

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

FORM 10-Q

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

For the quarterly period ended March 31, 2009

OR

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

For the transition period from _____ to _____

Commission file number 0-21221



Microvision, Inc.

(Exact name of Registrant as Specified in its Charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

91-1600822

(I.R.S. Employer Identification Number)

6222 185th 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES 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 April 27, 2009, 68,080,000 shares of the Company's common stock, \$0.001 par value, were outstanding.

Part I: Financial Information

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

	March 31, 2009	December 31, 2008
	-----	-----
Assets		
Current assets		
Cash and cash equivalents	\$ 16,397	\$ 25,533
Investment securities, available-for-sale	2,706	2,705
Accounts receivable, net of allowances of \$57 and \$57	502	537
Costs and estimated earnings in excess of billings on uncompleted contracts	325	695
Inventory	1,439	1,525
Other current assets	748	889
	-----	-----
Total current assets	22,117	31,884
Property and equipment, net	3,671	3,701
Restricted investments	1,332	1,332
Other assets	54	47
	-----	-----
Total assets	\$ 27,174	\$ 36,964
	=====	=====
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable	\$ 2,299	\$ 3,487
Accrued liabilities	3,574	3,545
Billings in excess of costs and estimated earnings on uncompleted contracts	55	62
Liability associated with common stock warrants	151	331
Current portion of capital lease obligations	42	41
Current portion of long-term debt	72	71
	-----	-----
Total current liabilities	6,193	7,537
Capital lease obligations, net of current portion	34	45
Long-term debt, net of current portion	303	322
Deferred rent, net of current portion	1,332	1,409
	-----	-----
Total liabilities	7,862	9,313
	-----	-----
Commitments and contingencies	--	--
Shareholders' equity		
Common stock, par value \$.001; 125,000 shares authorized; 68,080 and 68,080 shares issued and outstanding	68	68
Additional paid-in capital	320,187	319,662
Accumulated other comprehensive loss	(37)	(38)
Accumulated deficit	(300,906)	(292,041)
	-----	-----
Total shareholders' equity	19,312	27,651
	-----	-----
Total liabilities and shareholders' equity	\$ 27,174	\$ 36,964
	=====	=====

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

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

	Three Months Ended March 31,	
	2009	2008
Contract revenue	\$ 712	\$ 2,281
Product revenue	239	289
Total revenue	951	2,570
Cost of contract revenue	383	762
Cost of product revenue	241	339
Total cost of revenue	624	1,101
Gross margin	327	1,469
Research and development expense	5,610	4,426
Sales, marketing, general and administrative expense	3,814	4,135
Total operating expenses	9,424	8,561
Loss from operations	(9,097)	(7,092)
Interest income	64	412
Interest expense	(11)	(13)
Gain on derivative instruments, net	180	1,673
Other expense	(1)	(18)
Net loss	\$ (8,865)	\$ (5,038)
Net loss per share - basic and diluted	\$ (0.13)	\$ (0.09)
Weighted-average shares outstanding - basic and diluted	68,080	56,730

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

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

	Three Months Ended March 31,	
	2009	2008
Net loss	\$ (8,865)	\$ (5,038)
Other comprehensive gain (loss)		
Unrealized gain on investment securities, available-for-sale	1	38
Comprehensive loss	\$ (8,864)	\$ (5,000)

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

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

	Three Months Ended	
	March 31,	
	2009	2008
Cash flows from operating activities		
Net loss	\$ (8,865)	\$ (5,038)
Adjustments to reconcile net loss to net cash used in operations:		
Depreciation	245	228
Non-cash stock-based compensation expense	548	1,066
Gain on derivative instruments, net	(180)	(1,673)
Net accretion of discount on short-term investments	--	(65)
Non-cash deferred rent	(69)	(68)
Change in:		
Accounts receivable, net	35	1,163
Costs and estimated earnings in excess of billings on uncompleted contracts	370	169
Inventory	86	(575)
Other current assets	118	(210)
Other assets	(7)	(3)
Accounts payable	(1,049)	369
Accrued liabilities	21	27
Billings in excess of costs and estimated earnings on uncompleted contracts	(7)	(695)
Net cash used in operating activities	(8,754)	(5,305)
Cash flows from investing activities		
Sales of investment securities	--	8,000
Purchases of investment securities	--	(986)
Purchases of restricted investment securities	--	(350)
Purchases of property and equipment	(354)	(137)
Net cash provided by (used in) investing activities	(354)	6,527
Cash flows from financing activities		
Principal payments under capital leases	(10)	(12)
Principal payments under long-term debt	(18)	(16)
Net cash used in financing activities	(28)	(28)
Net increase (decrease) in cash and cash equivalents	(9,136)	1,194
Cash and cash equivalents at beginning of period	25,533	13,399
Cash and cash equivalents at end of period	\$ 16,397	\$ 14,593
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 11	\$ 13
Supplemental schedule of non-cash investing and financing activities		
Other non-cash additions to property and equipment	\$ 60	\$ 9

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

MICROVISION, INC.
Notes to Consolidated Financial Statements
 March 31, 2009
 (Unaudited)

1. MANAGEMENT'S STATEMENT AND PRINCIPLES OF CONSOLIDATION

Management's Statement

The Consolidated Balance Sheet as of March 31, 2009, the Consolidated Statements of Operations, Comprehensive Loss and Cash Flows for the three months ended March 31, 2009 and 2008 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 March 31, 2009 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, 2008. The results of operations for the three months ended March 31, 2009 are not necessarily indicative of the operating results that may be attained for the entire fiscal year.

At March 31, 2009, Microvision had \$19.1 million in cash, cash equivalents and investment securities, available-for-sale. Microvision's operating plan for 2009 includes the launch of the first accessory product, further development of its PicoP display engine for embedded applications and further development of automotive HUD and eyewear applications. In order to fully fund its product launch and its other development efforts, the Company will require additional capital in 2009. Microvision plans to obtain additional cash through the issuance of equity or debt securities. There can be no assurance that additional cash will be available or that, if available, it will be available on terms acceptable to the Company on a timely basis. If adequate funds are not available in the next couple of months to fully implement its plan the Company will begin to reduce the scope of its business to extend its operations as it pursues other financing opportunities and business relationships. This reduction in scope could include delaying product launch and development projects resulting in reductions in staff, operating costs, capital expenditures and investment in research and development. With these adjustments to its operating plan, the Company believes it currently has sufficient cash, cash equivalents, and investment securities to fund operations through at least February 28, 2010.

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, employee stock options, and nonvested equity shares. Diluted net loss per share for the three months ended March 31, 2009 and 2008 is equal to basic net loss per share because the effect of all potential common stock outstanding during the periods, including options, warrants and nonvested equity shares is anti-dilutive. The components of basic and diluted net loss per share were as follows (in thousands, except loss per share data):

	Three Months Ended March 31,	
	2009	2008
Numerator:		
Net loss - basic and diluted	\$ (8,865)	\$ (5,038)
Denominator:		
Weighted-average common shares outstanding - basic and diluted	68,080	56,730
Net loss per share - basic and diluted	\$ (0.13)	\$ (0.09)

On March 31, 2009 and 2008, the Company excluded the following convertible securities from diluted net loss per share as the effect of including them would have been anti-dilutive: publicly traded warrants convertible into 6,703,000 and 0 shares of common stock, respectively, options and private warrants convertible into a total of 9,686,000 and 10,940,000 shares of common stock, respectively, and 125,000 shares of nonvested equity shares for both periods.

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

The Company accounts for cash equivalents and investment securities in accordance with the provisions of Statement of Financial Accounting Standards (FAS) No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (FAS 115). FAS 115 addresses the accounting and reporting for investments in equity securities that have readily determinable fair values and for investments in debt securities.

The Company applies guidance in FAS No. 157, *Fair Value Measurements* (FAS 157) when estimating fair values of its cash equivalents, investment securities and liability associated with common stock warrants. The Company adopted FAS 157 on January 1, 2008 for financial assets and liabilities and for nonfinancial assets and liabilities measured at fair value on a recurring basis. It elected to defer the adoption of FAS 157 for nonfinancial assets and liabilities accounted for on a nonrecurring basis until January 1, 2009 as permitted by FAS Board Staff Position No. FAS 157-2, *Effective Date of FAS 157*. Neither of the two stages of adopting FAS 157 resulted in a material impact on the Company's consolidated financial position, results of operations or cash flows.

As of March 31, 2009, the Company held \$3.0 million par value student loan auction rate securities (SLARS), fair valued at approximately \$2.7 million. The SLARS owned by the Company are investment grade long-term bonds, structured with variable interest rate resets, purchases and sales to be determined via a Dutch Auction process every 28 days. They were issued to fund U.S. government guaranteed student loans. Beginning in February 2008 as global credit markets significantly deteriorated, insufficient clearing bids have been submitted for the SLARS. The auctions have thus failed, the interest rates have been reset to "maximum rates" instead of "auction rates" and the SLARS have been and continue to be illiquid through the auction process and secondary ARS markets.

At the time of the Company's initial investment, and through March 31, 2009, the SLARS held by the Company have maintained the following positive credit factors:

- guaranteed by the Federal Family Education Loan Program (FFELP) and other federal and state student loan guarantee programs,
- paying interest in accordance with agreements,
- 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.

At the time of the Company's initial investment, the SLARS and AMBAC, the insurer of half of the SLARS, held AAA ratings. As of March 31, 2009, one major service rated both SLARS AAA, while two other services rated the SLARS in the lower A range. AMBAC is rated A and Baa1. The Company considers the breadth of the services' ratings opinions among other contextual factors when evaluating the impacts of ratings changes.

