UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fiscal year ended December 31, 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)

Washington (State or other jurisdiction of incorporation or organization)	91-1600822 (I.R.S. Employer Identification No.)

19910 North Creek Parkway
Bothell, Washington 98011
(425) 415-6847
(Address and telephone number of principal executive offices)

Securities registered under Section 12(b) of the Exchange Act:

None

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, no par value
(Title of Class)

Check whether the registrant (1) has filed all reports required to be filed by Section13 or 15(d) of the Securities Exchange Act of 1934 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 _X_ No ____

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-K contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10–K or any amendment to this Form 10-K. [ ]

The aggregate market value of the common stock held by non-affiliates of the registrant as of March 1, 2001 was approximately $174,289,400 (based on the closing price for the registrant's Common Stock on the Nasdaq National Market of $16.50 per share).

The number of shares of the registrant's Common stock outstanding as of March 1, 2001 was 11,900,600.

Documents Incorporated by Reference: Portions of the registrant's definitive Proxy Statement filed with the Commission pursuant to Regulation 14A in connection with the Registrant's Annual Meeting of Shareholders to be held on June 6, 2001 are incorporated herein by reference into Part III, Item 11, of this report.

FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000
INDEX

PART I

Item 1 - Description of Business

Item 2 - Description of Property

Item 3 - Legal Proceedings

Item 4 - Submission of Matters to a Vote of Security Holders

PART II

Item 5 - Market for the Registrant's Common Stock and Related Shareholder Matters

Item 6 - Selected Financial Data

Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 7A - Quantitative and Qualitative Disclosures About Market Risk

Item 8 -	Financial Statements
Item 9 -	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure
PART III	
Item 10 -	Directors and Executive Officers of the Registrant
Item 11 -	Executive Compensation
Item 12 -	Security Ownership of Certain Beneficial Owners and Management
Item 13 -	Certain Relationships and Transactions
PART IV	
Item 14 -	Exhibits, Financial Statement Schedules and Reports on Form 8-K
SIGNATURES	

PART I

Preliminary Note Regarding Forward-Looking Statements

The information set forth in this report in Item 1 "Description of Business" and in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" includes "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and is subject to the safe harbor created by that section. Such statements may include, but are not limited to, projections of revenues, income or loss, capital expenditures, plans for product development and cooperative arrangements, future operations, financing needs or plans of the Company, as well as assumptions relating to the foregoing. The words "believe," "expect," "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 in Item 1 "Description of Business – Considerations Related to the Company's Business."

ITEM 1. DESCRIPTION OF BUSINESS

Overview

Microvision, Inc. ("Microvision" or the "Company") develops information display and related technologies that allow electronically generated images and information to be projected onto a viewer's eye. In 2000, the Company defined three distinct business platforms relating to the delivery of images and information in this manner:

- Retinal Scanning Displays - Utilizing the retinal scanning display technology to display information directly on the viewer's retina.
- Imaging Solutions – Utilizing proprietary scanning technology and the retinal scanning display technology to capture images and information.
- Optical Material technology - Utilizing the Optical Materials technology to transmit information using light.

Retinal Scanning Displays

The Company has developed prototype retinal scanning display technology devices, including portable color and monochrome versions and a full color table-top version, and is currently refining and developing its retinal scanning display technology for defense, medical, industrial and consumer applications. The Company expects to commercialize its technology through the development of products and as a supplier of personal display technology to OEMs. The Company believes the retinal scanning display technology will be useful in a variety of applications, including portable communications and visual simulation that include applications requiring the superimposing of images onto the user's field of vision. The Company expects that its retinal scanning display technology will allow for the production of highly miniaturized, lightweight, battery-operated displays that can be held or worn comfortably.

The Company's retinal scanning display technology includes certain proprietary technology developed by the Company, certain technology licensed from other companies and the Virtual Retinal Display ™ technology licensed from the University of Washington.

Imaging Solutions

During 2000, the Company increased its efforts to develop products that capture images, such as bar code readers or miniature high resolution cameras, using the retinal scanning display technology and other proprietary technology. The Company believes that the basic components of the retinal scanning display system can be used to develop bar code readers or miniature high resolution cameras that have higher performance and lower cost than those currently available. The Company has developed proprietary scanner technology, which it plans to use in a low cost hand held bar code scanner targeted at consumer applications. The hand held bar code device would allow consumers to record information using the bar code reader. The user could then connect the bar code reader to a personal computer to retrieve more information from the internet. The bar code reader could be used to make purchases from a catalog, pay bills, or retrieve additional information about a product. In 2000, the Company built a prototype bar code scanner using this technology. During 2001, the Company plans to continue to refine the design of the hand held scanner and introduce the device for the consumer market in 2002.

Optical Systems Components

During 2000, the Company formed a subsidiary company, Lumera Corporation ("Lumera"), to develop and commercialize a new class of organic non-linear optical chromophore materials ("Optical Materials") and devices that utilize the optical properties of these proprietary materials. The subsidiary is an outgrowth of the Company's on going work on photonics. In October 2000, Lumera entered into an exclusive license agreement with the University of Washington for certain technology in Optical Materials. Lumera expects that these materials and devices made from these Optical Materials will improve the performance and reduce the cost of electro-optic components used for fiber-optic telecommunications and data communications systems, phased-array antennas, optical computing and other photonics applications.

