

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934.
For the quarterly period ended June 30, 2000

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)

<TABLE>

<S>	WASHINGTON	<C>	91-1600822
(State or Other Jurisdiction of Incorporation or organization)		(I.R.S. Employer Identification No.)	

</TABLE>

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

Issuer's telephone number, including area code: (425) 415-6847

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

As of July 24, 2000, 11,827,443 shares of the Company's common stock, no par value, were outstanding.

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PART I
FINANCIAL INFORMATION

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MICROVISION, INC.

CONSOLIDATED BALANCE SHEET

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	JUNE 30,	DECEMBER
	2000	1999
	----	----
	(unaudited)	
	<C>	<C>
31,		
<S>		
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 13,277,200	\$
2,798,000		
Investment securities available-for-sale	41,116,900	
29,369,400		
Accounts receivable, net of allowances of \$78,000 and \$60,000	886,800	
1,024,500		
Costs and estimated earnings in excess of billings on uncompleted contracts	860,000	
2,000,400		
Current restricted investments	3,375,000	
650,000		
Other current assets	1,790,000	
847,700		

Total current assets	61,305,900	
36,690,000		
Long-term investment, at cost	623,600	
623,600		
Property and equipment, net	3,798,300	
3,054,700		
Restricted investments	951,000	
1,100,000		
Other assets	101,400	
150,700		

Total assets	\$ 66,780,200	\$
41,619,000		
=====		
LIABILITIES, MANDATORILY REDEEMABLE CONVERTIBLE PREFERRED STOCK AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 820,500	\$
1,453,100		
Accrued liabilities	2,286,300	
2,000,100		
Billings in excess of costs and estimated earnings on uncompleted contracts	177,000	
167,000		
Current portion of capital lease obligations	326,600	
220,800		
Current portion of long-term debt	49,300	
46,900		

Total current liabilities	3,659,700	
3,887,900		
Capital lease obligations, net of current portion	293,000	
279,400		
Long-term debt, net of current portion	316,200	
341,500		
Deferred rent, net of current portion	233,900	
214,800		

Total liabilities	4,502,800	
4,723,600		

Commitments and contingencies		-	
-			
Mandatorily redeemable convertible preferred stock, no par value, 1,600 shares authorized; 0 and 1,600 issued and outstanding		-	
1,536,000			

Shareholders' Equity			
Common stock, no par value, 31,250,000 shares authorized; 11,785,568 and 10,140,733 shares issued and outstanding		115,954,100	
75,518,300			
Deferred compensation		(1,415,500)	
(213,100)			
Subscriptions receivable from related parties		(689,200)	
(349,100)			
Accumulated other comprehensive loss		(30,300)	
(60,600)			
Accumulated deficit		(51,541,700)	
(39,536,100)			

Total shareholders' equity		62,277,400	
35,359,400			

Liabilities, mandatorily redeemable convertible preferred stock and shareholders' equity		\$ 66,780,200	\$
41,619,000			
=====			

</TABLE>

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

MICROVISION, INC.

CONSOLIDATED STATEMENT OF OPERATIONS

<TABLE>
<CAPTION>

JUNE 30,	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED
	2000	1999	2000

1999	----	----	----

(unaudited)	(unaudited)		
<S>	<C>	<C>	<C>
<C>			
Contract revenue	\$ 1,176,000	\$ 1,392,900	\$ 3,285,500
\$ 3,694,500			
Cost of revenue	883,900	1,539,500	2,351,400
3,249,100			

Gross margin	292,100	(146,600)	934,100
445,400			

Research and development expense	4,524,900	2,590,900	8,124,300
3,472,700			
Marketing, general and administrative expense	3,512,100	2,513,700	6,003,000
4,235,400			

Total operating expenses	8,037,000	5,104,600	14,127,300
7,708,100			

Loss from operations (7,262,700)	(7,744,900)	(5,251,200)	(13,193,200)	
Interest income 188,900	843,800	142,500	1,295,700	
Interest expense (106,900)	(31,300)	(70,000)	(108,100)	
-----	-----	-----	-----	
Net loss (7,180,700)	(6,932,400)	(5,178,700)	(12,005,600)	
Less: Preferred dividend (73,400)	-	(73,400)	-	
Noncash beneficial conversion feature of Series B Preferred Stock (1,148,000)	-	-	-	
-----	-----	-----	-----	
Net loss available for common shareholders (8,402,100)	\$ (6,932,400)	\$ (5,252,100)	\$ (12,005,600)	\$
=====	=====	=====	=====	
Net loss per share available for common shareholders - basic and diluted (1.27)	\$ (0.60)	\$ (0.74)	\$ (1.09)	\$
=====	=====	=====	=====	
Weighted-average shares outstanding - basic and diluted 6,596,400	11,530,800	7,073,800	11,000,000	
=====	=====	=====	=====	

</TABLE>

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

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MICROVISION, INC.

CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

<TABLE>
<CAPTION>

30, --- 1999 ----	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE	
	2000	1999	2000	
	(unaudited)		(unaudited)	
<S> Net loss (7,180,700)	<C> \$ (6,932,400)	<C> \$ (5,178,700)	<C> \$ (12,005,600)	<C> \$
Other comprehensive income - Unrealized gain on investment securities available-for-sale 28,300	33,300	21,300	30,300	
-----	-----	-----	-----	-----
Comprehensive loss (7,152,400)	\$ (6,899,100)	\$ (5,157,400)	\$ (11,975,300)	\$
=====	=====	=====	=====	

</TABLE>

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

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MICROVISION, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

<TABLE>
<CAPTION>

	SIX MONTHS ENDED JUNE 30,	
	2000	1999
	----- (unaudited) -----	
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (12,005,600)	\$
(7,180,700)		
Adjustments to reconcile net loss to net cash used in operations		
Depreciation	515,800	
277,100		
Noncash expenses related to issuance of stock, warrants, options and amortization of deferred compensation	669,600	
126,900		
Noncash deferred rent	19,100	
-		
Changes in:		
Accounts receivable	137,700	
89,100		
Costs and estimated earnings in excess of billings on uncompleted contracts	1,140,400	
(528,900)		
Current restricted investments	(2,725,000)	
(1,950,000)		
Other current assets	(942,300)	
(158,000)		
Restricted investments	149,000	
(1,100,000)		
Other assets	49,300	
11,400		
Accounts payable	(632,600)	
170,300		
Accrued liabilities	663,200	
1,319,500		
Reserve for project costs	-	
457,000		
Billings in excess of costs and estimated earnings on uncompleted contracts	10,000	
(505,300)		

Net cash used in operating activities	(12,951,400)	
(8,971,600)		

CASH FLOWS FROM INVESTING ACTIVITIES		
Sales of investment securities	40,560,000	
21,144,100		
Purchases of investment securities	(52,277,200)	
(23,393,100)		
Purchases of property and equipment	(1,013,900)	
(1,453,700)		

Net cash used in investing activities	(12,731,100)	
(3,702,700)		

CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments under capital leases	(126,100)	
(66,600)		
Principal payments under long-term debt	(22,900)	
(9,800)		
Increase in long term-debt	-	
420,000		
Payment of preferred dividend	-	
(73,400)		
Payments received on subscriptions receivable	56,500	
-		
Net proceeds from issuance of common stock	36,254,200	
13,231,300		
Net proceeds from issuance of preferred stock	-	

4,770,000		

Net cash provided by financing activities	36,161,700	
18,271,500		

Net increase in cash and cash equivalents	10,479,200	
5,597,200		
Cash and cash equivalents at beginning of period	2,798,000	
2,269,000		

Cash and cash equivalents at end of period	\$ 13,277,200	\$
7,866,200		
=====		

</TABLE>

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

MICROVISION, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

<TABLE>
<CAPTION>

	SIX MONTHS ENDED JUNE 30,	

	2000	1999
	----	----
	(unaudited)	

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

<S>	<C>	<C>
Cash paid for interest	\$ 108,100	\$
106,900		
=====		

<CAPTION>

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES

<S>	<C>	<C>
Property and equipment acquired under capital leases	\$ 245,500	\$
75,000		
=====		
Beneficial conversion feature of Series B Preferred Stock	\$ -	\$
1,148,000		
=====		
Conversion of preferred stock to common stock	\$ 1,536,000	\$
4,334,000		
=====		
Payment for exclusive license agreement by issuance of common stock	\$ 377,000	\$
-		
=====		
Exercise of stock options for subscriptions receivable	\$ 396,600	\$
167,600		
=====		
Deferred compensation - stock grants, warrants and options	\$ 1,872,000	\$
247,300		
=====		

Unrealized gain in investment securities available-for-sale 28,300	\$ 30,300	\$
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</TABLE>

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

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MICROVISION, INC.
Notes to Consolidated Financial Statements
June 30, 2000

Management's Statement

The Consolidated Balance Sheet as of June 30, 2000, the Consolidated Statements of Operations and Comprehensive Loss for the three and six months ended June 30, 2000, and June 30, 1999, and the Consolidated Statement of Cash Flows for the six months ended June 30, 2000 and June 30, 1999 have been prepared by Microvision, Inc. (the Company) and have not been audited. In the opinion of management, all adjustments necessary to present fairly the financial position, results of operations and cash flows at June 30, 2000 and all periods presented, have been made. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. 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, 1999. The results of operations for the three and the six month periods ended June 30, 2000 are not necessarily indicative of the operating results that may be attained for the entire fiscal year.

Principles of Consolidation

The consolidated financial statements include the accounts of Microvision, Inc. and Lumera Corporation, its majority owned subsidiary. Lumera Corporation is engaged in the research and development of technologies related to non-display applications. All material intercompany accounts and transactions have been eliminated in consolidation.