The valuation inputs hierarchy classification for assets and liabilities measured at fair value on a recurring basis in accordance with FAS 157 are summarized below as of March 31, 2009:

	Level 1	Level 2	Level 3	Total
Assets				
Corporate debt and equity securities	\$ --	\$ 1,006,000	\$ --	\$ 1,006,000
Auction rate securities	--	--	2,700,000	2,700,000
	\$ --	\$ 1,006,000	\$ 2,700,000	\$ 3,706,000
Liabilities				
Liability associated with common stock warrants		\$ 151,000		\$ 151,000

The corporate debt securities and liability associated with common stock warrants are classified within Level 2 of the fair value hierarchy because they are valued using valuation inputs and common methods with sufficient levels of transparency and observability. The SLARS are classified in Level 3 of the fair value hierarchy because of the significance of sufficiently unobservable assumptions and inputs developed by the Company and used in the valuations. 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 following table summarizes the activity for those financial assets where fair value measurements are estimated utilizing Level 3 inputs:

Balance, December 31, 2008	\$ 2,700,000
Transfer to (from) Level 3, March 31, 2009	--
Recognized loss included in earnings	--
Balance, March 31, 2009	\$ 2,700,000

The Company's investments and liability associated with common stock warrants are summarized below as of March 31, 2009 and December 31, 2008:

	Classification on Balance Sheet							
	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Cash Equivalents	Investment Securities, Available- For-Sale	Other Current Assets	Liability Associated With Common Stock Warrants
As of March 31, 2009:								
Assets								
Corporate debt and equity securities	\$ 1,043,000	\$ --	\$ (37,000)	\$ 1,006,000	\$ 1,000,000	\$ 6,000	\$ --	\$ --
Auction rate securities	2,700,000	--	--	2,700,000	--	2,700,000	--	--
	\$ 3,743,000	\$ --	\$ (37,000)	\$ 3,706,000	\$ 1,000,000	\$ 2,706,000	\$ --	\$ --
Liabilities								
Liability associated with common stock warrants				\$ 151,000				\$ 151,000

	Classification on Balance Sheet							
	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Cash Equivalents	Investment Securities, Available- For-Sale	Other Current Assets	Liability Associated With Common Stock Warrants
As of December 31, 2008:								
Assets								
Corporate debt and equity securities	\$ 5,022,000	\$ --	\$ (38,000)	\$ 4,984,000	\$ 4,979,000	\$ 5,000	\$ --	\$ --
Auction rate securities	2,700,000	--	--	2,700,000	--	2,700,000	--	--
	\$ 7,722,000	\$ --	\$ (38,000)	\$ 7,684,000	\$ 4,979,000	\$ 2,705,000	\$ --	\$ --
Liabilities								
Liability associated with common stock warrants				\$ 331,000				\$ 331,000

As of March 31, 2009, the unrealized losses on the Company's investments in debt securities were due primarily to changes in interest rates and credit market conditions. The realized gains and losses resulting from the liability associated with common stock warrants were primarily due to changes in the Microvision stock price and decreasing terms to expiration.

The Company's significant nonfinancial assets and liabilities that are subject to consideration for recognition and disclosure at fair value in the financial statements on a nonrecurring basis primarily includes property and equipment, long-term debt and deferred rent. Under FAS 157, the fair value of an asset or liability determined on a nonrecurring basis should be based on a hypothetical transaction at the measurement date, with a valuation premise of either "in-use" or "in-exchange" based on the highest and best use of the asset from the perspective of market participants other than the Company itself. The highest and best use of an asset is in-use if the asset would provide maximum value to market participants principally through its use with other assets as a group, and in-exchange if maximum value is derived principally on a stand-alone basis. When valuing liabilities, instead of using a valuation premise concept, one assumes the liability is transferred to a market participant as a single unit of account, in a transaction that replicates the credit conditions of the obligor. The company applies guidance contained in FAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (FAS 144) when evaluating the recoverability of its property and equipment. FAS 144 requires a long-lived asset be tested for recoverability upon the occurrence of an indicating event, and absent such potential indications, periodically. If an impairment is indicated, the Company applies the guidance in FAS 157 to determine fair value and records the adjustment in the period of impairment determination.

4. INVENTORY

Inventory at March 31, 2009 and December 31, 2008 consisted of the following:

	March 31, 2009	December 31, 2008
Raw materials	\$ 47,000	\$ 45,000
Finished goods	1,392,000	1,480,000
	\$ 1,439,000	\$ 1,525,000

The inventory at March 31, 2009 and December 31, 2008 consisted of raw materials 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 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 Statements of Operations:

	Three Months Ended March 31,	
	2009	2008
Cost of contract revenue	10,000	50,000
Cost of product revenue	6,000	11,000
Research and development expense	194,000	281,000
Sales, marketing, general and administrative expense	365,000	724,000
Share-based employee compensation cost charged against income	\$ 575,000	\$ 1,066,000

Options Activity and Positions

The following table summarizes shares, weighted average exercise price, weighted average remaining contractual term and aggregate intrinsic value of options outstanding and options exercisable as of March 31, 2009:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding as of March 31, 2009	6,879,000	\$ 3.99	7.1	\$ 1,000
Exercisable as of March 31, 2009	3,649,000	\$ 4.79	6.2	\$ 1,000

As of March 31, 2009, the Company's unamortized share-based compensation was \$4.0 million. The Company plans to amortize this share-based compensation cost over the next 2.1 years.

As of March 31, 2009, the Company's unamortized nonvested equity share-based compensation was \$158,000. The Company plans to amortize this nonvested equity share-based compensation cost over the next 2.0 years.

6. LONG-TERM NOTES

Tenant Improvement Loan Agreement

During 2006, the Company entered into a loan agreement with the lessor of the Company's corporate headquarters in Redmond to finance \$536,000 in tenant improvements. The loan carries a fixed interest rate of 9% per annum, is repayable over the initial term of the lease, which expires in 2013, and is secured by a letter of credit. The balance of the loan was \$375,000 at March 31, 2009.

7. 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. Under the terms of a settlement agreement with one of the former officers who left in January 2006, the Company received payments of \$241,000 in 2008.

The Company has sued its former CEO and President Richard Rutkowski and his spouse to collect \$1,733,000 in outstanding loans that 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 the Company's financial condition.

A third officer with outstanding loans left the Company in August 2007 and his loans became due in August 2008. The Company is pursuing collection of the remaining outstanding balance from the former officer.

As of March 31, 2009 and December 31, 2008, the total amount outstanding under the lines of credit was \$1,851,000. As of March 31, 2009 and December 31, 2008, the allowance for receivables from related parties was \$1,851,000.

8. COMMITMENTS AND CONTINGENCIES

Litigation

The Company is subject to various claims and pending or threatened lawsuits in the normal course of business. Other than that described above in Note 7, the Company is not

currently party to any such legal proceedings that management believes would have a material adverse effect on the Company's financial position, results of operations or cash flows.

9. NEW ACCOUNTING PRONOUNCEMENTS

In April 2009, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (FSP FAS 115-2 and FAS 124-2). FSP FAS 115-2 and FAS 124-2 amend the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. FSP FAS 115-2 and FAS 124-2 do not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. FSP FAS 115-2 and FAS 124-2 is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009; however, early adoption is only permitted in conjunction with the early adoptions of FSP FAS 157-4 and FSP FAS 107-1 and APB 28-1. The Company is currently evaluating the impact that FSP FAS 115-2 and FAS 124-2 will have on its financial statements.

In April 2009, the FASB released a FASB Staff Position - *Determining Whether a Market Is Not Active and a Transaction Is Not Distressed* (FSP FAS 157-4), to provide additional guidance for estimating fair value when there has been a significant decrease in market activity for a financial asset or liability. FSP FAS 157-4 is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009; however, early adoption is only permitted in conjunction with the early adoptions of FSP FAS 115-2 and FAS 124-2 and FSP FAS 107-1 and APB 28-1. The Company is currently assessing the financial impact of FSP FAS 157-4 on its financial statements.

In April 2009, the FASB issued FASB Staff Position No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (FSP FAS 107-1 and APB 28-1). FSP FAS 107-1 and APB 28-1 requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. FSP FAS 107-1 and APB 28-1 are effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009; however, early adoption is only permitted in conjunction with the early adoptions of FSP FAS 115-2 and FAS 124-2 and FSP FAS 157-4. The Company is currently evaluating the impact that FSP FAS 107-1 and APB 28-1 will have 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 high-resolution miniature display and imaging engines based upon our technology platform. Our technology platform utilizes our expertise in two dimensional Micro-Electrical Mechanical systems (MEMS), lasers, optics and electronics to create a high quality video or still image from a small form factor device with lower power needs than conventional display technologies.

Our strategy is to develop and supply a proprietary display engine called PicoP to potential OEM customers who will embed them into a variety of consumer and automotive products. The primary objective for consumer applications is to provide users of mobile devices with a large screen viewing experience produced by a small embedded projector. Mobile devices may include cell phones, PDA's, gaming consoles and other consumer electronics products. These potential products would allow users to watch movies, play videos, display images, and other data onto a variety of flat or curved surfaces.

We are currently developing a small accessory projector that would be the first commercial product based on the PicoP display engine. The accessory projector is expected to display images from a variety of video sources including cell phones, portable media players, PDA's, gaming consoles, laptop computers, digital cameras, and other consumer electronics products. We expect that the accessory product will be commercially available during 2009.

The PicoP with some modification could be embedded into a vehicle or integrated into a portable standalone aftermarket device to create a high-resolution head-up display (HUD) that could project point-by-point navigation, critical operational, safety and other information important to the driver or pilot. The PicoP could be further modified to be embedded into a pair of glasses to provide the mobile user with a see-through or occluded personal display to view movies, play games or access other content.

Results of Operations

Contract revenue.

(in thousands)	2009	% of contract revenue	2008	% of contract revenue	\$ change	% change
Three months ended March 31						
Government revenue	\$ 420	59.0	\$ 908	39.8	\$ (488)	(53.7)
Commercial revenue	292	41.0	1,373	60.2	(1,081)	(78.7)
	-----		-----		-----	
Total contract revenue	\$ 712		\$ 2,281		\$ (1,569)	(68.8)
	=====		=====		=====	

We earn contract revenue from performance on development contracts with the U.S. government and commercial customers and from the sale of prototype units and evaluation kits based on our PicoP display engine.

