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

FORM 10-Q

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

For the quarterly period ended March 31, 2005

OR

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

For the transition period from ________to _________

Commission file number 0-21221

MICROVISION

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)

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

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 121(b)2 of the Securities Exchange Act of 1934). YES ☒ NO ☐

As of May 1, 2005, 21,481,000 shares of the Company's common stock, $0.001 par value, were outstanding.

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Part I -- FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Microvision, Inc.
Consolidated Balance Sheet
(In thousands, except per share data)
(Unaudited)

	March 31, 2005	December 31, 2004
Assets		
Current Assets		
Cash and cash equivalents	$ 5,025	$ 1,268
Investment securities, available-for-sale	1,241	--
Accounts receivable, net of allowances of $193 and $193	2,004	5,227
Costs and estimated earnings in excess of billings on uncompleted contracts	526	597
Inventory	3,643	3,167
Other current assets	1,302	1,293
Total current assets	13,741	11,552
Investment in Lumera	9,257	10,201
Property and equipment, net	1,915	2,318
Restricted investments	1,101	1,238
Other assets	324	229
Total assets	$ 26,338	$ 25,538
Liabilities, Mandatorily Redeemable Convertible Preferred Stock and Shareholders' Equity		
Current Liabilities		
Accounts payable	$ 1,793	$ 2,624
Accrued liabilities	4,376	4,538
Allowance for estimated contract losses	53	53
Billings in excess of costs and estimated earnings on uncompleted contracts	1,592	3,318
Liability associated with common stock warrants	1,641	--
Current portion of notes payable	2,281	--
Current portion of capital lease obligations	28	39
Current portion of long-term debt	79	77
Total current liabilities	11,843	10,649
Notes payable, net of current portion	3,258	--
Liability associated with embedded derivative feature	3,249	--
Capital lease obligations, net of current portion	8	9
Long-term debt, net of current portion	1	22
Deferred rent, net of current portion	--	21
Total liabilities	18,359	10,701
Commitments and contingencies	--	--
Mandatorily redeemable convertible preferred stock, par value $.001; 25,000 shares authorized; 10 and 10 shares issued and outstanding (liquidation preference of $10,000)	$7,840	7,647
Shareholders' Equity		
Common stock, par value $.001; 73,000 shares authorzed; 21,481 and 21,509 shares issued and outstanding	21	22
Additional paid-in capital	196,482	196,929
Deferred compensation	(174)	(305)
Subscriptions receivable from related parties	--	(166)
Receivables from related parties, net	(1,823)	(1,823)
Accumulated deficit	(194,367)	(187,467)
Total shareholders' equity	139	7,190
Total liabilities, mandatorily redeemable convertible preferred stock and shareholders' equity	$ 26,338	$ 25,538

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

Microvision, Inc.
Consolidated Statement of Operations
(In thousands, except per share data)
(Unaudited)

	Three Months Ended March 31,	
	2005	**2004**
Contract revenue	$ 3,382	$ 2,299
Product revenue	600	675
Total revenue	3,982	2,974
Cost of contract revenue	1,828	1,205
Cost of product revenue	1,150	665
Total cost of revenue	2,978	1,870
Gross margin	1,004	1,104
Research and development expense (exclusive of non-cash compensation expense of $0 and $285 for the three months ended March 31, 2005 and 2004, respectively)	1,884	4,619
Sales, marketing, general and administrative expense (exclusive of non-cash compensation expense of $131 and $398 for the three months ended March 31, 2005 and 2004, respectively)	4,535	4,573
Non-cash compensation expense	131	683
Total operating expenses	6,550	9,875
Loss from operations	(5,546)	(8,771)
Interest income	57	102
Interest expense	(191)	(8)
Loss on derivative features of notes payable, net	(285)	--
Other income	9	--
Loss before minority interests and equity in losses of Lumera	(5,956)	(8,677)
Minority interests in loss of consolidated subsidiary	--	1,987
Equity in losses of Lumera	(944)	--
Net loss	(6,900)	(6,690)
Less: Stated dividend on mandatorily redeemable convertible preferred stock	(86)	--
Non-cash accretion on preferred stock	(193)	--
Net loss available for common shareholders	$ (7,179)	$ (6,690)
Net loss per share - basic and diluted	$ (0.33)	$ (0.31)
Weighted-average shares outstanding - basic and diluted	21,495	21,459