Net Loss Per Share

Basic net loss per share is calculated on the basis of the weighted-average number of common shares outstanding during the periods. Net loss per share assuming dilution is calculated on the basis of the weighted-average number of common shares outstanding and the dilutive effect of all potential common stock equivalents and convertible securities. Net loss per share assuming dilution for the periods ended June 30, 2000 and June 30, 1999 is equal to basic net loss per share since the effect of potential common stock equivalents outstanding during the periods, including convertible preferred stock, options and warrants computed using the treasury stock method, is anti-dilutive.

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The components of basic and diluted earnings per share were as follows:

<TABLE>
<CAPTION>

	THREE MONTHS ENDED JUNE 30,		SIX MONTH ENDED JUNE 30,	
	2000	1999	2000	1999
<S>	<C>	<C>	<C>	<C>
Numerator:				
Net loss available for common shareholders	\$ (6,932,400)	\$ (5,252,100)	\$ (12,005,600)	\$ (8,402,100)
	=====	=====	=====	=====
Denominator:				
Basic and diluted weighted-average common shares outstanding	11,530,800	7,073,800	11,000,000	6,596,400
	=====	=====	=====	=====
Basic and diluted net loss per share	\$ (.60)	\$ (.74)	\$ (1.09)	\$ (1.27)
	=====	=====	=====	=====

</TABLE>

As of June 30, 2000 the Company had outstanding options and warrants to purchase 3,373,000 shares of common stock.

Shareholders' Equity

In March 2000, the Company redeemed 1,600 shares of Series B-2 mandatorily redeemable convertible preferred stock and issued 100,000 shares of common stock to the holder thereof.

In April 2000, the Company raised \$25.0 million from the issuance of 500,000 shares of common stock to Cree, Inc. and General Electric Pension Trust. At the same time, the Company entered into a two year, \$10.0 million extension of an agreement with Cree, Inc. to continue development of semiconductor light-emitting diodes and laser diodes for application with the Company's proposed display and imaging products. The Company must pay \$4.5 million during the first year of the extension in four equal quarterly payments, the first of which was made when the extension was signed. The Company has pledged investments of \$3.4 million as security for a letter of credit, which will be used to fund the remaining payments under the first year of the extension. During the second year of the extension, the Company is required to pay the remaining \$5.5 million in four equal quarterly payments.

In April 2000, the Company raised \$7.5 million from the exercise by a private investor of a warrant to purchase 418,848 shares of common stock at a price of \$17.91 per share.

In June 2000, the Company raised \$1.9 million from the exercise by a private investor who is also a director, of an option to purchase 100,000 shares of common stock at a price of \$19.20 per share.

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

Forward-Looking Statements

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

Overview

The Company began operations in May 1993 to develop and commercialize technology for displaying images and information onto the retina of the eye. Retinal scanning display technology creates a high resolution, full motion image by scanning a low power beam of colored light to "paint" rows of pixels on the viewer's eye. In certain applications, the image appears in the viewer's field of vision as if the viewer were only an arm's length away from a high quality video screen. The retinal scanning display technology can also be used to superimpose an image on the viewer's field of vision, enabling the viewer to see data or images in the context of his or her natural surroundings. In each case, a high resolution, bright image is created.

In 1993, the Company acquired an exclusive license to the Virtual Retinal Display, a specific type of retinal scanning display, from the University of Washington and entered into a research agreement with the University of Washington to further develop the Virtual Retinal Display technology. Since completing its initial public offering in August 1996, the Company has established and equipped in-house laboratories and transferred the research and development relating to the Virtual Retinal Display from the University of Washington to its in-house laboratories. The Company has continued to develop the Virtual Retinal Display technology as part of its broader research and development efforts relating to the retinal scanning display technology.

The Company currently has several prototype versions of the retinal scanning displays, including monochromatic and color portable units and a full color benchtop model. The Company expects to continue funding prototype and demonstration versions of products incorporating its technology through at least the end of this year.

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In conjunction with developing the retinal scanning display technology, the

Company is developing components that can be integrated into different product offerings. The Company has defined the following key product offerings for further development:

- High Performance - High fidelity displays for use in general simulation avionics, medical and entertainment applications
- Compact - Lightweight, see-through, wearable systems for hands free applications in the industrial, medical, and defense markets
- Microdisplay - Highly miniaturized display systems to be incorporated into OEM products including cellular telephones, personal digital assistants, and digital camcorders/cameras
- Image Capture - Systems to capture data such as bar code readers, scientific images and surgical cameras
- Projection - Fixed systems to replace desktop computer monitors or rear projector systems

In June 2000, the Company demonstrated its first miniature display utilizing three microminiature light emitting diode lamps to create a full-color high resolution video image.

During the six months ended June 30, 2000 the Company sold additional engineering prototype units of its first commercial retinal scanning display product. Sales of production version retinal scanning displays may not occur however, until substantially later, if at all.

Plan of Operation

The Company plans to introduce a production version of the retinal scanning display in 2001. To support the product introduction the Company has produced engineering prototypes of the commercial product. The Company has sold five of these units to customers for product testing and integration. Other units are being used by our sales and marketing groups to demonstrate the technology to future potential customers and to obtain customer feedback.

The Company also intends to continue entering into strategic relationships with systems integrators and equipment manufacturers to pursue the development of commercial products incorporating the retinal scanning display technology.

The Company also plans to continue to pursue, obtain and perform on development contracts. The Company expects that such contracts will further the development of the retinal scanning display technology and lead to commercial products. The Company also plans to invest funds for ongoing innovation and improvements to the retinal scanning display technology. These innovations and improvements include developing component technology, building additional prototypes, and designing components and products for manufacturability. The Company intends to continue hiring qualified sales, marketing, technical and other personnel and to continue investing in laboratory facilities and equipment to achieve development and production objectives.

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Results of Operations

THREE MONTHS ENDED JUNE 30, 2000 COMPARED TO
THREE MONTHS ENDED JUNE 30, 1999

CONTRACT REVENUE. The Company earns revenue from performance on development contracts and sales of engineering prototypes. Contract revenue in the three months ended June 30, 2000 decreased by \$217,000, or 16 %, to \$1.2 million from \$1.4 million in the same period in 1999. For the three months ended June 30, 2000, 93% of revenue was derived from performance on development contracts.

During the three months ended June 30, 2000, the Company completed work on its two largest development contracts. After completion of work on these contracts, the Company received a contract modification for \$7.8 million to perform additional work on both contracts. The beginning and end of a contract term are typically the low points of activity on a contract. The beginning of a contract term is normally used for planning and subcontractor selection. The end of a contract term is normally used for final demonstrations to the customer and report writing. This lower level of activity during the three months ended June 30, 2000 was the primary reason for the decline in revenue from the same period in 1999.

The backlog of development contracts at June 30, 2000 was \$6.9 million, all of which work is scheduled for completion during the next twelve months. The Company's customers include both the United States government and commercial enterprises.

COST OF REVENUE. Cost of revenue includes both the direct and indirect costs of performing on development contracts. Indirect costs include staff and related

support costs associated with building the Company's technical capabilities and capacity to perform on development contracts the Company expects to enter into in the future.

Cost of revenue in the three months ended June 30, 2000 decreased by \$656,000, or 43%, to \$884,000 from \$1.5 million in the same period in 1999. The decrease is attributable to lower direct cost and overhead cost allocation to cost of revenue in the three months ended June 30, 2000 than in the same period in 1999. The lower level of direct cost is attributable to the timing of the performance on development contracts as discussed above. Research and development overhead is allocated based on relative direct labor cost incurred in cost of revenue and research and development expense.

The Company expects that the cost of revenue, on an absolute basis, will increase in the future. This increase will likely result from additional development contract work that the Company expects to perform. As a percentage of contract revenue, the Company expects the cost of revenue to decline over time as the Company realizes economies of scale associated with higher levels of development contract business.

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RESEARCH AND DEVELOPMENT EXPENSE. Research and development expense consists of:

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

Included in research and development expenses are costs incurred in acquiring and maintaining licenses of technology from other companies. The Company has charged all research and development costs to cost of revenue or research and development expense.

Research and development expense in the three months ended June 30, 2000 increased by \$1.9 million, or 75%, to \$4.5 million from \$2.6 million in the same period in 1999. The increase reflects continued implementation of the Company's operating plan, which calls for building technical staff and supporting activities, establishing and equipping in-house laboratories, and developing and maintaining intellectual property.

In April 2000, the Company entered into a \$10.0 million extension of an agreement with Cree, Inc. to continue development of semiconductor light emitting diodes and laser diodes. The Company is required to pay \$4.5 million during the first year of the extension in four equal quarterly payments, the first of which was made when the extension was signed. The Company has pledged investments of \$3.4 million as security for a letter of credit, which will be used to fund the remaining payments under the first year of the extension. During the second year of the extension, the Company is required to pay the remaining \$5.5 million in four equal quarterly payments.

The Company believes that a substantial level of continuing research and development expense will be required to develop commercial products using the retinal scanning display technology. Accordingly, the Company anticipates that a high level of research and development spending will continue. These expenses will be incurred as a result of:

- Hiring additional technical and support personnel,
- Expanding and equipping in-house laboratories,
- Acquiring rights to additional technologies,
- Subcontracting work to development partners, and
- Other operating expenses.

The Company expects that the rate of spending on research and product development will continue to grow in future quarters as we:

- Prepare for the expected introduction of the Company's first commercial product in mid 2001,
- Accelerate development of microdisplays to meet emerging market opportunities,
- Expand the Company's investment in bar code reader development,
- Continue development of the Company's retinal scanning display technology, and
- Pursue other potential business opportunities.