Our contract revenue from development contracts in a particular period is dependent upon when we enter into a contract, the value of the contracts we have entered into, and the availability of technical resources to perform work on the contracts.

We recognize contract revenue 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.

During the three months ended March 31, 2009, we began selling prototype units and evaluation kits based on our PicoP display engine. We recognize contract revenue on the sales of prototype units and evaluation kits upon acceptance of the deliverables by the customer or expiration of the contractual acceptance period. While we anticipate future sales of these units, revenue may vary substantially due to the timing of orders from customers and potential constraints on resources.

Contract revenue was substantially lower during the three months ended March 31, 2009 than the same period in 2008, due to reduced contract activity and lower beginning backlog in 2009 compared to the prior year. 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.

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, including orders for prototype units, at March 31, 2009 was \$479,000 compared to \$1.5 million at March 31, 2008, all of which is scheduled for completion during the next twelve months.

Product revenue.

(in thousands)	2009	% of product revenue	2008	% of product revenue	\$ change	% change
Three months ended March 31						
Bar code revenue	\$ 239	100.0	\$ 289	100.0	\$ (50)	(17.3)

Our bar code sales generally include acceptance provisions. We recognize revenue for bar code shipments upon acceptance of the product by the customer or expiration of the contractual acceptance period. Our quarterly bar code revenue may vary substantially due to the timing of product orders from customers.

Bar code revenue was lower during the three months ended March 31, 2009 than the same period in 2008, due to decreased purchasing volume of small and mid-sized businesses as a result of the global economic conditions.

The backlog of bar code orders at March 31, 2009 was approximately \$138,000, compared to \$338,000 at March 31, 2008, all of which is scheduled for delivery during the next twelve months.

Cost of contract revenue.

(in thousands)	2009	% of contract revenue	2008	% of contract revenue	\$ change	% change
Three months ended March 31	\$ 383	53.8	\$ 762	33.4	\$ (379)	(49.7)

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.

Cost of contract revenue was lower during the three months ended March 31, 2009 than March 31, 2008 as a result of the decreased activity on development contracts. The increase in cost of contract revenue as a percentage of contract revenue was the result of differences in the cost mix of the contracts during those periods. During the three months ended March 31, 2008, cost of contract revenue included contracts with more favorable cost structures and higher gross margins.

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.

(in thousands)	2009	% of product revenue	2008	% of product revenue	\$ change	% change
Three months ended March 31	\$ 241	100.8	\$ 339	117.3	\$ (98)	(28.9)

Cost of product revenue includes both the direct and allocated indirect costs of manufacturing bar code scanners sold to customers. Direct costs include labor, materials and other costs incurred directly in the manufacture of bar code scanners. 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 March 31, 2009 and 2008, we expensed approximately \$73,000 and \$47,000, respectively, of manufacturing overhead associated with production capacity in excess of production requirements.

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.

(in thousands)	2009	2008	\$ change	% change
Three months ended March 31	\$ 5,610	\$ 4,426	\$ 1,184	26.8

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.

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.

(in thousands)	2009	2008	\$ change	% change
	-----	-----	-----	-----
Three months ended March 31	\$ 3,814	\$ 4,135	\$ (321)	(7.8)

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 decrease in sales, marketing, general and administrative expense for the three months ended March 31, 2009 compared to the same period in 2008 was primarily the result of decreased payroll due to reduction in staffing levels.

We continue to aggressively manage these costs as part of our strategy to accelerate the development of PicoP-based products while controlling our cash used in operations.

Interest income.

(in thousands)	2009	2008	\$ change	% change
	-----	-----	-----	-----
Three months ended March 31	\$ 64	\$ 412	\$ (348)	(84.5)

The decrease in interest income for the three months ended March 31, 2009 compared to the same period in 2008 resulted primarily from lower average cash, investment securities balances, and interest rates.

Interest expense.

(in thousands)	2009	2008	\$ change	% change
	-----	-----	-----	-----
Three months ended March 31	\$ 11	\$ 13	\$ (2)	(15.4)

Gain on derivative instruments, net.

(in thousands)	2009	2008	\$ change	% change
	-----	-----	-----	-----
Three months ended March 31	\$ 180	\$ 1,673	\$ (1,493)	(89.2)

In March and December 2005, we issued convertible notes (the "Notes") with an aggregate principal amount of \$20 million. The last payment on the Notes was made in March 2007. In connection with the issuance of the Notes we issued warrants to purchase 2,302,000 shares of common stock. 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. We record changes in the fair values of the warrants in the statement of operations each period. In July 2008, warrants to purchase 750,000 shares of common stock expired unexercised. We valued the remaining warrants to purchase 1,552,000 shares of common stock at March 31, 2009 using the Black-Scholes option-pricing model with the following assumptions: expected volatilities of 75%; expected dividend yields of 0%; risk free interest rates of from 0.6% to 0.7%; and contractual lives ranging from 1.0 year to 1.7 years. The change in value of the warrants of \$180,000 for the three months ended March 31, 2009 was recorded as a non-operating gain and is included in "Gain on derivative instruments, net" in the consolidated statement of operations. We valued the warrants at March 31, 2008 using the Black-Scholes option-pricing model with the following assumptions: expected volatilities ranging from 65% to 67%; expected dividend yields of 0%; risk free interest rates ranging from 1.4% to 1.7%; and contractual lives ranging from 0.3 years to 2.7 years. The change in value of the warrants of \$1,736,000 for the three months ended March 31, 2008 was recorded as a non-operating gain and is included in "Gain on derivative instruments, net" in the consolidated statement of operations.

Prior to December 9, 2008, we held warrants to purchase 170,500 shares of Lumera common stock. On December 9, 2008, Lumera merged with GigOptix, LLC and the combined company now conducts business as GigOptix, Inc. Our Lumera warrants were exchanged for warrants to purchase shares of the new company's common stock, after applying a 0.125 exchange ratio and exercise price escalation. As of December 31, 2008, the fair value of the warrants was determined to be zero. As of March 31, 2008, the warrants were valued using the Black-Scholes option-pricing model with the following assumptions: expected volatility of 83%; expected dividend yields of 0%; risk free interest rates of 1.78%; and contractual lives of 3.0 years. The change in value of \$64,000 for the three months ended March 31, 2008 was recorded as a non-operating loss and is included in "Gain 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 March 31, 2009, we had \$19.1 million in cash, cash equivalents and investment securities, available-for-sale. Our operating plan for 2009 includes the launch of the first accessory product, further development of our PicoP display engine for embedded applications and further development of automotive HUD and eyewear applications. In order to fully fund our product launch and our other development efforts, we will require additional capital in 2009. We plan to obtain additional cash through the issuance of equity or debt securities. There can be no assurance that additional cash will be available or that, if available, it will be available on terms acceptable to us on a timely basis. If adequate funds are not available in the next couple of months to fully implement our plan we will begin to reduce the scope of the business to extend our operations as we pursue other financing opportunities and business relationships. This reduction in scope could include delaying product launch and development projects resulting in reductions in staff, operating costs, capital expenditures and investment in research and development. With these adjustments to our operating plan, we believe we currently have sufficient cash, cash equivalents, and investment securities to fund operations through at least February 28, 2010.

Cash used in operating activities totaled \$8.8 million during the three months ended March 31, 2009, compared to \$5.3 million during the same period in 2008. During the three months ended March 31, 2009, the increase in cash used in operating activities was primarily driven by lower contract activity and higher research and development costs as we move closer to the commercialization of PicoP based products.

We had the following material gains and charges, and changes in assets during the three months ended March 31, 2009:

- *"Gain on derivative instruments, net"* In connection with the issuance of the Notes, we issued warrants to purchase 2,302,000 shares of common stock, of which 1,552,000 remain outstanding as of March 31, 2009. Due to changes in our stock price and declining terms to expiry on the warrants, we recognized a \$180,000 non-operating gain during the three months ended March 31, 2009.
- *"Accounts payable"* During the three months ended March 31, 2009, accounts payable decreased by \$1,049,000 due to payments made for inventory, research and development expenses, and general operating expenses that were billed to us in 2008.

Cash used in investing activities totaled \$354,000 for the three months ended March 31, 2009 compared to cash provided by investing activities of \$6.5 million during the three months ended March 31, 2008. During the three months ended March 31, 2009, we used cash of \$354,000 for capital expenditures, compared to \$137,000 during the same period in 2008. During the three months ended March 31, 2008, we had net sales of investment securities totaling \$7.0 million.

Cash generated and used in financing activities during the three months ended March 31, 2009 and 2008 was not significant.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate and Market Liquidity Risks

As of March 31, 2009, 86% of our total cash, cash equivalents and investment securities, available-for-sale have variable interest rates or are very short-term discount notes traded in active markets. Therefore, we believe our exposure to the market and interest rate risk is not material. The remaining 14% is composed of \$3.0 million par student loan auction-rate securities (SLARS). The SLARS owned by the Company are investment grade long-term bonds, structured with variable interest rate resets, purchases and sales to be determined via a Dutch Auction process every 28 days. They were issued to fund U.S. government guaranteed student loans. Beginning in February 2008 as global credit markets significantly deteriorated, insufficient clearing bids have been submitted for the SLARS. The auctions have thus failed and the interest rates have been reset to "maximum rates" instead of "auction rates". The SLARS have been illiquid through the auction process in addition to through inactive secondary ARS markets.