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

Retinal Scanning Displays

Industry Background

Information displays are the primary medium through which text and images generated by computer and other electronic systems are delivered to end-users. While early computer systems were designed and used for tasks that involved little interaction between the user and the computer, today's graphical and multimedia information and computing environments require systems that devote most of their resources to generating and updating visual displays. The market for display technologies has also been stimulated by the increasing popularity of portable pagers and cellular phones; interest in simulated environments and augmented vision systems; and the recognition that improved means of connecting people and machines can increase productivity and enhance the enjoyment of electronic entertainment and learning experiences.

For decades, the cathode ray tube has been the dominant display device. The cathode ray tube creates an image by scanning a beam of electrons across a phosphor-coated screen, causing the phosphors to emit visible light. The beam is generated by an electron gun and is passed through a deflection system that scans the beam rapidly left to right and top to bottom. A magnetic lens focuses the beam to create a small moving dot on the phosphor screen. It is these rapidly moving spots of light ("pixels") that "paint" the image on the surface of the viewing screen. The next generation of imaging technology, flat panel displays, is now in widespread use in portable computers, calculators, and other personal display devices. The flat panel display can consist of hundreds of thousands of pixels, each of which is formed by a single transistor acting on a crystalline material.

In recent years, as the computer and electronics industries have made substantial advances in miniaturization, manufacturers have sought lightweight, low power, cost-effective displays to enable the development of more portable products. Flat panel technologies have made meaningful advances in these areas, and liquid crystal flat panel displays are now commonly used for laptop computers and other electronic products. Both technologies, however, pose difficult engineering and fabrication problems for more highly miniaturized products because of inherent constraints in size, weight and power consumption. In addition, both cathode ray tubes and flat panel displays often become dim and difficult to see in outdoor or other settings where the ambient light is stronger than the light emitted from the screen and display mobility is limited by size. The Company believes that, as display technologies attempt to keep pace with miniaturization and other advances in information delivery systems, conventional cathode ray tube and flat panel technologies will no longer be able to provide the full range of performance characteristics, including high resolution, high level of brightness and low power consumption, required for state-of-the-art information systems.

Microvision's Retinal Scanning Display Technology

The Company's retinal scanning display technology is fundamentally different from existing commercialized display technologies. Retinal scanning display systems create an image on the retina like a miniaturized video projector focused on the "projection screen" at the back of the viewer's eye. By continuously scanning a low power beam of colored light to "scan" rows of pixels to the retina of the viewer's eye, the retinal scanning display technology creates a high resolution, full motion image. The light that is directed to the retina is much the same as light that is reflected to the retina from our natural environment.

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

Strategy

The Company's objective is to be a leading provider of personal display and imaging technology in a broad range of professional and consumer applications. Key elements of the Company's strategy to achieve this objective include:

I. Strategic Partnering to Extend Marketing and Technical Reach

The Company's key technologies have applications in several markets and products. The Company has contracted with and will continue to pursue strategic partners who will provide resources and services that would take substantial time and additional cost for the Company to develop independently. Strategic partners will be selected to provide support depending on the specific requirements of markets and products. Examples of activities that will benefit from strategic partnering are:

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

Sale of components or "engines" of scanning technology. Certain potential applications of the retinal scanning display technology, such as pagers or cellular phones, could require integration of the retinal scanning display technology with other unrelated technologies. In markets requiring volume production of personal display components or subsystems that can be integrated with non-display components, the Company may provide components, subsystems and systems design technology to OEMs under licensing agreements.

Licensing of proprietary technology to OEMs for volume manufacture of products. The Company believes that in consumer markets the ability of personal display products to compete effectively is largely driven by the ability to price aggressively for maximum market penetration. Significant economies of scale in volume purchasing, manufacturing and distribution are important factors in driving costs down to achieve pricing objectives and profitability. The Company's strategy will be to seek both initial license fees from such arrangements as well as on going per unit royalties.

The Company expects that such relationships generally will involve a period of co-development during which engineering and marketing professionals from OEMs would work with the Company's technical staff to specify, design and develop a product appropriate for the targeted market and application. The Company would charge fees to its OEM partners to compensate it for the costs of the engineering effort incurred on such development projects. The nature of the relationships with such OEMs may vary from partner to partner depending on the proposed specifications for the retinal scanning display, the product to be developed, and the OEMs' design, manufacturing and distribution capabilities. The Company believes that by limiting its own direct manufacturing investment for consumer products, it will reduce the capital requirements and risks inherent in taking the retinal scanning display technology to the consumer market.

II. Platform Model to Leverage Core Technologies

The Company is developing fundamental components of scanning technology that will be incorporated into modular "engines" that, in turn, will be integrated to create potential products. Many of these potential products will share engines and subsystems. Potential products could be customized by utilizing interchangeable components. The Company has currently defined the following key product groups for further development:

- High Performance

- Compact Wearable
- Microdisplay
- Image Capture
- Projection

For example, all of these products may utilize a Micro-Electro Mechanical System (“MEMS”) scanner to direct a beam of light. A compact wearable product and a projection product may use the same MEMS scanner combined with different optics, photonic or drive electronic components. This would allow greater economies of scale in building MEMS scanners.

III. Development of an Intellectual Property Portfolio

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

Applications, Markets and Products

The Company has identified a variety of potential applications for its retinal scanning display technology, including the following:

Augmented Vision. Augmented vision applications superimpose high contrast, monochromatic or color images and information on the user’s view of the surrounding environment as a means of enhancing the safety, precision or speed of the user's performance of tasks. For example, a head-worn display could superimpose critical patient information such as vital signs, EKG traces, reference materials, X-rays or MRI images in a surgeon's field of vision. For military applications, troops could be equipped with field goggles that display high definition imagery that could be viewed without blocking normal vision and could assist in threat detection, reconnaissance and other activities.