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MARKETING, GENERAL AND ADMINISTRATIVE EXPENSE. Marketing, general and

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

Marketing, general and administrative expenses in the three months ended June 30, 2000 increased by \$1.0 million, or 40%, to \$3.5 million from \$2.5 million in the same period in 1999. The increase includes increased compensation and support costs for employees and contractors. The Company expects marketing, general and administrative expenses to increase substantially in future periods as the Company:

- Adds to its sales and marketing staff,
- Makes additional investments in sales and marketing activities, and
- Increases the level of corporate and administrative activity.

INTEREST INCOME AND EXPENSE. Interest income in the three months ended June 30, 2000 increased by \$701,000, or 492%, to \$844,000 from \$143,000 in the same period in 1999. This increase resulted primarily from higher average cash and investment securities balances in the three months ended June 30, 2000 than the average cash and investment securities balances in the same period of the prior year.

Interest expense in the three months ended June 30, 2000 decreased by \$39,000, or 55%, to \$31,000 from \$70,000 in the same period in 1999. The decrease resulted from a decrease in interest paid on the non-recourse receivables assignment facility, which expired in September 1999.

SIX MONTHS ENDED JUNE 30, 2000 COMPARED TO
SIX MONTHS ENDED JUNE 30, 1999

CONTRACT REVENUE. The Company earns revenue from performance on development contracts and sales of engineering prototypes. Contract revenue in the six months ended June 30, 2000 decreased by \$409,000, or 11%, to \$3.3 million from \$3.7 million in the same period in 1999. For the six months ended June 30, 2000, 88 % of revenue was derived from performance on development contracts.

During the six months ended June 30, 2000, the Company completed work on its two largest development contracts. After completion of work on these contracts, the Company received a contract modification for \$7.8 million to perform additional work on both contracts. The

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beginning and end of a contract term are typically the low points of activity on a contract. The beginning of a contract term is normally used for planning and subcontractor selection. The end of a contract term is normally used for final demonstrations to the customer and report writing. This lower level of activity during the six months ended June 30, 2000 was the primary reason for the decline in revenue from the same period in 1999.

COST OF REVENUE. Cost of revenue includes both the direct and indirect costs of performing on development contracts. Indirect costs include staff and related support costs associated with building the Company's technical capabilities and capacity to perform on development contracts the Company expects to enter into in the future.

Cost of revenue in the six months ended June 30, 2000 decreased by \$898,000, or 28%, to \$2.4 million from \$3.2 million in the same period in 1999. The decrease is attributable to lower direct cost and research and development overhead cost allocation to cost of revenue in the six months ended June 30, 2000 than in the same period in 1999. The lower level of direct cost is attributable to the timing of the performance on development contracts discussed above. Research and development overhead is allocated based on relative direct labor cost incurred in cost of revenue and research and development expense.

RESEARCH AND DEVELOPMENT EXPENSE. Research and development expense consists of:

- Compensation related costs of employees and contractors engaged in internal research and product development activities,
- Laboratory operations, outside development and processing work,
- Fees and expenses related to patent applications, prosecution and protection, and
- Other operating expenses.

Included in research and development expenses are costs incurred in acquiring and maintaining licenses of technology from other companies. The Company has expensed all research and development costs.

Research and development expense in the six months ended June 30, 2000 increased by \$4.6 million, or 134%, to \$8.1 million from \$3.5 million in the same period

in 1999. The increase reflects continued implementation of the Company's operating plan, which calls for building technical staff and supporting activities, establishing and equipping in-house laboratories, and developing and maintaining intellectual property.

In April 2000, the Company entered into a \$10.0 million extension of an agreement with Cree, Inc. to continue development of semiconductor light emitting diodes and laser diodes. The Company is required to pay \$4.5 million during the first year of the extension in four equal quarterly payments, the first of which was made when the extension was signed. The Company has pledged investments of \$3.4 million as security for a letter of credit, which will be used to fund the remaining payments under the first year of the extension. During the second year of the extension, the Company is required to pay the remaining \$5.5 million in four equal quarterly payments.

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The Company believes that a substantial level of continuing research and development expense will be required to develop commercial products using the Retinal scanning display technology. Accordingly, the Company anticipates that a high level of research and development spending will continue. These expenses will be incurred as a result of:

- Hiring additional technical and support personnel,
- Expanding and equipping in-house laboratories,
- Acquiring rights to additional technologies, and
- Subcontracting development work to development partners.

The Company expects that the rate of spending on research and product development will continue to grow in future quarters as we:

- Prepare for the expected introduction of the Company's first commercial product in mid 2001,
- Accelerate development of microdisplays to meet emerging market opportunities,
- Expand the Company's investment in bar code reader development,
- Continue development of the Company's retinal scanning display technology, and
- Pursue other potential business opportunities.

MARKETING, GENERAL AND ADMINISTRATIVE EXPENSE. Marketing, general and administrative expenses include compensation and support costs for sales, marketing, management and administrative staff, and for other general and administrative costs, including legal and accounting, consultants, and other operating expenses.

Marketing, general and administrative expenses in the six months ended June 30, 2000 increased by \$1.8 million, or 42%, to \$6.0 million from \$4.2 million in the same period in 1999. The increase includes increased compensation and support costs for employees and contractors. The Company expects marketing, general and administrative expenses to increase substantially in future periods as the Company:

- Adds to its sales and marketing staff,
- Makes additional investments in sales and marketing activities, and
- Increases the level of corporate and administrative activity.

INTEREST INCOME AND EXPENSE. Interest income in the six months ended June 30, 2000 increased by \$1.1 million, or 586%, to \$1.3 million from \$189,000 in the same period in 1999. This increase resulted from higher average cash and investment securities balances in the six months ended June 30, 2000 than the average cash and investment securities balances in the same period of the prior year.

Interest expense in the six months ended June 30, 2000 increased by \$1,000, or 1%, to \$108,100 from \$107,000 in the same period in 1999. This increase resulted from interest related to new long-term debt incurred for leasehold improvements in the new facility and additional capital leases.

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Liquidity and Capital Resources

The Company has funded operations to date primarily through the sale of common stock, convertible preferred stock and, to a lesser extent, contract revenue. At June 30, 2000, the Company had \$54.4 million in cash, cash equivalents and investment securities balances.

Cash used in operating activities totaled \$13.0 million during the six months ended June 30, 2000 compared to \$9.0 million during the same period in 1999. Cash used in operating activities during the six months ended June 30, 2000 includes the additional use of restricted cash of \$2.7 which will be used to

fund future payments to Cree, Inc. under the research agreement discussed above. Cash used in operating activities for each period resulted primarily from the net loss for the period.

Cash used in investing activities totaled \$12.7 million during the six months ended June 30, 2000, compared to \$3.7 million during the same period of 1999. The increase in cash used in investing activities resulted primarily from investing the proceeds from financing activities during the same period. The Company balances the maturity dates of the investment portfolio to its expected cash requirements.

The Company used \$1.0 million for capital expenditures during the six months ended June 30, 2000 compared to \$1.5 million during the same period in 1999. Historically, capital expenditures have been used to make leasehold improvements to leased office space and to purchase computer hardware and software, laboratory equipment and furniture and fixtures to support growth. The Company expects capital expenditures to continue to increase significantly as the Company continues to expand operations. As of June 30, 2000 the Company had commitments to purchase approximately \$2.6 million in leasehold improvements and additional laboratory equipment.

Cash provided by financing activities totaled \$36.2 million during the six months ended June 30, 2000, compared to \$18.3 million during the same period in 1999. During the six months ended June 30, 2000 the Company raised \$36.3 million, net of cost, from the issuance of common stock. The following is a summary of the net proceeds from issuance of common stock during the six months ended June 30, 2000:

- \$24.0 million, net of issuance costs, from issuance of 500,000 shares of common stock to Cree, Inc. and General Electric Pension Trust,
- \$7.7 million from the exercise of warrants to purchase 437,824 shares of common stock,
- \$1.8 million, net of issuance costs, from the exercise of an option to purchase 100,000 shares of common stock, and
- \$2.8 million from exercise of employee options to purchase 275,209 shares of common stock.

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

- The progress of research and development programs,
- The progress in commercialization activities and arrangements,
- The cost of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights,

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- Competing technological and market developments, and
- The Company's ability to establish cooperative development, joint venture and licensing arrangements.

In order to maintain exclusive rights under the license agreement with the University of Washington, the Company is obligated to make royalty payments to the University of Washington. If the Company is successful in establishing OEM co-development and joint venture arrangements, the Company expects that its partners will fund a portion of non-recurring engineering costs for product development. Nevertheless, the Company expects cash requirements to increase significantly each year as the Company expands its activities and operations to commercialize its technologies.

The Company believes that its cash, cash equivalents and investment securities balances at June 30, 2000 will satisfy its budgeted cash requirements for at least the next 12 months based on the current operating plan. Actual expenses, however, may be higher than estimated and the Company may require additional capital earlier than anticipated to:

- Accelerate the development of retinal scanning display technology,
- Respond to competitive pressures, or
- Meet unanticipated development difficulties.

The Company's operating plan calls for the addition of technical and business staff and the purchase of additional computer and laboratory equipment, and leasehold improvements. The operating plan also provides for the development of strategic relationships with systems and equipment manufacturers. There can be no assurance that additional financing will be available to us or that, if available, it will be available on acceptable terms on a timely basis. If adequate funds are not available to satisfy either short-term or long-term capital requirements, the Company may be required to reduce operations significantly. The Company's capital requirements will depend on many factors, including, but not limited to, the rate at which the Company can, directly or through arrangements with OEMs, introduce products incorporating the retinal scanning display technology and the market acceptance and competitive position

of such products.

CONSIDERATIONS RELATING TO THE COMPANY'S BUSINESS

WE CANNOT BE CERTAIN THAT THE RETINAL SCANNING DISPLAY TECHNOLOGY OR PRODUCTS INCORPORATING THIS TECHNOLOGY WILL ACHIEVE MARKET ACCEPTANCE. IF THE RETINAL SCANNING DISPLAY TECHNOLOGY DOES NOT ACHIEVE MARKET ACCEPTANCE, OUR REVENUES MAY NOT GROW.