Given the adverse credit market conditions, the fair value of the principal of these bonds has become affected by changes in interest rates, the spread between short and long rates, and credit market liquidity. As a result, at December 31, 2008, we estimated that the fair value of our SLARS to be approximately \$2.7 million. If market conditions worsen, we may have to further adjust the estimated fair value of the SLARS, including additional charges to earnings, if we believe the adjustment is other than temporary. In the event we need access to the funds invested in the SLARS, we could be required to sell these securities at an amount below our original purchase value. Any of these events could affect our consolidated financial condition, results of operations and cash flows. However, based on our current operating plan and ability to access our \$16.4 million held in cash and cash equivalents and other investment securities available for sale held as of March 31, 2009, we do not expect to be required to sell these securities materially below their current estimated values.

Our investment policy generally directs that the investment managers should select investments to achieve the following goals: principal preservation, adequate liquidity and return. As of March 31, 2009, our cash and cash equivalents and investments available-for-sale securities portfolio are comprised of short-term highly rated money market funds, corporate bonds and the SLARS.

	Amount	Percent
Cash	\$14,506	75.94%
Less than one year	\$1,897	9.93%
One to two years	--	--
Greater than five years	\$2,700	14.13%
	-----	-----
	19,103	100.00%
	=====	=====

Foreign Exchange Rate Risk

All of our development contract payments are made in U.S. dollars. However, in the future we may enter into additional development contracts in foreign currencies that may subject us to foreign exchange rate risk. We intend to enter into foreign currency hedges to offset material exposure to currency fluctuations when we can adequately 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 March 31, 2009, we had an accumulated deficit of \$300.9 million.
- We incurred consolidated net losses of \$239.6 million from inception through 2006, \$19.8 million in 2007, \$32.6 million in 2008, and consolidated net loss of \$8.9 million in the three months ended March 31, 2009.

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 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.

Our operating plan for 2009 includes the launch of our first accessory product, further development of the PicoP display engine for embedded applications and further development of automotive HUD and eyewear applications. In order to fully fund our product launch and our other development efforts, we will require additional capital in the next couple of months. 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 in the next couple of months to fully implement our plan we will begin to reduce the scope of our business to extend our operations as we pursue other financing opportunities and business relationships. This reduction in scope could include delaying product launch and projects resulting in reductions in staff and operating costs as well as reductions in capital expenditures and investment in research and development. With these adjustments to our operating plan, we believe we currently have sufficient cash, cash equivalents, and investment securities to fund operations through at least February 28, 2010.

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

We are currently negotiating component pricing with suppliers for our future products. The cost per unit for PicoP based accessory projectors currently exceeds the level at which we could expect to profitably sell these products. If we cannot lower our cost of production, we may face increased demands on our financial resources, possibly requiring additional equity and/or debt financing to sustain our business operations.

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 consumer, defense, industrial and medical markets. If our technology fails to achieve market acceptance, we may not be able to continue to develop our technology platform.

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.

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 could reduce the liquidity for 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. The market price of our stock has mostly traded below \$5.00 per share during 2008 and 2007. On April 27, 2009, the closing price of our stock was \$1.81.

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 patents we have licensed could limit our ability to commercialize our technology and the PicoP display engine and, consequently, materially reduce our revenues. Moreover, we cannot be certain that patent holders or other third parties will not claim infringement by us with respect to current and future technology. Because U.S. patent applications are held and examined in secrecy, it is also possible that presently pending U.S. applications will eventually be issued with claims that will be infringed by our products or our technology. The defense and prosecution of a patent suit would be costly and time consuming, even if the outcome were ultimately favorable to us. An adverse outcome in the defense of a patent suit could subject us to significant 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 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.

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

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

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

We currently use 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 quarter of 2009 and the full year of 2008, 44% and 34%, 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 that 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 Employment Agreement effective as of April 7, 2009 between Microvision, Inc. and Alexander Y. Tokman
- 31.1 Chief Executive Officer Certification Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Chief Financial Officer Certification Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Chief Executive Officer Certification pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Chief Financial Officer Certification pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

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.

Date: May 7, 2009

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

Date: May 7, 2009

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

EXHIBIT INDEX

The following documents are filed.

<u>Exhibit Number</u>	<u>Description</u>
10.1	Employment Agreement effective as of April 7, 2009 between Microvision, Inc. and Alexander Y. Tokman
31.1	Chief Executive Officer Certification Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Chief Financial Officer Certification Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
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32.2	Chief Financial Officer Certification pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

**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, 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: May 7, 2009

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; 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 registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2009

By: /s/ Jeff T. Wilson
Jeff T. Wilson
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**

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

- 1) the Company's Form 10-Q for the quarter ended March 31, 2009 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) the information contained in the Company's Form 10-Q for the quarter ended March 31, 2009 fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 7, 2009

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 March 31, 2009 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) the information contained in the Company's Form 10-Q for the quarter ended March 31, 2009 fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 7, 2009

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

EMPLOYMENT AGREEMENT

AGREEMENT made and entered into in Seattle, Washington, by and between MICROVISION, Inc. (the "Company"), a Delaware corporation with its principal place of business in Seattle, Washington, and Alexander Y. Tokman ("Executive"), effective as of the 7th day of April, 2009.

WHEREAS, subject to the terms and conditions hereinafter set forth, the Company wishes to employ Executive as its President and Chief Executive Officer and Executive wishes to accept such employment;

NOW, THEREFORE, in consideration of the foregoing premises and the mutual promises, terms, provisions and conditions set forth in this Agreement, the parties hereby agree:

1. Employment. Subject to the terms and conditions set forth in this Agreement, the Company hereby offers, and Executive hereby accepts, employment.

2. Term. Subject to earlier termination as hereafter provided, Executive's employment hereunder shall be for a term of three (3) years, commencing as of the effective date of this Agreement, and ending on April 7, 2012, ("Employment Term"), subject to earlier termination as set forth in Section 5 below. Following the expiration of the Employment Term, this Agreement shall be automatically renewed for successive one (1) year periods ("Renewal Term") unless, at least ninety (90) days prior to the expiration of the Employment Term or the then current Renewal Term, either party provides the other with written notice of intention not to renew, in which case this Agreement shall terminate as of the end of the Employment Term or the Renewal Term, as applicable. If this Agreement is renewed, the terms of this Agreement during any Renewal Term shall be the same as the terms in effect immediately prior to such renewal (including but not limited to, the provisions set forth in Sections 4 and 5 below), subject to any changes or modifications as mutually may be agreed between the Parties as evidenced in a written instrument signed by both the Company and Executive. "Term" as used in this Agreement without further modification shall mean the Employment Term together with any Renewal Term.

3. Capacity and Performance.

a. During the Term, Executive shall serve the Company as its President and Chief Executive Officer, reporting to the Company's Board of Directors (the "Board"). In addition, and without further compensation, Executive may also serve as a member of the Board. In addition, Executive may also serve as a director and/or officer of one or more of the Company's Affiliates, if so elected or appointed from time to time.

b. During the Term, Executive shall be employed by the Company on a full-time basis and shall perform such duties as are intrinsic to his position and such other duties and responsibilities on behalf of the Company and its Affiliates as may reasonably be designated from time to time by the Board or by its designees.

c. During the Term, Executive shall devote his full business time and his best efforts, business judgment, skill and knowledge exclusively to the advancement of the business and interests of the Company and its Affiliates and to the discharge of his duties and responsibilities hereunder. Executive shall not actively engage in any other business activity during the Term, but may participate in industry, trade, professional, charitable and community activities and manage personal investments so long as such activities, either individually or in the aggregate, do not conflict with the interests of the Company and its Affiliates or interfere with the discharge of Executive's responsibilities to the Company and its Affiliates. Executive may serve on the boards of directors of other companies only with the prior express permission of the Board. The Board has given its permission for Executive to serve on the Board of Endra, Inc.

4. Compensation and Benefits. As compensation for all services performed by Executive under and during the Term and subject to performance of Executive's duties and of the obligations of Executive to the Company and its Affiliates, pursuant to this Agreement or otherwise:

a. Base Salary. Beginning with the effective date of this Agreement, the Company shall pay Executive a base salary at the rate of Three Hundred Forty Seven Thousand Two Hundred Eighty Eight Dollars (\$347,288) per year ("Base Salary"), payable in accordance with the payroll practices of the Company for its executives and subject to annual review by the Board or a committee thereof and to such increases as the Board or a committee thereof, in its sole discretion, may from time to time determine. No decreases may be made in Executive's Base Salary without prior written consent by Executive.

b. Bonus Compensation. During the Term, Executive will be eligible for an annual bonus opportunity (the "Bonus") at a level commensurate with his position and responsibilities as Chief Executive Officer of the Company, as reasonably determined by the Board or a committee thereof. The Parties agree that the target equivalent of such Bonus will be no less than 50% of the Base Salary. The actual amount of the payment under any Bonus shall be determined by the Board or a committee thereof, based on its assessment, in its sole discretion, of Executive's performance and that of the Company against appropriate and reasonably attainable goals established by the Board or a committee thereof after consultation with Executive, in the calendar year following the performance year. To the extent consistent with bonus opportunities (and payments thereunder) awarded to other executive officers of the Company whose compensation is subject to Section 162(m) of the Code, the Board or a committee thereof may structure any Bonus for Executive with the intent that it comply with the performance-based compensation exception requirements under Section 162(m), provided that the target equivalent of the Bonus shall not go below 50% of the Base Salary. If so determined by the Board or a committee thereof, after soliciting Executive's input, Bonus compensation may be paid (i) in cash and/or in equity or (ii) in such form (cash or equity or a combination thereof) as Executive may elect, subject to such limitations on any such election as the Board or a committee thereof may impose. Any Bonus compensation earned by Executive shall be paid to Executive in the calendar year following the performance year, no later than bonus payments to other Executives and in all events by December 31 of such following year.

