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

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

6222 185th Avenue NE
Redmond, Washington 98052
(Address of Principal Executive Offices including Zip Code)

(425) 936-6847
(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 a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☐
(Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). YES ☐ NO ☒

As of October 31, 2008, 68,080,000 shares of the Company's common stock, $0.001 par value, were outstanding.
**Part I: Financial Information**

Item 1. Financial Statements:

- Consolidated Balance Sheets as of September 30, 2008 and December 31, 2007 (unaudited)  
- Consolidated Statements of Operations for the three and nine months ended September 30, 2008 and 2007 (unaudited)  
- Consolidated Statements of Comprehensive Loss for the three and nine months ended September 30, 2008 and 2007 (unaudited)  
- Consolidated Statements of Cash Flows for the nine months ended September 30, 2008 and 2007 (unaudited)  
- Notes to Consolidated Financial Statements (unaudited)

**Part II: Other Information**

- Item 1A. Risk Factors
- Item 6. Exhibits
- Signatures
- Exhibit Index
Microvision, Inc.
Consolidated Balance Sheet
(In thousands, except per share data)
(Unaudited)

<table>
<thead>
<tr>
<th></th>
<th>September 30, 2008</th>
<th>December 31, 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$30,991</td>
<td>$13,399</td>
</tr>
<tr>
<td>Investment securities, available-for-sale</td>
<td>6,222</td>
<td>22,411</td>
</tr>
<tr>
<td>Accounts receivable, net of allowances of $73 and $123</td>
<td>169</td>
<td>1,885</td>
</tr>
<tr>
<td>Costs and estimated earnings in excess of billings on uncompleted contracts</td>
<td>9</td>
<td>443</td>
</tr>
<tr>
<td>Inventory</td>
<td>1,806</td>
<td>761</td>
</tr>
<tr>
<td>Other current assets</td>
<td>996</td>
<td>1,180</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>40,193</td>
<td>40,079</td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>3,581</td>
<td>4,047</td>
</tr>
<tr>
<td>Restricted investments</td>
<td>1,475</td>
<td>1,125</td>
</tr>
<tr>
<td>Other assets</td>
<td>48</td>
<td>47</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$45,297</td>
<td>$45,298</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Liabilities and Shareholders' Equity</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Current liabilities</td>
</tr>
<tr>
<td>Accounts payable</td>
</tr>
<tr>
<td>Accrued liabilities</td>
</tr>
<tr>
<td>Billings in excess of costs and estimated earnings on uncompleted contracts</td>
</tr>
<tr>
<td>Liability associated with common stock warrants</td>
</tr>
<tr>
<td>Current portion of capital lease obligations</td>
</tr>
<tr>
<td>Current portion of long-term debt</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
</tr>
<tr>
<td>Capital lease obligations, net of current portion</td>
</tr>
<tr>
<td>Long-term debt, net of current portion</td>
</tr>
<tr>
<td>Deferred rent, net of current portion</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
</tr>
</tbody>
</table>

**Commitments and contingencies**

**Shareholders' equity**

|                          |                     |
| Common stock, par value $.001; 125,000 shares authorized; 68,944 and 56,730 shares issued and outstanding | 68                  | 57                |
| Additional paid-in capital | 318,983            | 292,374           |
| Accumulated other comprehensive income (loss) | (23)               | 51                |
| Accumulated deficit        | (282,168)          | (259,421)         |
| **Total shareholders' equity** | 36,860            | 33,061            |
| **Total liabilities and shareholders' equity** | $45,297            | $45,298           |

The accompanying notes are an integral part of these financial statements.
### Microvision, Inc.

**Consolidated Statement of Operations**

(In thousands, except per share data)

(UNAUDITED)

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended</th>
<th>Nine Months Ended</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>September 30,</td>
<td>September 30,</td>
</tr>
<tr>
<td></td>
<td>2008</td>
<td>2007</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2008</td>
</tr>
<tr>
<td>Contract revenue</td>
<td>$ 480</td>
<td>$ 2,181</td>
</tr>
<tr>
<td>Product revenue</td>
<td>414</td>
<td>298</td>
</tr>
<tr>
<td></td>
<td></td>
<td>884</td>
</tr>
<tr>
<td>Total revenue</td>
<td></td>
<td>253</td>
</tr>
<tr>
<td>Cost of contract revenue</td>
<td>253</td>
<td>1,349</td>
</tr>
<tr>
<td></td>
<td>253</td>
<td>1,349</td>
</tr>
<tr>
<td>Cost of product revenue</td>
<td>356</td>
<td>404</td>
</tr>
<tr>
<td></td>
<td>356</td>
<td>404</td>
</tr>
<tr>
<td>Total cost of revenue</td>
<td>609</td>
<td>1,753</td>
</tr>
<tr>
<td>Gross margin</td>
<td>285</td>
<td>846</td>
</tr>
<tr>
<td></td>
<td></td>
<td>5,804</td>
</tr>
<tr>
<td>Research and development expense</td>
<td>5,804</td>
<td>3,694</td>
</tr>
<tr>
<td>Sales, marketing, general and administrative expense</td>
<td>3,456</td>
<td>3,691</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>9,260</td>
<td>7,385</td>
</tr>
<tr>
<td>Loss from operations</td>
<td>(8,975)</td>
<td>(6,539)</td>
</tr>
<tr>
<td>Interest income</td>
<td>271</td>
<td>526</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(13)</td>
<td>(14)</td>
</tr>
<tr>
<td>Impairment of investment securities, available-for-sale</td>
<td>(300)</td>
<td>--</td>
</tr>
<tr>
<td>Gain (loss) on derivative instruments, net</td>
<td>585</td>
<td>883</td>
</tr>
<tr>
<td>Other expense</td>
<td>(13)</td>
<td>(8)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(8,443)</td>
</tr>
<tr>
<td>Gain on sale of investment in Lumera</td>
<td>--</td>
<td>434</td>
</tr>
<tr>
<td>Net loss before Lumera transactions</td>
<td>(8,443)</td>
<td>(5,152)</td>
</tr>
<tr>
<td>Net loss</td>
<td>(8,443)</td>
<td>(4,718)</td>
</tr>
<tr>
<td>Net loss per share - basic and diluted</td>
<td>(0.13)</td>
<td>(0.08)</td>
</tr>
<tr>
<td>Weighted-average shares outstanding - basic and diluted</td>
<td>64,879</td>
<td>56,236</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
## Microvision, Inc.
### Consolidated Statement of Comprehensive Income (Loss)
(In thousands)
(Unaudited)

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended September 30,</th>
<th>Nine Months Ended September 30,</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net loss</td>
<td>$ (8,443)</td>
<td>$ (4,718)</td>
</tr>
<tr>
<td>Other comprehensive gain (loss)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrealized gain (loss) on investment securities, available-for-sale</td>
<td>$ (35)</td>
<td>$ (65)</td>
</tr>
<tr>
<td>Less: reclassification adjustment for gains realized in net income</td>
<td>--</td>
<td>(434)</td>
</tr>
<tr>
<td>Net unrealized loss</td>
<td>$ (35)</td>
<td>$ (499)</td>
</tr>
<tr>
<td>Comprehensive loss</td>
<td>$ (8,478)</td>
<td>$ (5,217)</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
Microvision, Inc.
Consolidated Statement of Cash Flows
(In thousands)
(Unaudited)

<table>
<thead>
<tr>
<th>Nine Months Ended September 30,</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008  2007</td>
</tr>
<tr>
<td>----------------------  ----------------------</td>
</tr>
</tbody>
</table>

**Cash flows from operating activities**

- Net loss: $(22,747) $(13,765)
- Adjustments to reconcile net loss to net cash used in operations:
  - Depreciation: 746 653
  - Non-cash stock-based compensation expense: 2,150 1,327
  - Non-cash interest expense: -- 371
  - Loss/(gain) on derivative instruments: $(2,004) 1,710
  - Impairment of long-term investment securities: 300 --
  - Allowance for receivables from related parties: $(240) 23
  - Gain on sale of investment in Lumera: -- $(6,397)
  - Net accretion of discount on short-term investments: $(99) --
  - Non-cash deferred rent: $(206) $(207)

**Change in:**
- Accounts receivable, net: 1,716 324
- Costs and estimated earnings in excess of billings on uncompleted contracts: 434 $(696)
- Inventory: (1,045) 19
- Other current assets: 55 391
- Other assets: 1 (1)
- Accounts payable: 298 243
- Accrued liabilities: (754) $(683)
- Billings in excess of costs and estimated earnings on uncompleted contracts: $(899) 109

**Net cash used in operating activities:** $(22,296) $(16,586)

**Cash flows from investing activities**

- Sales of investment securities: 16,900 --
- Purchases of investment securities: $(986) $(21,590)
- Sales of restricted investment securities: -- 1,000
- Purchases of restricted investment securities: $(350) $(1,061)
- Collections of receivables from related parties: 240 227
- Sale of long-term investment - Lumera: -- 8,348
- Purchases of property and equipment: $(320) $(849)

**Net cash provided by (used in) investing activities:** 15,484 $(13,925)

**Cash flows from financing activities**

- Principal payments under capital leases: $(32) $(34)
- Principal payments under long-term debt: $(49) $(44)
- Payments on notes payable: -- $(1,400)
- Net proceeds from issuance of common stock and warrants: 24,485 35,921

**Net cash provided by financing activities:** 24,404 34,443

**Net increase in cash and cash equivalents:** 17,592 3,932

**Cash and cash equivalents at beginning of period:** 13,399 14,552

**Cash and cash equivalents at end of period:** $30,991 $18,484

**Supplemental disclosure of cash flow information**

- Cash paid for interest: $36 $77

**Supplemental schedule of non-cash investing and financing activities**

- Issuance of common stock for payment of principal and interest on senior secured exchangeable convertible notes: $(1) $(32)
- Issuance of common stock for payment of principal and interest on senior secured exchangeable convertible notes: $(1) $(32)

The accompanying notes are an integral part of these financial statements.
1. MANAGEMENT'S STATEMENT AND PRINCIPLES OF CONSOLIDATION

MANAGEMENT'S STATEMENT

The Consolidated Balance Sheet as of September 30, 2008, the Consolidated Statements of Operations and Comprehensive Loss for the three and nine months ended September 30, 2008 and 2007 and the Consolidated Statements of Cash Flows for the nine months ended September 30, 2008 and 2007 have been prepared by Microvision, Inc. (the "Company" or "Microvision") and have not been audited. In the opinion of management, all adjustments necessary to state fairly the financial position at September 30, 2008 and the results of operations, comprehensive loss 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, 2007. The results of operations for the nine months ended September 30, 2008 are not necessarily indicative of the operating results that may be attained for the entire fiscal year.