Our success will depend in part on the commercial acceptance of the retinal scanning display technology. The retinal scanning display technology may not be accepted by manufacturers who use display technologies in their products or by consumers of these products. To be accepted, the retinal scanning display technology must meet the expectations of our potential customers in the defense, medical, industrial, and consumer markets. If our technology fails to achieve market acceptance, we may not be able to continue to develop the retinal scanning display technology.

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OUR LACK OF THE FINANCIAL AND TECHNICAL RESOURCES RELATIVE TO OUR COMPETITORS MAY REDUCE OUR REVENUES, POTENTIAL PROFITS, AND OVERALL MARKET SHARE.

The retinal scanning display and products that may incorporate this technology will compete with established manufacturers of miniaturized cathode ray tube and flat panel display devices, many of which have substantially greater financial, technical and other resources than us and many of which are also developing miniature displays. 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 electronic information display industry has been characterized by rapidly changing technology, accelerated product obsolescence, and continuously evolving industry standards. Our success will depend upon our ability to further develop the retinal scanning display technology and to introduce new products and features on a cost effective basis in a timely manner to meet evolving customer requirements and compete effectively 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 development.

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

IF WE CAN NOT SUPPLY PRODUCTS IN COMMERCIAL QUANTITIES, WE WILL NOT ACHIEVE COMMERCIAL SUCCESS.

We currently lack the 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 the retinal scanning display technology that can be produced.

IF WE CANNOT MANUFACTURE PRODUCTS AT COMPETITIVE PRICES, OUR FINANCIAL RESULTS WILL BE ADVERSELY AFFECTED.

To date, we have produced only prototype products for research, development, and demonstration purposes. The cost per unit for these prototypes currently exceeds the level at

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which we could expect to profitably sell commercial versions of these products to customers. If we cannot lower our cost of production, we may face:

- loss of profitability and loss of competitiveness for our products, and
- increased demands on our financial resources, possibly requiring additional equity and/or debt financings to sustain our business operations.

OUR PRODUCTS MAY BE SUBJECT TO FUTURE HEALTH AND SAFETY REGULATION THAT COULD INCREASE OUR DEVELOPMENT AND PRODUCTION COSTS.

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

IF WE EXPERIENCE DELAYS OR FAILURES IN DEVELOPING AND PRODUCING COMMERCIALY VIABLE PRODUCTS, WE MAY HAVE LOWER REVENUES.

Although we have developed prototype products incorporating the retinal scanning display technology, we must undertake additional research, development and testing before we are able to produce products for commercial sale. In addition, product development delays or the inability to enter into relationships with potential product development partners may delay or prevent us from introducing commercial products.

IF WE ARE UNABLE TO ADEQUATELY PROTECT OUR PATENTS AND OTHER PROPRIETARY TECHNOLOGY, WE MAY BE UNABLE TO COMPETE WITH OTHER COMPANIES.

Our success will depend in part on our ability and the ability of the University of Washington (the University) and our other licensors to maintain the proprietary nature of the retinal scanning display and related technologies. Although our licensors have patented various aspects of the retinal scanning display technology and we continue to file our own patent applications covering retinal scanning display features and related technologies, we cannot be certain as to the degree of protection offered by these patents or as to the likelihood that patents will be issued from the pending patent applications. Moreover, these patents may have limited commercial value or may lack sufficient breadth to protect adequately the aspects of our technology to which the patents relate.

We cannot be certain that our competitors, many of which have substantially greater resources than us and have made substantial investments in competing technologies, will not apply for and obtain patents that will prevent, limit or interfere with our ability to make and sell our products. We also rely on unpatented proprietary technology. Third parties could develop the same or similar technology or otherwise obtain access to our proprietary technology. We cannot be certain that we will be able to adequately protect our trade secrets, know-how or other proprietary information or to prevent the unauthorized use, misappropriation or disclosure of such trade secrets, know-how or other proprietary information.

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WE COULD FACE LAWSUITS RELATED TO OUR USE OF THE RETINAL SCANNING DISPLAY TECHNOLOGY. THESE SUITS COULD BE COSTLY, TIME CONSUMING AND REDUCE OUR REVENUES.

We are aware of several patents held by third parties that relate to certain aspects of retinal scanning devices. These patents could be used as a basis to challenge the validity of the University's patents, to limit the scope of the University's patent rights, or to limit the University's ability to obtain additional or broader patent rights. A successful challenge to the validity of the University's patents could limit our ability to commercialize the retinal scanning display technology and, consequently, materially reduce our revenues. Moreover, we cannot be certain that patent holders or other third parties will not claim infringement by us or by the University with respect to current and future technology. Because U.S. patent applications are held and examined in secrecy, it is also possible that presently pending U.S. applications will eventually be issued with claims that will be infringed by our products or the retinal scanning display 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, require others and us to cease selling products that incorporate retinal scanning display technology, or to cease licensing the retinal scanning display technology, or to require disputed rights to be licensed from third parties. Such licenses would increase our cost or may not be available at all. Moreover, if claims of infringement are asserted against our future co-development partners or customers, those partners or customers may seek indemnification from us for damages or expenses they incur.

IF WE LOSE THE EXCLUSIVE USE OF THE VIRTUAL RETINAL DISPLAY TECHNOLOGY, OUR BUSINESS OPERATIONS AND PROSPECTS WOULD BE ADVERSELY AFFECTED.

We acquired the exclusive rights to the Virtual Retinal Display technology under an exclusive license agreement with the University. If the University were to violate the terms of the license agreement by providing the Virtual Retinal Display technology to another company, our business, operations, and prospects would be adversely affected. In addition, we could lose the exclusivity under the license agreement if we fail to challenge within the time limit claims that other companies are using the Virtual Retinal Display technology in violation of our license agreement.

WE NEED TO COLLABORATE WITH THIRD PARTIES TO BE ABLE TO SUCCESSFULLY DEVELOP PRODUCTS FOR SALE.

Our strategy for developing, testing, manufacturing and commercializing the retinal scanning display technology and products incorporating the retinal scanning display technology includes entering into cooperative development, 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 working 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

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delays in introducing the retinal scanning display technology or find that the development, manufacture or sale of products incorporating the retinal scanning display technology would not be feasible. To the extent that we enter into cooperative development, sales and marketing or other joint venture arrangements, our revenues will depend upon the efforts of third parties. We cannot be certain that any such arrangements will be successful.

OUR REVENUES ARE HIGHLY SENSITIVE TO DEVELOPMENTS IN THE DEFENSE AND AEROSPACE INDUSTRIES.

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

WE MAY REQUIRE ADDITIONAL CAPITAL TO CONTINUE IMPLEMENTING OUR BUSINESS PLAN. THIS MAY LESSEN THE VALUE OF CURRENT STOCKHOLDERS' SHARES.

We may need additional funds in order to, among other requirements:

- further develop retinal scanning display technology,
- add manufacturing capacity,
- add to our sales and marketing staff,
- develop and protect our intellectual property rights, or
- fund long-term business development opportunities.

We cannot be certain that we will be able to obtain financing when needed or that we will be able to obtain financing on satisfactory terms, if at all. If additional funds are raised through the issuance of equity, convertible debt or similar securities, current shareholders will experience dilution and the securities issued to the new investors may have rights or preferences senior to those of the shareholders of common stock. Moreover, if adequate funds were not available to satisfy our short-term or long-term financial needs, we would be required to limit our operations significantly.

LOSS OF ANY OF OUR KEY PERSONNEL COULD HAVE A NEGATIVE EFFECT ON THE OPERATION OF OUR BUSINESS.

Our success depends on our 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, engineering 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.

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WE HAVE A HISTORY OF OPERATING LOSSES AND EXPECT TO INCUR SIGNIFICANT LOSSES IN THE FUTURE.

We have had substantial losses since our inception and our operating losses may increase in the future. Accordingly, we cannot assure you that we will ever become or remain profitable.

- As of June 30, 2000, we had an accumulated deficit of \$51.5 million.
- We incurred net losses of \$7.1 million from inception through 1995, \$3.5 million in 1996, \$4.9 million in 1997, \$7.3 million in 1998, \$16.7 million in 1999, and \$12.0 million in the six month period ended June 30, 2000.

Our revenues to date have been generated from development contracts and sales of engineering prototype units. We do not expect to generate significant revenues from product sales in the near future. 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 retinal scanning display technology and development of prototypes. 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 customer orders for products incorporating the retinal scanning display technology. In light of these factors, we expect to continue to incur substantial losses and negative cash flow at least through 2001 and possibly thereafter. We cannot be certain that we will become profitable or achieve positive cash flow at any time in the future.

A SUBSTANTIAL NUMBER OF OUR SHARES MAY BE SOLD INTO THE MARKET IN THE NEAR FUTURE, WHICH COULD CAUSE THE MARKET PRICE OF OUR COMMON STOCK TO DROP SIGNIFICANTLY.

As of July 24, 2000, we had outstanding:

- 11,827,443 shares of common stock,
- options under our option plans to purchase an aggregate of 2,884,481 shares of common stock,
- privately placed warrants to purchase 259,045 shares of common stock.

Almost all of our outstanding shares of common stock may be sold without substantial restrictions. Sales in the public market of substantial amounts of common stock, including sales of common stock issuable upon exercises of stock options or warrants, could depress prevailing market prices for our common stock. Even the perception that such sales could occur may adversely impact the market price for our stock. A decrease in market price would decrease the value of an investment in our common stock.

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OUR QUARTERLY PERFORMANCE MAY VARY SUBSTANTIALLY AND THIS VARIANCE MAY DECREASE OUR STOCK PRICE.

