA herein shall, if the circumstances make it applicable, refer to the equivalent rule or requirement of any Regulatory Agency.

1.44 "Sub-Field" means individually the following medical areas within the Field [

]*.

1.45 "Sublicensee" shall mean any Third Party sublicensee of the rights granted by one Party to the other Party under this Agreement or the Supply Addendum.

1.46 "Supply Addendum" means the Supply Addendum between MVIS and Ethicon in the form attached hereto as Exhibit D that may be entered into by the Parties pursuant to Article 4.4 of this Agreement (Supply Addendum Option).

1.47 "Territory" means worldwide.

1.48 "Third Party" means any person or entity other than MVIS or Ethicon or an Affiliate of MVIS or Ethicon.

1.49 "Valid Claim" means a claim of any issued U.S. or foreign patent included within the MVIS Patent Rights, which claim has not lapsed, been canceled or become abandoned and has not been declared invalid or unenforceable by an unreversed and unappealable decision or judgment of a court or other appropriate body of competent jurisdiction, and which has not been admitted to be invalid or unenforceable through reissue, disclaimer or otherwise.

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1.50 Other Defined Terms. The following terms are defined in the following sections of this Agreement:

Defined Term	Section
Advisory Committees	Article 3.1
Appeal Arbitrator	Article 12.1(a)(vii)
Applicable Royalty Rate	Article 6.4
Buy Out Option	Article 5.9
Commercial Exploitation	Article 2.3
Confidential Information	Article 13.1(a)
CPR	Article 12.1(a)
Date of Termination	Article 4.1(b)
Developed IP Option	Article 14.6(a)
Development Fee Credits	Article 6.5(d)

Disclosing Party	Article 13.1(a)
Effective Date	Preamble
Eligible Sub	Field Article 5.8(a)
[ ]*	
Ethicon	Preamble
Excluded Sub	Field Article 5.8(a)
Exclusive Licensed Products	Article 6.5(f)
Expiration Date	Article 11.1(a)
Evaluation Period	Article 14.2(c)
Evaluation Period Extension	Article 14.2(c)
Event of Default	Article 11.4
Force Majeure Event	Article 11.7
Grant Back Option	Article 5.8
Information Managers	Article 13.1(e)(i)
License Maintenance Fee	Article 6.5(a)
License Maintenance Fee Buyout	Article 6.5(e)
Licensor	Article 11.8
Licensee	Article 11.8
Maintenance Fee Year	Article 6.5
Maintenance Period Start Date	Article 6.5(a)
MEMS	Recitals
MVIS	Preamble
MVIS Licensors	Article 10.5
MVIS Transfer Price	Article 6.4
Outside Activities	Article 2.1
Project Managers	Article 3.1
Receiving Party	Article 13.1(a)
Regulatory Filings	Article 4.3(b)(i)
Restricted Exclusive License Option	Article 6.5(f)

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Services	Article 4.1(a)
Supply Addendum Option	Article 4.4
Term	Article 11.1
Title 11	Article 11.8
[ ]*	

ARTICLE 2
<u>SCOPE OF DEVELOPMENT</u>

2.1 Activities Outside the Scope of this Agreement. Except as specifically provided herein, all activities of the Parties that are not directly related to or are not performed or conducted in furtherance of this Agreement, including any activities, any process, product or technology developments, or any other inventions with Third Parties prior to, during or after termination or expiration of this Agreement, are outside the scope of this Agreement (the "<u>Outside Activities</u>"), and nothing herein is intended to limit, restrict or prohibit MVIS or its Affiliates from using the MVIS Intellectual Property Rights, or

Ethicon or its Affiliates from using any Ethicon Patent Rights, for such Outside Activities, or is intended to be construed to grant an interest in or license to such Outside Activities to the other Party.

2.2 Licensed Products.

a. MVIS agrees that during the Initial Development Program, it shall not develop or commercially exploit, for any Third Party, Licensed Products for use within the Field.
b. MVIS agrees that during the Term of this Agreement, it shall not enter into any agreement with a Third Party that conflicts with the terms and conditions of this Agreement.
c. Ethicon agrees that during the term of the Initial Development Program, it (i) shall not develop, other than as part of the Initial Development Program, and (ii) shall not engage any Third Party to develop, any Licensed Product for use within the Field.

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2.3 Commercial Exploitation [

]*

2.4 No Naming Individuals. The Parties agree that as between themselves, the directors, officers, employees and individuals acting as agents of or for any Party to this Agreement shall not be named as parties to any suit or arbitration proceeding brought in connection with the transactions contemplated by this Agreement solely as a result of performing actions within the scope of their authority as a director, officer, employee or agent of a Party to this Agreement. This Article 2.4 is intended for the benefit of the respective Parties to this Agreement only. Either Party may waive the application of this provision as to its own directors, officers, employees, and agents, and no director, officer, employee, or agent of either Party is an intended third party beneficiary of this Article 2.4, and no such individual will have the right to enforce this Article 2.4.

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ARTICLE 3
DEVELOPMENT PROGRAM MANAGEMENT

3.1 Formation. The activities of the Parties under this Agreement shall be managed by two project managers, one assigned by MVIS and one assigned by Ethicon (the "Project Managers"). The Parties may reassign their respective Project Managers at their sole discretion. The Project Managers may assign additional representatives from each Party to form advisory committees as may be required within each functional group (e.g. Regulatory, Clinical, R&D, and Manufacturing Operations) (the "Advisory Committees").

3.2 Meetings. The Project Managers shall meet at least once per quarter or as they deem necessary at their discretion by teleconference or by meeting at locations and times to be determined by the Project Managers and/or Advisory Committee. If the Parties meet, meetings shall alternate locations between Blue Ash, Ohio and Bothell, Washington. Each Party shall bear all travel and related costs for its representatives. Each meeting shall be chaired by the Project Manager from the host Party.

3.3 Development Program. The Project Managers' role shall include supervising and managing the Development Program, defined in Article 4 below. In addition, the Project Managers are responsible for reviewing (and if necessary revising) specifications, budgets, timetables, prices, patent strategy, and clinical programs for the Development Program, and shall have the responsibility to communicate and approve the decisions regarding the foregoing. All such decisions shall be made by consensus between the Parties. Further, MVIS agrees to perform all Services under the Development Program utilizing any Ethicon specified design controls and other requirements for regulatory approval purposes that have been provided to MVIS in writing upon reasonable advance notice. MVIS further agrees that Ethicon shall have the right to audit MVIS's performance hereunder to ensure compliance with such specified design controls and regulatory approval requirements, including all Regulatory Agency design controls. Such audit shall be performed upon reasonable notice to MVIS during normal business hours at Ethicon's expense. MVIS shall make reasonable, mutually agreeable and timely efforts, at MVIS's expense, to close any identified audit gaps.

3.4 Patent Strategy. The Project Managers shall be responsible for managing and reviewing the patent strategy for inventions made in the course of the Development Program and shall meet monthly to review invention disclosures, identify patentable inventions, determine inventorship, and determine whether patents should be sought for such inventions in accordance with Article 9 (Intellectual Property Rights and Infringement).

ARTICLE 4
Development Program and Commercialization Activities

4.1 Development Services.

a. Ethicon wants MVIS to undertake development services for Ethicon in connection with the development of Licensed Products for use in the Field (collectively referred to as the "Services") in accordance with Development Program(s), and MVIS will use commercially reasonable efforts to provide such Services. Services for the Initial Development Program are set forth in Exhibit B as the Initial Development Statement of Work. Each Party will keep the other informed of the progress of the work that is conducted at its facilities and shall permit the other Party's representatives to inspect the work from time to time as deemed reasonably necessary by the Party and upon prior approval of the other Party. In the event that Ethicon desires MVIS to undertake an additional Development Program to develop Licensed Products outside the scope of Services, Ethicon and MVIS shall negotiate a separate understanding similar in nature to the terms and statement of work of Exhibit B for each such additional Development Program(s).
b. Ethicon reserves the right at any time to discontinue all or any part of the Services for which MVIS is engaged for Ethicon, upon written notice (the "Date of Termination"). Ethicon shall be liable for [

]*

c. Independent Contractor. For the purpose of this Agreement and the performance of the Services to be provided under this Agreement, MVIS shall be and shall be deemed to be, an independent contractor and not the agent or employee of Ethicon. MVIS shall be solely responsible for the payment when applicable of any licenses, taxes, or any other costs associated with MVIS's complying with pertinent laws and regulations. MVIS shall be solely responsible for complying with all pertinent laws and regulations applicable to the performance of Services under this Agreement and for the payment, when applicable, of any licenses, taxes or other costs associated with such compliance.
d. [

]*

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e. No Affirmative Obligation. In no event shall anything in this Agreement be construed to impose upon Ethicon an affirmative obligation to engage MVIS in any services other than the Services.
f. Changes. Any material changes and/or additions to the Development Program must be agreed to by both Parties in writing as authorized by Ethicon's and MVIS's Project Manager. MVIS and Ethicon recognize that changes or modifications to the Development Program may be required, that such changes or modifications may have a material impact upon projected costs and schedules, and each Party agrees to negotiate in a reasonable manner to reach agreement for any such changes or modifications. MVIS shall not be required to implement any changes to the Development Program unless and until such changes are agreed upon by both Parties in writing.