At September 30, 2008, Microvision had $37.2 million in cash, cash equivalents, and investment securities, available-for-sale. Based on its current operating plan, the Company believes that it has sufficient cash to fund operations until late 2009. Microvision will require additional cash to fund its operating plan past that time. There can be no assurance that additional cash will be available 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 staff, operating costs and capital expenditures.

2. 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. Potentially dilutive common stock equivalents primarily consist of warrants and employee stock options. Diluted net loss per share for the three and nine months ended September 30, 2008 and 2007 is equal to basic net loss per share because the effect of all potential common stock outstanding during the periods, including convertible debt, convertible preferred stock, options and warrants is anti-dilutive. The components of basic and diluted net loss per share were as follows (in thousands, except loss per share data):

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended September 30,</th>
<th>Nine Months Ended September 30,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2007</td>
<td>2008</td>
</tr>
<tr>
<td>Net loss available for common shareholders - basic and diluted</td>
<td>$(8,443)</td>
<td>$(4,718)</td>
</tr>
<tr>
<td></td>
<td>---------------------------------</td>
<td>---------------------------------</td>
</tr>
<tr>
<td>Denominator:</td>
<td>64,879</td>
<td>56,236</td>
</tr>
<tr>
<td></td>
<td>---------------------------------</td>
<td>---------------------------------</td>
</tr>
<tr>
<td>Weighted-average common shares outstanding - basic and diluted</td>
<td>59,483</td>
<td>47,683</td>
</tr>
<tr>
<td></td>
<td>---------------------------------</td>
<td>---------------------------------</td>
</tr>
<tr>
<td>Net loss per share - basic and diluted</td>
<td>$(0.13)</td>
<td>$(0.08)</td>
</tr>
<tr>
<td></td>
<td>---------------------------------</td>
<td>---------------------------------</td>
</tr>
<tr>
<td></td>
<td>$(0.13)</td>
<td>$(0.08)</td>
</tr>
<tr>
<td></td>
<td>---------------------------------</td>
<td>---------------------------------</td>
</tr>
<tr>
<td></td>
<td>$(0.38)</td>
<td>$(0.29)</td>
</tr>
</tbody>
</table>

On September 30, 2008 and 2007, the Company excluded the following convertible securities from diluted net loss per share as the effect of including them would have been anti-dilutive: options and private warrants convertible into a total of 16,464,000 and 9,442,000 shares of common stock and 125,000 and 0 shares of nonvested equity shares, respectively.

3. INVESTMENT SECURITIES, AVAILABLE-FOR-SALE AND FAIR VALUE MEASUREMENTS

The Company accounts for investment securities in accordance with the provisions of Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities ("FAS 115") and Statement of Financial Accounting Standards No. 157, Fair Value Measurements ("FAS 157"). FAS 115 addresses the accounting and reporting for investments in equity securities that have readily determinable fair values and for investments in debt securities. FAS 157 establishes a valuation framework which defines fair value, provides guidance regarding the methods used for measuring fair value, and expands disclosures about fair value measurements.

The Company's investment securities are comprised of commercial paper, U.S. government and Agency securities, corporate bonds and auction-rate securities ("ARS"). The Company has classified its entire investment portfolio as available-for-sale. Available-for-sale securities are classified as current assets or non-current assets on the Consolidated Balance Sheet and are stated at fair value with unrealized gains and losses included in the Consolidated Statement of Comprehensive Loss. Dividend and interest income are recognized when earned; realized gains and losses and other-than-temporary impairments are recognized in the period incurred and are included separately in the Consolidated Statement of Operations. The cost of securities sold is based on the specific identification method.

In September 2006, the FASB issued FAS 157. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods of those fiscal years. The Company adopted FAS 157 effective January 1, 2008. The adoption of FAS 157 for financial assets and liabilities did not have a material impact on the Company's consolidated financial position, consolidated results of operations or consolidated cash flows.

FAS 157 defines fair value as the exchange price (an exit price) that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FAS 157 also establishes a three level fair value inputs hierarchy and requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The entity must also utilize market data and assumptions it believes market participants would use in measuring the fair value of the asset or liability, including assumptions about risks, the risks inherent in the inputs and the valuation techniques. The hierarchy is shown below:

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

Level 2 - Observable inputs, other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not sufficiently active to qualify as level 1, other observable inputs, or inputs that can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs in which there is little or no market data, which requires the company to develop its own assumptions which are significant to the measurement of the fair values of the assets or liabilities.

The Company utilizes valuations reported by outside valuation services for its debt securities when available. The valuations are reviewed for reasonableness before being accepted for financial reporting. The Company has reviewed the inputs and methodologies used by the services as a basis for its accounting and disclosures in accordance with FAS 157.
The principal markets for the debt securities are dealer markets which have a high level of price transparency. The market participants for debt securities are typically large money center banks and regional banks, brokers, dealers, pension funds, and companies with debt investment portfolios.

Prior to June 30, 2008, the Company used the market approach to measure fair values of its investments in all debt and equity securities and the income approach for derivatives. Under the market approach, prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities are used to estimate values. Under the income approach, valuation techniques to convert future amounts to a single present amount are used. Due to continuing low liquidity and high variability of valuations and inputs in the market for student loan ARS ("SLARS") during the quarter ended June 30, 2008, the Company determined the market did not have sufficient market participant activity to continue supporting the market approach to value its SLARS and changed from the market approach to using the income approach.

At September 30, 2008, the Company's marketable securities portfolio included $3.0 million par value AAA rated SLARS. The SLARS are long-term variable rate bonds tied to short-term interest rates issued to fund government guaranteed student loans. Purchases, sales and interest rate resets for the Company's SLARS are completed via a Dutch Auction process conducted every twenty-eight days. If insufficient clearing bids are submitted during the auction, the auction has failed and the interest rates are reset to the "maximum rates", instead of "auction rates", according to the specific provisions of each of the SLARS. In addition, the Company would continue holding the SLARS until a subsequent successful auction or until sales are completed on a secondary market.

As of December 31, 2007, the Company held $8.8 million aggregate par value of ARS, $5.8 million in municipal ARS and $3.0 million in SLARS. The $5.8 million in municipal ARS was sold at par value during the period from February through May 2008.

Since February, 2008, the auctions of the Company's SLARS have failed, resulting in the SLARS being illiquid through the normal auction process during this period. At the time of the Company's initial investment and through the filing date of this report, the SLARS held by the Company have maintained the following credit factors:

- AAA rated,
- guaranteed by the Federal Family Education Loan Program ("FFELP") and other federal and state student loan guarantee programs,
- collateralized by the student loans funded with the SLARS proceeds and collections thereon,
- no declines in the credit ratings of the issuers; and,
- no material changes in loan collection rates.

Half of the Company's SLARS are insured by AMBAC, which has been AAA rated from the time the SLARS were purchased, through the filing date of this report.