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

- reductions or delays in funding of development programs involving new information display technologies by the U.S. government or our current or prospective commercial partners; or
- the status of particular development programs and the timing of performance under specific development agreements.

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.

OUR STOCK PRICE MAY BE VOLATILE AND THIS VOLATILITY COULD ADVERSELY AFFECT THE MARKET PRICE OF OUR COMMON STOCK.

The stock market is subject to price and volume fluctuations that particularly affect the market prices of stock of small capitalization, high technology companies. The trading price of our common stock could be subject to significant fluctuations in response to, among other factors:

- variations in quarterly operating results,
- changes in analysts' estimates,
- announcements of technological innovations by our competitors,
- general conditions in the information display and electronics industries, and
- general economic conditions.

Frequent changes in the market price of our common stock will affect the day-to-day value of an investment in our common stock.

WE MAY INVEST OUR CAPITAL IN WAYS THAT DO NOT RESULT IN A FAVORABLE RETURN. THIS COULD LOWER OUR STOCK PRICE.

Our management has broad discretion to invest our capital in ways in which our stockholders may not agree. The failure of our management to invest our capital effectively could result in lower returns than expected. This could lower the value of our stock.

IT MAY BE DIFFICULT FOR A THIRD PARTY TO ACQUIRE THE COMPANY AND THIS COULD

DEPRESS OUR STOCK PRICE.

Certain provisions of Washington law and our amended and restated articles of incorporation and bylaws contain provisions that create burdens and delays when someone attempts to purchase our

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Company. As a result, these provisions could limit the price that investors are willing to pay for our stock. These provisions:

- authorize our board of directors, without further shareholder approval, to issue preferred stock that has rights superior to those of the common stock. Potential purchasers may pay less for our Company because the preferred stockholders may use their rights to take value from the Company; and
- provide that written demand of at least 30% of the outstanding capital shares is required to call a special meeting of the shareholders, which may be needed to approve the sale of the Company. The delay that this creates could deter a potential purchaser.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Most of the Company's cash equivalents and investment securities are at fixed interest rates and, as such, the fair value of these instruments is affected by changes in market interest rates. As of June 30, 2000, approximately \$40.4 million, or 72%, of the Company's total investment portfolio matures within one year. The Company's portfolio consists of only high-grade government agency securities and commercial paper. Accordingly, the Company believes that its interest rate risk is immaterial. In addition, substantially all of the Company's development contract payments are made in U.S. dollars and, consequently, the Company believes its foreign currency exchange rate risk is immaterial. The Company does not have any derivative instruments and does not engage in hedging transactions.

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Part II

OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

On March 15, 2000, the Company issued 100,000 shares of common stock to Margaret Elardi, a director of the Company, in exchange for and upon redemption of 1,600 shares of Series B-2 preferred stock held by Ms. Elardi. This transaction did not involve a public offering and was exempt from registration under the Securities Act pursuant to Section 4(2) thereof.

On April 11, 2000, the Company issued 418,848 shares of common stock to Capital Ventures International on exercise of a warrant. The Company received cash consideration of \$7.5 million in connection with the transaction. This transaction did not involve a public offering and was exempt from registration under the Securities Act pursuant to Section 4(2) thereof.

On April 12, 2000 the Company sold 500,000 shares of common stock to Cree, Inc. and General Electric Pension Trust. The Company received cash consideration of \$25.0 million in connection with the transaction. This transaction was exempt from registration under the Securities Act pursuant to Section 4(2) thereof and regulation D thereunder.

On April 13, 2000 the Company issued warrants to purchase 50,000 shares of common stock to Burt Davis. The warrant was issued as consideration for placement agent services rendered to the Company in connection with the sale of common stock to Cree, Inc. and General Electric Pension Trust. The warrant grants the holder the right to purchase up to 50,000 shares of common stock at a price of \$53.00 per share for a period of five years. This transaction was exempt from registration under the Securities Act pursuant to Sections 4(2) thereof.

On June 21, 2000 the Company issued 100,000 shares of common stock to Margaret Elardi on exercise of an option to purchase 100,000 shares of common stock at a price of \$19.20 per share. The Company received cash consideration of \$1.9 million in connection with the transaction. This transaction did not involve a public offering and was exempt from registration under the Securities Act pursuant to Section 4(2) thereof.

On June 21, 2000 the Company issued a common stock purchase warrant to purchase 6,250 shares of common stock to Stan Berk. The warrant was issued as partial

consideration for placement agent services rendered to the Company in connection with the exercise of the option to purchase Common Stock by Margaret Elardi. The warrant provides the holder the right to purchase up to 6,250 shares of Common Stock at a price of \$19.20 per share for a period of five

years. This transaction did not involve a public offering and was exempt from registration under the Securities Act pursuant to Section 4(2) thereof.

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

The Company's Annual Meeting of Shareholders was held on June 22, 2000. The following proposals were introduced and vote upon:

PROPOSAL NO 1 - Election of Directors

<TABLE>
<CAPTION>

Name	Votes For	Votes Withheld
Richard F. Rutkowski	10,586,249	134,825
Stephen R. Willey	10,633,390	87,684
Richard A. Raisig	10,481,023	240,051
Jacob Brouwer	10,399,588	321,486
Richard A. Cowell	10,634,405	86,669
Margaret Elardi	10,634,465	86,609
Walter J. Lack	10,633,249	87,825
William A. Owens	10,588,470	132,604
Robert A. Ratliffe	10,634,470	86,604
Dennis Reimer	10,634,400	86,674

</TABLE>

PROPOSAL NO. 2 - Proposal to amend the Company's 1996 Stock Option Plan to increase the number of shares of Common Stock authorized for issuance upon exercise of options.

<TABLE>

	<C>
FOR	4,052,728
AGAINST	1,576,410
ABSTAINED	65,636
BROKER NON-VOTES	5,026,300

</TABLE>

PROPOSAL NO. 3 - Proposal to approve the Independent Director Stock Option Plan and the initial grant of options thereunder to non-employee directors.

<TABLE>

	<C>
FOR	4,667,685
AGAINST	953,167
ABSTAINED	73,922
BROKER NON-VOTES	5,026,300

</TABLE>

PROPOSAL NO. 4 - Proposal to ratify the appointment of PricewaterhouseCoopers LLP as independent auditors of the Company for the fiscal year ending December 31, 2000.

<TABLE>

	<C>
FOR	10,392,456
AGAINST	303,517
ABSTAINED	25,101
BROKER NON-VOTES	0

</TABLE>

ITEM 6. Exhibits and Reports on Form 8-K

a.) EXHIBITS

- 10.1 Form of first amendment to the Employment Agreement for Richard F. Rutkowski, dated April 18, 2000 between Microvision, Inc. and Richard F. Rutkowski
- 10.2 Form of first amendment to the Employment Agreement for Stephen R. Willey, dated April 18, 2000 between Microvision, Inc. and Stephen R. Willey
- 10.3 Form of first amendment to the Employment Agreement for Richard A. Raisig, dated April 18, 2000 between Microvision, Inc. and Richard A. Raisig
- 10.4 Independent Director Stock Option Plan (1)
- 10.5 Stock Option Plan, as amended
- 27.0 Financial Data Schedule

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 (1) Incorporated by reference to the Company's definitive proxy statement for annual meeting of shareholders filed April 28, 2000.

b.) Reports on Form 8-K

The Company filed no current reports on Form 8-K during the quarterly period ended June 30, 2000

SIGNATURES

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

MICROVISION, INC.

Date: August 9, 2000

/s/ Richard F. Rutkowski

Richard F. Rutkowski
 President, Chief Executive Officer
 (Principal Executive Officer)

Date: August 9, 2000

/s/ Jeff Wilson

Jeff Wilson
 Controller
 (Principal Accounting Officer)

EXHIBIT INDEX

The following documents are filed herewith or have been included as exhibits to previous filings with the Securities and Exchange Commission and are incorporated by reference as indicated below.

EXHIBIT NUMBER	DESCRIPTION
10.1	Form of first amendment to the Employment Agreement for Richard F. Rutkowski, dated April 18, 2000 between Microvision, Inc. and Richard F. Rutkowski
10.2	Form of first amendment to the Employment Agreement for Stephen R. Willey, dated April 18, 2000 between Microvision, Inc. and Stephen R. Willey
10.3	Form of first amendment to the Employment Agreement for Richard A. Raisig, dated April 18, 2000 between Microvision, Inc. and Richard A. Raisig
10.4	Independent Director Stock Option Plan (1)
10.5	Stock Option Plan, as amended

- -----

(1) Incorporated by reference to the Company's definitive proxy statement for annual meeting of shareholders filed April 28, 2000.

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FORM OF FIRST AMENDMENT TO THE
EMPLOYMENT AGREEMENT FOR RICHARD F. RUTKOWSKI

This First Amendment to the Employment Agreement for Richard F. Rutkowski, effective as of April 18, 2000, is by and between Microvision, Inc., a Washington corporation (the "Company"), and Richard F. Rutkowski (the "Executive").

WHEREAS, Executive serves as the President and Chief Executive Officer of the Company;

WHEREAS, the Company and Executive entered into an Employment Agreement, dated as of October 1, 1997, (the "Employment Agreement"); and

WHEREAS, in consideration for Executive's continued services to the Company, the Company desires to amend the Employment Agreement to extend the term thereof;

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants set forth herein, the parties agree as follows:

1. The date set forth in Section 1.3 of the Employment Agreement shall be changed to December 31, 2004.

2. The annual salary amount set forth in Section 2.1 of the Employment Agreement shall be changed to \$225,000.

3. The respective address for notice for each of the Company and Executive set forth in Section 19 of the Employment Agreement shall be changed to 19910 North Creek Parkway, Bothell, Washington 98011-3008.