4.2 Initial Development Program and Services. As set forth in Exhibit B.

4.3 Ethicon Commercialization Activities. [ ]*

a. Sales and Marketing. Ethicon will sell, offer for sale, contract, distribute, enter orders, invoice, collect, and market the Licensed Products in the Territory.
b. Regulatory.
   i. Ethicon shall be responsible for filing for regulatory approval for the Licensed Product developed during the Development Program in the United States and in all countries throughout the Territory (the "Regulatory Filings").
   ii. At Ethicon's request, MVIS shall provide Ethicon for its use in obtaining regulatory approvals for the Licensed Product copies of the following items that pertain to the Licensed Products to the extent that such items are Controlled by MVIS: all data, including, but not limited to, results and related information from clinical trials (if any), physical test data, biocompatability data, animal data, bench testing and stability data.

4.4 Supply Addendum Option. If Ethicon initiates Phase 4 of the Initial Development Program, Ethicon will have an option to enter into the Supply Addendum with MVIS (the "Supply Addendum Option"). At any time prior to the completion of Phase 4 of the Initial Development Program, Ethicon may exercise the Supply Addendum Option by providing MVIS with written notice of its desire to enter into the Supply Addendum. If Ethicon exercises the Supply Addendum Option, the Parties shall execute and deliver the Supply Addendum, subject only to the Parties' good faith negotiations and use of reasonable efforts to agree upon (i) Exhibit B (Specifications); (ii) Exhibit C (Supplied Licensed Products); and (iii) Schedule 2.02 (Transfer Prices) of the Supply Addendum. Upon entering into the Supply Addendum, the terms and

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conditions of the Supply Addendum will be incorporated into and become part of this Agreement. Further, Ethicon shall have the unilateral right to amend Schedule 1.06 of the Supply Addendum (Competitors) at any time prior to executing its Supply Addendum Option, but may not add more than two companies to the list currently set forth on Schedule 1.12 of the form of Supply Addendum attached hereto as Exhibit D. If Ethicon desires for MVIS to supply Ethicon with one or more additional Licensed Products developed by MVIS under one or more additional Development Programs, the parties will negotiate in good faith and use reasonable efforts to agree upon amendment(s) to Exhibit B, Exhibit C, and Schedule 2.02 of the Supply Addendum so that MVIS may supply such additional Licensed Product(s) to Ethicon pursuant to the Supply Addendum.

ARTICLE 5
GRANT OF LICENSE AND STANDSTILL

5.1 Development License to Background MVIS Intellectual Property. Subject to the terms and conditions of this Agreement, MVIS agrees to grant and hereby grants to Ethicon during the Term a co-exclusive (with MVIS), non-transferable license (with no right to sublicense) under the Background MVIS Intellectual Property to develop License Product(s) under a Development Program.

5.2 Standstill to Background MVIS Intellectual Property. During the Initial Development Program set forth in Exhibit B, and whether or not the development is successful, MVIS, its successors, assigns and transferees, shall not, and shall ensure that its officers, directors, employees, and agents do not directly or indirectly, (i) enter into, solicit, initiate, continue or encourage any discussions or negotiations with, (ii) respond to (other than to reject) any inquiries or proposals by, or (iii) provide any information to, or otherwise cooperate in any other way, with any corporation, partnership, person, limited liability company or other entity or group concerning the sale, transfer, disposition, licensing, or distribution of Background MVIS Intellectual Property relating to Licensed Products in the Field, or any other transaction which could in any material way encumber the ability of MVIS to grant to Ethicon exclusive worldwide rights to Background MVIS Intellectual Property relating to Licensed Products in the Field in accordance with the terms and conditions of this Agreement and the Supply Addendum.

5.3 License to Developed MVIS Intellectual Property. Subject to the terms and conditions of this Agreement and the Supply Addendum, MVIS hereby grants to Ethicon during the Term an exclusive, perpetual, non-transferable (other than as permitted in Article 13.4), royalty-bearing, sublicensable (as set forth in Article 5.7 (Sublicense Rights)) license under the Developed MVIS Intellectual Property and MVIS's interests in the Developed Joint Intellectual Property to develop one or more Licensed Product(s) under one or more Development Programs and to use, offer for sale, sell, or have sold (but not make, have made, or import) Licensed Products in the Territory solely within the Field. The exclusive license grant shall also include the right to reproduce, distribute, perform, and make derivative works of Developed MVIS Copyrights for the purpose of developing one or more Licensed Product(s) under one or more Development Programs and for the purpose of using, distributing, selling, offering for sale, marketing, and promoting (but not manufacturing or importing) Licensed Products in the Territory solely within the Field.

5.4 License to Make and Have Made. In the event that (a) Ethicon exercises its Supply Addendum Option, but MVIS refuses to negotiate in good faith and use reasonable efforts to enter into the Supply Addendum as required by Article 4.4 (Supply Addendum Option), (b) Ethicon and MVIS have entered into the Supply Addendum and Ethicon requests MVIS to supply an additional Licensed Product that was developed by MVIS under a Development Program but MVIS refuses to supply such Licensed Product to Ethicon, or (c) Ethicon receives a license under Article 5.5 to develop a Licensed Product, then MVIS shall expand the exclusive licenses of Articles 5.1 and 5.3 and grant to Ethicon (during the Term and subject to the terms and conditions of this Agreement) a non- transferable (other than as permitted under Article 13.4 (Assignment), sublicensable (as permitted under Article 5.7 (Sublicense Rights)), royalty-bearing, exclusive license under the Background MVIS Intellectual Property, Developed MVIS Intellectual Property and MVIS's interests in the Developed Joint Intellectual Property to make, have made, use, offer for sale, sell, have sold, and import such Licensed Product(s) referred to in clause (a), (b) or (c) above in the Territory solely within the Field. The exclusive license grant shall also include the right to reproduce, distribute, perform, and make derivative works of Background MVIS Copyrights, Developed MVIS Copyrights and MVIS's interests in the Developed Joint Intellectual Property solely for the purpose of making, having made, using, distributing, selling, offering for sale, marketing, and promoting such Licensed Products. If such license becomes effective, MVIS shall provide reasonable assistance, training and other information to Ethicon or its designee manufacturer in order for Ethicon or its designee to manufacture and have manufactured the Licensed Products at Ethicon's expense at MVIS's hourly consulting rate, which is not to exceed the rate MVIS offers to the United States Government.

5.5 License Rights to Develop and Have Developed. Except as provided in this Agreement, Ethicon will not, and will not engage any Third Party or Affiliate to, develop, modify, or improve any Licensed Product other than pursuant to a Development Plan under this Agreement that has been agreed to in advance by MVIS. Notwithstanding the foregoing, if MVIS refuses to perform development work with respect to a Licensed Product under this Agreement on commercially reasonable terms, then MVIS will grant Ethicon during the Term a license under Background MVIS Intellectual Property and Developed MVIS Intellectual Property to develop such Licensed Product or modifications or improvements, or engage a Third Party or Affiliate to conduct such development work. If such license becomes effective, MVIS shall provide reasonable assistance, training and other information to Ethicon or its designee developer in order for Ethicon or its designee to develop or have developed such Licensed Product at Ethicon's expense at MVIS's hourly consulting rate, which is not to exceed the rate MVIS offers to the United States Government.

5.6 License Rights to Affiliates. Ethicon shall have the right to extend all or any portion of the licenses granted herein or in the Supply Addendum to any of its Affiliates, upon the terms and conditions of this Agreement or the Supply Addendum (as applicable), provided Ethicon remains responsible for the performance of its Affiliates, and shall ensure that any such Affiliate complies with the relevant provisions of this Agreement, and that any such Affiliates also agrees in writing to be responsible for its performance of the relevant provisions of this Agreement.

5.7 Sublicense Rights. Ethicon may grant to one or more sublicenses under the licenses granted to Ethicon in Article 5.4 (License to Make and Have Made) and in Article 5.5 (License Rights to Develop and Have Developed) only as set forth in this Article 5.7. All Sublicenses granted under this Agreement must be consistent with the terms of this Agreement, must incorporate terms and conditions sufficient to enable Ethicon to comply with this Agreement, and must prohibit any further sublicense by a Sublicensee. Any sublicense granted by Ethicon (other than a sublicense to an Affiliate of Ethicon) shall be subject to the prior written approval of MVIS, which approval shall not be unreasonably withheld. Ethicon shall provide to MVIS a fully signed copy of all sublicense agreements and amendments thereto, including all exhibits, attachments and related documents within thirty (30) days of executing the same, which may be redacted to remove information other than the parties and the scope of the rights granted sufficient to show that the rights granted in the sublicense are consistent with this Agreement. Ethicon shall remain responsible to MVIS for any breach of this Agreement or any sublicense agreement by any Sublicensee and for the payment of all royalties and other amounts due under this Agreement, whether or not such payments are made by Ethicon, its Affiliates, or Sublicensees. Upon termination of this Agreement or any license granted hereunder for any reason, any sublicenses shall automatically terminate. If Ethicon assigns this Agreement to a Third Party as permitted under Article 13.4 (Binding Effect; Benefits; Assignment), any sublicense granted to an Affiliate of Ethicon shall automatically terminate.