Simulation and Entertainment Displays. Manufacturers of interactive media products have recognized that the visual experience offered by simulation is enhanced by high resolution, three-dimensional displays projected over a wide field of vision. Although simulated environments traditionally have been used as a training tool for professional use, they are becoming increasingly popular as a means of entertainment, particularly in computer games.

Hand Held or Worn Personal Communications Devices. Manufacturers of wireless and cellular communications devices have identified the need for products that incorporate personal display units for viewing electronic mail, fax and graphic images on highly miniaturized devices. Existing display technologies have had difficulty satisfying this demand fully because of the requirements that such devices be highly miniaturized, full format, relatively low cost and offer high resolution without requiring high levels of battery power. The Company expects that the range of potential products in this category may include displays for cellular phones, pagers, or personal digital assistants that display electronic mail messages, faxes or other information as a bright, sharp image.

The Company has targeted various market segments for these potential applications, including defense, medical, industrial and consumer markets. The following table identifies product development opportunities within each of these markets.

		POTENTIAL MARKETS			
		Defense & Public Safety	**Medical**	**Industrial**	**Consumer**
POTENTIAL APPLICATIONS	**Hand held Communication Devices**	• Command and control • Tactical information systems • Portable maintenance • Public safety • Law enforcement	• Patient status monitoring	• Maintenance and field service	• Fax or E-mail viewing • Internet access • E-Business
	Simulation and Entertainment Displays	• Battlefield simulation • Aircraft simulation	• Surgical training • Endoscopic surgeries	• Training	• Gaming • On-line shopping • Virtual reality
	Augmented Vision	• Pilot information systems • Mine detection • Tactical warfare data • Personnel status monitor	• Overlay of patient data during surgeries • “Head-down” viewing of patient vitals	• Maintenance • Inventory control • Factory process control • Sales automation	• Private viewing laptop systems

The Company will target early adopters of the retinal scanning display technology who, even at an earlier stage of development, would achieve significant productivity or performance gains and associated cost savings. The Company believes that military, medical, and industrial users will value the ability of personal retinal scanning display-based displays to superimpose high contrast images on the user's natural field of vision. Similarly, users of wireless devices, who have a need to receive critical or timely data through electronic mail, Internet or facsimile transmission, are expected to value the performance characteristics that retinal scanning display systems are expected to deliver.

Prototypes and Technology Development

The Company has developed several prototypes to demonstrate the feasibility of the retinal scanning display technology. These prototypes are not commercial products or applications but rather are demonstration models of proposed products or next generation technology. The first prototype developed was a tabletop model, which received output from a personal computer and generated a full color image. Later prototypes are portable devices that, for demonstration purposes, are connected to a personal computer. The projection optics of the portable prototypes is packaged together with vertical and horizontal scanners.

One type of demonstrator is monochromatic and is worn by the user. A battery and the electronics that receive and condition the signal are attached to a belt that the user wears. More than twenty fully functional wearable prototypes were built and deployed in field trials in 2000. The prototypes were tested in industrial and medical environments.

A second demonstrator is a fully integrated color model, which is the size of a small airline carry-on bag. In 2000, the Company also developed a new full color prototype using light-emitting diodes. This prototype demonstrated the potential for a hand held or worn full color retinal scanning display.

The Company's existing prototypes have demonstrated the technical feasibility of the retinal scanning display system and the Company's ability to miniaturize certain of its key components. Additional work is in progress to achieve advances necessary for large-scale application, full color capability in highly miniaturized versions and design of new architectures for specific applications. Research and product development expenses for the fiscal years ended December 31, 2000, 1999 and 1998 were $19,527,800, $10,232,700, and $3,305,600, respectively. Substantially all of the Company's revenue to date has been derived from performance on development contracts to further develop the retinal scanning display technology to meet customer specifications. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Drive Electronics. The drive electronics are the components that convert the image from the image source to a signal to drive the photon sources and scanner to create the image. The Company has identified four areas where additional development of the drive electronics is necessary:

- Further miniaturizing using integrated circuits and improving packaging techniques. To date, the Company has identified no technological barriers to the further miniaturization of the drive electronics.
- Refining the timing and nature of the signals driving the photon sources and scanners to improve display quality.
- Improving the drive circuitry for light-sources.
- Achieving and improving the compatibility of the drive electronics with existing and emerging video standards. The Company's existing prototypes are compatible with current North American video format standards and the output from most personal computers. In 2001, the Company intends to further develop the retinal scanning display technology to conform to a broader range of interface standards, including existing higher resolution standards.

Photon Sources. The photon source creates the light beam that paints the image on the retina. In a full color retinal scanning display system, red, green and blue photon sources are modulated and mixed to generate the desired color and brightness. Low power solid state lasers, laser diodes and light-emitting diodes ("LEDs") are suitable photon generators for the retinal scanning display system. Blue and green solid state lasers are currently available but are useful only for retinal scanning display applications where cost and size are not critical. Miniaturized visible laser diodes are currently available only in red, although a number of other companies are developing blue laser diodes in anticipation of high volume consumer electronics applications. Miniaturized LEDs are less expensive than laser diodes. The Company expects these LEDs will provide sufficient brightness for certain applications; however, the Company still expects to use laser diodes for augmented vision applications that require maximum brightness. The Company intends to rely on other companies' independent work or to contract with other companies to complete development of the materials and processes necessary to produce specific configurations of green and blue LEDs and laser diodes. In 2000, the Company continued its strategic partnership alliance with Cree, Inc., a developer and manufacturer of green and blue LED's for mass markets, to further the development of green and blue LED's to meet the Company's expected requirements. The Company built a full color LED, retinal scanning display prototype to demonstrate progress with these LEDs.