c. Long Term Incentives. During the Term, Executive will be eligible for stock or stock-based awards ("Stock Awards") at a level commensurate with his position and responsibilities as Chief Executive Officer of the Company, as reasonably determined by the Board or a committee thereof, each such award to be made under the Company's 2006 Equity Incentive Plan or any successor thereto. Subject to the terms of such Plan, the Board or a committee thereof shall have the discretion to determine (i) the type of each Stock Award (e.g., stock option, restricted stock or restricted stock unit); (ii) the number and shares subject to each Stock Award; (iii) the performance conditions, if any, and other vesting terms applicable to each Stock Award; and (iv) all other terms of each Stock Award; *provided*, that except as the Board or a committee thereof and Executive may otherwise agree, Stock Awards during the Term shall be granted on a basis, as determined by the Board or a committee thereof, that is reasonably calculated to meet the objectives described in Exhibit A hereto.

d. Vacations. During the Term, Executive shall be entitled to four (4) weeks of paid vacation per year to be taken at such times and intervals as shall be determined by Executive, subject to the reasonable business needs of the Company. Vacation shall otherwise be governed by the policies of the Company, as in effect from time to time; provided, however, that nothing in Company policy or practice shall prevent Executive from receiving pay for accrued but unused vacation at the time of Executive's termination from employment pursuant to the terms of this Agreement.

e. Other Benefits. During the Term and subject to any contribution therefore generally required of employees of the Company, Executive shall be entitled to participate in any and all employee benefit plans from time to time in effect for employees of the Company generally, except to the extent such plans provide a category of benefit (for example, but without limitation, severance) otherwise provided to Executive pursuant to this Agreement. Such participation shall be subject to the terms of the applicable plan documents and generally applicable Company policies. The Company may alter or terminate its employee benefit plans at any time, as it, in its sole judgment, determines to be appropriate.

f. Business Expenses. The Company shall pay or reimburse Executive for all reasonable business expenses incurred or paid by Executive in the performance of his duties and responsibilities hereunder, subject to such policies as may be established by the Company from time to time, any maximum annual limit or other restrictions on such expenses and to provision of such reasonable substantiation and documentation as may be specified by the Company from time to time. Any such payment or reimbursement that could constitute "nonqualified deferred compensation" subject to Section 409A of the Code shall be subject to the requirements that: (i) the amount of expenses eligible for payment or reimbursement during any calendar year may not affect the expenses eligible for payment or reimbursement in any other taxable year, (ii) the payment or reimbursement must be made, if at all, not later than December 31 of the calendar year following the calendar year in which the expense was incurred, and (iii) any right that Executive may have to reimbursement shall in no event be subject to liquidation or exchange for any other benefit.

5. Termination of Employment and Severance Benefits. Notwithstanding the provisions of Section 2 hereof, Executive's employment hereunder shall terminate prior to the expiration of the Term under the following circumstances:

a. Death. In the event of Executive's death during the Term, Executive's employment hereunder shall immediately and automatically terminate. In such event, the Company shall pay to Executive's designated beneficiary or, if no beneficiary has been designated by Executive, to his estate:

(i) any earned and unpaid Base Salary, payable on the Company's next regular pay day following termination, (ii) any vacation time earned but not used through the date of termination, payable on the Company's next regular pay day following the termination, (iii) any bonus compensation earned for the Bonus Year preceding that in which the termination occurs and unpaid on the date of termination ("Awarded Bonus"), payable in accordance with Section 4.b hereof, (iv) subject to Section 4(f) above, any reimbursable business expenses incurred by Executive but not yet reimbursed on the date of termination, provided that such expenses and required substantiation and documentation are submitted within sixty (60) days of termination, with reimbursement being made promptly after receipt of documentation (amounts provided in (i) through (iv), "Final Payment"); and (v) payment for a pro-rata portion of Executive's Bonus for the Bonus Year in which the termination occurs in the event that bonuses are paid to other officers of the Company for the same Bonus Year and provided that the timing of such pro-rata bonus payment will be made in the same form of consideration and at the same time as the bonus payments made to other officers. The Company shall also make provision, in a manner consistent with Section 409A of the Code, such that for a period of up to eighteen (18) months following Executive's death Executive's surviving spouse, if any, and his surviving dependents, if any, if they are eligible for and elect continuation of health coverage pursuant to the so-called "COBRA" coverage- continuation provisions applicable to the Company's group health plan, shall be required to contribute to such coverage only so much as they would have contributed for comparable family coverage had Executive continued to be employed. The Company shall have no further obligations to Executive.

b. Disability.

i. To the extent permitted by applicable law, the Company may terminate Executive's employment hereunder, upon notice to Executive, in the event that Executive becomes disabled during his employment hereunder through any illness, injury, accident or condition of either a physical or psychological nature and, as a result, is unable to perform substantially all of his duties and responsibilities hereunder, with or without reasonable accommodation as required by law, for a period of more than one hundred twenty (120) days during any period of three hundred and sixty-five (365) consecutive calendar days. In the event of such termination, the Company shall pay Executive the Final Payment and payment for a pro-rata portion of Executive's Bonus for the Bonus Year in which the termination occurs in the event that bonuses are paid to other officers of the Company for the same Bonus Year and provided that the timing of such pro-rata bonus payment will be made in the same form of consideration and at the same time as the bonus payments made to other officers. The Company shall also make provision, in a manner consistent with Section 409A of the Code, such that for a period of up to eighteen (18) months following such termination Executive and his family members, to the extent they are eligible for and elect continuation of health coverage (including pursuant to the so-called "COBRA" coverage-continuation provisions applicable to the Company's group health plan), shall be required to contribute to such coverage only so much as they would have contributed for comparable family coverage had Executive continued to be employed. The Company shall have no further obligations to Executive.

ii. Prior to termination as provided at clause i. above, the Board may designate another employee to act in Executive's place during any period of Executive's disability. Notwithstanding any such designation, Executive shall continue to receive the compensation and benefits in accordance with Sections 4.a through 4.d and benefits in accordance with Section 4.e, to the extent permitted by the then-current terms of the applicable benefit plans, until Executive becomes eligible for disability income benefits under the Company's disability income plan or until the termination of his employment, whichever shall first occur.

iii. While receiving disability income payments under the Company's disability income plan, Executive shall not be entitled to receive any Base Salary under Section 4.a hereof, but shall continue to participate in Company benefit plans in accordance with Section 4.e and the terms of such plans, until the termination of his employment.

iv. If any question shall arise as to whether during any period Executive is disabled through any illness, injury, accident or condition of either a physical or psychological nature so as to be unable to perform substantially all of his duties and responsibilities hereunder, a determination of whether Executive has a disability shall be made by Executive's health care provider. In the event the Company questions the medical opinion of Executive's health care provider, the Company may require Executive to obtain a second opinion from a different health care provider chosen by the Company at its own expense. If there is a conflict between the opinion of Executive's health care provider and the opinion of the Company's selected health care provider, the Company may require Executive to obtain a third opinion from a health care provider jointly approved by the Company and Executive at the Company's expense, and this third opinion shall be binding on Executive and the Company. Any such determination of disability under this Section 5.b.iv is not intended to alter any benefits any party may be entitled to receive under any long-term disability insurance policy carried by either the Company or Executive with respect to Executive, which benefits shall be governed solely by the terms of any such insurance policy. If the Executive fails to submit to a medical examination at the request of the Company as provided above, the Company's determination of the issue shall be binding on Executive.

c. By the Company for Cause. The Company may terminate Executive's employment hereunder for Cause at any time upon notice to Executive setting forth in reasonable detail the nature of such Cause. The following, as determined by the Board in its reasonable judgment, shall constitute Cause for termination: (i) Executive's repeated willful failure to perform, or gross negligence in the performance of, his duties and responsibilities to the Company or any of its Affiliates; (ii) fraud, embezzlement or other dishonesty with respect to the Company or any of its Affiliates; (iii) breach of any of his obligations under Section 7, 8 or 9 hereof or (iv) commission of a felony or other crime involving moral

turpitude. Upon termination of Executive's employment hereunder for Cause, the Company shall have no further obligations to Executive other than to pay Executive the Final Payment.

d. By the Company Other than for Cause. The Company may terminate Executive's employment hereunder other than for Cause at any time upon notice to Executive. In the event of such termination during the Employment Term or a Renewal Term, then, the Company (i) shall pay Executive (A) the Final Payment and (B) severance pay in an amount equal to eighteen (18) months of Base Salary, at the rate in effect at the date of termination, plus an amount equal to (I) Executive's target Bonus amount for the year of termination, or (II) if no such target has been fixed for the year of termination, the actual bonus paid or payable to Executive for the most recently completed fiscal year of the Company for which an annual bonus was paid or is payable to Executive; *provided*, that in the case of any termination under this subsection (d) occurring after December 31, 2009, in lieu of the amount described in (I) above there shall be paid to Executive the actual bonus paid or payable to him for the most recently completed fiscal year of the Company for which an annual bonus was paid or is payable to him; and (ii) shall continue, while Executive is receiving severance pay hereunder, to contribute to the premium cost of participation by Executive and his eligible dependents in the Company's group medical and dental plans, provided that Executive is entitled to continue such participation under applicable law and plan terms and pays the remainder of the premium cost from month to month in accordance with the schedule established by the Company. Any obligation of the Company to Executive under clause (i) or (ii) hereof, however, shall be reduced by any other payments from the Company to which Executive is entitled as a result of termination (exclusive of any Final Payment due) and is conditioned on Executive signing and delivering to the Company, not later than the earlier of (i) sixty (60) days after termination of employment or (ii) the deadline for consideration and execution thereof specified in the form of release of claims attached hereto as Exhibit B, together with the end of any applicable revocation period (the "Release Deadline"), a release in such form (the "Employee Release"). Severance pay and Target Bonus to which Executive is entitled hereunder shall be payable pro-rata at the Company's regular payroll periods during the eighteen (18) month period immediately following termination of Executive's employment, with the first payment being made on the Company's next regular payday following the Release Deadline, but retroactive to the next business day following the date of termination of employment; *provided*, that no payment will be made prior to the effective date of the Employee Release in the form attached hereto as Exhibit B and that if at the relevant time Executive is a Specified Employee, so much of the amounts payable hereunder as constitutes nonqualified deferred compensation subject to Section 409A of the Code and that would be payable during the six-month period following Executive's termination shall instead be accumulated and paid in a single sum upon the day after the conclusion of such six-month period.