5.8 MVIS Sub-Field Grant Back Option. Ethicon grants to MVIS an option to narrow the Field of the licenses granted in Articles 5.1, 5.3, 5.4 and 5.5 (Articles 5.4 and 5.5 only if applicable) subject to the terms and conditions below (the "Grant Back Option"):

a. Beginning one (1) year from the date of commencement by MVIS of Phase 4 of the Initial Development Program, MVIS may exercise its Grant Back Option for any Sub-Field in which (i) neither Ethicon nor any of its Affiliates is engaged with MVIS in a Development Program; or (ii) MVIS or Ethicon or any one its Affiliates or a Third Party contract manufacturer are not manufacturing a Licensed Product (each an "Eligible Sub-Field"). MVIS may exercise its Grant Back Option to exclude the one or more Eligible Sub-Fields from the Field upon payment of the Grant Back Option Exercise Fee of Article 6.7 and earned royalties set forth in Article 6.10 (each, upon such exercise, an "Excluded Sub-Field").
b. Upon MVIS exercising its Grant Back Option for one or more of the Eligible Sub-Fields, then (i) Ethicon shall have no license rights under Articles 5.1, 5.3, 5.4 and 5.5 (Articles 5.4 and 5.5 only if applicable) with respect to such Excluded Sub-Field(s), and (ii) Ethicon agrees to and hereby grants MVIS a non-exclusive, perpetual, royalty-bearing license in accordance with the restricted right to grant sublicenses (as defined in clause (c) below), under the Developed Ethicon Intellectual Property and Ethicon Improvement Patent Rights to make, have made, use, sell, offer to sell, and import Licensed Products in the Territory in such Excluded Sub-Field(s). Ethicon may terminate the license in clause (ii) if MVIS fails to pay royalties due to Ethicon under such license within 30 days of receiving notice of such failure from Ethicon.
c. MVIS may grant one or more sublicenses under the licenses granted to MVIS in Article 5.8(b) but only in combination with the license of MVIS Intellectual Property. All Sublicenses granted under this Agreement must be consistent with the terms of this Agreement, must incorporate terms and conditions sufficient to enable MVIS to comply with this Agreement, and shall prohibit any further sublicense by a Sublicensee. MVIS shall provide to Ethicon a fully signed copy of all sublicense agreements and amendments thereto, including all exhibits, attachments and related documents within thirty (30) days of executing the same, which may be redacted to remove information other than the parties and the scope of the rights granted sufficient to show that the rights granted in the sublicense are consistent with this Agreement. MVIS shall remain responsible to Ethicon for any breach of any sublicense agreement by any Sublicensee and for the payment of all royalties and other amounts due under this Agreement, whether or not such payments are made by MVIS, its Affiliates, or Sublicensees. Upon termination of the license granted by Ethicon in

clause (ii) of paragraph (b) above, any sublicenses shall automatically terminate. If MVIS assigns this Agreement to a Third Party as permitted under Article 13.4 (Binding Effect; Benefits; Assignment), any sublicense granted to an Affiliate of MVIS shall automatically terminate.

5.9 Sub-Field Buy-Out Option. Ethicon, at its sole discretion, may buy-out MVIS's Grant Back Option for all of the Sub-Fields (other than the Excluded Sub-Fields) (the "Buy-Out Option") at any time prior to MVIS exercising its Grant Back Option in those remaining Sub-Field(s) by paying to MVIS the Buy-Out Exercise Fee set forth in Article 6.8 or by paying MVIS the License Maintenance Fee Buyout under Article 6.5(e) (License Maintenance Buyout). If Ethicon exercises its Buy-Out Option for the remaining Sub-Field(s), then MVIS's Grant Back Option shall be null and void with respect to such remaining Sub-Field(s), but such exercise of the Buy-Out Option will not affect those Excluded Sub-Field(s) that were excluded from the Field upon MVIS's exercise of its Grant Back Option(s) prior to Ethicon's exercise of its Buy-Out Option.

5.10 License to Ethicon Improvement Patent Rights. Ethicon hereby grants to MVIS an exclusive, irrevocable, perpetual, royalty-free license, with the right to grant sublicenses (through multiple tiers), under the Ethicon Improvement Patent Rights to make, have made, use, sell, offer to sell, and import products and practice processes in the Territory but solely outside the Medical Field.

5.11 Reservation of Rights. All rights not expressly granted to Ethicon are reserved to MVIS, its Affiliates, and other licensees. Ethicon shall not exploit the MVIS Intellectual Property in any way other than expressly licensed in this Agreement or in the Supply Addendum.

ARTICLE 6
Payments

6.1 Upfront Fee. In consideration for the licenses and options granted by MVIS to Ethicon under this Agreement, Ethicon shall pay to MVIS an Upfront Fee of [ ]* within fifteen (15) calendar days after the Effective Date.

6.2 Initial Development Program Fee Payments. Per Exhibit B.

6.3 Royalty Payments. In the event that Ethicon is granted a license to make, have made, and import Licensed Products under Article 5.4 (License to Make and Have Made) of this Agreement or 8.01 (License) and 8.03 (Effect of Escrow Release) of the Supply Addendum, then, in such event, Ethicon shall pay MVIS an earned royalty of [ ]* on Net Sales of Ethicon Products made by Ethicon, its Affiliates, Sublicensees, or contract manufacturers during the Term, which royalties Ethicon will pay on a quarterly basis in accordance with Article 7.1. (Payment; Reports), and which payments will be fully creditable against the annual License Maintenance Fee as provided in Article 6.5 (License Maintenance Fee) below.

a. No earned royalties shall be payable on Net Sales of any Ethicon Product in conjunction with clinical tests or trials conducted prior to FDA approval of the such Licensed Product.
b. Earned royalties shall only be payable on Net Sales of an Ethicon Product that is made, used, imported or sold in a country where there is an MVIS Patent Right with a Valid Claim.
c. No multiple earned royalties shall be payable because any Patented Product is covered by more than one of the MVIS Patents Rights.
d. Ethicon shall have no minimum royalty obligations during the Term of this Agreement.

6.4 [

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6.5 License Maintenance Fee.

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6.6]*

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[

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6.7 Grant Back Option Exercise Fee. MVIS shall pay to Ethicon [ ]* upon MVIS's exercise of each Grant Back Option relating to each Sub-Field.

6.8 Buy-Out Exercise Fee. Ethicon shall pay to MVIS [ ]* for each Excluded Sub-Field for which MVIS exercised its Grant Back Option.

6.9 [

]*

6.10 Sub-Field Royalty Payments. In further consideration for the Grant Back Option, if MVIS exercises the Grant Back Option, MVIS shall pay to Ethicon on a quarterly basis in accordance with Article 7.1 an earned royalty of [ ]* on the Net Sales of Ethicon Patented Products in the Excluded Sub-Field.

a. No earned royalties shall be payable on Net Sales of any Ethicon Patented Product in conjunction with clinical tests or trials.
b. Earned royalties shall only be payable on Net Sales of any Ethicon Patented Product that is made, used, imported or sold in only those countries having an issued patent with a Valid Claim of an Ethicon Patent Right.
c. No multiple earned royalties shall be payable because any Ethicon Patented Product is covered by more than one of the Ethicon Patents Rights.
d. MVIS shall have no minimum royalty obligations during the Term of this Agreement.

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e. [

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ARTICLE 7
PAYMENTS; RECORDS; AUDITS

7.1 Payment; Reports. Royalty payments shall be calculated and reported for each Calendar Quarter. Ethicon shall pay all royalty payments due to MVIS under this Agreement within 45 days of the end of each Calendar Quarter, unless otherwise specifically provided herein. Each payment of royalties shall be accompanied by a written report in sufficient detail to permit confirmation of the accuracy of the royalty payment made, including, without limitation, Net Sales, the royalties payable in United States dollars, the method used to calculate the royalty and the exchange rates used.

7.2 Exchange Rate; Manner and Place of Payment. Payments to be made by Ethicon to MVIS under this Agreement shall be paid by bank wire transfer in immediately available funds to such bank account as is designated by MVIS from time to time. A late payment charge of 0.75% per month, or the maximum rate allowed by law, whichever is less, will be added to all amounts due under this Agreement if not paid when due. All payments hereunder shall be payable in United States dollars. With respect to each Calendar Quarter, for countries other than the United States, whenever conversion of payments from any foreign currency shall be required, such conversion shall be made at the rate of exchange reported in *The Wall Street Journal* on the last business day of the applicable reporting period. All payments owed under this Agreement shall be made by wire transfer to a bank account designated by MVIS, unless otherwise specified in writing by MVIS.

7.3 Records and Audits. During the Term, and for a period of two years thereafter, each Party shall keep complete and accurate records in sufficient detail to permit the other Party to confirm the accuracy of all payments due under this Agreement. Each Party shall have the right to have such records audited by a Third Party representative (which representative will be a nationally recognized accounting firm) relating the accuracy of all payments due under this Agreement for the preceding two years subject to terms of a reasonable and customary confidentiality agreement consistent with the confidentiality terms agreed to by the Parties in this Agreement and the Supply Addendum. Such Third Party representative will report its conclusions

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regarding the audited Party's payments to the auditing Party. Such audits may be conducted during normal business hours no more than once in any 12-month period upon at least 30 days' prior written notice to the other Party. The auditing Party shall bear the full cost of such audit, except that if the audit validly determines that audited Party has made an underpayment with respect to the audited period that is greater than 7.5% of all amounts due in such audited period, then the audited Party will reimburse the auditing Party for all costs incurred by the auditing Party in connection with the audit, including reasonable travel expenses. If the audit validly determines that there has been any underpayment, the audited Party shall promptly reimburse the auditing Party the amount of such underpayment plus interest at a rate equal to the Prime Rate, as quoted in *The Wall Street Journal* under the heading "Money Rates," during the audited period. If the audit validly determines that the audited Party has made an overpayment with respect to the audited period, the auditing Party shall promptly pay the audited Party the amount of such overpayment, without interest. Any dispute regarding any payments due hereunder shall be subject to the dispute resolution procedures set forth in Article 12.