Scanning. A pair of scanners, one horizontal and one vertical is used to direct the light beam that creates the image on the retina. In laser printers and bar code readers, a spinning or oscillating mirror is used to scan a light beam, but these polygonal mechanical scanners are typically too large and slow for use in miniaturized display applications. To solve this problem, the Company uses its proprietary horizontal scan, Mechanical Resonance Scanner ("MRS"). In operation, the MRS resembles a very small tuning fork with a mirrored surface. It is tuned to resonate at the exact scanning frequency needed to generate the display, with very little power needed to keep it oscillating. Directing the light beam at the vibrating mirror causes the light beam to scan rapidly back and forth horizontally. A second vibrating mirror is used to direct the pixels vertically down the retina.

Continued development of the scanning subsystem for retinal scanning display devices will be required in order to allow scanning capability for current standard video formats, including high definition television, as well as new digital video standards. Existing designs for scanner and scanner electronics may prove ineffective at higher resolutions and may need to be replaced with alternative scanning methods. In 1998, the Company demonstrated highly miniaturized "micro-electro-mechanical system" (MEMS) versions of both horizontal and vertical scanner systems. In 1999, the MEMS development resources were augmented substantially with additional specialized staff, an on-site clean room facility and access to advanced fabrication and testing facilities at the University of Washington. In 2000, the Company demonstrated a 2-axis MEMS scanner. In this configuration a single scanner creates a complete display pattern. With the availability of both MRS and MEMS scanning systems, the Company has achieved important flexibility from the standpoint of developing optimal architectures for key resolution targets including SVGA resolution.

Optics. For applications where the retinal scanning display device is to be worn, it is desirable to have an exit pupil (the range within which the viewer's eye can move and continue to see the image) of 10 to 15 millimeters. The Company has developed an optic design that expands the exit pupil up to 15 millimeters. Additional design and engineering of this expanded exit pupil is required to develop commercial applications. In 1999, the Company refined optics designs for both monocular (one-eye) and biocular (two-eye) prototypes. A full "binocular" system, which incorporated two separate video channels (one for each eye), was also developed to provide the user with full stereoscopic viewing of 3-dimensional imagery. The Company's on going optics development is directed at the creation of optical systems that exhibit lower distortion, are lighter weight and are more cost-effective to manufacture.

Human Factors, Ergonomics and Safety

As part of its research and development activities, the Company conducts on going research as to the cognitive, physiological and ergonomic factors that must be addressed by products incorporating retinal scanning display technologies and the safety of retinal scanning display technology, including such issues as the maximum permissible laser exposure limits established by American National Standards Institute ("ANSI"). Researchers from the University of Washington Human Interface Technology Lab have concluded that laser exposure to the retina under normal operating conditions would be below the calculated maximum permissible exposure level set by ANSI.

Imaging Solutions

Industry background

During 2000, the Company increased its efforts to develop products that capture images, such as bar code readers or miniature high resolution cameras, using the retinal scanning display technology and other proprietary technology. The Company believes that the basic components of the retinal scanning display system can be used to develop bar code readers or miniature high resolution cameras that have higher performance and lower cost than those currently available. The Company has developed proprietary scanner technology, which it plans to use in a low cost hand held bar code scanner targeted at consumer applications.

The market for electronic image capture devices has grown significantly as the range of applications has grown. These applications include automated data capture, machine vision-based inspection systems and image-based identity verification. The current products that address these markets are based on pixilated light-to-charge or light-to-voltage converters such as CCD or CMOS arrays. While these devices have been, and will continue to be very successful, we believe that our scanned beam imaging engines have the potential to deliver superior performance at a lower price.

Our competitors in the imaging solutions market are well established, large companies that have large market shares. The industry has undergone significant consolidation over the past several years and is currently dominated by Symbol Technology.

Product Strategy

The first planned product for the imaging solutions group is a hand held bar code wand scanner. Current hand held bar code wand scanners are the least expensive type of bar code reading devices. However, since these devices are also the most difficult for the novice to use, they tend to create frustration for consumers. To address this problem we are developing a low cost bar code scanner that will be as easy to use as conventional laser scanners. The device features a proprietary laser scanning mechanism that we believe will provide lower power consumption, size and cost than those currently available. In 2000, the Company built a prototype bar code scanner using this technology. During 2001, the Company plans to continue to refine the design of the hand held scanner and introduce a hand held device for the consumer market in 2002. The device will be targeted for mobile internet applications that can be connected to existing cellular phones, personal display appliances and personal computers. These bar code readers could be distributed through existing third party bar code distributors, OEMs or directly to commercial customers.

Optical Systems Components

Industry Background

During 2000, the Company formed a subsidiary company, Lumera, to develop and commercialize a new class of Optical Materials and devices that utilize the optical properties of these proprietary materials. The subsidiary is an outgrowth of the Company's on going work in photonics. The Optical Materials are polymers that have been specifically treated to act as optical wave-guides. By adjusting the composition of the polymer, the wave-guide properties of these Optical Materials can be changed to meet different commercial applications. Lumera expects that these materials and devices made from them will improve the performance and reduce the cost of electro-optic components used for fiber-optic telecommunications and data communications systems, phased-array radar systems, optical computing and other photonics applications.