e. By Executive for Good Reason. Executive may terminate his employment hereunder for Good Reason provided that (A) he give notice to the Company within ninety (90) days of the initial occurrence of the event or condition constituting Good Reason, setting forth in reasonable detail the nature of such Good Reason; (B) the Company fails to cure within thirty (30) days following such notice; and (C) Executive terminates his employment within thirty (30) days following the end of the thirty (30)-day cure period (if the Company fails to cure). The following shall constitute Good Reason for termination by Executive: (i) failure of the Company to continue Executive in the position of Chief Executive Officer; (ii) substantial diminution in the nature and scope of Executive's responsibilities, duties, authority, and reporting up requirements of Executive, provided, however, that the Company's failure to continue Executive's appointment or election as a director or officer of one of the Company's Affiliates and any diminution of the business at the Company or any of its Affiliates shall not constitute "Good Reason"; (iii) material failure of the Company to provide Executive with the Base Salary and benefits in accordance with the terms of Section 4 hereof; or (iv) relocation of Executive's office more than thirty-five (35) miles from the then-current location of the Company's principal offices without his consent. In the event of termination in accordance with this Section 5.e during the Employment Term or Renewal Term, then Executive will be entitled to the same pay and benefits he would have been entitled to receive had Executive been terminated by the Company other than for Cause in accordance with Section 5.d above; provided that Executive satisfies all conditions to such entitlement, including without limitation the timely signing of an effective Employee Release in the form attached hereto as Exhibit B, in accordance with the requirements set forth in Section 5.d.

f. By Executive Other than for Good Reason. Executive may terminate his employment hereunder at any time upon sixty (60) days' notice to the Company. In the event of termination by Executive pursuant to this Section 5.f, the Board may elect to waive the period of notice, or any portion thereof, and, if the Board so elects, the Company will pay Executive the Base Salary for the notice period (or for any remaining portion of the period) and the Final Payment. The Company shall have no further obligation to Executive.

g. Upon a Change of Control.

i. If a Change of Control occurs and the Company terminates Executive's employment hereunder other than for Cause during the Employment Term or Renewal Term and within two (2) years following such Change of Control or Executive terminates his employment hereunder for any reason during the Employment Term or Renewal Term and within two (2) years following such Change of Control, then, in lieu of any payments to or on behalf of Executive under Section 5.d or 5.e hereof, the Company, in addition to providing Executive the Final Payment, (A) shall pay Executive an amount equal to two times the sum of one year of Base Salary at the rate in effect at the date of termination or, if higher, on the date of the Change of Control plus a payment equal to the Target Bonus for which Executive is eligible, which amount shall be payable in a single lump sum within ten (10) business days following the later of the effective date of the Employee Release in the form attached hereto as Exhibit B or the date it is received by the Company and (B) shall pay the full cost of Executive's continued participation in

the Company's group health and dental plans for two years or, if less, for so long as Executive remains entitled to continue such participation under applicable law. In addition, 100% of those Options which are not exercisable, and which have not been exercised and have not expired or been surrendered or cancelled, shall become exercisable upon such termination and shall otherwise be and remain exercisable in accordance with the terms of the Options subject to the Option Agreement. The obligations of the Company hereunder, however, other than for the Final Payment, if any, are subject to Executive signing a timely and effective Employee Release in the form attached hereto as Exhibit B in accordance with the rules specified in subsection (d) above. Notwithstanding the generality of the foregoing, (i) if the Change of Control is not a "change in control event" (as that term is defined at Section 1.409A-3(i)(5) of the Treasury Regulations), so much of the amounts described in this paragraph as does not exceed the amounts that would have been payable to Executive under Section 5.d. or Section 5.e., as the case may be, had termination occurred prior to the Change of Control, and that constitutes nonqualified deferred compensation subject to Section 409A of the Code, shall be paid in the same manner and on the same schedule as described in Sections 5.d. and 5.e., and (ii) if at the relevant time Executive is a Specified Employee, so much of the amounts payable hereunder as constitutes nonqualified deferred compensation subject to Section 409A of the Code and that would be payable during the six-month period following Executive's termination shall instead be accumulated and paid in a single lump sum upon the day after the conclusion of such six-month period.

ii. Certain Additional Payments by the Employer.

(A) Payments under this Agreement shall be made without regard to whether the deductibility of such payments (or any other payments or benefits to or for the benefit of Executive) would be limited or precluded by Section 280G of the Code ("Section 280G") and without regard to whether such payments (or any other payments or benefits) would subject Executive to the federal excise tax levied on certain "excess parachute payments" under Section 4999 of the Code (the "Excise Tax"). If any portion of the payments or benefits to or for the benefit of Executive (including, but not limited to, payments and benefits under this Agreement but determined without regard to this paragraph) constitutes an "excess parachute payment" within the meaning of Section 280G (the aggregate of such payments being hereinafter referred to as the "Excess Parachute Payments"), the Company shall promptly pay (and to the extent practicable, no later than ten (10) days prior to the date Executive is required to make any Excise Tax payment to the Internal Revenue Service) to Executive an additional amount (the "gross-up payment") that after reduction for all taxes (including but not limited to the Excise Tax) with respect to such gross-up payment equals the Excise Tax with respect to the total of the Excess Parachute Payments and the Gross-Up Payment. In no event shall the gross-up payment be made later than by the deadline specified in the regulations under Section 409A of the Code for the payment of gross-up amounts.

(B) The determination as to whether Executive's payments and benefits include Excess Parachute Payments and, if so, the amount of such payments, the amount of any Excise Tax owed with respect thereto, and the amount of any gross-up payment shall be made at the Company's expense by PricewaterhouseCoopers LLP or by such other certified public accounting firm as the Committee may designate prior to a Change of Control (the "accounting firm"). Notwithstanding the foregoing, if the Internal Revenue Service shall assert an Excise Tax liability that is higher than the Excise Tax (if any) determined by the accounting firm, the Company shall, promptly (and to the extent practicable, no later than ten (10) days prior to the date Executive is required to make any Excise Tax payment to the Internal Revenue Service) augment the gross-up payment to address such higher Excise Tax liability.

iii. "Change of Control" means the occurrence of any of the following events after the effective date hereof:

(A) The acquisition by any Person or group of the ultimate beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) of more than 50% of the then outstanding securities of the Company entitled to vote generally in the election of directors; excluding, however, the following: (i) any acquisition directly from the Company (other than any acquisition by virtue of the exercise of an exercise, conversion or exchange privilege unless the security being so exercised, converted or exchanged was itself acquired directly from the Company); (ii) any acquisition by the Company; (iii) any acquisition by an employee benefit plan (or related trust) sponsored or maintained by the Company or by any corporation controlled by the Company; (iv) any acquisition by Executive, by all Executive Related Party (as defined herein) or by a group of which the Executive is a member; or (v) any acquisition by any corporation pursuant to a transaction which complies with clauses (i), (ii) and (iii) of this subsection g.(iii)(A); or

(B) Individuals who, as of the date hereof, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election, by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(C) A reorganization, recapitalization, merger or consolidation (a "Corporate Transaction") of the Company, unless (i) securities representing

more than 50% of the then outstanding securities entitled to vote generally in the election of directors of the Company or the corporation resulting from or surviving such Corporate Transaction (or the ultimate parent of the Company or such corporation after such Corporate Transaction) are beneficially owned subsequent to such Corporate Transaction by the Person or Persons who were the beneficial owners of the outstanding securities of the Company entitled to vote generally in the election of directors immediately prior to such Corporate Transaction, in substantially the same proportions as their ownership immediately prior to such Corporate Transaction, (ii) no Person (excluding any corporation resulting from such Corporate Transaction or any employee benefit plan (or related trust) of the Company of such corporation resulting from such Corporate Transaction) ultimately beneficially owns, directly or indirectly, more than 50% of the then outstanding securities entitled to vote generally in the election of directors of the Company or the corporation resulting from or surviving such Corporate Transaction (or the ultimate parent of the Company or such corporation after such Corporate Transaction) except to the extent that such ownership existed prior to the Corporate Transaction; and (iii) at least a majority of the members of the board of directors of the corporation resulting from such Corporate Transaction were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Corporate Transaction; or

(D) The sale, transfer or other disposition of all or substantially all of the assets of the Company; or

(E) Approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

For purposes of this definition, securities entitled to vote generally in the election of directors that are issuable upon exercise of an exercise, conversion or exchange shall be deemed to be outstanding. In addition, for purposes of this definition, the following terms have the meanings set forth below:

A Person shall be deemed to be the "owner" of any securities of which such Person would be the "beneficial owner," as such term is defined in Rule 13d-3 promulgated by the Securities and Exchange Commission under the Exchange Act.

"Person" has the meaning used in Section 13.d of the Exchange Act, except that "Person" does not include (i) the Executive, an Executive Related Party, or any group of which Executive or Executive Related Party is a member, or (ii) the Company or a wholly owned subsidiary of the Company or an employee benefit plan (or related trust) of the Company or of a wholly owned subsidiary.

An "Executive Related Party" means any affiliate or associate of Executive other than the Company or a subsidiary of the Company. The terms "affiliate" and "associate" have the meanings given in Rule 12b-2 under the Exchange Act; the term "registrant" in the definition of "associate" means, in this case, the Company.