7.4 Taxes. All taxes levied on account of the royalties and other payments accruing to MVIS under this Agreement shall be paid by MVIS for its own account, including taxes levied thereon as income to MVIS. If provision is made in law or regulation for withholding, such tax shall be deducted from the royalty or other payment made by Ethicon to MVIS and Ethicon shall pay such tax on MVIS's behalf to the proper taxing authority and obtain a tax certificate and receipt of payment of the tax secured and promptly deliver such tax certificate and receipt to MVIS. Each Party agrees to assist the other Party in claiming exemption from such deductions or withholdings under any double taxation or similar agreement or treaty from time to time in force.

7.5 Prohibited Payments. Notwithstanding any other provision of this Agreement, if Ethicon is prevented from paying any such royalty by virtue of the statutes, laws, codes or governmental regulations of the country from which the payment is to be made, then such royalty may be paid by depositing funds, in the currency in which accrued, to MVIS's account in a bank acceptable to MVIS in the country whose currency is involved, or through some other arrangement mutually acceptable to the Parties.

ARTICLE 8
INDEMNIFICATION

8.1 In order to distribute among themselves the responsibility for claims arising out of this Agreement, and except as otherwise specifically provided for herein, the Parties agree as follows:

a. Indemnification by MVIS. MVIS agrees to defend and indemnify and hold Ethicon and its Affiliates harmless against any and all claims, suits, or proceedings, brought by a Third Party against Ethicon or its Affiliates and all expenses, recoveries, and damages, including court costs and reasonable attorneys fees and expenses, that arise out of, are based on, or are caused by (i) the breach by MVIS of any covenant, representation or warranty contained in this Agreement, (ii) the Licensed Product's infringement of the Patent Rights of a Third Party (except to the extent that the Licensed Product infringes such Third Party Patent Rights as a result of developments that were made or created in the course of a Development Program or as a result of the combination of the Licensed Product into an Ethicon Product), (iii) any misappropriation of trade secrets or infringement of copyright by MVIS in the development of a Licensed Product in the course of a Development Program; or (iv) any product liability or personal injury arising from or relating to a failure of Supplied Licensed Products supplied by MVIS to Ethicon under the Supply Addendum (if any). As a condition of MVIS's indemnification obligation set forth in this paragraph, Ethicon (a) Ethicon shall provide MVIS with reasonably prompt written notice of any claim or action for which it seeks indemnification under this Article 8.1(a) (provided that a failure or delay to provide such notice will only relieve MVIS of its indemnification obligation under this paragraph to the extent MVIS is prejudiced by the failure or delay); (b) MVIS shall have sole control of the defense and settlement of any such claim or action; and (c) Ethicon shall reasonably cooperate and provide reasonable assistance in connection with the defense and settlement of any such claim or action.

b. Indemnification by Ethicon. Ethicon agrees to defend and indemnify and hold MVIS, its Affiliates, and the Third Party licensors of the Background MVIS Patent Rights (to the extent such indemnity is required by the license agreement between MVIS and such Third Party licensor) harmless against any and all claims, suits, or proceedings brought by a Third Party against MVIS or its Affiliates and all expenses, recoveries, and damages, including court costs and reasonable attorneys fees and expenses, that arise out of, are based on, or are caused by (i) the breach by Ethicon of any covenant, representation or warranty contained in this Agreement; (ii) any product liability claim related to an Ethicon Product (other than due to failure of a Supplied Licensed Product, as defined in the Supply Addendum); or (iii) any allegation that the Ethicon Product infringes any Third Party's Intellectual Property Rights (other than claims for which MVIS must indemnify Ethicon under paragraph (a) above). As a condition of MVIS's indemnification obligation set forth in this paragraph, Ethicon (a) MVIS shall provide Ethicon with reasonably prompt written notice of any claim or action for which it seeks indemnification under this Article 9.1(b) (provided that a failure or delay to provide such notice will only relieve Ethicon of its indemnification obligation under this paragraph to the extent Ethicon is prejudiced by the failure or delay); (b) Ethicon shall have sole control of the defense and settlement of any such claim or action; and (c) MVIS shall reasonably cooperate and provide reasonable assistance in connection with the defense and settlement of any such claim or action.

c. Settlement. The indemnifying Party shall obtain the written consent of the indemnified Party prior to ceasing to defend, settling or otherwise disposing of any claim, suit, or proceeding if as a result thereof, the indemnified Party would become subject to injunctive or other equitable relief or the business of the indemnified Party would be adversely affected thereby.

ARTICLE 9
INTELLECTUAL PROPERTY RIGHTS AND INFRINGEMENT

9.1 Ownership of Intellectual Property Rights.

a. Each Party will promptly disclose to the other all potentially patentable inventions made in the course of the Development Program solely by its employees and agents or jointly by its employees and agents and the employees and agents of the other Party. Ethicon shall own all Intellectual Property, invented, created, or developed solely by its employees and agents. MVIS shall own all Intellectual Property invented, created, or developed solely by its employees and agents. All Intellectual Property invented, created, or developed jointly by employees or agents of both MVIS and Ethicon in the course of the Development Program shall be jointly owned by Ethicon and MVIS. Determinations as to which Party has invented any Patent Right or Know-How shall be made in accordance with the standards of inventorship and conception under title 35 of United States Code, Title 37 of the U.S. Code of Federal Regulations, and any case law associated therewith. Determinations as to which party owns the copyright in any work of authorship will be made in accordance with U.S. copyright law. All disputes regarding inventorship or ownership of any Intellectual Property developed, conceived or reduced to practice in the course of the Development Program, that the Parties are unable to resolve, will be governed by Article 12 (Dispute Resolution), except that inventorship or ownership of Intellectual Property disputes issues will be mediated and arbitrated separately from other disputes, and both the mediator and arbitrator will be a registered U.S. Patent attorney having at least 15 years experience in a law firm of at least 20 lawyers. Either party may exploit jointly-owned Intellectual Property Rights (including Developed Joint Patent Rights) in any manner on a non-exclusive basis without obtaining the consent of the other Party and without any duty to account to the other Party, other than as expressly provided in this Agreement. Each Party will sign such consents, waivers, or other documents as the other Party may reasonably request to comply with applicable legal requirements in any country to permit the other Party to exploit jointly-owned Intellectual Property as contemplated by this Article 9.1.

9.2 Prosecution and Maintenance of Patent Rights.

a. MVIS shall have the exclusive right and option, at its own expense, except as noted below, and by counsel of its own choice, to file, prosecute and maintain all patent applications and patents within the Developed MVIS Patent Rights, including filing, prosecuting and maintaining foreign patent applications in countries in consultation with Ethicon. The Parties shall mutually agree which Party is best served to file, prosecute, and maintain any of the Developed Joint Patent Rights, including filing, prosecuting and maintaining foreign patent applications in countries in consultation with the other Party, and that Party shall do so. In no event, however, will either Party allow a U.S. or foreign patent application relating to a Developed Joint Patent Right to go abandoned or lapse without allowing the non-prosecuting Party to take over prosecution of such U.S. or foreign patent application. During the term of this Agreement and subject to the cap below, Ethicon shall reimburse MVIS for any reasonable expenses, and based on detailed invoices of MVIS's patent counsel, incurred for the filing, prosecuting and maintaining of any patent applications and patents, foreign and domestic, within the Developed MVIS Patent Rights and Developed Joint Patent Rights that are exclusively licensed to Ethicon under this Agreement or the Supply Addendum.
   i. Upon written request MVIS agrees to promptly provide Ethicon with copies of all correspondence to and from the patent offices related to the pending patent applications and future patent applications within the MVIS Patent Rights that relate to the Licensed Product. Ethicon may provide comments to MVIS regarding the content of such correspondence, and to comment thereon. MVIS shall consider all such comments offered by Ethicon so long as provided in a timely manner; provided, that all final decisions with respect to such prosecution shall rest solely in the discretion of MVIS.
   ii. In no circumstances shall Ethicon's obligation to reimburse MVIS for patent costs exceed [ ]* on an annual basis.

b. Ethicon shall in its sole discretion, at its own expense and by counsel of its own choice, file, prosecute and maintain all patent applications and patents within the Ethicon Patent Rights.