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

Microvision, Inc.
Consolidated Statement of Comprehensive Loss
(In thousands)
(Unaudited)

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004
Net loss	$ (6,900)	$ (6,690)
Other comprehensive income (loss) -		
Unrealized gain (loss) on investment securities, available-for-sale:	--	(14)
Comprehensive loss	$ (6,900)	$ (6,704)

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

Microvision, Inc.
Consolidated Statement of Cash Flows
(In thousands)
(Unaudited)

	Three Months Ended March 31, 2005	2004
Cash flows from operating activities		
Net loss	(6,900)	(6,690)
Adjustments to reconcile net loss to net cash used in operations		
Depreciation	434	683
Non-cash expenses related to issuance of stock, warrants, options and amortization of deferred compensation	131	683
Non-cash interest expense, net	178	--
Derivative features of notes payable	285	--
Minority interests in loss of consolidated subsidiary	--	(1,987)
Equity in losses of Lumera	944	--
Non-cash deferred rent	(21)	(22)
Change in		
Accounts receivable	3,223	519
Costs and estimated earnings in excess of billings on uncompleted contracts	71	(226)
Inventory	(476)	(1,238)
Other current assets	52	13
Other assets	66	35
Accounts payable	(819)	1,084
Accrued liabilities	(197)	(501)
Billings in excess of costs and estimated earnings on uncompleted contracts	(1,726)	(3)
Research liability, current and long-term	--	182
Net cash used in operating activities	(4,755)	(7,468)
Cash flows from investing activities		
Sales of investment securities	--	3,052
Purchases of investment securities	(1,241)	(1,062)
Sales of restricted investment securities	216	216
Purchases of restricted investment securities	(79)	(216)
Purchases of property and equipment	(43)	(212)
Net cash (used in) provided by investing activities	(1,147)	1,778
Cash flows from financing activities		
Principal payments under capital leases	(12)	(19)
Principal payments under long-term debt	(19)	(17)
Proceeds from issuance of notes and warrants	9,776	--
Payment of preferred dividend	(86)	--
Net proceeds from issuance of common stock	--	242
Net proceeds from sale of subsidiary's equity to minority interests	--	500
Net cash provided by financing activities	9,659	706
Net increase (decrease) in cash and cash equivalents	3,757	(4,984)
Cash and cash equivalents at beginning of period	1,268	10,700
Cash and cash equivalents at end of period	5,025	5,716
Supplemental disclosure of cash flow information		
Cash paid for interest	11	8
Supplemental schedule of non-cash investing and financing activities		
Other non-cash additions to property and equipment	--	26
Non-cash payment of subscriptions receivable	166	--

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

MICROVISION, INC.

Notes to Consolidated Financial Statements

March 31, 2005

(Unaudited)

Management's Statement

The Consolidated Balance Sheet as of March 31, 2005, the Consolidated Statements of Operations and Comprehensive Loss for the three months ended March 31, 2005 and March 31, 2004, and the Consolidated Statement of Cash Flows for the three months ended March 31, 2005 and March 31, 2004 have been prepared by Microvision, Inc. (the "Company") and have not been audited. In the opinion of management, all adjustments necessary to state fairly the financial position at March 31, 2005 and the results of operations and cash flows for all periods presented have been made and consist of normal recurring adjustments. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules of the SEC. You should read these condensed financial statements in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10- K for the fiscal year ended December 31, 2004. The results of operations for the three months ended March 31, 2005 are not necessarily indicative of the operating results that may be attained for the entire fiscal year.

At March 31, 2005, Microvision had $6.3 million in cash and cash equivalents and investment securities. Microvision will require additional financing to fund its current operating plan beyond June 2005. Microvision plans to raise additional cash to continue to fund its operating plan past that date. There can be no assurance that 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 reductions in capital expenditures and reductions in staff and operating costs.

Principles of Consolidation

Until July 2004, the consolidated financial statements included the accounts of Microvision, Inc. ("Microvision") or (the "Company) a Delaware corporation, and its majority-owned subsidiary Lumera Corporation ("Lumera"), a Delaware corporation. 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.