6. Effect of Termination. The provisions of this Section 6 shall apply to termination of employment pursuant to Section 5 or otherwise.

a. Payment by the Company in accordance with the applicable termination provision of Section 5, if any, shall constitute the entire obligation of the Company to Executive. Executive shall promptly give the Company notice of all facts necessary for the Company to determine the amount and duration of its obligations in connection with any termination pursuant to Section 5.d, 5.e or 5.g hereof.

b. Except for medical and dental plan coverage continued pursuant to Section 5.d, 5.e or 5.g hereof, benefits shall terminate pursuant to the terms of the applicable benefit plans based on the date of termination of Executive's employment without regard to any payments to Executive following such date of termination.

c. Provisions of this Agreement shall survive expiration of the Employment Term and any termination hereunder if so provided herein or if necessary or desirable to accomplish the purposes of other surviving provisions, including without limitation the obligations of Executive under Sections 7, 8 and 9 hereof. The obligation of the Company to make payments to or on behalf of Executive under Section 5.d, 5.e or 5.g hereof is expressly conditioned upon Executive's continued full performance of obligations under Sections 7, 8 and 9 hereof. Executive recognizes that, except as expressly provided in Section 5.d, 5.e or 5.g no compensation is earned after termination of employment.

7. Confidential Information.

a. Executive acknowledges that the Company and its Affiliates continually develop Confidential Information, that Executive may in the future develop Confidential Information for the Company or its Affiliates and that Executive has in the past and may in the future learn of Confidential Information during the course of employment. Executive will comply with the policies and procedures of the Company and its Affiliates for protecting Confidential Information and shall not use or disclose to any Person (except as required by applicable law or for the proper performance of his duties and responsibilities to the Company and its Affiliates hereunder) any Confidential Information obtained by Executive incident to his employment or other association with the Company or any of its Affiliates. Executive understands that this restriction shall continue to apply after his employment terminates, regardless of the reason for such termination.

b. All documents, records, tapes and other media of every kind and description relating to the business, present or otherwise, of the Company or its Affiliates and any copies, in whole or in part, thereof (the "Documents"), whether or not prepared by Executive, shall be the sole and exclusive property of the Company and its Affiliates. Executive shall safeguard all Documents and shall surrender to the Company at the time his employment terminates, or at such earlier time or times as the Board or its designee may specify, all Documents then in Executive's possession or control.

8. Assignment of Rights to Intellectual Property.

a. Executive shall promptly and fully disclose all Intellectual Property to the Company. Executive hereby assigns and agrees to assign to the Company (or as otherwise directed by the Company) Executive's full right, title and interest in and to all Intellectual Property. Executive agrees to execute any and all applications for domestic and foreign patents, copyrights or other proprietary rights and to do such other acts (including without limitation the execution and delivery of instruments of further assurance or confirmation) requested by the Company to assign the Intellectual Property to the Company and to permit the Company to enforce any patents, copyrights or other proprietary rights to the Intellectual Property. Executive will not charge the Company for time spent in complying with these obligations. All copyrightable works that Executive creates shall be considered "work made for hire."

b. For purposes of this Agreement, "Intellectual Property" means inventions, discoveries, developments, methods, processes, compositions, works, concepts and ideas (whether or not patentable or copyrightable or constituting trade secrets) conceived, made, created, developed or reduced to practice by Executive (whether alone or with others, whether or not during normal business hours or on or off Company premises) during Executive's employment; provided, however, that the Company shall have no rights to any invention for which no equipment, supplies, facilities or trade secret information of the Company was used and which was developed entirely on Executive's own time, unless (a) the invention relates (i) directly to the business of the Company or (ii) to the Company's actual or demonstrably anticipated research or development; or (b) the invention results from any work performed by Executive for the Company.

9. Restricted Activities. Executive agrees that some restrictions on his activities during and after his employment are necessary to protect the goodwill, Confidential Information and other legitimate interests of the Company and its Affiliates:

a. While Executive is employed by the Company and for the eighteen (18) month period immediately following termination of his employment with the Company (the "Non-Competition Period"), Executive shall not, directly or indirectly, whether as owner, partner, investor, consultant, agent, employee, co-venturer or otherwise, compete with the Company anywhere worldwide. Specifically, but without limiting the foregoing, Executive agrees not to engage in any manner of any activity that is directly or indirectly competitive or potentially competitive with the business of the Company as conducted at any time during Executive's employment. For the purposes of this Section 9, the business of the Company shall include all Products and Executive's undertaking shall encompass all items, products and services that may be used in substitution for Products. The foregoing, however, shall not prevent Executive's passive ownership of two percent (2%) or less of the equity securities of any publicly traded company.

b. Executive agrees that, during his employment with the Company, in addition to complying with the limitations of Section 3.c., he will not undertake any outside activity, whether or not competitive with the business of the Company or its Affiliates, that could reasonably give rise to a conflict of interest or otherwise interfere with his duties and obligations to the Company or any of its Affiliates and that would not otherwise be prohibited under Section 3.c.

c. Executive further agrees that while he is employed by the Company and for twelve (12) months following termination of his employment (the "Non-Solicitation Period"), Executive will not solicit any employee of the Company or encourage any customer or vendor of the

Company to terminate or diminish its relationship with the Company, or, in the case of a customer, to conduct with any Person any business or activity which such customer conducts with the Company. It shall not be a violation of this Agreement for Executive to hire, interview, recruit or otherwise discuss employment or other business relationship with any employee of the Company that (i) has been given notice of involuntary termination by the Company, or (ii) response to a general advertisement or otherwise initiates contact with Executive for purposes of seeking employment or other business relationship. For purposes of this Agreement, an employee or customer of the Company is any Person who was a current employee or customer of the Company at the time Executive's employment with the Company ended.

For purposes of this Section 9, "Company" shall include Affiliates of the Company with which Executive has had involvement in the course of his employment or about which Affiliate or Affiliate's activities he has acquired or received any Confidential Information until a Change of Control has occurred, after such time Company shall not be broadened to include any new Affiliates.

10. Notification Requirement. Until the conclusion of the Non- Competition Period, Executive shall give notice to the Company of each new business activity he plans to undertake that could reasonably be construed to potentially violate Section 7, 8 or 9 above, at least ten (10) business days prior to beginning any such activity. Such notice shall state the name and address of the Person for whom such activity is undertaken and the nature of Executive's business relationship(s) and position(s) with such Person. Executive shall provide the Company with such other pertinent information concerning such business activity as the Company may reasonably request in order to determine Executive's continued compliance with his obligations under Sections 7, 8 and 9 hereof.

11. Enforcement of Covenants. Executive acknowledges that he has carefully read and considered all the terms and conditions of this Agreement, including the restraints imposed upon him pursuant to Sections 7, 8 and 9 hereof. Executive agrees that said restraints are necessary for the reasonable and proper protection of the Company and its Affiliates (as defined in Section 9) and that each and every one of the restraints is reasonable in respect to subject matter, length of time and geographic area. Executive further acknowledges that, were he to breach any of the covenants contained in Sections 7, 8 and 9 hereof, the damage to the Company would be irreparable. Executive therefore agrees that the Company, in addition to any other remedies available to it, shall be entitled to preliminary relief against any breach or threatened breach by Executive of any of said covenants, without having to post bond. The parties further agree that, in the event that any provision of Sections 7, 8 or 9 hereof shall be determined by any court of competent jurisdiction to be unenforceable by reason of its being extended over too great a time, too large a geographic area or too great a range of activities, such provision shall be deemed to be modified to permit its enforcement to the maximum extent permitted by law.

12. Conflicting Agreements. Executive hereby represents and warrants that the execution of this Agreement and the performance of his obligations hereunder will not breach or be in conflict with any other agreement to which Executive is a party or is bound and that Executive is not now subject to any covenants against competition or similar covenants or any court order or other obligation that would affect the performance of his obligations hereunder. Executive will not disclose to or use on behalf of the Company any proprietary information of a third party without such party's consent.

13. Arbitration.

a. Any dispute, controversy or claim between the parties arising out of this Agreement shall be settled by arbitration conducted in Seattle, Washington in accordance with the rules and procedures of JAMS for the resolution of employment disputes (the "Rules") and the laws of the State of Washington.

b. In the event that a party requests arbitration (the "Requesting Party"), it shall serve upon the other party (the "Non-Requesting Party") within ninety (90) days of the date the Requesting Party knew, or reasonably should have known, of the facts on which the controversy, dispute or claim is based, a written demand for arbitration stating the substance of the controversy, dispute or claim and the contention of the Requesting Party. An arbitrator shall be selected in accordance with the Rules, with the Requesting Party initiating that process within thirty (30) days of the date it serves demand for arbitration on the Non-Requesting Party (or such longer period to which the parties shall agree in writing.).

c. The function of the arbitrator shall be to determine the interpretation and application of the specific provisions of this Agreement to the issues submitted to arbitration. There shall be no right in arbitration to obtain, and no arbitrator shall have any authority to award or determine, any change in, addition to, or detract from, any of the provisions of this Agreement. The decision of the arbitrator shall be in writing, shall set forth the basis for the

decision and shall be rendered within thirty (30) business days following the hearing. The decision of the arbitrator acting within the scope of his/her authority shall be final and binding upon the parties and may be enforced and executed upon in any court having jurisdiction over the party against whom enforcement of such decision is sought.

d. The parties involved in the dispute shall divide equally the administrative charges, arbitrator's fees and related expenses of the arbitration, but each party shall pay its own legal fees and expenses incurred in connection with such arbitration.

e. Nothing contained herein, however, shall limit the right of the Company to seek equitable or other relief from any court of competent jurisdiction for violation of Section 7, 8 or 9 of this Agreement.