9.3 Infringement by Third Parties.

a. Ethicon shall have the first right, but not the obligation, at its sole expense and with counsel of its own choice, to enforce the Background MVIS Intellectual Property and Developed MVIS Intellectual Property against any infringer that is making, using, selling, or importing any product that is competitive with the Licensed Products in the Field, including the right to file suit for patent infringement joining MVIS as a party. MVIS shall permit the use of its name in all such suits, sign all necessary papers, and will attempt to do all reasonable things necessary at Ethicon's expense, to facilitate the prosecution of such infringement suits. In such litigation, Ethicon will defend the validity of the asserted patent claims of the Background MVIS Intellectual Property and Developed Intellectual Property; however, Ethicon is not obligated to appeal any adverse decision by a lower court on the validity of Background MVIS Intellectual Property and Developed Intellectual Property if Ethicon reasonably believes that it does not have a reasonable chance of prevailing. Ethicon will not settle any such litigation in a manner that admits to the invalidity of the Background MVIS Intellectual Property and Developed MVIS Intellectual Property or otherwise compromises the validity or enforceability of the Developed MVIS Intellectual Property without MVIS's prior written consent. Ethicon shall incur no liability to MVIS as a consequence of such litigation, the conduct of such litigation or any unfavorable decision resulting from it,

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including any decision holding any of the Background MVIS Intellectual Property or Developed MVIS Intellectual Property invalid or unenforceable.

b. Within 120 days of becoming aware of the infringement of any Background MVIS Intellectual Property or Developed MVIS Intellectual Property, Ethicon shall decide whether to institute an infringement suit. If Ethicon fails to decide whether to institute an infringement suit within such 120 day period, then MVIS shall have the right at its sole discretion to institute such suit or other appropriate action in the name of either or both parties. In such event, Ethicon shall permit the use of its name in all such suits, sign all necessary papers, and will attempt to do all reasonable things necessary at MVIS's expense, to facilitate the prosecution of such infringement suits.
c. Any recovery of damages by either Party by way of judgment, award, decree or settlement resulting from any such suit against a Third Party infringer pursuant to this Article 9.3 shall be allocated as follows:
   i. Such recovery shall first be used to reimburse each Party for all litigation costs and expenses (including attorney's fees and charges) in connection with such litigation paid by either Party;
   ii. The parties shall share any remaining portion of such recovery in the proportion of their economic loss resulting from the infringement.
d. Notwithstanding the provisions of this Article 9.3, if the making, using, selling, or importing of a product competitive to the Licensed Product in the Field would infringe Background MVIS Intellectual Property that is licensed by MVIS from one or more Third Parties, MVIS's obligations under this Article 9.3 shall be limited to the extent necessary to make them consistent with its rights and obligations under its license agreement with such Third Party licensors. In such event, MVIS shall exercise its rights under such license agreements with respect to enforcement of such licensed Third Party Intellectual Property Rights in consultation with Ethicon and in a manner that is as consistent as possible with the requirements of this Article 9.3.

ARTICLE 10
REPRESENTATIONS AND WARRANTIES

10.1 MVIS Representations and Warranties. MVIS represents and warrants to Ethicon that:

a. All necessary corporate and other authorizations, consents and approvals which are necessary or required for the entering into of this Agreement have been duly obtained;
b. The entering into of this Agreement by MVIS will not (i) violate any provision of law, statute, rule or regulation or any ruling, writ, injunction, order, judgment or decree of any court, administrative agency or other governmental body to which MVIS is subject, or (ii) conflict with or result in any breach of any of the terms, conditions or provisions of, or constitute a default (or give rise to any right of termination, cancellation or acceleration) under, or result in the creation of any lien, security interest, charge or encumbrance upon any of the properties or assets of MVIS, under its organizational documents, as amended to date, or any material note, indenture, mortgage, lease, agreement, contract, purchase order or other instrument, document or agreement to which MVIS is a party or by which it or any of its properties or assets is bound or affected;
c. All Licensed Products developed under the terms of this Agreement on behalf of Ethicon will be free and clear of all liens, claims and encumbrances of any nature;
d. Except as disclosed on Exhibit A, MVIS owns or Controls the patents and patent applications listed on Exhibit A;
e. The patents and patent applications listed on Exhibit A are the only patents or pending patent applications that MVIS currently owns or Controls, whether domestic or foreign, that relate to the Licensed Product for use in the Field;
f. As of the Effective Date, MVIS has no knowledge that any of the Background MVIS Patent Rights are invalid or unenforceable in all countries in which Background MVIS Patent Rights exist.

10.2 Ethicon Representations and Warranties. Ethicon represents and warrants to MVIS that:

a. All necessary corporate and other authorizations, consents and approvals which are necessary or required for the entering into of this Agreement have been duly obtained;
b. The entering into of this Agreement and the performance of this Agreement by Ethicon shall not (i) violate any provision of law, statute, rule or regulation or any ruling, writ, injunction, order, judgment or decree of any court, administrative agency or other governmental body or (ii) conflict with or result in any breach of any of the terms, conditions or provisions of, or constitute a default (or give raise to any right of termination, cancellation or acceleration) under, or result in the creation of any lien, security interest, charge or encumbrance upon any of the properties or assets of Ethicon under its organizational documents, as amended to date, or any material note, indenture, mortgage, lease, agreement, contract, purchase order or other instrument, document or agreement in which Ethicon is a party or by which it or any of its properties or assets is bound or affected;

10.3 Disclaimer of Warranties. NEITHER PARTY MAKES ANY WARRANTIES, EXPRESS OR IMPLIED, CONCERNING THE SUCCESS OF THE DEVELOPMENT OR THE COMMERCIAL EXPLOITATION OF ANY LICENSED PRODUCT OR ETHICON PRODUCT. EXCEPT AS EXPRESSLY PROVIDED IN THE SUPPLY ADDENDUM WITH RESPECT TO THE PRODUCTS SUPPLIED THEREUNDER, THE LICENSED PRODUCT IS BEING DEVELOPED AND SUPPLIED "AS IS" AND WITH ALL FAULTS, AND MVIS AND THE MVIS LICENSORS (DEFINED IN ARTICLE 10.5 BELOW) HEREBY DISCLAIM ALL EXPRESS OR IMPLIED WARRANTIES RELATING TO THE LICENSED PRODUCTS, INCLUDING WITHOUT LIMITATION IMPLIED WARRANTIES OF MERCHANTABILITY, NON-INFRINGEMENT, AND FITNESS FOR A PARTICULAR PURPOSE.

10.4 Limitation of Liability. IN NO EVENT WILL EITHER PARTY HAVE LIABILITY IN CONNECTION WITH THIS AGREEMENT FOR LOST PROFITS OR CONSEQUENTIAL DAMAGES, EVEN IF SUCH PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES. The limitation of liability in this Article 10.4 shall not apply to: any breach of Article 13.1 (Confidentiality), or Article 5 (Grant of License and Standstill). For clarity, the limitation of liability in this Article 10.4 is not intended to limit either Party's recovery or remedies under intellectual property law.

10.5 Special Disclaimer of MVIS Licensors. Without limiting the generality of the foregoing disclaimers and limitations, nothing in this Agreement shall be construed as (a) a warranty or representation by MVIS's Third Party licensors of MVIS Background Intellectual Property (the "MVIS Licensors") as to the validity of any MVIS Background Patent Rights, (b) a warranty or representation that anything made, used, sold or otherwise disposed of under any license granted by the MVIS Licensors (or sublicense thereof) will be free from infringement of any patents, copyrights and other rights of third parties, (c) granting by implication, estoppel, or otherwise any license rights under patents or other rights of the MVIS Licensors other than the MVIS Background Patent Rights.

ARTICLE 11
TERM AND TERMINATION

11.1 Term. This Agreement shall commence as of the Effective Date and shall continue until:

a. the later of (i) the last of the MVIS Patent Rights to expire or (ii) the end of MVIS's supply obligation and Ethicon's purchase obligation under the Supply Addendum (the "Expiration Date"). Upon expiration of the MVIS Patent Rights, Ethicon shall have a fully paid-up, non- exclusive, irrevocable license under the Background MVIS Intellectual Property and Developed MVIS Intellectual Property to make, have made, use, sell, offer to sell, and import Licensed Products in the Field; or
b. this Agreement is otherwise terminated in accordance with this Article 11.

11.2 Termination by Ethicon. Ethicon may terminate this Agreement without cause upon ninety (90) days' prior written notice to MVIS.

11.3 Either Party. Either Party may terminate this Agreement upon written notice for any Event of Default of the other Party.

11.4 Events of Default. The occurrence of any one or more of the following acts, events or occurrences shall constitute an " Event of Default" under this Agreement:

a. either Party becomes the subject of a Bankruptcy Event;
b. failure by Ethicon to make timely payments as required under this Agreement or the Supply Addendum that is not cured within thirty (30) business days of receiving written notice thereof from MVIS; or
c. a material breach of this Agreement or the Supply Addendum by either Party that is not cured within thirty (30) days of receiving written notice thereof from the non- breaching Party.

11.5 Effect of Expiration or Termination; Survival. Those provisions of this Agreement that by their nature must survive expiration or termination of this Agreement to give effect to their intent shall so survive.

11.6 Survival of Licenses. Without limiting the generality of the forgoing, the Intellectual Property licenses granted by the Parties to each other under this Agreement will survive termination or expiration of this Agreement to the extent provided for in the license, or as otherwise expressly set forth in this Agreement. Notwithstanding the foregoing, upon termination of this Agreement for any reason, any license granted by MVIS to Ethicon under this Agreement shall terminate.

11.7 Force Majeure Events. If either Party is prevented from performing any of its obligations hereunder due to any cause which is beyond the non-performing Party's reasonable control, including, without limitation, fire, explosion, flood, or other acts of God; acts, regulations, or laws of any government; war or civil commotion; strike, lock-out or labor disturbances; or failure of public utilities or common carriers (a "Force Majeure Event"), such non-performing Party shall not be liable for breach of this Agreement with respect to such non-performance to the extent such non-performance is due to a Force Majeure Event. Such non-performance will be excused for three months or as long as such event shall be continuing (whichever period is shorter), provided that the non-performing Party gives immediate written notice to the other Party of the Force Majeure Event. Such non-performing Party shall exercise reasonable efforts to eliminate the Force Majeure Event and to resume performance of its affected obligations as soon as practicable. Should the Force Majeure Event continue unabated for a period of 60 days or more, the Parties shall enter into good faith discussions with a view to alleviating its affects or to agreeing upon such alternative arrangements as may be fair and reasonable having regard to the circumstances prevailing at that time.