Based on the length of the historical duration of failed SLARS auctions and significant uncertainty of the prospective duration of lack of liquidity in the SLARS market, the Company determined that the estimated fair value of the SLARS no longer approximated par value and the impairments were other-than-temporary. The Company used a discounted cash flow model, with rates adjusted for liquidity, to determine the estimated fair values of the SLARS as of September 30, 2008. The Company recorded an "impairment of investment securities, available-for-sale" of $300,000 for the period ended September 30, 2008 on the Consolidated Statement of Operations. Based on utilizing a discounted cash flow model with sufficiently significant unobservable input estimates, the Company reclassified the SLARS from Level 2 to Level 3 of the FAS 157 fair value hierarchy during the period ended September 30, 2008. The following table summarizes the activity for those financial assets where fair value measurements are estimated utilizing Level 3 inputs:

<table>
<thead>
<tr>
<th>SLARS</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance, December 31, 2007 and June 30, 2008</td>
<td>$ -</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfer from Level 2 to Level 3, period ended September 30, 2008</td>
<td></td>
<td>3,800,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Realized loss included in earnings, period ended September 30, 2008</td>
<td></td>
<td></td>
<td>(300,000)</td>
<td></td>
</tr>
<tr>
<td>Balance, September 30, 2008</td>
<td></td>
<td>2,700,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Assets and liabilities measured at fair value on a recurring basis in accordance with FAS 157 are summarized below:

<table>
<thead>
<tr>
<th>Assets</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity securities</td>
<td>$ 16,000</td>
<td>$ --</td>
<td>$ --</td>
<td>$ 16,000</td>
</tr>
<tr>
<td>U.S. government and agency securities</td>
<td>3,506,000</td>
<td>--</td>
<td>3,506,000</td>
<td>--</td>
</tr>
<tr>
<td>Auction-rate securities</td>
<td>--</td>
<td>2,700,000</td>
<td>--</td>
<td>2,700,000</td>
</tr>
<tr>
<td>Liability associated with common stock warrants</td>
<td>$ 524,000</td>
<td>$ --</td>
<td>$ 524,000</td>
<td>$ --</td>
</tr>
</tbody>
</table>

The Company's investments in U.S. government and agency securities and equity securities are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices in active markets with sufficient observability by market participants. The liability associated with common stock warrants is classified within Level 2 of the fair value hierarchy because it is valued using the Black-Scholes option valuation method with inputs with sufficient levels of observability to market participants. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's investments in SLARS are classified within Level 3 of the fair value hierarchy because a discounted cash flow model with sufficiently significant unobservable input estimates is used to estimate fair values.

The Company's investments, warrants and liability associated with common stock warrants are summarized below as of September 30, 2008 and December 31, 2007:

<table>
<thead>
<tr>
<th>Assets</th>
<th>Cost/ Amortized</th>
<th>Gross Unrealized</th>
<th>Gross Unrealized</th>
<th>Estimated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity securities</td>
<td>43,000</td>
<td>--</td>
<td>(27,000)</td>
<td>16,000</td>
</tr>
<tr>
<td>U.S. government and agency securities</td>
<td>3,502,000</td>
<td>4,000</td>
<td>--</td>
<td>3,506,000</td>
</tr>
<tr>
<td>Auction-rate securities</td>
<td>2,700,000</td>
<td>--</td>
<td>--</td>
<td>2,700,000</td>
</tr>
<tr>
<td>Liabilities</td>
<td>Cost/ Amortized</td>
<td>Gross Unrealized</td>
<td>Gross Unrealized</td>
<td>Estimated</td>
</tr>
<tr>
<td>Liability associated with common stock warrants</td>
<td>$ 524,000</td>
<td>$ --</td>
<td>$ --</td>
<td>$ --</td>
</tr>
</tbody>
</table>
In February 2006, the Company entered into a loan agreement with the lessor of the Company’s corporate headquarters to finance $536,000 in tenant improvements.

As of September 30, 2008, the Company’s unamortized nonvested equity share-based compensation was $197,000.

As of September 30, 2008, the Company’s unamortized share-based compensation was $5,190,000.

The realized gains and losses associated with the liability associated with common stock warrants were primarily due to changes in the Microvision stock price and decreasing terms to expiration.

4. INVENTORY

Inventory at September 30, 2008 and December 31, 2007 consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>September 30, 2008</th>
<th>December 31, 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw materials</td>
<td>$483,000</td>
<td>$122,000</td>
</tr>
<tr>
<td>Work-in-process</td>
<td></td>
<td>1,323,000</td>
</tr>
<tr>
<td>Finished goods</td>
<td>1,323,000</td>
<td>629,000</td>
</tr>
<tr>
<td></td>
<td>$1,806,000</td>
<td>$761,000</td>
</tr>
</tbody>
</table>

The inventory at September 30, 2008 and December 31, 2007 consisted of raw materials, work-in-process, and finished goods for ROV, the Company’s hand-held bar code scanner. 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.

5. SHARE-BASED COMPENSATION

The Company accounts for stock-based employee compensation arrangements in accordance with the provisions of Statement of Financial Accounting Standards No. 123, as revised December 2004 (“FAS 123(R)”). The Company accounts for equity instruments issued to non-employees in accordance with the provisions of Emerging Issues Task Force Issue No. 96-18 and FAS No. 123. The following table shows the amount of stock-based employee compensation expense included in the Consolidated Statement of Operations:

<table>
<thead>
<tr>
<th></th>
<th>September 30, 2008</th>
<th>December 31, 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of contract revenue</td>
<td>$7,000</td>
<td>$38,000</td>
</tr>
<tr>
<td>Cost of product revenue</td>
<td>4,000</td>
<td>10,000</td>
</tr>
<tr>
<td>Research and development expense</td>
<td>167,000</td>
<td>96,000</td>
</tr>
<tr>
<td>Sales, marketing, general and administrative expense</td>
<td>355,000</td>
<td>407,000</td>
</tr>
<tr>
<td>Share-based employee compensation cost charged against income</td>
<td>533,000</td>
<td>551,000</td>
</tr>
</tbody>
</table>

The following table summarizes shares, weighted average exercise price, weighted average remaining contractual term and aggregate intrinsic value of options outstanding and options exercisable as of September 30, 2008:

<table>
<thead>
<tr>
<th>Options</th>
<th>Shares</th>
<th>Weighted Average Exercise Price</th>
<th>Weighted Average Remaining Contractual Term (years)</th>
<th>Aggregate Intrinsic Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding as of September 30, 2008</td>
<td>6,954,000</td>
<td>$4.01</td>
<td>7.6</td>
<td>$72,000</td>
</tr>
<tr>
<td>Exercisable as of September 30, 2008</td>
<td>3,132,000</td>
<td>$5.14</td>
<td>6.4</td>
<td>$47,000</td>
</tr>
</tbody>
</table>

As of September 30, 2008, the Company’s unamortized share-based compensation was $5,190,000. The Company plans to amortize this share-based compensation cost over the next 2.6 years.

As of September 30, 2008, the Company’s unamortized nonvested equity share-based compensation was $197,000. The Company plans to amortize this nonvested equity share-based compensation cost over the next 2.5 years.

6. LONG-TERM NOTES

Tenant Improvement Loan Agreement

In February 2006, the Company entered into a loan agreement with the lessor of the Company’s corporate headquarters to finance $536,000 in tenant improvements. The loan
carries a fixed interest rate of 9% per annum, is repayable over the initial term of the lease, which expires in 2013, and is secured by a letter of credit. The balance of the loan, including interest added to principal, was $409,000 at September 30, 2008.

7. COMMON STOCK

In July 2008, the Company raised approximately $26.0 million, before issuance costs of approximately $1.9 million, from the sale of 11,172,000 shares of common stock and warrants to purchase 6,703,000 shares of its common stock. The warrants have an exercise price of $3.60 per share, a five year term, and are not exercisable for one year from the date of issuance. The Company can call the warrants after one year from the date of issuance if the average closing bid price of its stock is over $7.20 (200% of exercise price) for any 20 consecutive trading days.

8. RECEIVABLES FROM RELATED PARTIES

In 2000, 2001 and 2002, the Board of Directors authorized the Company to provide unsecured lines of credit to each of the Company's three officers. The lines of credit carry interest rates of 5.4% to 6.2% and were due within one year of the officer's termination.

In January 2006, two officers with outstanding loans left the Company and their loans became due in January 2007. In May 2007, the Company foreclosed on 50,000 shares of Lumera common stock pledged as collateral for one of the officer's loans and sold the shares for net proceeds of $227,000. A third officer with outstanding loans left the Company in August 2007 and his loans became due in August 2008.

Under the terms of a settlement agreement with one of the former officers who left in January 2006, the Company received payments of $240,000 in September 2008 and $1,000 subsequent to September 30, 2008. The Company is pursuing collection of the remaining outstanding balances from the other former officers. As of September 30, 2008 and December 31, 2007, the total amount outstanding under the lines of credit was $1,852,000 and $2,496,000, respectively, and the balances were fully reserved.

9. COMMITMENTS AND CONTINGENCIES

Litigation

The Company has sued its former CEO and President Richard Rutkowski and his spouse to collect $1,733,000 in outstanding loans from the Company that were due in January 2007 and remain unpaid. Counterclaims were filed by Mr. Rutkowski and his spouse, seeking to recover damages in an amount in excess of $15,000,000. The Company believes these claims are without merit and intends to defend them vigorously. However, an adverse outcome could have a material adverse affect on its financial condition.

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

10. NEW ACCOUNTING PRONOUNCEMENTS

In October 2008, the FASB released a FASB Staff Position, FSP FAS 157-3—Determining the Fair Value of a Financial Asset When The Market for That Asset Is Not Active, to clarify the application of the provisions of FAS 157 in an inactive market and how an entity would determine fair value in an inactive market. FSP FAS 157-3 was effective upon issuance, including prior periods for which financial statements had not been issued. The implementation of this standard did not have a material impact on the Company's consolidated financial position and results of operations.

In February 2008, the FASB released a FASB Staff Position, FSP FAS 157-2- Effective Date of FASB Statement No. 157, which delays the effective date of FAS 157 for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008. The Company is currently assessing the financial impact of FSP FAS 157-2 on its financial statements.