14. Definitions. Words or phrases which are initially capitalized or are within quotation marks shall have the meanings provided in this Section 14 and as provided elsewhere in this Agreement. For purposes of this Agreement, the following definitions apply:

a. "Affiliates" means any parent and subsidiaries of the Company and any entities directly or indirectly controlling, controlled by or under common control with the Company, where control may be by either management authority or equity interest.

b. "Code" means the U.S. Internal Revenue Code of 1986, as amended.

c. "Confidential Information" means any and all information of the Company and its Affiliates that is not generally known by others with whom they compete or do business, or with whom they plan to compete or do business. Confidential Information includes without limitation such information relating to (i) the development, research, testing, manufacturing, marketing and financial activities of the Company and its Affiliates, (ii) the Products, (iii) the costs, sources of supply, financial performance and strategic plans of the Company and its Affiliates, (iv) the identity and special needs of the customers of the Company and its Affiliates and (v) the people and organizations with whom the Company and its Affiliates have business relationships and those relationships. Confidential Information also includes information that the Company or any of its Affiliates have received belonging to others with any understanding, express or implied, that it would not be disclosed. Confidential Information does not include information which is in the public domain without fault by Executive or any third party.

d. Exclusive of Section iii of this Agreement, "Person" means an individual, a corporation, an association, a partnership, an estate, a trust and any other entity or organization, other than the Company or any of its Affiliates.

e. "Products" mean all products planned, researched, developed, tested, manufactured, sold, licensed, leased or otherwise distributed or put into use by the Company, or prior to a change of Control, of its Affiliates with which Affiliate or Affiliate's activities Executive has had involvement in the course of his employment or about which he has acquired or received any Confidential Information, together with all services provided or planned by the Company, or prior to a change of Control, of its Affiliates with which Executive has had involvement in the course of his employment or about which Affiliate or Affiliate's activities he has acquired or received any Confidential Information, during Executive's employment.

f. References to termination of employment, retirement, separation from service and similar or correlative terms mean a "separation from service" (as defined at Section 1.409A-1(h) of the Treasury Regulations) from the Company and from all other corporations and trades or businesses, if any, that would be treated as a single "service recipient" with the Company under Section 1.409A-1(h)(3) of the Treasury Regulations.

g. "Specified employee" means an individual who is determined by the Company to be a specified employee as defined in subsection (a)(2)(B) (i) of Section 409A of the Code. The Company may, but need not, elect in writing, subject to the applicable limitations under Section 409A of the Code, any of the special elective rules prescribed in Section 1.409A-1(i) of the Treasury Regulations for purposes of determining "specified employee" status. Any such written election shall be deemed part of this Agreement.

15. Withholding. All payments made by the Company under this Agreement shall be reduced by any tax or other amounts required to be withheld by the Company under applicable law.

16. Assignment. Neither the Company nor Executive may make any assignment of this Agreement or any interest herein, by operation of law or otherwise, without the prior written consent of the other; provided, however, that the Company may assign its rights and obligations under this Agreement without the consent of Executive to one of its Affiliates or to a Person with whom the Company shall hereafter effect a reorganization, consolidation or merger or to whom the Company transfers all or substantially all of its business or assets. This Agreement shall inure to the benefit of and be binding upon the Company and Executive, their respective successors, executors, administrators, heirs and permitted assigns.

17. Severability. If any portion or provision of this Agreement shall to any extent be declared illegal or unenforceable by a court of competent jurisdiction, then the remainder of this Agreement; or the application of such portion or provision in circumstances other than those as to which it is so declared illegal or unenforceable, shall not be affected thereby, and each portion and provision of this Agreement shall be valid and enforceable to the fullest extent permitted by law.

18. Waiver. No waiver of any provision hereof shall be effective unless made in writing and signed by the waiving party. The failure of either party to require the performance of any term or obligation of this Agreement, or the waiver by either party of any breach of this Agreement, shall not prevent any subsequent enforcement of such term or obligation or be deemed a waiver of any subsequent breach.

19. Notices. Any and all notices, requests, demands and other communications provided for by this Agreement shall be in writing and shall be effective when delivered in person, consigned to a national overnight courier service or deposited in the United States mail, postage prepaid, and addressed to Executive at his last known address on the books of the Company or, in the case of the Company, at its principal place of business, attention of the Chairman of the Board, or to such other address as either party may specify by notice to the other actually received.

20. Entire Agreement. As of the effective date, this Agreement constitutes the entire agreement between the parties and supersedes all prior communications, agreements and understandings, written or oral, with respect to the terms and conditions of Executive's employment.

21. Amendment. This Agreement may be amended or modified only by a written instrument signed by Executive and by a expressly authorized representative of the Company.

22. Headings. The headings and captions in this Agreement are for convenience only and in no way define or describe the scope or content of any provision of this Agreement.

23. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be an original and all of which together shall constitute one and the same instrument.

24. Governing Law. This Agreement shall be construed and enforced under, and be governed in all respects by, the laws of the State of Washington, without regard to the conflict of laws principles thereof; provided, however, that in the event the Company relocates its principal place of business and Executive's principal place of work to another state, the laws of that state shall apply without regard to the conflict of laws principles thereof.

IN WITNESS WHEREOF, this Agreement has been executed as a sealed instrument by Executive and by the Company, by its duly authorized representative, as of the date first above written.

THE EXECUTIVE:

/s/ Alexander Tokman

THE COMPANY:

/s/ Jeff Wilson

Chief Financial Officer

Exhibit A

Long-Term Incentive Award Objectives

The purpose of this Exhibit A is to set out the mutual understanding of the Company and Executive as to the objectives underlying Stock Awards to be granted to Executive during the Term pursuant to Section 4.c. of the Agreement. This Exhibit A is not intended, nor shall it be construed, as a requirement that any specific Stock Awards be granted or as a guarantee that the objectives set out below, or any of them, will be met.

The parties agree that it is in their mutual interest that Executive acquire and maintain, by the end of the Employment Term, equity ownership in the Company represented by (i) the actual ownership of shares, whether or not vested, and/or (ii) share units, whether or not vested, entitling or conditionally entitling Executive to the future delivery of shares (but not including, for the avoidance of doubt, unexercised stock options or stock appreciation rights), at a level commensurate with Executive's position as Chief Executive Officer of the Company as reasonably determined by the Board or a committee thereof (the "share ownership objective"). The Board or a committee thereof shall give due consideration to the share ownership objective in determining the nature, amount and terms of Stock Awards to be granted to Executive pursuant to Section 4.c. of the Agreement.

In determining the nature, amount and terms of Stock Awards to be granted to Executive, the Board or a committee thereof shall also give due consideration to the objectives of (i) promoting shareholder value by conditioning vesting and/or the delivery of shares on achievement by the Company of key performance milestones; (ii) enabling Executive to share in any appreciation in the value of the Company's equity; and (iii) enabling Executive to capture any recognized gain in a manner that as closely as possible harmonizes Executive's interests with those of the Company.

EXHIBIT B

RELEASE OF CLAIMS

FOR AND IN CONSIDERATION OF the benefits to be provided me in connection with the termination of my employment, as set forth in the agreement between me and MICROVISION, INC. (the "Company") dated as of July 18, 2005 (the "Agreement"), which are conditioned on my signing this Release of Claims and to which I am not otherwise entitled, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, I, on my own behalf and on behalf of my heirs, executives, administrators, beneficiaries, representatives and assigns, and all others connected with me, hereby release and forever discharge the Company, its subsidiaries and other affiliates and all of their respective past, present and future officers, directors, trustees, shareholders, employees, agents, general and limited partners, members, managers, joint venturers, representatives, successors and assigns, and all others connected with any of them, both individually and in their official capacities, from any and all causes of action, rights and claims of any type or description, known or unknown, which I have had in the past, now have, or might now have, through the date of my signing of this Release of Claims, in any way resulting from, arising out of or connected with my employment by the Company or any of its subsidiaries or other affiliates or the termination of that employment or pursuant to any federal, state or local law, regulation or other requirement (including without limitation Washington Law Against Discrimination (RCW 49.60), the Washington Prohibited Employment Practices Law (RCW 49.44), the Washington Minimum Wage Act (RCW 49.46), Washington's Little Norris-LaGuardia Act (RCW 49.32), the Civil Rights Act of 1964 (including Title VII of that Act), the Equal Pay Act of 1963, the Age Discrimination in Employment Act of 1967 (ADEA), the Americans with Disabilities Act of 1990 (ADA), the Fair Labor Standards Act of 1938 (FLSA), the Family and Medical Leave Act of 1993 (FMLA), the Worker Adjustment and Retraining Notification Act (WARN), the Employee Retirement Income Security Act of 1974 (ERISA), the National Labor Relations Act (NLRA), and the fair employment practices laws of the state or states in which I have been employed by the Company or any of the subsidiaries or other affiliates, each as amended from time to time).

Excluded from the scope of this Release of Claims is (i) the Final Payment (as defined in the Agreement) owed to Executive pursuant to the Agreement; (ii) any claim arising under the terms of the Agreement after the effective date of this Release of Claim, (iii) any right of indemnification or contribution that I have pursuant to the Articles of Incorporation or By-Laws of the Company or any of its subsidiaries or other affiliates and (iv) any non-forfeitable rights to accrued benefits, if any, arising under any applicable employee benefit plans.

In signing this Release of Claims, I acknowledge my understanding that I may not sign it prior to the termination of my employment, but that I may consider the terms of this Release of Claims for up to twenty-one (21) days (or such longer period as the Company may specify) from the later of the date my employment with the Company terminates or the date I receive this Release of Claims. I also acknowledge that I am advised by the Company and its subsidiaries and other affiliates to seek the advice of an attorney prior to signing this Release of Claims; that I have had sufficient time to consider this Release of Claims and to consult with an attorney, if I wished to do so, or to consult with any other person of my choosing before signing; and that I am signing this Release of Claims voluntarily and with a full understanding of its terms.

I further acknowledge that, in signing this Release of Claims, I have not relied on any promises or representations, express or implied, that are not set forth expressly in the Agreement. I understand that I may revoke this Release of Claims at any time within seven (7) days of the date of my signing by written notice to the **[Director, Human Resources]** of the Company and that this Release of Claims will take effect only upon the expiration of such seven-day revocation period and only if I have not timely revoked it.

Intending to be legally bound, I have signed this Release of Claims under seal as of the date written below.

Signature: _____

Name (please print): _____

Date Signed: _____