Inventory

Inventory at March 31, 2005 and December 31, 2004 consisted of the following:

	March 31, 2005	December 31, 2004
Raw materials	$ 1,790,000	$ 1,607,000
Work-in-process	460,000	77,000
Finished goods	1,393,000	1,483,000
	$ 3,643,000	$ 3,167,000

The inventory at March 31, 2005 and December 31, 2004 consisted of raw materials, work in process and finished goods for Nomad and Flic. Inventory is stated at the lower of cost or market, with cost determined on a weighted average basis. Management periodically assesses the need to provide for obsolescence of inventory and adjusts the carrying value of inventory to its net realizable value when required. In addition, 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. During the first quarter of 2005 and 2004, Microvision recorded inventory write-downs of $443,000 and $10,000, respectively.

Convertible Notes

In March 2005, the Company raised $10,000,000 before issuance costs of $323,000 from the issuance of convertible notes ("Notes") and warrants to purchase an aggregate of 462,330 shares of Microvision common stock. 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 or Lumera common stock held by the Company at a conversion price of $5.64 per share up to a limit of 1,750,000 shares of Lumera common stock. The Note holders may convert all or a portion of their Notes. The initial conversion price is subject to adjustment in the event Microvision issues common stock or common stock equivalents at a price per share of common stock below the conversion price of the Notes. In addition, upon the request of the Note holders, the Company is required to redeem the Notes for cash upon a change of control or an event of default at a redemption price equal to 125% of the then outstanding balance of the Notes.

The terms of the Notes include interest at LIBOR plus 3.0% payable quarterly in cash or Microvision common stock, at the election of the Company, subject to certain conditions. However, in no case shall the interest rate be less than 6.0% or greater than 8.0%. If the Company chooses to pay interest in Microvision common stock as opposed to cash, the price will be based on 92% of the arithmetic average of the volume weighted average prices for the 10 trading days prior to the payment date. The Notes are payable in six equal quarterly installments beginning in December 2005. The Company can subject to certain conditions, elect to make the payments in common stock in lieu of cash. If the Company elects to pay in common stock, the Note holders can elect to receive Microvision or Lumera common stock. If the Note holders elect to receive Microvision or Lumera common stock, payment in either stock will be issued at a 10% discount to the arithmetic average of the volume weighted average prices for the 15 trading days prior to the payment date. Additionally, the Company can elect to convert the Notes into Microvision common stock if the stock price exceeds $11.97 per share for 20 out of any 30 consecutive trading days, subject to certain conditions.

The Company concluded that the Note holders' right to convert all or a portion of the Notes into Microvision or Lumera common stock is an embedded derivative instrument as defined by FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. Accordingly, $2,955,000 of the cash proceeds were allocated to the embedded derivative instrument, which represents the fair value of the instrument on the date of issuance. The derivative instrument is valued using the higher of the Microvision or Lumera conversion feature. At both the initial date of the transaction and at March 31, 2005, the Lumera conversion feature had a higher value. The value was determined using the Black-Scholes option-pricing model with the following assumptions: expected volatility of 75%; expected dividend yield of 0%; risk free interest rate of 4.62%; and contractual life of nine months to two years, which corresponds to the principal repayment dates. Due to change in the stock price and remaining life, the fair value of the embedded derivative instrument increased to $3,249,000 at March 31, 2005. The change in value of $294,000, was recorded as a non-operating expense and is included in" Loss on derivative features of note payable, net" in the consolidated statement of operations. The fair value of the instrument is included in Long-term liabilities at March 31, 2005 and subsequent changes in the fair value will be recorded in the statement of operations each period.

The warrants vested on the date of grant, 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 common stock equivalents at a price per share of common stock below the exercise price of the warrant. The warrants initially meet the definition of a derivative instrument that must be accounted for as a liability under the provisions of Emerging Issues Task Force Issue No. 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock,* because the Company has an obligation to register the common shares underlying the warrants. Accordingly, $1,651,000 of the cash proceeds were allocated to the warrants, which represents the fair value of the warrants on the date of issuance and the amount was recorded as a current liability. Subsequent changes in the fair value of the warrants will be recorded in the statement of operations each period and the classification of the warrants as a liability will be assessed at each balance sheet date. The warrants were valued using the Black-Scholes option-pricing model with the following assumptions: expected volatility of 75%; expected dividend yield of 0%; risk free interest rate of 4.62%; and contractual life of five years.

The remaining gross proceeds of $5,394,000 were allocated to the Notes, which resulted in a discount from the face value of $4,606,000. This discount will be amortized to interest expense using the interest method over the life of the Notes.