In June 2007, the Emerging Issues Task Force (EITF) reached a final consensus on EITF Issue No. 07-1, Accounting for Collaborative Arrangements (EITF 07-1). EITF 07-1 discusses how to determine whether an arrangement constitutes a collaborative arrangement, how costs incurred and revenue generated on sales to third parties should be reported by the participants, how an entity should characterize payments made between participants and what participants should disclose in the notes to the financial statements about a collaborative arrangement. EITF 07-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. The Company is currently assessing the financial impact of EITF 07-1 on its financial statements.

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

Forward-Looking Statements

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

Overview

We are developing compact, low power, high-resolution displays and imaging systems based on silicon micro-mirror technology. Our technology has potential applications for a broad range of consumer, automotive, medical, industrial, and military products. Our proprietary technology platform combines bi-axial Micro- Electrical Mechanical System ("MEMS") light scanning technologies, lasers, optics, electronics, with our system controls expertise to produce compact display or imaging solutions that we anticipate will lead to introduction of new applications and products in the consumer and automotive markets. Historically, we have entered into development agreements with commercial and U.S. government customers to develop advanced prototype and demonstration units based on our light scanning technologies.

Our strategy is to design, develop and supply a proprietary display engine called PicoP™, relying primarily on original equipment manufacturers (OEMs) to commercialize products based on our PicoP engine. The PicoP display engine is an ultra-miniature video projector capable of producing large, color rich, high resolution images, but it is also small and low power enough to be embedded directly into mobile devices, such as cell phones. We are also marketing PicoP-based miniature projection engines to OEMs to be embedded into a variety of consumer products. The primary goal for consumer display applications is to provide mobile device users with a large screen, high resolution viewing experience from their mobile devices.

We are currently developing a small accessory projector that would be the first commercial product based on our PicoP display engine. The accessory projector is expected to display images from a variety of video sources including cell phones, portable media players (PMPs), PDAs, gaming consoles, laptop computers, digital cameras, and other consumer electronics products. It would allow users to watch movies, play videos, and display photos and other data onto a variety of flat or curved surfaces. We expect that the accessory product will be commercially available during the first half of 2009.
to project onto the windscreen of an automobile a high-resolution image readable during day or night.

We believe that the PicoP display engine could also be modified to be embedded into a pair of glasses to provide a mobile user with a see-through or occluded personal display to view movies, play games or access other content. We are working with the U.S. Air Force to further develop the optical design and integration of the PicoP display engine for military applications such as helmet mounted displays and full color see-through eyewear.

**Results of Operations**

**Contract revenue.**

<table>
<thead>
<tr>
<th>(in thousands)</th>
<th>2008</th>
<th>% of contract revenue</th>
<th>2007</th>
<th>% of contract revenue</th>
<th>$ change</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Three months ended September 30</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government revenue</td>
<td>$ 376</td>
<td>78.3%</td>
<td>$ 1,773</td>
<td>77.1%</td>
<td>($1,397)</td>
<td>(78.8%)</td>
</tr>
<tr>
<td>Commercial revenue</td>
<td>304</td>
<td>21.7%</td>
<td>528</td>
<td>22.9%</td>
<td>(224)</td>
<td>(42%)</td>
</tr>
<tr>
<td>Total contract revenue</td>
<td>$ 480</td>
<td></td>
<td>$ 2,301</td>
<td></td>
<td>($1,821)</td>
<td>(79.1%)</td>
</tr>
</tbody>
</table>

| Nine months ended September 30 |        |                       |        |                       |          |          |
| Government revenue        | $ 1,945| 51.6%                 | $ 4,752| 74.0%                 | ($2,807) | (59.1%)  |
| Commercial revenue        | 1,822  | 48.4%                 | 1,670  | 26.0%                 | 152      | 9.1%     |
| Total contract revenue    | $ 3,767|                       | $ 6,422|                       | ($2,655) | (41.3%)  |

We earn contract revenue from performance on development contracts with the United States government and commercial customers.

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

Our contract revenue in a particular period is dependent upon when we enter into a contract, the value of the contracts we have entered into, and the availability of technical resources to perform work on the contracts. Contract revenue was lower during the three and nine months ended September 30, 2008 than the same periods in 2007, due to the lower beginning contract backlog.

As long as most of our revenue is earned from performance on development contracts, we believe there may be a high degree of variability in revenue from quarter to quarter.

Our backlog of development contracts at September 30, 2008 was $336,000 compared to $5.3 million at September 30, 2007, all of which is scheduled for completion during the next twelve months. The decrease in backlog from 2007 is primarily attributed to completion of government and commercial development contracts in 2007 and early 2008. We expect that we will have fewer opportunities to enter into new development contracts as we move closer to the commercialization of products based on our PicoP display engine.

**Product revenue.**

<table>
<thead>
<tr>
<th>(in thousands)</th>
<th>2008</th>
<th>% of product revenue</th>
<th>2007</th>
<th>% of product revenue</th>
<th>$ change</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Three months ended September 30</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bar code revenue</td>
<td>$ 414</td>
<td>100.0%</td>
<td>$ 272</td>
<td>91.3%</td>
<td>$ 142</td>
<td>52.2%</td>
</tr>
<tr>
<td>Nomad revenue</td>
<td>--</td>
<td>--</td>
<td>26</td>
<td>8.7%</td>
<td>($26)</td>
<td>(100.0)%</td>
</tr>
<tr>
<td>Total product revenue</td>
<td>$ 414</td>
<td></td>
<td>$ 298</td>
<td></td>
<td>$ 116</td>
<td>38.9%</td>
</tr>
</tbody>
</table>

| Nine months ended September 30 |        |                      |        |                      |          |          |
| Bar code revenue          | $ 1,319| 100.0%               | $ 998  | 92.9%                | $ 321    | 32.2%    |
| Nomad revenue             | --     | --                   | 76     | 7.1%                 | ($76)    | (100.0)% |
| Total product revenue     | $ 1,319|                      | $ 1,074|                      | $ 245    | 22.8%    |

Our quarterly product revenue may vary substantially due to the timing of product orders from customers, production constraints and raw material availability. The increase in bar code revenue for the three and nine months ended September 30, 2008 compared to the same periods in 2007 was due to the increased sales activity surrounding the ROV product line.

The backlog of product orders at September 30, 2008 was approximately $311,000, compared to $391,000 at June 30, 2007, all of which is scheduled for delivery during the next twelve months.

**Cost of contract revenue.**

<table>
<thead>
<tr>
<th>(in thousands)</th>
<th>2008</th>
<th>% of contract revenue</th>
<th>2007</th>
<th>% of contract revenue</th>
<th>$ change</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Three months ended September 30</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of contract revenue</td>
<td>$ 253</td>
<td>52.7%</td>
<td>$ 1,349</td>
<td>58.6%</td>
<td>($1,096)</td>
<td>(81.2)%</td>
</tr>
<tr>
<td>Nine months ended September 30</td>
<td>1,389</td>
<td>36.9%</td>
<td>3,576</td>
<td>55.7%</td>
<td>(2,187)</td>
<td>(61.2)%</td>
</tr>
</tbody>
</table>

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 our research and development department and building our 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 our technical capabilities and capacity. Both the direct and indirect costs can fluctuate substantially from period to period.
The cost of contract revenue as a percentage of revenue was lower during the three and nine months ended September 30, 2008 than September 30, 2007 as a result of negotiating better terms on contracts entered into in late 2007. We target a gross margin for each contract of at least 40%; however, the gross margin can vary based on the technical challenges encountered in completing the contract.

The cost of revenue as a percentage of revenue can fluctuate significantly from period to period, depending on the contract cost mix and the levels of direct and indirect costs incurred. However, over longer periods of time we expect modest fluctuations in the cost of contract revenue, as a percentage of contract revenue.

Cost of product revenue.

<table>
<thead>
<tr>
<th></th>
<th>2008 (in thousands)</th>
<th>% of product revenue</th>
<th>2007 (in thousands)</th>
<th>% of product revenue</th>
<th>$ change</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Three months ended September 30</td>
<td>$356</td>
<td>86.0</td>
<td>$404</td>
<td>135.6</td>
<td>$(48)</td>
<td>(11.9)</td>
</tr>
<tr>
<td>Nine months ended September 30</td>
<td>$1,224</td>
<td>92.8</td>
<td>$1,134</td>
<td>105.6</td>
<td>$90</td>
<td>7.9</td>
</tr>
</tbody>
</table>

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

Our overhead, which includes the costs of procuring, inspecting and storing material, facility and depreciation costs, is allocated to inventory, cost of product revenue, cost of contract revenue, and research and development expense based on the proportion of direct material purchased for the respective activity. During the three months ending September 30, 2008 and 2007, we expensed approximately $40,000 and $71,000, respectively, of manufacturing overhead associated with production capacity in excess of production requirements.

We expect 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.

<table>
<thead>
<tr>
<th></th>
<th>2008 (in thousands)</th>
<th>$ change</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Three months ended September 30</td>
<td>$5,804</td>
<td>$2,110</td>
<td>57.1</td>
</tr>
<tr>
<td>Nine months ended September 30</td>
<td>$16,111</td>
<td>$5,864</td>
<td>57.2</td>
</tr>
</tbody>
</table>

Research and development expense consists of:

- Compensation related costs of employees and contractors engaged in internal research and product development activities,
- Laboratory operations, outsourced development and processing work, and
- Other operating expenses.

We have increased spending in research and development as part of our strategy to accelerate the time to market for products based on the PicoP. The increase in cost is primarily attributable to increases in payroll costs and contracted services.