4. All other terms and conditions of the Employment Agreement shall remain in full force and effect.

In witness whereof, the parties have executed this First Amendment to the Employment Agreement as of the 18th of April, 2000.

MICROVISION, INC.

EXECUTIVE

By: _____

By: _____

Its: _____

FORM OF FIRST AMENDMENT TO THE
EMPLOYMENT AGREEMENT FOR STEPHEN R. WILLEY

This First Amendment to the Employment Agreement for Stephen R. Willey, effective as of April 18, 2000, is by and between Microvision, Inc., a Washington corporation (the "Company"), and Stephen R. Willey (the "Executive").

WHEREAS, Executive serves as the Executive Vice President of the Company;

WHEREAS, the Company and Executive entered into an Employment Agreement, dated as of October 1, 1998, (the "Employment Agreement"); and

WHEREAS, in consideration for Executive's continued services to the Company, the Company desires to amend the Employment Agreement to extend the term thereof;

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants set forth herein, the parties agree as follows:

1. The date set forth in Section 1.3 of the Employment Agreement shall be changed to December 31, 2003.
2. The annual salary amount set forth in Section 2.1 of the Employment Agreement shall be changed to \$185,000.
3. The respective address for notice for each of the Company and Executive set forth in Section 19 of the Employment Agreement shall be changed to 19910 North Creek Parkway, Bothell, Washington 98011-3008.
4. All other terms and conditions of the Employment Agreement shall remain in full force and effect.

In witness whereof, the parties have executed this First Amendment to the Employment Agreement as of the 18th of April, 2000.

MICROVISION, INC.

EXECUTIVE

By: _____

By: _____

Its: _____

FORM OF FIRST AMENDMENT TO THE
EMPLOYMENT AGREEMENT FOR RICHARD A. RAISIG

This First Amendment to the Employment Agreement for Richard A. Raisig, effective as of April 18, 2000, is by and between Microvision, Inc., a Washington corporation (the "Company"), and Richard A. Raisig (the "Executive").

WHEREAS, Executive serves as the Chief Financial Officer and Vice President, Operations of the Company;

WHEREAS, the Company and Executive entered into an Employment Agreement, dated as of October 1, 1997, (the "Employment Agreement"); and

WHEREAS, in consideration for Executive's continued services to the Company, the Company desires to amend the Employment Agreement to extend the term thereof;

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants set forth herein, the parties agree as follows:

1. The date set forth in Section 1.3 of the Employment Agreement shall be changed to December 31, 2003.
2. The annual salary amount set forth in Section 2.1 of the Employment Agreement shall be changed to \$170,000.
3. The respective address for notice for each of the Company and Executive set forth in Section 19 of the Employment Agreement shall be changed to 19910 North Creek Parkway, Bothell, Washington 98011-3008.
4. All other terms and conditions of the Employment Agreement shall remain in full force and effect.

In witness whereof, the parties have executed this First Amendment to the Employment Agreement as of the 18th of April, 2000.

MICROVISION, INC.

EXECUTIVE

By: _____

By: _____

Its: _____

MICROVISION, INC.

1996 STOCK OPTION PLAN,
AS AMENDED

1. PURPOSE. The purpose of the 1996 Stock Option Plan (the "Plan") is to provide a means by which Microvision, Inc. (the "Company"), may attract, reward, and retain the services or advice of current or future employees, officers, directors, and agents of the Company and to provide added incentives to them by encouraging stock ownership in the Company.

2. ADMINISTRATION. This Plan shall be administered by the Board of Directors of the Company (the "Board") or, if the Board shall authorize a committee to administer this Plan, by such committee to the extent so authorized; provided, however, that only the Board of Directors may suspend, amend or terminate this Plan as provided in Section 13, and provided further that a committee that includes officers of the Company shall not be permitted to grant options to persons who are officers of the Company. The administrator of this Plan is referred to as the "Plan Administrator."

2.1 PROCEDURES. The Board of Directors shall designate one member of the Plan Administrator as chairman. The Plan Administrator may hold meetings at such times and places as it shall determine. The acts of a majority of the members of the Plan Administrator present at meetings at which a quorum exists, or acts approved in writing by all Plan Administrator members, shall constitute valid acts of the Plan Administrator.

2.2 POWERS Subject to the specific provisions of this Plan, the Plan Administrator shall have the authority, in its discretion: (a) to grant the stock options described in Section 5, including Incentive Stock Options and Non-Qualified Stock Options, and to designate each option granted as an Incentive Stock Option or a Non-Qualified Stock Option; (b) to determine, in accordance with Section 5.1(f) of this Plan, the fair market value of the shares of Common Stock subject to options; (c) to determine the exercise price per share of options; (d) to determine the Optionees to whom, and the time or times at which, options shall be granted and the number of shares of Common Stock to be represented by each option; (e) to interpret this Plan; (f) to prescribe, amend and rescind rules and regulations relating to this Plan; (g) to determine the terms and provisions of each option granted (which need not be identical) and, with the consent of the Optionee, modify or amend each option; (h) to reduce the exercise price per share of outstanding and unexercised options; (i) to defer, with the consent of the Optionee, or to accelerate the exercise date of any option; (j) to waive or modify any term or provision contained in any option applicable to the underlying shares of Common Stock; (k) to authorize any person to execute on behalf of the Company any instrument required to effectuate the grant of an option previously granted by the Plan Administrator; and (l) to make all other determinations deemed necessary or advisable for the administration of this Plan. The interpretation and construction by the Plan Administrator of any terms or provisions of this Plan, any option issued hereunder or of any rule or regulation promulgated in connection herewith and all

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actions taken by the Plan Administrator shall be conclusive and binding on all interested parties. The Plan Administrator may delegate administrative functions to individuals who are officers or employees of the Company.

2.3 LIMITED LIABILITY. No member of the Board of Directors or the Plan Administrator or officer of the Company shall be liable for any action or inaction of the entity or body, or another person or, except in circumstances involving bad faith, of himself or herself. Subject only to compliance with the explicit provisions hereof, the Board of Directors and Plan Administrator may act in their absolute discretion in all matters related to the Plan.

2.4 SECURITIES EXCHANGE ACT OF 1934. At any time that the Company has a class of securities registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), this Plan shall be administered in accordance with Rule 16b-3 adopted under the Exchange Act and Section 162(m) of the Internal Revenue Code of 1986, as amended, and the regulations, proposed and final, thereunder, as all may be amended from time to time, and each member of the Plan Administrator shall be a "disinterested director" and an "outside director" with the meaning of such Rule 16b-3 and Section 162(m), respectively.

3. STOCK SUBJECT TO THIS PLAN. Subject to adjustment as provided below and in Section 11 hereof, the stock subject to this Plan shall be the Company's common stock (the "Common Stock"), and the total number of shares of Common Stock to be delivered on the exercise of all options granted under this Plan shall not exceed 5,500,000 shares, as such Common Stock was constituted on the date on which this Plan was last amended by the Board as set forth on the

last page hereof. If any option granted under this Plan expires, is surrendered, exchanged for another option, canceled or terminated for any reason without having been exercised in full, the unpurchased shares subject thereto shall again be available for purposes of this Plan, including for replacement options that may be granted in exchange for such surrendered, canceled or terminated options. Shares issued on exercise of options granted under this Plan may be subject to restrictions on transfer, repurchase rights or other restrictions as determined by the Plan Administrator.

4. ELIGIBILITY.

4.1 OPTIONEES. The Plan Administrator may award options to any current or future employee, officer or agent of the Company or its subsidiaries. Non-employee directors of the Company shall not be eligible to participate in the Plan. Any party to whom an option is granted under this Plan is referred to as an "Optionee."

4.2 SUBSIDIARIES. As used in this Plan, the term "subsidiary" of a company shall include any corporation in which such company owns, directly or indirectly, at the time of the grant of an option hereunder, stock having 50% or more of the total combined voting power of all classes of stock thereof.

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5. AWARDS. The Plan Administrator, from time to time, may take the following actions, separately or in combination, under this Plan: (a) grant Incentive Stock Options, as defined in Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), to any employee of the Company or its subsidiaries, as provided in Section 5.1 of this Plan; (b) grant options other than Incentive Stock Options ("Non-Qualified Stock Options"), as provided in Section 5.2 of this Plan; (c) grant options to officers, employees and others in foreign jurisdictions, as provided in Section 7 of this Plan; and (d) grant options in certain acquisition transactions, as provided in Section 8 of this Plan. No employee may be granted options to acquire more than 100,000 shares in any fiscal year of the Company.

5.1 INCENTIVE STOCK OPTIONS. Incentive Stock Options shall be subject to the following terms and conditions:

(a) Incentive Stock Options may be granted under this Plan only to employees of the Company or its subsidiaries, including employees who are directors.

(b) No employee may be granted Incentive Stock Options under this Plan to the extent that the aggregate fair market value, on the date of grant, of the Common Stock with respect to which Incentive Stock Options are exercisable for the first time by that employee during any calendar year, under this Plan and under any other incentive stock option plan (within the meaning of Section 422 of the Code) of the Company or any subsidiary, exceeds \$100,000. To the extent that any option designated as an Incentive Stock Option exceeds the \$100,000 limit, such option shall be treated as a Non-Qualified Stock Option. In making this determination, options shall be taken into account in the order in which they were granted, and the fair market value of the shares of Common Stock shall be determined as of the time that the option with respect to such shares was granted.

(c) An Incentive Stock Option may be granted under this Plan to an employee possessing more than 10% of the total combined voting power of all classes of stock of the Company (as determined pursuant to the attribution rules contained in Section 424(d) of the Code) only if the exercise price is at least 110% of the fair market value of the Common Stock subject to the option on the date the option is granted, as described in Section 5.1(f) of this Plan, and only if the option by its terms is not exercisable after the expiration of five years from the date it is granted.