11.8 Rights Upon Insolvency. All rights and licenses granted by either Party (the " Licensor") to the other Party (the " Licensee") under this Agreement are, for all purposes of Section 365(n) of Title 11 of the U.S. Code ("Title 11"), licenses of rights to intellectual property as defined in Title 11. If a case is commenced by or against Licensor under Title 11, and if this Agreement is rejected by Licensor (in any capacity, including debtor-in-possession) as provided in Title 11, Licensor (in any capacity, including debtor-in- possession) and its successors and assigns (including, without limitation, a Title 11 trustee) shall continue to license to Licensee all licensed Intellectual Property (including all embodiments thereof) held by Licensor and such successors and assigns, as Licensee may elect in a written request, immediately upon such request. The Escrowed Materials are current "embodiments" of the licensed MVIS Intellectual Property, and the Escrow Agreement is "supplementary" to this Agreement for the purposes of Section 365(n) of Title 11. All rights, powers and remedies of Licensee, as a licensee hereunder, provided herein are in addition to and not in substitution for any and all other rights, powers and remedies now or hereafter existing at law or in equity (including, without limitation, Title 11) in the event of the commencement of a Title 11 case by or against Licensor. Licensee, in addition to the rights, powers and remedies expressly provided herein, shall be entitled to exercise all other such rights and powers and resort to all other such remedies as may now or hereafter exist at law or in equity (including Title 11) in such event.

ARTICLE 12
DISPUTE RESOLUTION

12.1 Dispute Resolution.

a. Arbitration.
    i. Any dispute, claim or controversy arising from or related in any way to this Agreement or the interpretation, application, breach, termination or validity thereof, including any claim of inducement of this Agreement by fraud or otherwise, will be submitted for resolution to arbitration pursuant to the rules then pertaining of the CPR Institute for Dispute Resolution for Non- Administered Arbitration (available at www.cpradr.org/arb-rules.htm), or successor ("CPR"), except where those rules conflict with these provisions, in which case these provisions control. The arbitration will be held in Denver, Colorado.
    ii. The panel shall consist of three arbitrators chosen from the CPR Panels of Distinguished Neutrals (or, by agreement, from another provider of arbitrators) each of whom is a lawyer with at least 15 years experience with a law firm or corporate law department of over 25 lawyers or who was a judge of a court of general jurisdiction. In the event the aggregate damages sought by the claimant are stated to be less than $5 million, and the aggregate damages sought by the counterclaimant are stated to be less than $5 million, and neither side seeks equitable relief, then a single arbitrator shall be chosen, having the same qualifications and experience specified above. Each arbitrator shall be neutral, independent, disinterested, impartial and shall abide by The CPR- Georgetown Commission Proposed Model Rule for the Lawyer as Neutral available at www.cpradr.org/cpr- george.html.
    iii. The Parties agree to cooperate (1) to attempt to select the arbitrator(s) by agreement within 45 days of initiation of the arbitration, including jointly interviewing the final candidates, (2) to meet with the arbitrator(s) within 45 days of selection and (3) to agree at that meeting or before upon procedures for discovery and as to the conduct of the hearing which will result in the hearing being concluded within no more than nine (9) months after selection of the arbitrator(s) and in the award being rendered within 60 days of the conclusion of the hearings, or of any post-hearing briefing, which briefing will be completed by both sides within 45 days after the conclusion of the hearings.
    iv. In the event the Parties cannot agree upon selection of the arbitrator(s), the CPR will select arbitrator(s) as follows: CPR shall provide the Parties with a list of no less than 25 proposed arbitrators (15 if a single arbitrator is to be selected) having the credentials referenced above. Within 25 days of receiving such list, the Parties shall rank at least 65% of the proposed arbitrators on the initial CPR list, after exercising

cause challenges. The Parties may then interview the five candidates (three if a single arbitrator is to be selected) with the highest combined rankings for no more than one hour each and, following the interviews, may exercise one peremptory challenge each. The panel will consist of the remaining three candidates (or one, if one arbitrator is to be selected) with the highest combined rankings. In the event these procedures fail to result in selection of the required number of arbitrators, CPR shall select the appropriate number of arbitrators from among the members of the various CPR Panels of Distinguished Neutrals, allowing each side challenges for cause and three peremptory challenges each.

v. In the event the Parties cannot agree upon procedures for discovery and conduct of the hearing meeting the schedule set forth in paragraph c above, then the arbitrator(s) shall set dates for the hearing, any post-hearing briefing, and the issuance of the award in accord with the paragraph c schedule. The arbitrator(s) shall provide for discovery according to those time limits, giving recognition to the understanding of the Parties that they contemplate reasonable discovery, including document demands and depositions, but that such discovery be limited so that the paragraph c schedule may be met without difficulty. In no event will the arbitrator(s), absent agreement of the Parties, allow more than a total of ten days for the hearing or permit either side to obtain more than a total of 40 hours of deposition testimony from all witnesses, including both fact and expert witnesses, or serve more than 20 individual requests for documents, including subparts, or 20 individual requests for admission or interrogatories, including subparts. Multiple hearing days will be scheduled consecutively to the greatest extent possible.

vi. The arbitrator(s) must render their award by application of the substantive law of Colorado and are not free to apply "amiable compositeur" or "natural justice and equity." The arbitrator(s) shall render a written opinion setting forth findings of fact and conclusions of law with the reasons therefor stated. A transcript of the evidence adduced at the hearing shall be made and shall, upon request, be made available to either Party. The arbitrator(s) shall have power to exclude evidence on grounds of hearsay, prejudice beyond its probative value, redundancy, or irrelevance and no award shall be overturned by reason of such ruling on evidence. To the extent possible, the arbitration hearings and award will be maintained in confidence.

vii. In the event the panel's award exceeds $5 million in monetary damages or includes or consists of equitable relief, or rejects a claim in excess of that amount or for that relief, then the losing Party may obtain review of the arbitrators' award or decision by a single appellate arbitrator (the "Appeal Arbitrator") selected from the CPR Panels of Distinguished Neutrals by agreement or, failing agreement within seven working days, pursuant to the selection procedures specified in paragraph d above. If CPR cannot provide such services, the Parties will together select another provider of arbitration services that can. No Appeal Arbitrator shall be selected unless he or she can commit to rendering a decision within forty-five days following oral argument as provided in this paragraph. Any such review must be initiated within thirty (30) days following the rendering of the award referenced in f above.

viii. The Appeal Arbitrator will make the same review of the arbitration panel's ruling and its bases that the U.S. Court of Appeals of the Circuit where the arbitration hearings are held would make of findings of fact and conclusions of law rendered by a district court after a bench trial and then modify, vacate or affirm the arbitration panel's award or decision accordingly, or remand to the panel for further proceedings. The Appeal Arbitrator will consider only the arbitration panel's findings of fact and conclusions of law, pertinent portions of the hearing transcript and evidentiary record as submitted by the Parties, opening and reply briefs of the Party pursuing the review, and the answering brief of the opposing Party, plus a total of no more than four (4) hours of oral argument evenly divided between the Parties. The Party seeking review must submit its opening brief and any reply brief within seventy-five (75) and one hundred thirty (130) days, respectively, following the date of the award under review, whereas the opposing Party must submit its responsive brief within one hundred ten (110) days of that date. Oral argument shall take place within five (5) months after the date of the award under review, and the Appeal Arbitrator shall render a decision within forty-five (45) days following oral argument. That decision will be final and not subject to further review, except pursuant to the Federal Arbitration Act.

ix. The Parties consent to the jurisdiction of the Federal District Court for the district in which the arbitration is held for the enforcement of these provisions and the entry of judgment on any award rendered hereunder (including after review by the Appeal Arbitrator where such an appeal is pursued). Should such court for any reason lack jurisdiction, any court with jurisdiction shall act in the same fashion.

x. Each Party has the right before or, if the arbitrator(s) cannot hear the matter within an acceptable period, during the arbitration to seek and obtain from the appropriate court provisional remedies such as attachment, preliminary injunction, replevin, etc. to avoid irreparable harm, maintain the status quo, or preserve the subject matter of the arbitration.

xi. EACH PARTY HERETO WAIVES ITS RIGHT TO TRIAL OF ANY ISSUE BY JURY.

xii. EACH PARTY HERETO WAIVES ANY CLAIM TO PUNITIVE, EXEMPLARY OR MULTIPLIED DAMAGES FROM THE OTHER.

xiii. EACH PARTY HERETO WAIVES ANY CLAIM OF CONSEQUENTIAL DAMAGES FROM THE OTHER EXCEPT TO THE EXTENT PROVIDED IN ARTICLE 10.4 (LIMITATION OF LIABILITY).

xiv. EACH PARTY HERETO WAIVES ANY CLAIM FOR ATTORNEYS' FEES AND COSTS AND PREJUDGMENT INTEREST FROM THE OTHER.

b. Mediation.