Lumera has established and built in-house laboratories to develop and characterize new materials, create new device designs and perform small-scale production of new devices and systems based on the Optical Materials. As of December 31, 2000, Lumera had 12 full time employees including chromophore chemists, material scientists and device engineers. As of December 31,2000 Microvision had funded all Lumera operations and incurred losses of $2.9 million and invested $3.2 million in capital assets.

In October 2000, Lumera entered into an exclusive license agreement with the University of Washington to license certain Optical Materials technology. Under the terms of the license agreement, Lumera must pay the University of Washington $200,000 upon Lumera's approval of a research plan submitted by the University of Washington. In addition, Lumera must pay on going royalties based on revenue from products incorporating the licensed technology. Lumera also entered into a three year sponsored research agreement with the University of Washington to fund continued development work on the Optical Materials. Under the terms of the research agreement, Lumera must make the following payments to the University of Washington upon Lumera's approval of the research plan submitted by the University of Washington:

(1) $9.0 million in equal quarterly payments over three years; and
(2) 802,414 shares of Lumera Common Stock.

Lumera has also committed to provide to the University of Washington $300,000 per year during the term of the research agreement for additional research related to the Optical Materials.

Product Strategy

The first product planned for introduction is a high-speed electro-optical modulator that will provide a direct replacement for currently available lithium niobate modulators. The function of an electro-optical modulator is to encode data onto laser beams that carry and deliver that data throughout optical fiber networks. Currently, external electro-optical modulators are made from several kinds of inorganic crystalline materials. These materials include lithium niobate and semiconductor III-V materials such as gallium arsenide and indium phosphide. These materials exhibit fast modulation for large volume data delivery, but have the disadvantage that they require relatively high voltages to operate. The performance levels of inorganic materials cannot be easily improved because they are intrinsic to the properties of the constituent materials.

Lumera's Optical Materials address the fundamental limitations of materials currently used in electro-optical modulators. The Optical Materials are designed and created by incorporating specifically designed highly electro-active chromophores into optical wave-guide quality polymer materials to build materials systems that suit specific applications requirements. The advantage of Lumera's approach is that the Optical Materials can be chemically designed and manipulated to optimize performance for a specific application.

Lumera plans to develop optical components that offer increased speed, reduced size and cost, greater reliability, and more efficient operation than existing electro-optic component technologies. Moreover, Lumera believes that its Optical Materials technology is well suited to the manufacture of highly complex, highly integrated optical systems. Lumera plans to make prototype electro-optical modulators available to customers during 2001 and begin commercial production in 2002. Prototype devices based on the Optical Material have achieved bandwidth in excess of 100GZ and operating voltages below 1v. in demonstrations at both commercial and government research labs.

University of Washington License Agreements

The Virtual Retinal Display technology comprises a substantial part of the Company's retinal scanning display technology. The Virtual Retinal Display technology was originally developed at the University of Washington's Human Interface Technology Lab. In 1993, the Company acquired the exclusive rights to the Virtual Retinal Display technology and associated intellectual property from the University of Washington pursuant to an exclusive license agreement. The scope of the license covers all possible commercial uses of the Virtual Retinal Display technology worldwide, including the right to grant sublicenses. The license expires upon the expiration of the last of the University of Washington's patents that relate to the Virtual Retinal Display, unless sooner terminated by the Company or the University of Washington. In granting the license, the University of Washington retained limited, non-commercial rights with respect to the Virtual Retinal Display technology, including the right to use the technology for non-commercial research and for instructional purposes and the right to comply with applicable laws regarding the non-exclusive use of the technology by the United States government. The University of Washington also has the right to consent to the Company's sublicensing arrangements and to the prosecution and settlement by the Company of infringement disputes. In addition, the University of Washington retains the right to publish information regarding the Virtual Retinal Display technology for academic purposes.

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

Under the terms of the License agreement, the Company agreed to pay a non-refundable fee of $5.1 million (the "License Fee"), which was fully paid in August 1997, and to issue to the University of Washington shares of the Company's common stock. In addition, the University of Washington is entitled to receive certain on going royalties. The

Company also entered into a research agreement with the University of Washington (the "Research Agreement") to further develop the Virtual Retinal Display technology.

Intellectual Property and Proprietary Rights

In 1993, the Company acquired the exclusive rights to the Virtual Retinal Display technology under the License Agreement with the University of Washington. Additional development of the Virtual Retinal Display technology took place at the University of Washington Human Interface Technology Laboratory pursuant to the Research Agreement. The University of Washington has received twenty-two patents on the Virtual Retinal Display technology and has an additional twenty-five U.S. patent applications pending in the United States and sixty-one foreign counterpart applications in certain foreign countries, all of the rights to which have been exclusively licensed to the Company. In addition, the University of Washington has one patent pending relating to the Optical Materials technology.

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

During 1998, the Company entered into a license agreement with a third party whereby the Company acquired the exclusive license to certain intellectual property related to the design and fabrication of microminiature devices using semiconductor fabrication techniques. The licensor has received eleven patents and has thirty-one patent applications pending pertaining to the Company's field of use.

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

In October 2000, Lumera acquired the exclusive rights to the Optical Materials technology and associated intellectual property from the University of Washington pursuant to an Exclusive License Agreement. Lumera also entered into a sponsored research agreement with the University of Washington ("Sponsored Research Agreement") to further develop the Optical Materials technology.