(d) Except as provided in Section 5.5 of this Plan, no Incentive Stock Option granted under this Plan may be exercised unless at the time of such exercise the Optionee is employed by the Company or any subsidiary of the Company and the Optionee has been so employed continuously since the date such option was granted.

(e) Subject to Sections 5.1.(c) and 5.1.(d) of this Plan, Incentive Stock Options granted under this Plan shall continue in effect for the period fixed by the Plan Administrator, except that no Incentive Stock Option shall be exercisable after ten years from the date it is granted.

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(f) The exercise price shall not be less than 100% of the fair market value of the shares of Common Stock covered by the Incentive Stock Option at the date the option is granted. The fair market value of shares

shall be the closing price per share of the Common Stock on the date of grant as reported on a securities quotation system or stock exchange. If such shares are not so reported or listed, the Plan Administrator shall determine the fair market value of the shares of Common Stock in its discretion.

(g) The provisions of clauses (b) and (c) of this Section shall not apply if either the applicable sections of the Code or the regulations thereunder are amended so as to change or eliminate such limitations or to permit appropriate modifications of those requirements by the Plan Administrator.

5.2 NON-QUALIFIED STOCK OPTIONS. Non-Qualified Stock Options shall be subject to the following terms and conditions:

(a) The exercise price may be more or less than or equal to the fair market value of the shares of Common Stock covered by the Non-Qualified Stock Option on the date the option is granted, and the exercise price may fluctuate based on criteria determined by the Plan Administrator. The fair market value of shares of Common Stock covered by a Non-Qualified Stock Option shall be determined by the Plan Administrator, as described in Section 5.1(f).

(b) Unless otherwise established by the Plan Administrator, any Non-Qualified Stock Option shall terminate ten years after the date it is granted.

5.3 VESTING. To ensure that the Company will achieve the purposes of and receive the benefits contemplated in this Plan, any option granted to any Optionee hereunder shall be exercisable according to the vesting schedule, if any, established by the Plan Administrator and set forth in the option grant letter issued to each Optionee.

5.4 NONTRANSFERABILITY. Options granted under this Plan and the rights and privileges conferred hereby may not be transferred, assigned, pledged or hypothecated in any manner (whether by operation of law or otherwise) other than by will or by the applicable laws of descent and distribution, shall not be subject to execution, attachment or similar process, and shall be exercisable during the Optionee's lifetime only by the Optionee. Any purported transfer or assignment in violation of this provision shall be void.

5.5 TERMINATION OF OPTIONS.

(a) GENERALLY. Unless otherwise determined by the Plan Administrator or specified in the Optionee's Option Agreement, if the Optionee's employment or service with the Company terminates for any reason other than for cause, resignation, retirement, disability or death, and unless

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by its terms the option sooner terminates or expires, then the Optionee may exercise, for a three-month period, that portion of the Optionee's option that was exercisable at the time of such termination of employment or service (provided the conditions of Section 6.4 and any other conditions specified in the Option Agreement shall have been met by the date of exercise of such option).

(b) FOR CAUSE; RESIGNATION.

(i) If an Optionee is terminated for cause or resigns in lieu of dismissal, any option granted hereunder shall be deemed to have terminated as of the time of the first act that led or would have led to the termination for cause or resignation in lieu of dismissal, and such Optionee shall thereupon have no right to purchase any shares of Common Stock pursuant to the exercise of such option, and any such exercise shall be null and void. Termination for "cause" shall include (i) the violation by the Optionee of any reasonable rule or policy of the Board of Directors or the Optionee's superiors or the chief executive officer or the chief operating officer of the Company that results in damage to the Company or which, after notice to do so, the Optionee fails to correct within a reasonable time; (ii) any willful misconduct or gross negligence by the Optionee in the responsibilities assigned to him or her; (iii) any willful failure to perform his or her job as required to meet the objectives of the Company; (iv) any wrongful conduct of an Optionee that has an adverse impact on the Company or that constitutes a misappropriation of the assets of the Company; (v) unauthorized disclosure of confidential information; or (vi) the Optionee's performing services for any other company or person that competes with the Company while he or she is employed by or provides services to the Company, without the written approval of the chief executive officer of the Company. "Resignation in lieu of dismissal" shall mean a resignation by an Optionee of employment with or service to the Company if (i) the Company has given prior notice to such Optionee of its intent to dismiss the Optionee for circumstances that constitute cause, or (ii) within two months of the Optionee's resignation, the chief operating officer or the chief executive

officer of the Company or the Board of Directors determines, which determination shall be final and binding, that such resignation was related to an act that would have led to a termination for cause.

(ii) If an Optionee resigns from the Company, the right of the Optionee to exercise his or her option shall be suspended for a period of two months from the date of resignation, unless the chief executive officer of the Company or the Board of Directors determines otherwise in writing. Thereafter, unless there is a determination that the Optionee resigned in lieu of dismissal, the option may be exercised at any time before the earlier of (i) the expiration date of the option (which shall have been similarly suspended) or (ii) the expiration of three months after the date of resignation, for that portion of the Optionee's option that was exercisable at the time of such resignation (provided the conditions of Section 6.4 and any other conditions specified in the Option Agreement shall have been met at the date of exercise of such option).

(c) RETIREMENT. Unless otherwise determined by the Plan Administrator, if an Optionee's employment or service with the Company is terminated with the Company's approval for

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reasons of age, the Option may be exercised at any time before the earlier of (a) the expiration date of the option or (b) the expiration of three months after the date of such termination of employment or service, for that portion of the Optionee's option that was exercisable at the time of such termination of employment or service (provided the conditions of Section 6.4 and any other conditions specified in the Option Agreement shall have been met at the date of exercise of such option).

(d) DISABILITY. Unless otherwise determined by the Plan Administrator, if an Optionee's employment or relationship with the Company terminates because of a permanent and total disability (as defined in Section 22(e)(3) of the Code), the option may be exercised at any time before the earlier of (a) the expiration date of the option or (b) the expiration of 12 months after the date of such termination, for up to the full number of shares of Common Stock covered thereby, including any portion not yet vested (provided the conditions of Section 6.4 and any other conditions specified in the Option Agreement shall have been met by the date of exercise of such option).

(e) DEATH. Unless otherwise determined by the Plan Administrator, in the event of the death of an Optionee while employed by or providing service to the Company, the option may be exercised at any time before the earlier of (a) the expiration date of the option or (b) the expiration of 12 months after the date of death by the person or persons to whom such Optionee's rights under the option shall pass by the Optionee's will or by the applicable laws of descent and distribution, for up to the full number of shares of Common Stock covered thereby, including any portion not yet vested (provided the conditions of Section 6.4 and any other conditions specified in the Option Agreement shall have been met by the date of exercise of such option).

(f) EXTENSION OF EXERCISE PERIOD APPLICABLE TO TERMINATION. The Plan Administrator, at the time of grant or at any time thereafter, may extend the one-month, three-month and 12-month exercise periods to any length of time not longer than the original expiration date of the option, and may increase the portion of an option that is exercisable, subject to such terms and conditions as the Plan Administrator may determine; provided, that any extension of the exercise period or other modification of an Incentive Stock Option shall be subject to the written agreement and acknowledgment by the Optionee that the extension or modification disqualifies the option as an Incentive Stock Option.

(g) FAILURE TO EXERCISE OPTION. To the extent that the option of any deceased Optionee or of any Optionee whose employment or service terminates is not exercised within the applicable period, all rights to purchase shares of Common Stock pursuant to such options shall cease and terminate.

(h) TRANSFERS; LEAVES. For purposes of this Section 5.5, a transfer of employment or other relationship between or among the Company and/or any subsidiaries shall not be deemed to constitute a termination of employment or other cessation of relationship with the Company or any of its subsidiaries. For purposes of this Section 5.5, with respect to Incentive Stock Options,

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employment shall be deemed to continue while the Optionee is on military leave, sick leave or other bona fide leave of absence (as determined by the Plan Administrator) in accordance with the policies of the Company.

6. EXERCISE.

6.1 PROCEDURE. Subject to the provisions of Section 5.3 above, each option may be exercised in whole or in part; provided, however, that no fewer than 100 shares (or the remaining shares then purchasable under the option, if less than 100 shares) may be purchased on any exercise of any option granted hereunder and that only whole shares will be issued pursuant to the exercise of any option (the number of 100 shares shall not be changed by any transaction or action described in Section 8 or Section 11 unless the Plan Administrator determines that such a change is appropriate). Options shall be exercised by delivery to the Secretary of the Company or his or her designated agent of notice of the number of shares with respect to which the option is exercised, together with payment in full of the exercise price and any applicable withholding taxes.

6.2 PAYMENT. Payment of the option exercise price shall be made in full when the notice of exercise of the option is delivered to the Secretary of the Company or his or her designated agent and shall be in cash or bank certified or cashier's check or through irrevocable instructions to a stock broker to deliver the amount of sales proceeds necessary to pay the appropriate exercise price and withholding tax obligations, all in accordance with applicable governmental regulations, for the shares of Common Stock being purchased. The Plan Administrator may determine at the time the option is granted for Incentive Stock Options, or at any time before exercise for Non-Qualified Stock Options, that additional forms of payment will be permitted.

6.3 WITHHOLDING. Before the issuance of shares of Common Stock on the exercise of an option, the Optionee shall pay to the Company the amount of any applicable federal, state or local tax withholding obligations. The Company may withhold any distribution in whole or in part until the Company is so paid. The Company shall have the right to withhold such amount from any other amounts due or to become due from the Company to the Optionee, including salary (subject to applicable law) or to retain and withhold a number of shares having a market value not less than the amount of such taxes required to be withheld by the Company to reimburse it for any such taxes and cancel (in whole or in part) any such shares so withheld.