i. Any dispute, controversy or claim arising out of or related to this agreement, or the interpretation, application, breach, termination or validity thereof, including any claim of inducement by fraud or otherwise, which claim would, but for this provision, be submitted to arbitration shall, before submission to arbitration, first be mediated through non-binding mediation in accordance with The CPR Mediation Procedure then in effect of the CPR Institute for Dispute Resolution (CPR) available at www.cpradr.org/m_proced.htm, except where that procedure conflicts with these provisions, in which case these provisions control. The mediation shall be conducted in Denver, Colorado and shall be attended by a senior executive with authority to resolve the dispute from each of the operating companies that are parties.

ii. The mediator shall be neutral, independent, disinterested and shall be selected from a professional mediation firm such as ADR Associates or JAMS/ENDISPUTE or CPR.

iii. The Parties shall promptly confer in an effort to select a mediator by agreement. In the absence of such an agreement within 10 days of initiation of the mediation, the mediator shall be selected by CPR as follows: CPR shall provide the Parties with a list of at least 15 names from the CPR Panels of Distinguished Neutrals. Each Party shall exercise challenges for cause, two peremptory challenges, and rank the remaining candidates within 5 working days of receiving the CPR list. The Parties may together interview the three top-ranked candidates for no more than one hour each and, after the interviews, may each exercise one peremptory challenge. The mediator shall be the remaining candidate with the highest aggregate ranking.

iv. The mediator shall confer with the Parties to design procedures to conclude the mediation within no more than 45 days after initiation. Under no circumstances may the commencement of arbitration under paragraph 12.1(a) above be delayed more than 45 days by the mediation process specified herein absent contrary agreement of the Parties.

v. Each Party agrees not to use the period or pendency of the mediation to disadvantage the other Party procedurally or otherwise. No statements made by either side during the mediation may be used by the other or referred to during any subsequent proceedings.

vi. Each Party has the right to pursue provisional relief from any court, such as attachment, preliminary injunction, replevin, etc., to avoid irreparable harm, maintain the status quo, or preserve the subject matter of the arbitration [or litigation], even though mediation has not been commenced or completed.

c. Escalation. Any dispute, controversy or claim arising out of or related to this Agreement, or the interpretation, application, breach, termination or validity thereof, including any claim of inducement by fraud or otherwise, which claim would, but for this provision, be submitted to mediation and/or arbitration in accordance with the procedures set forth above shall, before such submission to mediation or arbitration, first be escalated to the Chief Executive Officer of MVIS and the President of Ethicon for resolution. The Chief Executive Officer of MVIS and the President of Ethicon shall use reasonable efforts to attempt to resolve the dispute through good faith negotiations by telephone or in person as may be agreed. If the Chief Executive Officer of MVIS and the President of Ethicon fail to resolve the dispute within such 30 days after either party notifies the other of the dispute, the dispute shall be submitted to mediation in accordance with the procedure set forth in Article 12.1(b).

d. Tolling of Cure Period. As of the date that either Party notifies the other Party that it is pursuing dispute resolution regarding the subject of a purported breach of this Agreement, the period of time that either Party has to cure the purported breach under Articles 11.4(b) and (c) (Events of Default) shall be tolled for the amount of time it takes to seek and obtain dispute resolution in accordance with the procedures outlined in this Article 12. If the dispute concerns the failure of a Party to make payments under this Agreement or the Supply Addendum, that Party shall promptly pay the undisputed portion of such required payment. If the resolution of the payment dispute provides that the Party owing payment must pay any portion of the disputed portion of such payment, the Party owing such payment shall pay such disputed portion plus interest at a rate equal to the Prime Rate, as quoted in *The Wall Street Journal* under the heading "Money Rates."

ARTICLE 13
MISCELLANEOUS

13.1 Confidentiality.

a. Ethicon and MVIS have exchanged and will be exchanging information relating to the Licensed Products prior to and from time to time during the Term of this Agreement. For purposes of this Agreement, "Confidential Information" means any business or technical information of MVIS or Ethicon, including without limitation information related to either party's product plans, designs, costs, product prices, finances, marketing plans, business opportunities, personnel, research, development, or Know-How. MVIS's Confidential Information includes without limitation Background MVIS Know-How and Developed MVIS Know-How. The Party receiving such Confidential Information (the "Receiving Party") will not use the other Party's (the "Disclosing Party's") Confidential Information for any reason other than to perform its obligations under this Agreement and exercise the rights expressly granted to it under this Agreement, and will maintain the Disclosing Party's Confidential Information in confidence and not disclose it to any other person or entity for a period equal to the greater of (a) eight (8) years from the Effective Date, or (b) the Term of this Agreement plus a period of three (3) years thereafter. "Confidential Information" does not include information that the Receiving Party can show: (i) is known to the Receiving Party prior to the disclosure, (ii) is publicly known as of the date of the disclosure, (iii) becomes publicly known after the date of disclosure through no fault of the Receiving Party, (iv) is received from a Third Party who has no obligation of confidentiality to the Disclosing Party, or (v) is developed independently by the Receiving Party. In addition, the obligations in this Article 13.1 will not apply to the extent Confidential Information (a) is required to be disclosed to comply with a court or administrative subpoena or order; provided, however, that the Receiving Party gives the other Party timely notice of the contemplated disclosure to provide the Disclosing Party the opportunity to intervene to preserve the confidentiality of any Confidential Information, or (b) is required to be disclosed under applicable laws, rules or regulations, including, without limitation, the rules and regulations of the Securities and Exchange Commission or other governmental bodies. In addition, MVIS may disclose to MVIS Licensors those terms of this Agreement that are required to be disclosed by MVIS under the terms of a license agreement between MVIS and MVIS Licensors, so long as such disclosure is made under a confidentiality agreement containing terms that are consistent with this provision.
b. No Party to this Agreement shall originate any publicity, news release or other public announcement, written or oral, whether relating to this Agreement or any arrangement between the Parties other than acknowledging the existence of any arrangement between the Parties, without the prior written consent of the other Party, except where such publicity, news release or other public announcement is required by law or regulation (including U.S. securities laws and regulations); provided that in such event, the Party issuing same shall still be required to consult with the other Party a reasonable time prior to its release to allow the other Party to comment on the use of its name and, after its release, shall provide the named Party with a copy thereof.
c. Notwithstanding paragraph (b) above, the Parties may announce the execution of this Agreement using a mutually agreed press release.
d. Neither Party shall use the name of the other for advertising or promotional claims without the prior written consent of the other Party.
e. In order to manage the exchange or disclosure of Confidential Information between the Parties, beginning on the Effective Date, any information which the Disclosing Party considers confidential or proprietary shall be disclosed to the Receiving Party in accordance with the following procedure. Only the information disclosed by the Disclosing Party to the Receiving Party in accordance with the following procedure shall be considered as the "Confidential Information" hereunder.
    i. Ethicon will appoint at least three individuals and MVIS will appoint at least three who will be authorized to receive the other Party's Confidential Information (the "Information Managers").
    ii. Prior to disclosing Confidential Information to the Receiving Party, the Disclosing Party shall provide one of the Receiving Party's Information Managers with a summary of such information on a non-confidential and non-restricted basis. The summary need not be detailed and need only contain enough information to convey the nature of the information to be disclosed.
    iii. The Receiving Party's Information Manager shall, at his or her sole option, determine whether the Receiving Party will receive such information, and notify the Disclosing Party of its determination in writing.
    iv. If the Receiving Party's Information Manager notifies the Disclosing Party of the Receiving Party's intention to receive such information, the Disclosing Party shall disclose such information to the Receiving Party in writing or in other tangible form (including electronic form) with the legend "Confidential." The Disclosing Party may disclose such information orally subject to confirming the confidentiality of such oral disclosure by sending a writing with the legend "Confidential" to an Information Manager of the Receiving Party within 30 days of such oral disclosure.
    v. The Parties initial Information Managers are listed on Exhibit C attached hereto. Each Party may change the individuals appointed as its Information Managers by providing written notice to the other Party.
    vi. Any delay in MVIS' performance of Services under this Agreement shall be excused to the extent the delay is caused by Ethicon's failure to promptly respond to reasonable notices from MVIS under this Article 13.1(e) regarding the disclosure of information.

13.2 Penalties. If either Party terminates this Agreement in accordance with the terms of this Agreement, the terminating Party shall owe no penalty or indemnity to the terminated Party on account of such termination.

13.3 Independent Contractor Status. Neither Party shall have any authority to obligate the other in any respect nor hold itself out as having any such authority. All employees, agents and consultants of MVIS shall not represent themselves as employees of Ethicon, and all employees, agents and consultants of Ethicon shall not represent themselves as employees of MVIS.

13.4 Binding Effect; Benefits; Assignment.

a. This Agreement shall inure to the benefit of and be binding upon the Parties hereto and their respective permitted successors and assigns. Nothing contained herein shall give to any other person any benefit or any legal or equitable right, remedy or claim. Anything to the contrary herein notwithstanding, each Party agrees that the right and obligations under this Agreement of the other Party may, from time to time, be exercised or performed, as the case may be, in whole or in part by Affiliates of such Party.
b. This Agreement shall not be assignable by any Party without the prior written consent of the other Party, except that (a) either Party shall be permitted to assign this entire Agreement without the other Party's consent to an Affiliate or a company acquiring all or substantially all of the first Party's assets, voting stock or business to which this Agreement relates upon written notice to the other Party, provided that the assignor remains responsible for the obligations of any Affiliate assignee, and (b) either Party may assign its right to receive royalty payments and license maintenance payments (if applicable) under this Agreement to any Third Party upon written notice to the other Party. Such assignment shall be subject to the assignee agreeing in writing to assume the benefits and obligations of this Agreement. Any purported assignment of this Agreement in violation of this Article 13.4(b) shall be void.