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 reporting periods. Diluted net loss per share is calculated on the basis of the weighted-average number of common shares outstanding and taking into account the dilutive effect of all potential common stock equivalents outstanding. Diluted net loss per share for the three months ended March 31, 2005 is equal to basic net loss per share because the effect of potential common stock outstanding during the periods, including options, warrants and common stock underlying convertible debt and preferred stock is anti-dilutive.

The components of basic and diluted earnings per share were as follows (in thousands, except earnings per share data):

	Three Months Ended March 31,	
	2005	2004
Numerator:		
Net loss available for common shareholders	$ (7,179)	$ (6,690)

	2005	2004
Denominator:		
Basic and diluted weighted-average common shares outstanding	21,495	21,459
Basic and diluted net loss per share	$ (0.33)	$ (0.31)

As of March 31, 2005 and 2004, Microvision had outstanding options and warrants to purchase 7,235,000 and 6,230,000 shares of common stock, respectively.

Stock-Based Compensation

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 the Financial Accounting Standards Board (FASB) Interpretation Number ("FIN") 44, "Accounting for Certain Transactions Involving Stock Compensation," and complies with the disclosure provisions of Statement of Financial Accounting Standards ("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-based compensation expense related to employee and director awards was $21,000 and $240,000 for the three months ended March 31, 2005 and 2004, respectively. Had compensation expense for employee and director options been determined using the fair values at the grant dates consistent with the methodology prescribed under SFAS No. 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 shown below (in thousands):

	Three Months Ended March 31,	
	2005	**2004**
Net loss available for common shareholders, as reported	$ (7,179)	$ (6,690)
Add: Stock-based employee compensation expense included in net loss available for common shareholders, as reported, net of minority interest	21	52
Deduct: Stock-based employee compensation expense determined under fair value based method for all awards, net of minority interest	(575)	(2,429)
Net loss available for common shareholders, pro forma	$ (7,733)	$ (9,067)
Net loss per share (basic and diluted):		
As reported	$ (0.33)	$ (0.31)
Pro Forma	$ (0.36)	$ (0.42)
Basic and diluted weighted-average common shares outstanding	21,495	21,459

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.

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 separate segment within Microvision. Subsequent to July 2004, Lumera became an equity method investment and the Company operates under one segment.

At March 31, 2005, Lumera is a significant unconsolidated equity investment of Microvision. For the first quarter of 2005, Lumera revenue was $240,000, Gross profit was $72,000, Loss from operations was $3,047,000 and Net loss was $2,878,000. At March 31, 2005, Lumera had Current assets of $27,219,000, Noncurrent assets of $2,860,000, current liabilities of $1,308,000 and Shareholders equity of $28,771,000.

The following tables reflect the results of the Company's reportable segments for the three months ended March 31, 2004 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):

	Three months ended March 31, 2004			
	Microvision	**Lumera**	**Eliminations**	**Total**
	(in thousands)			
Contract revenue	$ 1,983	$ 316	$ --	$ 2,299
Product revenue	675	--	--	675
Cost of contract revenue	1,011	194	--	1,205
Cost of product revenue	665	--	--	665
Research and development expense	3,152	1,467	--	4,619
Marketing, general and administrative expense	4,133	440	--	4,573
Non-cash compensation expense	182	501	--	683
Interest income	102	--	--	102
Interest expense	8	--	--	8
Segment loss	6,391	2,286	(1,987)	6,690
Depreciation	386	297	--	683
Expenditures for capital assets	197	15	--	212

Segment assets	31,282	3,361	(7,449)	27,194

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 January 1, 2006. 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).

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

Forward-Looking Statements

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

Other Applications

Microvision is continuing to develop prototype automotive head-up displays, electronic view finders, and image capture products. These prototypes demonstrate that scanned beam display technology can be used in different potential display and image capture products. Microvision believes that it can further develop these prototypes into products that will meet the customer's specifications for size, brightness, image quality and cost. Microvision has continued development work on these potential products in 2005.

Results of Operations

THREE MONTHS ENDED MARCH 31, 2005 COMPARED TO THREE MONTHS ENDED MARCH 31, 2004

Contract Revenue. The Company earns contract revenue from performance on development contracts with the United States government and commercial customers. Contract revenue in the three months ended March 31, 2005 increased by $1.1 million, or 47%, to $3.4 million from $2.3 million in the same period in 2004. For the three months ended March 31, 2005, 37% of contract revenue was derived from performance on development contracts with the United States government and 63% from performance on development contracts with commercial customers. For the three months ended March 31, 2004, 54% of contract revenue was derived from performance on development contracts with the United States government and 46% from performance on development contracts with commercial customers. Contract revenue included in Microvision's consolidated financial statements for Lumera was $316,000 for the three months ended March 31, 2004.