The Exclusive License Agreement terminates upon the expiration of the last of the University of Washington's patents that relate to the Optical Materials technology, unless terminated sooner by Lumera or the University of Washington. In granting the license, the University of Washington retained limited, non-commercial rights to the Optical Materials technology in Lumera's field of use, including the right to use the Optical Materials technology for non-commercial research and instructional purposes and to comply with applicable laws regarding the non-exclusive use of the Optical Materials technology by the United States government. In addition, the University of Washington retains certain rights to publish information regarding the Optical Materials technology for academic purposes.

Lumera could lose the exclusivity under the Exclusive License Agreement if Lumera fails to commercialize the Optical Materials technology within a specified period after it receives commercially viable Optical Materials from the University of Washington or fails to perform its obligations under the Sponsored Research Agreement.

Under the terms of the Exclusive License Agreement, Lumera must pay a non-refundable license fee of $200,000. In addition, the University of Washington is entitled to receive certain on going royalties. Lumera must pay the University of Washington $9.0 million in equal quarterly payments over three years beginning with Lumera's approval of a research plan under the sponsored research agreement and issue the University of Washington 802,414 shares of Lumera stock. Lumera has also committed to provide to the University of Washington $300,000 per year during the term of the research agreement for additional research related to the Optical Materials.

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

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

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

Other Technology Investment

The Company intends to pursue the acquisition and development of other imaging and display technologies as opportunities arise.

In March 1994, the Company entered into a second exclusive license agreement with the University of Washington to acquire certain imaging technology unrelated to the retinal scanning display technology. This technology involves the projection of data and images onto the inside of a dome that is placed over the viewer's head. This imaging technology is referred to as HALO. The HALO license agreement requires the Company to make payments to the University of Washington upon filing a patent application and the issuance of a patent.

In February 2001, the Company acquired a fully paid-up royalty-free exclusive license to the HALO technology in exchange for 37,000 shares of Microvision common stock and $100,000.

Competition

The information display industry is highly competitive. The Company's products and the retinal scanning display technology will compete with established manufacturers of miniaturized cathode ray tube and flat panel display devices, including companies such as Sony Corporation and Texas Instruments Incorporated, most of which have substantially greater financial, technical and other resources than the Company and many of which are developing alternative miniature display technologies. The Company also will compete with other developers of miniaturized display devices. There can be no assurance that the Company's competitors will not succeed in developing information display technologies and products that could render the retinal scanning display technology or the Company's proposed products commercially infeasible or technologically obsolete.

The electronic information display industry has been characterized by rapid and significant technological advances. There can be no assurance that the retinal scanning display technology or the Company's proposed products will remain competitive with such advances or that the Company will have sufficient funds to invest in new technologies, products or processes. Although the Company believes that its retinal scanning display technology and proposed display products could deliver images of a quality and resolution substantially better than those of commercially available miniaturized LCD and cathode ray tube based display products, there is no assurance that manufacturers of LCDs and cathode ray tubes will not develop further improvements of screen display technology that would eliminate or diminish the anticipated advantages of the Company's proposed 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.

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 and the optical switching industries have 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 the Optical Materials 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.

Our products may be subject to future health and safety regulations 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 commercially viable products, we may have lower revenues.

Although we have developed prototype products incorporating the retinal scanning display technology and prototype devices have been built using the Optical Materials 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 and our other licensors to maintain the proprietary nature of the retinal scanning display and related technologies. We also rely on proprietary Optical Materials technology licensed from the University of Washington. Although our licensors have patented various aspects of the retinal scanning display technology and applied for patents on various aspects of Optical Materials technology, and although we continue to file our own patent applications covering retinal scanning display features, Optical Materials technology 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 prevent the unauthorized use, misappropriation or disclosure of such trade secrets, know–how or other proprietary information.

We could face lawsuits related to our use of the retinal scanning displaytechnology. 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 displays. These patents could be used as a basis to challenge the validity of the University of Washington's patents, to limit the scope of the University of Washington's patent rights or to limit the University of Washington's ability to obtain additional or broader patent rights. A successful challenge to the validity of the University of Washington'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 of Washington 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.

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.

If we cannot 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 our technology that we are able to produce.

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 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 increased demands on our financial resources, possibly requiring additional equity and/or debt financing to sustain our business operations.

If we lose the exclusive use of the Virtual Retinal Display technology or the Optical Materials technology, our business operations and prospects would be adversely affected.

We acquired the exclusive rights to the Virtual Retinal Display technology and the Optical Materials technology under exclusive license agreements with the University of Washington. If the University of Washington were to violate the terms of the license agreements by providing the 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 designated time limits, claims that other companies are using the Virtual Retinal Display technology in violation of our license agreements.

We need to collaborate with third parties to be able to successfully develop products for commercial 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, OEMs and other third parties. We cannot be certain that we will be able to negotiate arrangements on acceptable terms, if at all, or that these arrangements will be successful in yielding commercially viable products. If we cannot establish these arrangements, we would require additional capital to undertake such activities on our own and would require extensive manufacturing, sales and marketing expertise that we do not currently possess and that may be difficult to obtain. In addition, we could encounter significant delays in introducing the 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.

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 and Optical Materials 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, research and product development, and manufacturing. Competition for qualified personnel in these fields is intense, and the inability to attract and retain additional highly skilled personnel, or the loss of key personnel, could reduce our revenues and adversely affect our business.