In addition, we allocate our research and development resources based on the business opportunity of the available projects, the skill mix of the resources available and the contractual commitments we have made to customers. In order to accelerate our time to market and because contract revenue was lower for the three and nine months ended September 30, 2008 compared to the same periods in 2007, we directed more of our research and development work to internally funded projects compared to the same period last year.

We believe 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, we anticipate our level of research and development spending will continue to be substantial.

Sales, marketing, general and administrative expense.

<table>
<thead>
<tr>
<th></th>
<th>2008 (in thousands)</th>
<th>$ change</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Three months ended September 30</td>
<td>$3,456</td>
<td>$(125)</td>
<td>(6.4)</td>
</tr>
<tr>
<td>Nine months ended September 30</td>
<td>$11,694</td>
<td>$366</td>
<td>3.2</td>
</tr>
</tbody>
</table>

Sales, marketing, general and administrative expense includes compensation and support costs for marketing, sales, management and administrative staff, and for other general and administrative costs, including legal and accounting services, consultants and other operating expenses.

The increase in sales, marketing, general and administrative expense for the nine months ended September 30, 2008 compared to the same period in 2007 was the result of increased payroll costs and marketing costs associated with our commercial products.

Interest income.

<table>
<thead>
<tr>
<th></th>
<th>2008 (in thousands)</th>
<th>$ change</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Three months ended September 30</td>
<td>$271</td>
<td>$(255)</td>
<td>(48.5)</td>
</tr>
<tr>
<td>Nine months ended September 30</td>
<td>$962</td>
<td>$102</td>
<td>11.9</td>
</tr>
</tbody>
</table>

The decrease in interest income for the three months ended September 30, 2008 resulted primarily from lower interest rates on our investment securities compared to the same period in 2007. The increase in interest income for the nine months ended September 30, 2008 compared to the same period in 2007 resulted primarily from higher average cash and investment securities balances.

Interest expense.

<table>
<thead>
<tr>
<th></th>
<th>2008 (in thousands)</th>
<th>$ change</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Three months ended September 30</td>
<td>$11</td>
<td>$(3)</td>
<td>(21.4)</td>
</tr>
<tr>
<td>Nine months ended September 30</td>
<td>$36</td>
<td>$(463)</td>
<td>(92.8)</td>
</tr>
</tbody>
</table>

In March and December 2005, we issued convertible notes (the "2005 Notes") with an aggregate principal amount of $20 million. The last payment on the 2005 Notes was made in March 2007, resulting in a decrease in interest expense for the nine months ended September 30, 2008 compared to the same period in 2007.
At September 30, 2008, our marketable securities portfolio included $3.0 million par value AAA rated student loan auction-rate securities ("SLARS"). Based on the length of the historical duration of failed SLARS auctions and significant uncertainty of the prospective duration of inactivity and lack of liquidity in the SLARS market, we determined that the estimated fair values of the SLARS were less than par value and the impairments were other-than-temporary. We used a discounted cash flow model, with rates adjusted for liquidity, to determine the estimated fair values of the SLARS as of September 30, 2008. We recorded an "impairment of investment securities, available-for-sale" of $300,000 for the period ended September 30, 2008.

Gain (loss) on derivative instruments, net.

We issued warrants to purchase 2,302,000 shares of common stock in connection with the issuance of the 2005 Notes. The warrants met the definition of derivative instruments that must be accounted for as liabilities 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 we cannot engage in certain corporate transactions affecting the common stock unless we make a cash payment to the holders of the warrants. In July, 2008, warrants to purchase 750,000 shares of common stock expired unexercised. We record changes in the fair values of the warrants in the statement of operations each period. We valued the remaining warrants to purchase 1,552,000 shares of common stock at September 30, 2008 using the Black-Scholes option-pricing model with the following assumptions: expected volatility of 69%; expected dividend yields of 0%; risk free interest rates ranging from 1.9% to 2.1%; and contractual lives ranging from 1.5 years to 2.2 years. The changes in value of the warrants of $990,000 for the three months and $2,134,000 for the nine months ended September 30, 2008 were recorded as non-operating gains and are included in "Gain (loss) on derivative instruments, net" in the consolidated statement of operations. We valued the warrants at September 30, 2007 using the Black-Scholes option-pricing model with the following assumptions: expected volatilities of 68%; expected dividend yields of 0%; risk free interest rates ranging 3.9% to 4.1%; and contractual lives ranging from 0.8 years to 3.2 years. The change in value of the warrants of $927,000 for the three months ended September 30, 2007 was recorded as a non-operating gain and is included in "Gain (loss) on derivative instruments, net" in the consolidated statement of operations. The change in value of the warrants of $1,493,000 for the nine months ended September 30, 2007 was recorded as a non-operating loss and is included in "Gain (loss) on derivative instruments, net" in the consolidated statement of operations.

Liquidity and Capital Resources

We have funded our operations to date primarily through the sale of equity and debt securities and, to a lesser extent, from development contract revenues and product sales. At September 30, 2008, we had $37.2 million in cash, cash equivalents and investment securities, available-for-sale. In July 2008, we raised approximately $26.0 million, before issuance costs of approximately $1.9 million, from the sale of 11.2 million shares of common stock and warrants to purchase 6.7 million shares of our common stock. The warrants have an exercise price of $3.60 per share, a five year term, and are not exercisable for one year from the date of issuance. We can call the warrants after one year from issuance costs of approximately $1.9 million, from the sale of 11.2 million shares of common stock and warrants to purchase 6.7 million shares of our common stock. The warrants have an exercise price of $3.60 per share, a five year term, and are not exercisable for one year from the date of issuance. We can call the warrants after one year from

<table>
<thead>
<tr>
<th>(in thousands)</th>
<th>2008</th>
<th>2007</th>
<th>$ change</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Three months ended September 30</td>
<td>($300)</td>
<td>$ 883</td>
<td>($1,183)</td>
<td>(137.7%)</td>
</tr>
<tr>
<td>Nine months ended September 30</td>
<td>($300)</td>
<td>$ 2,040</td>
<td>$1,740</td>
<td>(287.3%)</td>
</tr>
</tbody>
</table>

We used a discounted cash flow model, with rates adjusted for short-term or long-term capital requirements, we will be required to limit our operations substantially. This limitation of operations may include reductions in staff, operating costs and capital expenditures.

Cash used in operating activities totaled $22.3 million during the nine months ended September 30, 2008, compared to $16.6 million during the same period in 2007. In both periods, cash used in operating activities for both periods resulted primarily from the loss from operations.

We had the following material gains and charges, and changes in assets during the nine months ended September 30, 2008:

- "Impairment of investment securities, available-for-sale" We recorded a $300,000 other-than-temporary charge to record an impairment of our student loan auction-rate securities.
- "Non-cash stock-based compensation expense" We granted fully vested options to purchase 339,000 shares of common stock under the 2006 Incentive Plan, which resulted in $431,000 of non-cash compensation expense during the nine months ended September 30, 2008.
- "Loss (gain) on derivative instruments" In connection with the issuance of the 2005 Notes, we issued warrants to purchase 2,302,000 shares of common stock. Due to changes in the stock price and remaining life of the warrants, we recognized a $2.2 million non-operating gain during the nine months ended September 30, 2008.
- "Inventory" Inventory increased by $1.0 million to $1.8 million from $761,000 as a result of purchasing finished goods and raw materials to support the Rov product line.
- "Accounts receivable" During the nine months ended September 30, 2008, we received payments totaling $1.0 million from two commercial customers for work that was performed in 2007.
- "Accruals" During the nine months ended September 30, 2008, we made payments totaling $1.0 million for employee bonuses earned in 2007.

Cash provided by investing activities totaled $15.5 million during the nine months ended September 30, 2008, compared to cash used in investing activities of $13.9 million during the same period of 2007. During the nine months ended September 30, 2008, we had net sales of investment securities totaling $15.9 million compared to net purchases of investment securities of $21.6 million during the nine months ended September 30, 2007. During the nine months ended September 30, 2007, we sold 1.6 million shares of Lumera common stock for $8.4 million. In addition, we used cash of $320,000 for capital expenditures during the nine months ended September 30, 2008, compared to $849,000 during the same period in 2007.

Cash provided by financing activities totaled $24.4 million during the nine months ended September 30, 2008, compared to $34.4 million during the same period in 2007. The last scheduled payment on our 2005 Notes of $1.4 million was made in March of 2007.
Of our total cash equivalents and investment securities available-for-sale balance, 90% have variable interest rates and, as such, the fair values of the principal of these instruments are not affected by changes in market interest rates. The remaining 10% of our cash equivalents and investment securities available-for-sale balance are at fixed interest rates and, as such, the fair values of these instruments are affected by changes in market interest rates. Due to the generally short-term maturities of these investment securities, we believe that the market risk arising from our holdings of these financial instruments is not material.

Our investment policy restricts investments to ensure principal preservation and liquidity. The investment securities portfolio is comprised of short-term highly rated commercial paper, U.S. government agency notes and auction-rate securities.

At September 30, 2008, our marketable securities portfolio included $3.0 million par value AAA rated student loan auction-rate debt securities ("SLARS"). SLARS are long-term variable rate bonds tied to short-term interest rates issued to fund government guaranteed student loans. Purchases, sales and interest rate resets for our SLARS are completed via a Dutch Auction process conducted every twenty-eight days. If insufficient clearing bids are submitted during the auction, the auction has failed and the interest rates are reset to the “maximum rates”, instead of “auction rates”, according to the specific provisions of each of the SLARS. In addition, we would continue holding the SLARS until a subsequent successful auction or until sales are completed on a secondary market.