Contract revenue is dependent upon the timing and value of contracts the Company has entered into and the availability of technical resources to perform work on the contracts. Contract revenue was higher during the three months ended March 31, 2005 than the same period in 2004, due to higher beginning backlog and the allocation of additional resources to contract revenue projects partially offset by the impact of no longer including Lumera's revenue.

The Company believes that, as long as most of its revenue is earned from performance on development contracts, there may be a high degree of variability in revenue from quarter to quarter.

Microvision's backlog of development contracts at March 31, 2005 was $4.7 million. All development contracts in backlog are scheduled for completion and delivery during the next twelve months. Microvision's backlog of development contracts at March 31, 2004 was $2.7 million

Product Revenue. Microvision earns product revenue from sales of Nomad and Flic. Product revenue in the three months ended March 31, 2005 decreased by $75,000, or 11%, to $600,000 from $675,000 in the same period in 2004. For the three months ended March 31, 2005, 65% of product revenue was derived from the sales of Flic units and 35% from sales of Nomad units. For the three months ended March 31, 2004, substantially all product revenue was derived from Flic sales. During the first quarter of 2004, Microvision delivered a large Flic order to one customer, which order was not repeated in 2005. Microvision introduced a new version of Nomad during the first quarter of 2004. The increase in Nomad sales is attributable to sales of Nomad units to automotive dealerships for use in repair and maintenance applications.

Microvision believes that product revenue will increase from both Flic and Nomad sales as the products gain market acceptance. Quarterly revenue may vary substantially due to the timing of product orders from customers, production constraints and raw material availability.

The backlog of product orders at March 31, 2005 was approximately $302,000, all of which is scheduled for delivery during the next twelve months.

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 on a contract. Indirect costs include labor and other costs associated with operating the Company's research and development department and building the Company's technical capabilities and capacity. Cost of contract revenue is determined both by the level of direct costs incurred on development contracts and by the level of indirect costs incurred in operating and building the Company's technical capabilities and capacity. 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 for the three months ended March 31, 2005 increased by $623,000, or 52%, to $1.8 million from $1.2 million in the same period in 2004. Cost of contract revenue included in Microvision's consolidated financial statements for Lumera was $194,000 for the three months ended March 31, 2004. Total direct costs for the three months ended March 31, 2005 increased by 92% from the same period in 2004. The total direct labor component of direct costs for the three months ended March 31, 2005 increased by 40% from the same period in 2004.

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. As a result of the higher direct labor cost in cost of revenue partially offset by the effect of a lower overhead rate for the three months ended March 31, 2005, approximately 17% more overhead was allocated to cost of revenue than in the same period in 2004.

Microvision expects that cost of contract revenue on an absolute dollar basis may increase in the future. This increase will likely result from additional development contract work that Microvision expects to perform. The cost of revenue as a percentage of revenue can fluctuate significantly from period to period, depending on the contract and contract cost mix and the levels of direct and indirect costs incurred. Microvision expects the cost of contract revenue, as a percentage of contract revenue, to fluctuate modestly over time.

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 operating Microvision manufacturing capabilities and capacity.

Cost of product revenue for the three months ended March 31, 2005 increased by $485,000 or 73%, to $1.2 million from $665,000 in the same period in 2004.

Cost of product revenue for the three months ended March 31, 2005 includes the write-off of $443,000 of inventory. The write-offs 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.

Manufacturing overhead is allocated to inventory, cost of product revenue, cost of contract revenue, and research and development expense based on the proportion of direct material purchased for the respective activity.

Microvision expects that cost of product revenue on an absolute dollar basis will increase in the future. This increase will likely result from expected sales of commercial products. The cost of product revenue as a percentage of product revenue can fluctuate significantly from period to period, depending on the product mix, the level of overhead expense and the volume of direct materials purchased.

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 Sponsored Research Agreement for Lumera,
- Laboratory operations, outsourced development and processing work,
- Fees and expenses related to patent applications, prosecution and protection,
- Nomad production cost in excess of Nomad revenue (until October 2004),
- Other operating expenses and
- Costs incurred in acquiring and maintaining licenses.