We 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 December 31, 2000, we had an accumulated deficit of $66.1 million.
- We incurred net losses of $15.5 million from inception through 1997, $7.3 million in 1998, $16.7 million in 1999, and $26.6 million in 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 2001, and possibly thereafter. 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 likely 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 March 1, 2001, we had outstanding:

- options to purchase an aggregate of 3,229,000 shares of common stock, and
- warrants to purchase 463,000 shares of common stock.

Sales in the public market 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.

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.

If we fail to manage expansion effectively, our revenue and expenses could be adversely affected.

Our ability to successfully offer products and implement our business plan in a rapidly evolving market requires an effective planning and management process. We have significantly expanded the scope of our operations. In addition, we plan to continue to hire a significant number of employees during the next twelve months. The growth in business, head count and relationships with customers and other third parties has placed and will continue to place a significant strain on our management systems and resources. We will need to continue to improve our financial and managerial controls, reporting systems and procedures and will need to continue to expand, train and manage our work force.

It may be difficult for a third party to acquire the Company andthis 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 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.

Additional risk associated with the Lumera business.

We cannot be certain that our Optical Materials will achieve market acceptance.

Lumera's success will depend in part on the commercial acceptance of the Optical Materials. The optical switching industry is currently fragmented with many competitors developing different technologies. We expect that only a few of these technologies ultimately will gain market acceptance. The Optical Materials may not be accepted by OEMs and systems integrators of optical switching networks. To be accepted, the Optical Material must meet the technical and performance requirements of our potential customers in the telecommunications industry. If our Optical Materials technology fails to achieve market acceptance, we may not be able to continue to develop the technology.

Our lack of the financial and technical resources relative to our competitors may effect our ability to commercialize the Optical Materials.

The optical switching market is a highly competitive market. Several companies, many of which have substantially greater financial, technical and other resources than us, are working on competitive technologies. 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 technology could cause our Optical Materials technology not to become commercially viable, which could reduce the value of our business.

Lumera's revenues are highly sensitive to developments in the telecommunications industry.

Lumera's expected revenues will be derived from product sales to OEMs and system integrators in the telecommunications industry. We believe that sales of potential products in this market could represent a significant portion of our future revenues. Developments that adversely affect the telecommunications sector, including delays in traffic growth, government regulation or a general economic downturn, could slow or halt our revenue growth.

Employees

As of March 1, 2000, the Company has 171 employees and 12 contractors of which 15 employees are employees of Lumera. The Company's employees are not subject to any collective bargaining agreements and management regards its relations with employees to be good.

ITEM 2. DESCRIPTION OF PROPERTY

The Company currently leases approximately 67,400 square feet of combined use office and laboratory space as its headquarters facility in Bothell, Washington. The Company also has a commitment to lease between 25,000 and 34,000 additional square feet at this facility during the fourth and fifth years of the seven-year lease, which expires in 2006.

ITEM 3. LEGAL PROCEEDINGS

The Company is not a party to, nor is its property subject to, any material pending legal proceeding.

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

None

PART II

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

The Company's Common Stock trades on the Nasdaq National Market under the symbol "MVIS." As of March 1, 2001, there were 246 holders of record of 11,900,600 shares of Common Stock. The Company has never declared or paid cash dividends on the Common Stock. The Company currently anticipates that it will retain all future earnings to fund the operation of its business and does not anticipate paying dividends on the Common Stock in the foreseeable future.

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

Quarter Ended	Common Stock	
	High	Low
March 31, 1999	16 3/4	11 3/8
June 30, 1999	30 3/8	14 3/8
September 30, 1999	26 7/16	12 3/4
December 31, 1999	31 1/2	12 1/2
March 31, 2000	68 1/2	25 3/8
June 30, 2000	56 1/2	21 3/4
September 30, 2000	55 1/8	29 3/16
December 31, 2000	39	13 5/8
January 1, 2001 to		
March 1, 2001	29	16

On March 1, 2000, the last sale price for the Common Stock was $16.50.

On December 7, 2000 the Company issued 1,000 shares of common stock to a warrant holder upon exercise of a warrant. The Company received cash consideration of $12,500 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 December 13, 2000 the Company issued a common stock purchase warrant to Josephthal & Co., Inc. The warrant was issued as partial consideration for placement agent services previously rendered to the Company. The warrant provides the holder the right to purchase up to 4,907 shares of Common Stock at a price of $61.13 per share for a period of four years and four months. This transaction did not involve a public offering and was exempt from registration under the Securities Act pursuant to Section 4(2) thereof.

ITEM 6. SELECTED FINANCIAL DATA

A summary of selected financial data as of and for the five years ended December 31, 2000 is set forth below:

Selected Financial Data
(in thousands, except per share data)

	Year Ended December 31,				
	2000	1999	1998	1997	1996
Statement of Operations Data:					
Revenue	$8,121	$6,903	$7,074	$1,713	$102
Net loss available for common shareholders	(26,601)	(16,700)	(7,328)	(4,945)	(3,457)
Basic and diluted net loss per share	(2.33)	(2.04)	(1.22)	(.85)	(.90)
Weighted average shares outstanding – basic and diluted	11,421	8,169	5,994	5,806	3,832
Balance Sheet Data:					
Cash, cash equivalents and investments available-for-sale	40,717	$32,167	$2,269	$8,841	$14,266
Working capital	40,551	32,802	1,358	8,441	13,321
Total assets	56,171	41,619	6,362	10,741	14,565
Long-term obligations	714	836	282	92	
Total shareholders' equity	50,042	35,359	2,589	9,164	13,509

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

Overview

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

Since the completion of its initial public offering in August 1996, the Company has established and equipped its own in-house laboratory for the continuing development of the retinal scanning display technology and has transferred the research and development work on the Virtual Retinal Display technology from the University of Washington to the Company.