13.5 Entire Agreement; Amendments. Before signing this Agreement the Parties have had numerous conversations, including, without limitation, preliminary discussions, formal negotiations and informal conversations, and have generated correspondence and other writings, in which the Parties discussed the transaction which is the subject of this Agreement and their aspirations for success. In such conversations and writings, individuals representing the Parties may have expressed their judgments and beliefs concerning the intentions, capabilities and practices of the Parties, and may have forecasted future events. The Parties recognize that such conversations and writings often involve an effort by both sides to be positive and optimistic about the prospects for the transactions. However, it is also recognized that all business transactions contain an element of risk, as does the transaction contemplated by this Agreement, and that it is normal business practice to limit the legal obligations of contracting Parties to only those promises and representations which are essential to their transaction so as to provide certainty as to their future rights and remedies. Accordingly, this

Agreement is intended to define the full extent of the legally enforceable undertakings of the Parties hereto, and no promise or representation, written or oral, which is not set forth explicitly in this Agreement is intended by either Party to be legally binding. Each of the Parties acknowledge that in deciding to enter into this Agreement and to consummate the transaction contemplated hereby none of them has relied upon any statements or representations, written or oral, other than those explicitly set forth herein or therein. No subsequent alteration, amendment, change or addition to this Agreement shall be binding upon the Parties hereto unless reduced to writing and signed by the respective authorized officers of the Parties, and no purchase order shall have the effect of modifying or amending this Agreement.

13.6 Severability. In the event that any provision of this Agreement would be held in any jurisdiction to be invalid, prohibited or unenforceable for any reason, such provision, as to such jurisdiction, shall be ineffective, without invalidating the remaining provisions of this Agreement or affecting the validity or enforceability of such provision in any other jurisdiction. Notwithstanding the foregoing, if such provision could be more narrowly drawn while maintaining the intent of the Parties, so as not to be invalid, prohibited or unenforceable in such jurisdiction, it shall, as to such jurisdiction, be so narrowly drawn, without invalidating the remaining provisions of this Agreement or affecting the validity or enforceability of such provision in any other jurisdiction.

13.7 Remedies. Unless otherwise expressly provided, all remedies hereunder are cumulative, and in addition to any other remedies provided for by law and may, to the extent permitted by law, be exercised concurrently or separately, and the exercise of any one remedy shall not be deemed to be an election of such remedy or to preclude the exercise of any other remedy.

13.8 Notices. Any notice, request, consent or communication (collectively for the purposes of this paragraph, a "notice") under this Agreement shall be effective if it is in writing and (i) personally delivered, (ii) sent by certified or registered mail, postage prepaid, return receipt requested, (iii) sent by an internationally recognized overnight delivery service, with delivery confirmed, or (iv) sent by facsimile, with receipt confirmed and hard copy delivered by regular mail; addressed as set forth in this Article or to such other address as shall be furnished by either Party hereto to the other Party hereto. A notice shall be deemed to have been given as of (i) the date when personally delivered, (ii) seven (7) business days after being deposited with the United States Postal Service, certified or registered mail, properly addressed, return receipt requested, postage prepaid, (iii) two business days after being delivered to said overnight delivery service properly addressed, or (iv) confirmation of receipt of the facsimile, as the case may be. All notices must specifically state: (i) the provision (or provisions) of this Agreement with respect to which such Notice is given, and (ii) the relevant time period, if any, in which the Party receiving the Notice must respond.

If to MVIS by mail:

Microvision, Inc.

P.O. Box 3008

Bothell, WA 98041-3008

Attention: Office of General Counsel

Fax: 425-398-6501

If by overnight courier:

Microvision, Inc.

19910 North Creek Parkway

Bothell, WA 98011

Attention: Office of General Counsel

Fax: 425-398-6501

with a copy to:

Ropes & Gray, LLP

One International Place

Boston, MA 02110-2624

Attention: Mary Weber, Esq.

Fax: 617-951-7050

If to Ethicon:

Ethicon Endo-Surgery, Inc.

4545 Creek Road

Cincinnati, Ohio 45242

Attention: Vice President, Licensing and Acquisitions

Fax: 513-337-3392

with a copy to:

Office of General Counsel

Attention: Chief Patent Counsel

Johnson & Johnson

One Johnson & Johnson Plaza

New Brunswick, New Jersey 08933

Fax: (732)-524-2788;

13.9 Waivers. The failure of either Party to assert a right hereunder or to insist upon compliance with any term or condition of this Agreement shall not constitute a waiver of that right or excuse a similar subsequent failure to perform any such term or condition by the other Party. The observance of any provision of this Agreement may be waived (either generally or in any particular instance) only with the written consent of the waiving Party.

13.10 Counterparts. This Agreement may be executed in any number of counterparts, and execution by each of the Parties of any one of such counterparts will constitute due execution of this Agreement. Each such counterpart hereof shall be deemed to be an original instrument and all such counterparts together shall constitute but one agreement.

13.11 Headings. The article and section headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

13.12 Construction. The Parties expressly agree that any rule of construction to the effect that ambiguities are to be resolved against the drafting Party shall not be applied in the construction or interpretation of this Agreement. References in this Agreement to any Article, Exhibit or Schedule refers to Articles, Exhibits or Schedules of this Agreement and any sub-section or thereof and provision contained therein. The words "or" or "any" are not exclusive and "such as," "include" or "including" are not limiting. References to this "Agreement" include all Exhibits, Schedules, and other attachments hereto, which are incorporated into this Agreement by reference.

13.13 Export Law Compliance. Ethicon understands and recognizes that the Licensed Product and other materials made available to it hereunder may be subject to the export administration regulations of the United States Department of Commerce and other United States government regulations related to the export of technical data and equipment and products produced therefrom and hereby agrees to comply with all applicable laws, rules and regulations.

13.14 Non-Solicit. During the Term of this Agreement and the Supply Addendum (if applicable) and for a period of 12 months thereafter, neither Party shall solicit for employment (whether as an employee, contractor, consultant, or in any other manner) any person who at the time is an employee of the other Party, or hire anyone who has been an employee of the other Party within the previous 12 months; provided, however, that this paragraph shall not prevent either Party from employing a person who contacts such Party on his or her own initiative (without any actions by such Party to encourage such contact) or responds to general solicitations of employment not specifically directed toward the other Party's employees.

IN WITNESS WHEREOF, Ethicon and MVIS intending legally to be bound hereby have caused this LICENSE AND DEVELOPMENT AGREEMENT to be duly executed as of the date first above written.

Microvision, Inc.

By: _/s/ Richard F. Rutkowski________ Name: Richard F. Rutkowski

Title: CEO

Ethicon Endo-Surgery, Inc.

By: __/s/ Jeffrey A. Mailler___________

Name: Jeffrey A. Mailler

Title: Vice President, Licensing and Acquisitions

LIST OF EXHIBITS

EXHIBITS

A. Background MVIS Patent Rights as of the Effective Date

B. Initial Development Program

C. Initial Information Managers

D. Supply Addendum

EXHIBIT A

BACKGROUND MVIS PATENT RIGHTS AS OF THE EFFECTIVE DATE

Patent Rights owned by Third Parties are subject to the terms, conditions, and reservations of rights of the license agreements between MVIS and MVIS's Third Party licensors. To the extent the terms of such thirty party license agreements are inconsistent with the terms of this Agreement relating to Background Patent Rights, MVIS shall exercise its rights under such license agreements in consultation with Ethicon and in a manner that is as consistent as possible with the terms of this Agreement relating to Background Patent Rights.

[

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*This portion of the Exhibit has been omitted pursuant to a Request for Confidential Treatment under Rule 24b-2 under the Securities Exchange Act of 1934, as amended. The complete Exhibit, including the portions for which confidential treatment has been requested, has been filed separately with the Securities and Exchange Commission.

[

]*

*This portion of the Exhibit has been omitted pursuant to a Request for Confidential Treatment under Rule 24b-2 under the Securities Exchange Act of 1934, as amended. The complete Exhibit, including the portions for which confidential treatment has been requested, has been filed separately with the Securities and Exchange Commission.

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EXHIBIT B

ARTICLE 14
INITIAL DEVELOPMENT PROGRAM

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EXHIBIT D

SUPPLY ADDENDUM

Exhibit 24.1

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS that each individual whose signature appears below constitutes and appoints Richard A. Raisig and Jeff Wilson, and each of them singly, his or her true and lawful attorneys-in-fact and agents with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign the Form 10-K of Microvision, Inc. and any and all amendments to said Form 10-K, and to file the same with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or his, her or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Signature	Title	Date
/s/ Jacqueline Brandwynne Jacqueline Brandwynne	Director	March 9, 2005
/s/ Slade Gorton Slade Gorton	Director	March 9, 2005
/s/ Walter J. Lack Walter J. Lack	Director	March 9, 2005
/s/ Dennis J. Reimer Dennis J. Reimer	Director	March 9, 2005

Microvision, Inc.
19910 North Creek Parkway
Bothell, Washington 98011-3008

March 16, 2005

Securities and Exchange Commission
Washington, D.C. 20549

Ladies and Gentlemen:

Pursuant to the requirements of the Securities Exchange Act of 1934, we are transmitting herewith the attached Form 10-K for the year ended December 31, 2004.

Sincerely,

Catherine Ruoff
Senior Finance Administrator