At the time of our initial investment and through the filing date of this report, the SLARS that we hold remain AAA rated, collateralized by the Federal Family Education Loan Program ("FFELP") and other federal and state student loan guarantee programs, and there have been no declines in the credit ratings of the issuers or material changes in loan collection rates. Our $3.0 million of auction-rate securities have been subject to failed auctions in 2008 as a result of the current negative liquidity conditions in the global credit markets. The failed auctions have rendered these securities temporarily illiquid through the normal auction process. AMBAC is the insurer on 50% of the auction-rate securities that we hold. As of September 30, 2008, AMBAC was to be rated AAA. In addition, all of the auction-rate securities that we have sold through September 30, 2008, totaling $5.8 million, have been sold at par value.

Based on the length of the historical duration of failed SLARS auctions and significant uncertainty of the prospective duration of inactivity and lack of liquidity in the SLARS market, we determined that the estimated fair values of the SLARS were less than par value and the impairments were other-than-temporary. We used a discounted cash flow model, with rates adjusted for liquidity, to determine the estimated fair values of the SLARS as of September 30, 2008. We recorded an "impairment of investment securities, available-for-sale" of $300,000 for the period ended September 30, 2008 on the Consolidated Statement of Operations.

Any continuation or worsening of the current global economic and financial conditions could materially adversely affect our ability to raise, or the cost of, needed capital and could materially adversely affect our ability to commercialize products.

The values of cash equivalents and investment securities, available-for-sale, by maturity date as of September 30, 2008, are as follows (in thousands):

<table>
<thead>
<tr>
<th>Maturity Date</th>
<th>Amount</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 31,011</td>
<td>83.33%</td>
</tr>
<tr>
<td>Less than one year</td>
<td></td>
<td></td>
</tr>
<tr>
<td>One to two years</td>
<td>3,502</td>
<td>9.41%</td>
</tr>
<tr>
<td>Greater than five years</td>
<td>2,700</td>
<td>7.26%</td>
</tr>
<tr>
<td>Total</td>
<td>$ 37,213</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

All of the Company’s development contract payments are made in U.S. dollars. However, in the future the Company may enter into additional development contracts in foreign currencies that may subject the Company to foreign exchange rate risk. The Company intends to enter into foreign currency hedges to offset the exposure to currency fluctuations when it can determine the timing and amounts of the foreign currency exposure.

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 1A - RISK FACTORS

Risk Factors Relating to the Microvision Business

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

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

- As of September 30, 2008, we had an accumulated deficit of $282.2 million.

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 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 2009 and likely thereafter. We cannot be certain that we will achieve positive cash flow at any time in the future.

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

Based on our current operating plan, we believe we have sufficient cash to fund operations until late 2009. We will require additional cash to fund our operating plan past that time. We plan to obtain additional cash through the issuance of equity or debt securities. We will require additional capital in the future to fund our operations, including to:

- Further develop the technology platform and PicoP display engine,
- Develop and protect our intellectual property rights, and
- Fund long-term marketing and business development opportunities.

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 PicoP display engine and image capture technologies and the market acceptance and competitive position of such products. 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 than expected to further the development of our technologies, for expenses associated with product development, and to respond to competitive pressures or to meet unanticipated development difficulties. In addition, our operating plan provides for the development of strategic relationships with systems and equipment manufacturers that may require additional investments by us.

Additional capital may not be available to us, or if available, on terms acceptable to us or on a timely basis. Raising additional capital may involve issuing securities with rights and preferences that are senior to our common stock and may dilute the value of current shareholders' shares. If adequate funds are not available to satisfy long-term capital requirements, we may be required to limit our operations substantially. This limitation of operations may include reductions in staff and operating costs as well as reductions in capital expenditures and investment in research and development.

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

Our success will depend in part on customer acceptance of the PicoP display engine. The PicoP display engine may not be accepted by manufacturers who use display technologies in their products, by systems integrators who incorporate our products into their products or by end users of these products. To be accepted, the PicoP display engine 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 our technology platform.

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

Our common stock is listed for quotation on The NASDAQ Global Market. To keep our listing on this market, we must meet NASDAQ's listing maintenance standards. If we are unable to continue to meet NASDAQ's listing maintenance standards, our common stock could be delisted from The NASDAQ Global Market. If our common stock were delisted, we likely would seek to list the common stock on the NASDAQ Capital Market, the American Stock Exchange or on a regional stock exchange. Listing on such other market or exchange, however, would not solve the liquidity problems of our common stock. If our common stock were not listed on the Capital Market or an exchange, trading of our common stock would be conducted in the over-the-counter market on an electronic bulletin board established for unlisted securities or directly through market makers in our common stock. If our common stock were to trade in the over-the-counter market, an investor would find it more difficult to dispose of, or to obtain accurate quotations for the price of, the common stock. A delisting from The NASDAQ Global Market and failure to obtain listing on such other market or exchange would subject our securities to so-called penny stock rules that impose additional sales practice and market-making requirements on broker-dealers who sell or make a market in such securities. Consequently, removal from The NASDAQ Global Market and failure to obtain listing on another market or exchange could affect the ability or willingness of broker-dealers to sell or make a market in our common stock and the ability of purchasers of our common stock to sell their securities in the secondary market. In addition, when the market price of our common stock is less than $5.00 per share, we become subject to penny stock rules even if our common stock is still listed on The NASDAQ Global Market. While the penny stock rules should not affect the quotation of our common stock on The NASDAQ Global Market, these rules may further limit the market liquidity of our common stock and the ability of investors to sell our common stock in the secondary market. At some point during all four quarters of 2006 and 2007 and the first three quarters of 2008, the market price of our stock traded below $5.00 per share. On October 31, 2008, the closing price of our stock was $1.73.

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 we have. Because of their greater resources, our competitors may develop products or technologies that are superior to our own. The introduction of superior competing products or technologies could result in reduced revenues, lower margins or loss of market share, any of which could reduce the value of our business.

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

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

We may not succeed in these efforts because of:

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

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

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

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

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, MEMS 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. We may, from time to time, contract with and support companies developing key technologies in order to accelerate the development of them for our specific uses. There are no guarantees that such activities will result in useful technologies or components for us.

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

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

Our dependence on sales to distributors increases the risks of managing our supply chain and may result in excess inventory or inventory shortages.

Currently, the majority of our distributor relationships for the ROV Scanner and its accessories involve the distributor taking inventory positions and reselling to multiple
customers. With these distributor relationships, we do not recognize revenue until the distributors sell the product through to their end user customers. Our distributor relationships do reduce our ability to forecast sales and increases risks to our business. Since our distributors act as intermediaries between us and the end user customers, we must rely on our distributors to accurately report inventory levels and production forecasts. This requires us to manage a more complex supply chain and monitor the financial condition and credit worthiness of our distributors and the end user customers. Our failure to manage one or more of these risks could result in excess inventory or shortages that could adversely impact our operating results and financial condition.

We do not have long-term commitments from our ROV customers, and plan purchases based upon our estimates of customer demand, which may require us to contract for the manufacture of our products based on inaccurate estimates.

Our ROV sales are made on the basis of purchase orders rather than long-term commitments. Our customers may cancel or defer purchases at any time. This requires us to forecast demand based upon assumptions that may not be correct. If our customers or we overestimate demand, we may create inventory that we may not be able to sell or use, resulting in excess inventory, which could become obsolete or negatively affect our operating results. Conversely, if our customers or we underestimate demand, or if sufficient manufacturing capacity is not available, we may lose revenue opportunities, damage customer relationships, and we may not achieve expected revenues.

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 our ROV product, and we plan to use foreign manufacturers to manufacture future products, where appropriate. These international operations are subject to inherent risks, which may adversely affect us, including:

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

If we have to qualify a new contract manufacturer or foundry for our products, we may experience delays that result in lost revenues and damaged customer relationships.

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

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

We have developed demonstration units incorporating the PicoP display engine. 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. We intend to rely on third party developments or to contract with other companies to continue development of green laser devices we will need for our products.

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

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 PicoP display and other key technologies by securing valid and enforceable patents and effectively maintaining unpatented technology as trade secrets. We try to protect our proprietary technology by seeking to obtain United States and foreign patents in our name, or licenses to third-party patents, related to proprietary technology, inventions, and improvements that may be important to the development of our business. However, our patent position and the patent position of 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 some of our PicoP displays are designed to scan a low power beam of colored light into the user's eye, the testing, manufacture, marketing and sale of these products involve an inherent risk that product liability claims will be asserted against us. Product liability claims or other claims related to our products, regardless of their outcome, could require us to spend significant time and money in litigation, divert management time and attention, require us to pay significant damages, harm our reputation or hinder acceptance of our products. Any successful product liability claim may prevent us from obtaining adequate product liability insurance in the future on commercially desirable or reasonable terms. An inability to obtain sufficient insurance coverage at an acceptable cost or otherwise to protect against potential product liability claims could prevent or inhibit the commercialization of our products.
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 the first nine months of 2008 and the full year of 2007, 38% and 61%, respectively, of our 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 development agreements have long sales cycles, which make it difficult to plan our expenses and forecast our revenues.

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

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

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

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 our 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.