Research and development expense in the three months ended March 31, 2005 decreased by $2.7 million, or 59% to $1.9 million from $4.6 million in the same period in 2004. Research and development expense included in Microvision's consolidated financial statements for Lumera was $1.5 million for the three months ended March 31, 2004. The remaining decline is a result of a shift from research and development cost to work on revenue contracts and the full absorption of manufacturing overhead cost.

Microvision believes that a substantial level of continuing research and development expense will be required to develop additional commercial products using the scanned beam display technology. Accordingly, Microvision anticipates its level of research and development spending will continue to be substantial. 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.

Marketing, Selling, General and Administrative Expense. Marketing, selling, 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 services, consultants and other operating expenses.

Marketing, selling, general and administrative expenses in the three months ended March 31, 2005 decreased by $38,000, or 1%, to $4.5 million from $4.6 million in the same period in 2004. Marketing, general and administrative expense included in Microvision's consolidated financial statements for Lumera was $440,000 for the three months ended March 31, 2004. The increase in Microvision marketing, selling, general and administrative expense is attributable to increased sales and marketing costs for the Nomad product. Microvision's increased costs included salaries, travel and promotion costs directly related to Nomad sales activity.

Microvision expects marketing, general and administrative expenses to increase, commensurate with increases in revenue, in future periods as Microvision:

- 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 in the three months ended March 31, 2005 decreased $552,000 or 81%, to $131,000 from $683,000 in the same period in 2004.

The following table shows the major components of non-cash compensation expense for the three months ended March 31, 2005 and 2004, respectively.

	Three Months Ended March 31,	
	2005	2004
Microvision securities issued to third parties	110,000	158,000
Microvision stock options issued to employees	--	24,000

Microvision options issued to non-management directors	21,000	--
Lumera non-cash compensation expense	--	501,000
	$ 131,000	$ 683,000

At March 31, 2005, Microvision had $174,000 of unamortized non-cash compensation expense that will be amortized over the next year.

Interest Income. Interest income in the three months ended March 31, 2005 decreased by $45,000, or 44%, to $57,000 from $102,000 in the same period in 2004. This decrease resulted primarily from lower average cash and investment securities balances in the three months ended March 31, 2005 than the average cash and investment securities balances in the same period of the prior year.

Interest Expense Interest expense in the three months ended March 31,2005 increased by $183,000 to $191,000 from $8,000 in the same period in 2004. In March 2005, the Company raised $10 million before issuance costs of $323,000 from the issuance of convertible notes ("Notes") and warrants to purchase an aggregate of 462,330 shares of Microvision common stock. This increase in interest expense relates to the stated interest on the notes, as well as the amortization of the discount recorded on the notes due to the warrants and embedded derivative feature of the Notes. The Company interest expense will be substantially higher than in previous periods as a result of this transaction.

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 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 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, 3.4, and contractual life five years. $1.3 million of the proceeds were allocated to the warrant and was 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.

Liquidity and Capital Resources

The Company has funded operations to date primarily through the sale of common stock, convertible preferred stock, convertible debt, warrants and, to a lesser extent, from development contract revenues and product sales. At March 31, 2005, Microvision had $6.3 million in cash and cash equivalents and investment securities.

Microvision believes that its current cash and cash equivalents balance as of March 31, 2005 totaling $6.3 million will satisfy its budgeted cash requirements through June 2005 based on its current operating plan. Microvision will require additional financing to fund its current operating plan beyond June 2005. Microvision owns 3,684,000 shares of Lumera common stock that have not been pledged as security and reserved for potential conversion of the Company's notes. Based on the May 2, 2005 closing price of $4.25, the Lumera shares have a market value of $15,657,000. Microvision plans to raise additional cash to continue to fund its operating plan past that date. There can be no assurance that 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.

Cash used in operating activities totaled $4.8 million during the three months ended March 31, 2005, compared to $7.5 million during the same period in 2004. Cash used in operating activities for each period resulted primarily from the net loss for the period.

- "Inventory" increased by $476,000 to $3.6 million at March 31, 2005 from $3.2 at December 31, 2004. 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 the 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 March 31, 2005 and December 31, 2004, respectively:

	March 31, 2005	**December 31, 2004**
Raw materials	$ 1,790,000	$ 1,607,000
Work-in-process	460,000	77,000
Finished goods	1,393,000	1,483,000
	$ 3,643,000	$ 3,167,000

Cash used in investing activities totaled $1.1 million during the three months ended March 31, 2005, compared to cash provided by investing activities of $1.8 million during the same period of 2004. During the three months ended March 31, 2005, the Company had net purchases of investment securities of $1.2 million compared to net sales of $2.0 million during the same period in 2004. The proceeds from the sales of investment securities were used to fund the Company's operations.