6.4 CONDITIONS PRECEDENT TO EXERCISE. The Plan Administrator may establish conditions precedent to the exercise of any option, which shall be described in the relevant Option Agreement.

7. FOREIGN QUALIFIED GRANTS Options under this Plan may be granted to officers and employees of the Company and other persons described in Section 4 who reside in foreign jurisdictions as the Plan Administrator may determine from time to time. The Board of Directors may adopt supplements to the Plan as needed to comply with the applicable laws of such foreign jurisdictions and to give Optionees favorable treatment under such laws; provided, however, that no award shall

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be granted under any such supplement on terms more beneficial to such Optionees than those permitted by this Plan.

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

9. HOLDING PERIOD. Unless otherwise determined by the Plan Administrator, if a person subject to Section 16 of the Exchange Act exercises an option within six months of the date of grant of the option, the shares of Common Stock acquired on exercise of the option may not be sold until six months after the date of grant of the option.

10. OPTION AGREEMENTS. Options granted under this Plan shall be evidenced by written stock option agreements (the "Option Agreements") that shall contain such terms, conditions, limitations and restrictions as the Plan Administrator shall deem advisable and that are consistent with this Plan. All Option Agreements shall include or incorporate by reference the applicable terms and conditions contained in this Plan.

11. ADJUSTMENTS ON CHANGES IN CAPITALIZATION.

11.1 STOCK SPLITS, CAPITAL STOCK ADJUSTMENTS. The aggregate number and class of shares for which options may be granted under this Plan, the number

and class of shares covered by each outstanding option and the exercise price per share thereof (but not the total price), and each such option, shall all be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock of the Company resulting from a stock split, stock dividend or consolidation of shares or any like capital stock adjustment.

11.2 EFFECT OF MERGER, SALE OF ASSETS, LIQUIDATION OR DISSOLUTION.

(a) MERGERS, SALE OF ASSETS, OTHER TRANSACTIONS. In the event of a merger, consolidation or plan of exchange to which the Company is a party or a sale of all or substantially all of the Company's assets (each, a "Transaction"), the Board of Directors, in its sole discretion and to the extent possible under the structure of the Transaction, shall select one of the following alternatives for treating outstanding options under this Plan:

(i) Outstanding options shall remain in effect in accordance with their terms;

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(ii) Outstanding options shall be converted into options to purchase stock in the corporation that is the surviving or acquiring corporation in the Transaction. The amount, type of securities subject thereto and exercise price of the converted options shall be determined by the Board of Directors of the Company, taking into account the relative values of the companies involved in the Transaction and the exchange rate, if any, used in determining shares of the surviving corporation to be issued to holders of shares of the Company. Unless otherwise determined by the Board of Directors, the converted options shall be vested only to the extent that the vesting requirements relating to options granted hereunder have been satisfied;

(iii) The Board of Directors provides a period before the consummation of the Transaction during which outstanding options shall be exercisable to the extent vested and, on the expiration of such period, all unexercised options shall immediately terminate. The Board of Directors, in its sole discretion, may accelerate the vesting of such options so that they are exercisable in full during such period; or

(iv) The Board of Directors shall take such other action with respect to outstanding options as the Board deems to be in the best interests of the Company.

(b) LIQUIDATION; DISSOLUTION. If the Company is liquidated or dissolved, options shall be treated in accordance with Section 11.2(a) (iii).

11.3 FRACTIONAL SHARES. If the number of shares covered by any option is adjusted, any fractional shares resulting from such adjustment shall be disregarded and each such option shall cover only the number of full shares resulting from such adjustment.

11.4 DETERMINATION OF BOARD TO BE FINAL All adjustments under this Section 11 shall be made by the Board of Directors, and its determination as to what adjustments shall be made, and the extent thereof, shall be final, binding and conclusive. Unless an Optionee agrees otherwise, any change or adjustment to an Incentive Stock Option shall be made, if possible, in such a manner so as not to constitute a "modification," as defined in Section 424(h) of the Code, and so as not to cause the Optionee's Incentive Stock Option to fail to continue to qualify as an Incentive Stock Option.

12. SECURITIES REGULATIONS.

Shares of Common Stock shall not be issued with respect to an option granted under this Plan unless the exercise of such option and the issuance and delivery of such shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, any applicable state securities laws, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, applicable laws of foreign countries and other jurisdictions and the requirements of any quotation service or stock exchange on which the shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance, including the availability of an exemption from registration for the issuance and sale of any shares hereunder. The inability of the Company to obtain, from any regulatory body having jurisdiction,

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the authority deemed by the Company's counsel to be necessary for the lawful issuance and sale of any shares hereunder or the unavailability of an exemption from registration for the issuance and sale of any shares hereunder

shall relieve the Company of any liability with respect of the nonissuance or sale of such shares as to which such requisite authority shall not have been obtained.

As a condition to the exercise of an option, the Company may require the Optionee to represent and warrant at the time of any such exercise that the shares of Common Stock are being purchased only for investment and without any present intention to sell or distribute such shares if, in the opinion of counsel for the Company, such a representation is required by any relevant provision of the aforementioned laws. The Company may place a stop-transfer order against any shares of Common Stock on the official stock books and records of the Company, and a legend may be stamped on stock certificates to the effect that the shares of Common Stock may not be pledged, sold or otherwise transferred unless an opinion of counsel is provided (concurring in by counsel for the Company) stating that such transfer is not in violation of any applicable law or regulation. The Plan Administrator may also require such other action or agreement by the Optionees as may from time to time be necessary to comply with the federal and state securities laws. THIS PROVISION SHALL NOT OBLIGATE THE COMPANY TO UNDERTAKE REGISTRATION OF THE OPTIONS OR STOCK THEREUNDER.

If any of the Company's capital stock of the same class as the Common Stock subject to options granted hereunder is listed on a national securities exchange, all shares of Common Stock issued hereunder if not previously listed on such exchange shall be authorized by that exchange for listing thereon before the issuance thereof.

13. AMENDMENT AND TERMINATION.

13.1 PLAN. The Board of Directors may at any time suspend, amend or terminate this Plan, provided that, except as set forth in Section 8, the approval of the Company's shareholders is necessary within twelve months before or after the adoption by the Board of Directors of any amendment that will:

(a) increase the number of shares of Common Stock to be reserved for the issuance of options under this Plan;

(b) permit the granting of stock options to a class of persons other than those now permitted to receive stock options under this Plan; or

(c) require shareholder approval under applicable law, including Section 16(b) of the Exchange Act.

13.2 OPTIONS. Subject to the requirements of Section 422 of the Code with respect to Incentive Stock Options and to the terms and conditions and within the limitations of this Plan, the

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Plan Administrator may modify or amend outstanding options granted under this Plan. The modification or amendment of an outstanding option shall not, without the consent of the Optionee, impair or diminish any of his or her rights or any of the obligations of the Company under such option. Except as otherwise provided in this Plan, no outstanding option shall be terminated without the consent of the Optionee. Unless the Optionee agrees otherwise, any changes or adjustments made to outstanding Incentive Stock Options granted under this Plan shall be made in such a manner so as not to constitute a "modification," as defined in Section 425(h) of the Code, and so as not to cause any Incentive Stock Option issued hereunder to fail to continue to qualify as an Incentive Stock Option as defined in Section 422(b) of the Code.

13.3 AUTOMATIC TERMINATION. Unless sooner terminated by the Board of Directors, this Plan shall terminate ten years from the date on which this Plan is adopted by the Board. No option may be granted after such termination or during any suspension of this Plan. The amendment or termination of this Plan shall not, without the consent of the Optionee, alter or impair any rights or obligations under any option theretofore granted under this Plan.

14. MISCELLANEOUS.

14.1 TIME OF GRANTING OPTIONS. The date of grant of an option shall, for all purposes, be the date on which the Company completes the required corporate action relating to the grant of an option; the execution of an Option Agreement and the conditions to the exercise of an option shall not defer the date of grant.

14.2 NO STATUS AS SHAREHOLDER. Neither the Optionee nor any party to which the Optionee's rights and privileges under the option may pass shall be, or have any of the rights or privileges of, a shareholder of the Company with respect to any of the shares of Common Stock issuable on the exercise of any option granted under this Plan unless and until such option has been

exercised and the issuance (as evidenced by the appropriate entry on the books of the Company or duly authorized transfer agent of the Company) of the stock certificate evidencing such shares.

14.3 STATUS AS AN EMPLOYEE. Nothing in this Plan or in any option granted pursuant to this Plan shall confer on any Optionee any right to continue in the employ of the Company, or to interfere in any way with the right of the Company to terminate his or her employment or other relationship with the Company at any time.

14.4 RESERVATION OF SHARES. The Company, during the term of this Plan, at all times will reserve and keep available such number of shares of Common Stock as shall be sufficient to satisfy the requirements of this Plan.

15. EFFECTIVENESS OF THIS PLAN. This Plan shall become effective on the date on which it is adopted by the Board of Directors of the Company. No option granted under this Plan to any officer

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or director of the Company shall become exercisable until the Plan is approved by the shareholders, and any option granted before such approval shall be conditioned on and is subject to such approval.

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Adopted by the Board of Directors on July 10, 1996, and approved by the shareholders on August 9, 1996.

Amended by the Board of Directors on November 8, 1996.

Amended by the shareholders, pursuant to the recommendation of the Board of Directors, on October 15, 1998.

Amended by the shareholders, pursuant to the recommendation of the Board of Directors, on June 22, 2000.

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MICROVISION, INC.

1996 STOCK OPTION PLAN,
AS AMENDED

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE UNAUDITED FINANCIAL STATEMENTS OF MICROVISION, INC. FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2000 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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