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

Our business depends in part on technology rights licensed from third parties. We could lose our exclusivity or other rights to use the technology under our licenses if we fail to comply with the terms and performance requirements of the licenses. In addition, certain licensors may terminate a license upon our breach and have the right to consent to sublicense arrangements. If we were to lose our rights under any of these licenses, or if we were unable to obtain required consents to future sublicenses, we 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 our technology and products incorporating the PicoP display engine 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 may be difficult to obtain. In addition, we could encounter significant delays in introducing the PicoP display engine or find that the development, manufacture or sale of products incorporating the PicoP display engine would not be feasible. To the extent that we enter into cooperative development, sales and marketing or other joint venture arrangements, our revenues will depend upon the performance of third parties. We cannot be certain that any such arrangements will be successful.

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.

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

Our revenues to date have been generated primarily 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. 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 6. Exhibits

10.1 Microvision 2006 Incentive Plan, as amended
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
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

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

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

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

MICROVISION, INC.

Date: November 7, 2008

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

Date: November 7, 2008

BY: /s/ Jeff Wilson
Jeff Wilson
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT INDEX

The following documents are filed.

<table>
<thead>
<tr>
<th>Exhibit Number</th>
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<tbody>
<tr>
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</tr>
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</table>
1. DEFINED TERMS

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

2. EFFECTIVE DATE

This Microvision, Inc. 2006 Incentive Plan, as amended, amends, restates and renames the Company's 1996 Stock Option Plan. The Plan was originally adopted by the Board on July 10, 1996 and approved by the stockholders of the Company on August 9, 1996. This amendment and restatement of the Plan, shall become effective if, and at such time as, the stockholders of the Company have approved this amendment and restatement.

3. PURPOSE

The purpose of the Microvision, Inc. 2006 Incentive Plan, as amended, is to provide means by which the Company may attract, reward and retain the services or advice of current or future employees, officers, consultants or independent contractors of, and other advisors to, the Company and to provide added incentives to them by encouraging stock ownership in the Company.

4. ADMINISTRATION

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

5. LIMITS ON AWARDS UNDER THE PLAN

a. Number of Shares. A maximum of 11,400,000 shares of Stock may be delivered in satisfaction of Awards under the Plan. The number of shares of Stock delivered in satisfaction of Awards shall, for purposes of the preceding sentence, be determined net of shares of Stock withheld by the Company in payment of the exercise price of the Award or in satisfaction of tax withholding requirements with respect to the Award. The limit set forth in this Section 5(a) shall be construed to comply with Section 422 of the Code and regulations thereunder. To the extent consistent with the requirements of Section 422 of the Code and regulations thereunder, and with other applicable legal requirements (including applicable stock exchange requirements), Stock issued under awards of an acquired company that are converted, replaced, or adjusted in connection with the acquisition shall not reduce the number of shares available for Awards under the Plan.

b. Type of Shares. Stock delivered by the Company under the Plan may be authorized but unissued Stock or previously issued Stock acquired by the Company. No fractional shares of Stock will be delivered under the Plan.

c. Section 162(m) Limits. The maximum number of shares of Stock for which Stock Options may be granted to any person in any calendar year and the maximum number of shares of Stock subject to SARs granted to any person in any calendar year will each be 2,000,000. The maximum number of shares subject to other Awards granted to any person in any calendar year will be 2,000,000 shares. The maximum amount payable to any person in any year under Cash Awards will be $3,000,000. The foregoing provisions will be construed in a manner consistent with Section 162(m).

6. ELIGIBILITY AND PARTICIPATION

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

7. RULES APPLICABLE TO AWARDS

a. All Awards

1. Award Provisions. The Administrator will determine the terms of all Awards, subject to the limitations provided herein. By accepting any Award granted hereunder, the Participant agrees to the terms of the Award and the Plan. Notwithstanding any provision of this Plan to the contrary, awards of an acquired company that are converted, replaced or adjusted in connection with the acquisition may contain terms and conditions that are inconsistent with the terms and conditions specified herein, as determined by the Administrator.

2. Term of Plan. No Awards may be made after September 21, 2016, but previously granted Awards may continue beyond that date in accordance with their terms.

3. Transferability. Neither ISOs nor, except as the Administrator otherwise expressly provides, other Awards may be transferred other than by will or by the laws of descent and distribution, and during a Participant's lifetime ISOs (and, except as the Administrator otherwise expressly provides, other non-transferable Awards requiring exercise) may be exercised only by the Participant.

4. Vesting, Etc. The Administrator may determine the time or times at which an Award will vest or become exercisable and the terms on which an Award requiring exercise will remain exercisable. Without limiting the foregoing, the Administrator may at any time accelerate the vesting or exercisability of an Award, regardless of any adverse or potentially adverse tax
consequences resulting from such acceleration. Unless the Administrator expressly provides otherwise, however, the following rules will apply: immediately upon the cessation of the Participant's Employment, each Award requiring exercise that is then held by the Participant or by the Participant's permitted transferees, if any, will cease to be exercisable and will terminate, and all other Awards that are then held by the Participant or by the Participant's permitted transferees, if any, to the extent not already vested will be forfeited, except that:

A. subject to (B) and (C) below, all Stock Options and SARs held by the Participant or the Participant's permitted transferees, if any, immediately prior to the cessation of the Participant's Employment, to the extent then exercisable, will remain exercisable for the lesser of (i) a period of three months or (ii) the period ending on the latest date on which such Stock Option or SAR could have been exercised without regard to this Section 7(a)(4), and will thereupon terminate;

B. all Stock Options and SARs held by a Participant or the Participant's permitted transferees, if any, immediately prior to the Participant's death or Disability, to the extent then exercisable, will remain exercisable for the lesser of (i) the one year period ending with the first anniversary of the Participant's death or Disability or (ii) the period ending on the latest date on which such Stock Option or SAR could have been exercised without regard to this Section 7(a)(4), and will thereupon terminate; and

C. all Stock Options and SARs held by a Participant or the Participant's permitted transferees, if any, immediately prior to the cessation of the Participant's Employment will immediately terminate upon such cessation if the Administrator in its sole discretion determines that such cessation of Employment has resulted for reasons which cast such discredit on the Participant as to justify immediate termination of the Award.

5. **Taxes.** The Administrator will make such provision for the withholding of taxes as it deems necessary. The Administrator may, but need not, hold back shares of Stock from an Award or permit a Participant to tender previously owned shares of Stock in satisfaction of tax withholding requirements (but not in excess of the minimum withholding required by law).

6. **Dividend Equivalents, Etc.** The Administrator may provide for the payment of amounts in lieu of cash dividends or other cash distributions with respect to Stock subject to an Award. Any entitlement to dividend equivalents or similar entitlements shall be established and administered consistent either with exemption from, or compliance with, the requirements of Section 409A to the extent applicable.

7. **Foreign Qualified Grants.** Awards under this Plan may be granted to officers and Employees of the Company and other persons described in Section 6 who reside in foreign jurisdictions as the Administrator may determine from time to time. The Administrator may adopt supplements to the Plan as needed to comply with the applicable laws of such foreign jurisdictions and to give Participants favorable treatment under such laws; provided, however that no award shall be granted under any such supplement on terms more beneficial to such Participants than those permitted by this Plan.

8. **Corporate Mergers, Acquisitions, Etc.** The Administrator may grant Awards under this Plan having terms, conditions and provisions that vary from those specified in this Plan provided that such Awards are granted in substitution for, or in connection with the assumption of, existing Awards granted or issued by another corporation and assumed or otherwise agreed to be provided for by the Company pursuant to or by reason of a transaction involving a corporate merger, consolidation, acquisition of property or stock, reorganization or liquidation to which the Company is a party.

9. **Rights Limited.** Nothing in the Plan will be construed as giving any person the right to continued employment or service with the Company or its Affiliates, or any rights as a stockholder except as to shares of Stock actually issued under the Plan. The loss of existing or potential profit in Awards will not constitute an element of damages in the event of termination of Employment for any reason, even if the termination is in violation of an obligation of the Company or Affiliate to the Participant.

10. **Section 162(m).** This Section 7(a)(8) applies to any Performance Award intended to qualify as performance-based for the purposes of Section 162(m) other than a Stock Option or SAR. In the case of any Performance Award to which this Section 7(a)(8) applies, the Plan and such Award will be construed to the maximum extent permitted by law in a manner consistent with qualifying the Award for such exception. With respect to such Performance Awards, the Administrator will preestablish, in writing, one or more specific Performance Criteria no later than 90 days after the commencement of the period of service to which the performance relates (or at such earlier time as is required to qualify the Award as performance-based under Section 162(m)). Prior to grant, vesting or payment of the Performance Award, as the case may be, the Administrator will certify whether the applicable Performance Criteria have been attained and such determination will be final and conclusive. No Performance Award to which this Section 7(a)(8) applies may be granted after the first meeting of the stockholders of the Company held in 2011 until the listed performance measures set forth in the definition of "Performance Criteria" (as originally approved or as subsequently amended) have been resubmitted to and reapproved by the stockholders of the Company in accordance with the requirements of Section 162(m) of the Code, unless such grant is made contingent upon such approval.

b. **Awards Requiring Exercise**

1. **Time And Manner Of Exercise.** Unless the Administrator expressly provides otherwise, an Award requiring exercise by the holder will not be deemed to have been exercised until the Administrator receives a notice of exercise (in form acceptable to the Administrator) signed by the appropriate person and accompanied by any payment required under the Award. If the Award is exercised by any person other than the Participant, the Administrator may require satisfactory evidence that the person exercising the Award has the right to do so. Awards may be exercised in whole or in part.