The Company used cash of $43,000 for capital expenditures during the three months ended March 31, 2005, compared to $212,000 during the same period in 2004. 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 $9.7 million during the three months ended March 31, 2005, compared to $706,000 during the same period in 2004.

In March 2005, the Company raised $10,000,000 before issuance costs of $323,000 from the issuance of convertible notes ("Notes") and warrants to purchase an aggregate of 462,330 shares of Microvision common stock. 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 or Lumera common stock held by the Company at a conversion price of $5.64 per share up to a limit of 1,750,000 shares of Lumera common stock. The Note holders may convert all or a portion of their Notes. The initial conversion price is subject to adjustment in the event Microvision issues common stock or common stock equivalents at a price per share of common stock below the conversion price of the Notes. In addition, upon the request of the Note holders, the Company is required to redeem the Notes for cash upon a change of control or an event of default at a redemption price equal to 125% of the then outstanding balance of the Notes.

The terms of the Notes include interest at LIBOR plus 3.0% payable quarterly in cash or Microvision common stock, at the election of the Company, subject to certain conditions. However, in no case shall the interest rate be less than 6.0% or greater than 8.0%. If the Company chooses to pay interest in Microvision common stock as opposed to cash, the price will be based on 92% of the arithmetic average of the volume weighted average prices for the 10 trading days prior to the payment date. The Notes are payable in six equal quarterly installments beginning in December 2005. The Company can, subject to certain conditions, elect to make the payments to common stock, in lieu of cash. If the Company elects to pay in common stock, the Note holders can elect to receive Microvision or Lumera common stock. If the Note holders elect to receive Microvision or Lumera common stock, payment in either stock will be issued at a 10% discount to the arithmetic average of the volume weighted average prices for the 15 trading days prior to the payment date. Additionally, the Company can elect to convert the Notes into Microvision common stock if the stock price exceeds $11.97 per share for 20 out of any 30 consecutive trading days, subject to certain conditions.

The Company concluded that the Note holders' right to convert all or a portion of the Notes into Microvision or Lumera common stock is an embedded derivative instrument as defined by FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities.* Accordingly, $2,955,000 of the cash proceeds were allocated to the embedded derivative instrument, which represents the fair value of the instrument on the date of issuance. The derivative instrument is valued using the higher of the Microvision or Lumera conversion feature. At both the initial date of the transaction and at March 31, 2005, the Lumera conversion feature had a higher value. The value was determined using the Black-Scholes option-pricing model with the following assumptions: expected volatility of 75%; expected dividend yield of 0%; risk free interest rate of 4.62%; and contractual life of nine months to two years, which corresponds to the principal repayment dates. Due to change in the stock price and remaining life, the fair value of the embedded derivative instrument increased to $3,249,000 at March 31,2005. The change in value of $294,000 was recorded as a non-operating expense and is included in "Loss on derivative features of note payable net" in the consolidated statement of operations. The fair value of the instrument is included in Long-term liabilities at March 31,2005 and subsequent changes in the fair value will be recorded in the statement of operations each period.

The warrants vested on the date of grant, 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 common stock equivalents at a price per share of common stock below the exercise price of the warrant. The warrants initially meet the definition of a derivative instrument that must be accounted for as a liability under the provisions of Emerging Issues Task Force Issue No. 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially*

Settled in, a Company's Own Stock, because the Company has an obligation to register the common shares underlying the warrants. Accordingly, $1,651,000 of the cash proceeds were allocated to the warrants, which represents the fair value of the warrants on the date of issuance, and the amount was recorded as a current liability. Subsequent changes in the fair value of the warrants will be recorded in the statement of operations each period and the classification of the warrants as a liability will be assessed at each balance sheet date. The warrants were valued using the Black-Scholes option-pricing model with the following assumptions: expected volatility of 75%; expected dividend yield of 0%; risk free interest rate of 4.62%; and contractual life of five years.

The remaining gross proceeds of $5,394,000 were allocated to the Notes, which resulted in a discount from the face value of $4,606,000. This discount will be amortized to interest expense using the interest method over the life of the Notes.

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.

<u>Recently Issued Accounting Pronouncements</u> - 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 January 1, 2006. 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).

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 March 31, 2005, we had an accumulated deficit of $194.4 million.
- We incurred consolidated net losses of $128.1 million from inception through 2002, $26.2 million in 2003, $33.2 million in 2004 and $6.9 million for the three months ended March 31, 2005.

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 have cash to fund operations through June 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 cash to fund our operations in 2005. Microvision owns 3,684,000 shares of Lumera common stock that are not reserved for potential conversion on the Company's notes. Based on the May 2, 2005 closing price of $4.25 the Lumera shares have a market value of $15,657,000. 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. This limitation of operations may include reductions in capital expenditures and reductions in staff and discretionary cost, which may include non-contractual research cost.

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.

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 Liquidity and Capital. 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 first and second quarter of 2003, the third quarter of 2004, and the second quarter of 2005, the market price of our stock traded below $5.00 per share. On May 2, 2005 the closing price of our stock was $5.20.

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 cycles 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.

ITEM 3. **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, Microvision believes that the market risk arising from its holdings of these financial instruments is not material. A one-percent change in market interest rates would have approximately a $9,000 impact on the fair value of the investment securities.

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 approximately 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 weighted average maturities of cash equivalents and investment securities available-for-sale as of March 31, 2005, are as follows (dollar amounts in thousands):

	Amount	Percent
Cash and equivalents	$5,025	80.19%
Less than one year	1,241	19.81%
	6,266	100.00%

Microvision owns 5,434,000 shares of Lumera common stock, of which 1,750,000 are pledged as security and reserved for potential conversion of the company's convertible notes. Based on Lumera's closing stock price on May 2, 2005 of $4.25 per share, the market value of Microvision's investment in Lumera common stock is $23.1 million, and the market value of the unpledged shares of Lumera common stock is $15.7 million. The market price of Lumera's common stock is subject to fluctuations based on Lumera's financial performance and overall market conditions.

Presently, all of the Company's development contract payments are denominated in U.S. dollars and, consequently, the Company believes it has no material foreign currency exchange rate risk. However, in the future Microvision may enter into development contracts or product sales in foreign currencies that may subject Microvision to foreign exchange rate risk.

ITEM 4. **CONTROLS AND PROCEDURES**

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

PART II

OTHER INFORMATION

ITEM 6. **Exhibits**

31.1	Chief Executive Officer Certification Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Chief Financial Officer Certification Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 Of the Sarbanes-Oxley Act of 2002
32.1	Chief Executive Officer Certification pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Chief Financial Officer Certification pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MICROVISION, INC.

Date: May 10, 2005 BY: /s/ Richard F. Rutkowski

Richard F. Rutkowski

Chief Executive Officer

(Principal Executive Officer)

Date: May 10, 2005 BY: /s/ Jeff Wilson

Jeff Wilson

Vice President, Accounting

(Principal Accounting Officer)

EXHIBIT INDEX

The following documents are filed.

Exhibit Number	Description
31.1	Chief Executive Officer Certification Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Chief Financial Officer Certification Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 Of the Sarbanes-Oxley Act of 2002
32.1	Chief Executive Officer Certification pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Chief Financial Officer Certification pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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 report for the quarter ended March 31, 2005 on Form 10-Q of Microvision, Inc.;

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

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

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financila reporting (as defined in Exchange Act Rules 13a-15(f) and 15d- 15(f) for the registrant and have:

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

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be desinned under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of finacial statements for external purposes in accordance with generally accepted accounting principals:

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2005

By: /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 report for the quarter ended March 31, 2005 on Form 10-Q of Microvision, Inc.;

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

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

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d- 15(f) for the registrant and have:

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

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be desinned under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of finacial statements for external purposes in accordance with generally accepted accounting principals:

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2005

By: /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-Q for the quarter ended March 31, 2005 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) the information contained in the Company's Form 10-Q for the quarter ended March 31, 2005 fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 10, 2005	By: /s/ Richard F. Rutkowski
	Richard F. Rutkowski
	Chief Executive Officer

Exhibit 32.2

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

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

1) the Company's Form 10-Q for the quarter ended March 31, 2005 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) the information contained in the Company's Form 10-Q for the quarter ended March 31, 2005 fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 10, 2005	By: /s/ Richard A. Raisig Richard A. Raisig Chief Financial Officer