2. **Exercise Price.** The exercise price (or the base value from which appreciation is to be measured) of each Award requiring exercise shall be 100% (in the case of an ISO granted to a ten-percent shareholder within the meaning of Section 422(b)(6) of the Code, 110%) of the fair market value of the Stock subject to the Award, determined as of the date of grant, or such higher amount as the Administrator may determine in connection with the grant. Fair market value shall be determined by the Administrator consistent with the requirements of Section 422 and Section 409A. Without the affirmative vote of holders of a majority of the shares of Stock cast in person or by proxy at a meeting of the stockholders of the Company at which a quorum representing a majority of all outstanding shares of Stock is present or represented by proxy, the Committee shall
not approve a program providing for either (a) the cancellation of outstanding Awards requiring exercise and the grant in substitution therefor of new Awards having a lower exercise price that has the effect of a repricing or (b) the amendment of such Awards to reduce the exercise price thereof. The preceding sentence shall not be construed to apply to: (i) "issuing or assuming a stock option in a transaction to which section 424(a) applies," within the meaning of Section 424 of the Code or (ii) the substitution or assumption of an Award by reason of or pursuant to a corporate transaction, to the extent such substitution or assumption would not be treated as a grant of a new stock right or a change in the form of payment for purposes of Section 409A of the Code within the meaning of Prop. Treas. Reg. Section 1.409A-1(b)(5)(iii)(D)(3), Notice 2005-1, A-4(d) and any subsequent Section 409A guidance.

3. **Payment Of Exercise Price.** Where the exercise of an Award is to be accompanied by payment, the Administrator may determine the required or permitted forms of payment, subject to the following: all payments will be by cash or check acceptable to the Administrator, or, if so permitted by the Administrator and if legally permissible, (i) through the delivery of shares of Stock that have been outstanding for at least six months (unless the Administrator approves a shorter period) and that have a fair market value equal to the exercise price, (ii) by delivery to the Company of a promissory note of the person exercising the Award, payable on such terms as are specified by the Administrator, (iii) through a broker-assisted exercise program acceptable to the Administrator, (iv) by other means acceptable to the Administrator, or (v) by any combination of the foregoing permissible forms of payment. The delivery of shares in payment of the exercise price under clause (a)(i) above may be accomplished either by actual delivery or by constructive delivery through attestation of ownership, subject to such rules as the Administrator may prescribe.

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

c. **Awards Not Requiring Exercise**

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

8. **EFFECT OF CERTAIN TRANSACTIONS**

a. **Mergers, etc.** Except as otherwise provided in an Award, the following provisions shall apply in the event of a Covered Transaction:

1. **Assumption or Substitution.** If the Covered Transaction is one in which there is an acquiring or surviving entity, the Administrator may provide for the assumption of some or all outstanding Awards or for the grant of new awards in substitution therefor by the acquiror or survivor or an affiliate of the acquiror or survivor.

2. **Cash-Out of Awards.** If the Covered Transaction is one in which holders of Stock will receive upon consummation a payment (whether cash, non-cash or a combination of the foregoing), the Administrator may provide for payment (a "cash-out"), with respect to some or all Awards, equal in the case of each affected Award to the excess, if any, of (A) the fair market value of one share of Stock (as determined by the Administrator in its reasonable discretion) times the number of shares of Stock subject to the Award, over (B) the aggregate exercise or purchase price, if any, under the Award (in the case of an SAR, the aggregate base price above which appreciation is measured), in each case on such payment terms (which need not be the same as the terms of payment to holders of Stock) and other terms, and subject to such conditions, as the Administrator determines.

3. **Acceleration of Certain Awards.** If the Covered Transaction (whether or not there is an acquiring or surviving entity) is one in which there is no assumption, substitution or cash-out, each Award requiring exercise will become fully exercisable, and the delivery of shares of Stock deliverable under each outstanding Award of Stock Units (including Restricted Stock Units and Performance Awards to the extent consisting of Stock Units) will be accelerated and such shares will be delivered, prior to the Covered Transaction, in each case on a basis that gives the holder of the Award a reasonable opportunity, as determined by the Administrator, following exercise of the Award or the delivery of the shares, as the case may be, to participate as a stockholder in the Covered Transaction.

4. **Termination of Awards Upon Consummation of Covered Transaction.** Each Award (unless assumed pursuant to Section 8(a)(1) above, other than outstanding shares of Restricted Stock (which shall be treated in the same manner as other shares of Stock, subject to Section 8(a)(5) below), will terminate upon consummation of the Covered Transaction.

5. **Additional Limitations.** Any share of Stock delivered pursuant to Section 8(a)(2) or Section 8(a)(3) above with respect to an Award may, in the discretion of the Administrator, contain such restrictions, if any, as the Administrator deems appropriate to reflect any performance or other vesting conditions to which the Award was subject. In the case of Restricted Stock, the Administrator may require that any amounts delivered, exchanged or otherwise paid in respect of such Stock in connection with the Covered Transaction be placed in escrow or otherwise made subject to such restrictions as the Administrator deems appropriate to carry out the intent of the Plan.

b. **Change in and Distributions With Respect to Stock**

1. **Basic Adjustment Provisions.** In the event of a stock dividend, stock split or combination of shares (including a reverse stock split), recapitalization or other change in the Company's capital structure, the Administrator will make appropriate adjustments to the maximum number of shares specified in Section 5(a) that may be delivered under the Plan and to the maximum share limits described in Section 5(c), and will also make appropriate adjustments to the number and kind of shares of stock or securities subject to Awards then outstanding or subsequently granted, any exercise prices relating to Awards and any other provision of Awards affected by such change.

2. **Certain Other Adjustments.** The Administrator may also make adjustments of the type described in Section 8(b)(1) above to take into account distributions to stockholders other than those provided for in Section 8(a) and 8(b)(1), or any other
event, if the Administrator determines that adjustments are appropriate to avoid distortion in the operation of the Plan and to
preserve the value of Awards made hereunder, having due regard for the qualification of ISOs under Section 422 of the
Code, the performance-based compensation rules of Section 162(m), and the requirements of Section 409A, where
applicable.
3. Continuing Application of Plan Terms. References in the Plan to shares of Stock will be construed to include any stock or
securities resulting from an adjustment pursuant to this Section 8.
9. LEGAL CONDITIONS ON DELIVERY OF STOCK

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

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

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

a. Waiver of Jury Trial. By accepting an Award under the Plan, each Participant waives any right to a trial by jury in any action,
proceeding or counterclaim concerning any rights under the Plan and any Award, or under any amendment, waiver, consent,
instrument, document or other agreement delivered or which in the future may be delivered in connection therewith, and agrees
that any such action, proceedings or counterclaim shall be tried before a court and not before a jury. By accepting an Award under
the Plan, each Participant certifies that no officer, representative, or attorney of the Company has represented, expressly or
otherwise, that the Company would not, in the event of any action, proceeding or counterclaim, seek to enforce the foregoing
waivers.
b. Limitation of Liability. Notwithstanding anything to the contrary in the Plan, neither the Company, any Affiliate, nor the
Administrator, nor any person acting on behalf of the Company, any Affiliate, or the Administrator, shall be liable to any
Participant or to the estate or beneficiary of any Participant or to any other holder of an Award by reason of any acceleration of
income, or any additional tax, asserted by reason of the failure of an Award to satisfy the requirements of Section 422 or Section
409A or by reason of Section 4999 of the Code; provided, that nothing in this Section 11(b) shall limit the ability of the
Administrator or the Company to provide by separate express written agreement with a Participant for a gross-up payment or other
payment in connection with any such tax or additional tax.

EXHIBIT A

Definition of Terms

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

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

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

"Award": Any or a combination of the following:

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

"Board": The Board of Directors of the Company.

"Cash Award": An Award denominated in cash.

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

"Company": Microvision, Inc.

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

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

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

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

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

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

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

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

"Plan": The Microvision, Inc. 2006 Incentive Plan, as amended, as from time to time amended and in effect.

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

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

"Section 162(m)": Section 162(m) of the Code.

"Section 409A": Section 409A of the Code.

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

"Stock": Common Stock of the Company, par value $.001 per share.

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

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

"Unrestricted Stock": Stock not subject to any restrictions under the terms of the Award.
I, Alexander Y. Tokman, certify that:

1. I have reviewed this quarterly report 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 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 designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (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(s) 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 the 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: November 7, 2008

By: /s/ Alexander Y. Tokman
Alexander Y. Tokman
Chief Executive Officer
CERTIFICATION PURSUANT TO
RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jeff T. Wilson, certify that:

1. I have reviewed this quarterly report 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 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 designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (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;

5. The registrant's other certifying officer(s) 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: November 7, 2008

By: /s/ Jeff T. Wilson
Jeff T. Wilson
Chief Financial Officer
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 September 30, 2008 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 September 30, 2008 fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 7, 2008

By: /s/ Alexander Y. Tokman
Alexander Y. Tokman
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

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 September 30, 2008 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 September 30, 2008 fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 7, 2008

By: /s/ Jeff T. Wilson
Jeff T. Wilson
Chief Financial Officer