The Company currently has several prototype versions of the retinal scanning display including monochromatic and color portable units and a full color tabletop model. The Company expects to continue funding prototype and demonstration versions of products incorporating the retinal scanning display technology at least through 2001. Future revenues, profits and cash flow and the Company's ability to achieve its strategic objectives as described herein will depend on a number of factors, including acceptance of the retinal scanning display technology by various industries and OEMs, market acceptance of products incorporating the retinal scanning display technology and the technical performance of such products.

In 2000, the Company formed a subsidiary, Lumera Corporation ("Lumera"), to develop and commercialize a new class of non-linear optical chromophores ("Optical Materials") and devices that utilize the optical properties of these Optical Materials.

Lumera has established and built in-house laboratories to develop and characterize new materials, create new device designs and perform small-scale production of new devices and systems based on the Optical Materials. Lumera also entered into a three-year sponsored research agreement with the University of Washington to fund continued development work on the Optical Materials. As of December 31, 2000, Microvision had funded all Lumera operations and incurred losses of $2.9 million and invested $3.2 million in capital assets.

The Company has incurred substantial losses since its inception and expects to continue to incur significant operating losses over the next several years.

Results of Operations

YEAR ENDED DECEMBER 31, 2000 COMPARED TO
YEAR ENDED DECEMBER 31, 1999

Revenue. Revenue increased by approximately $1.2 million, or 18%, to $8.1 million in 2000 from $6.9 million in 1999. The increase resulted from a higher level of development contract business in 2000 than that performed in 1999 on contracts entered into in both 2000 and 1999.

To date, substantially all of the Company's revenue has been generated from development contracts. The Company's customers have included both the United States government and commercial enterprises. The United States government accounted for approximately 91% and 82% of revenue during 2000 and 1999, respectively. The Company expects its sources of revenue to fluctuate from year to year.

During 2000, the Company entered into several development contracts with both commercial and government entities for further development of the retinal scanning display technology to meet specific customer applications.

In the defense business area, the Company entered into a $5.0 million contract with the U.S. Army's Aviation Applied Technology Directorate to continue work on an advanced helmet-mounted display and imaging system to be used in the Virtual Cockpit Optimization Program. In addition, the Company was awarded a $2.8 million contract with the U.S. Army's Aircrew Integrated Systems Program office to further advance the form and functional development of a helmet-mounted display.

Nomad, a monochrome head worn display, is planned to be the Company's first commercial product which is planned for shipment in 2001. During 2000, the Company entered into a $600,000 contract to provide a prototype Nomad and a full color prototype display to the Cleveland Clinic. The Company has sold four additional Nomad prototypes to customers in the medical and industrial markets during 2000. One of these customers, Telesensory, placed the first order for ten production Nomad units.

The Company ended the year with a $4.5 million backlog. The Company expects to complete all of the backlog contracts during 2001.

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

Cost of revenue increased by approximately $1.2 million, or 23%, to $6.1 million in 2000, from $4.9 million in 1999. The increase resulted from an increase in the direct costs associated with the Company's performance on development contracts in 2000 from that in 1999. The higher level of expense in 2000 as compared to 1999 also resulted from a higher level of investment made by the Company in developing its technologies through work performed on its own internal research and development projects, which resulted in greater overhead absorption by these research and development projects.

Cost of revenue in 2000 includes a provision for estimated losses on uncompleted contracts. The Company recognizes any estimated losses on contracts in full as soon as identified. The losses are a result of the Company's decision to invest in strategic projects with our partners to advance the retinal scanning display technology.

The Company expects that cost of revenue on an absolute dollar basis will increase in the future. This increase will likely result from additional development contract work that the Company expects to perform and commensurate growth in the Company's personnel and technical capacity required for performance on such contracts. 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 an anticipated higher level of development contract business and as the Company's expenditures incurred to increase its technical capabilities and capacity become less as a percentage of a higher level of revenues.

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
- Related 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 increased by $9.3 million, or 91%, to $19.5 million from $10.2 million 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 must pay $4.5 million during the first year of the extension in four equal quarterly payments. As of December 31, 2000, the Company had made three payments under this agreement. The Company has pledged investments of $1.1 million as security for a letter of credit, which will be used to fund the remaining payment 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 and the Optical Materials 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
- Incurring related operating expenses.

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

- Continue development of the Company’s retinal scanning display technology,
- Develop and commercialize the Optical Materials technology,
- Prepare for the planned introduction of the Company’s first commercial product in 2001,
- Accelerate development of microdisplays to meet emerging market opportunities,
- Expand the Company’s investment in bar code reader development, 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 increased by $3.3 million, or 45%, to $10.5 million from $7.2 million 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.

Non-Cash Compensation Expense. Non-cash compensation expense increased by $1.3 million, or 503%, to $1.6 million from $264,000 in 1999. Non-cash compensation expense includes the amortization of the value of stock options granted to individuals who are not employees or directors of the Company for services provided to the Company.

A significant component of the increase is due to a five year consulting agreement between the Company and two independent consultants, entered into in August 2000, to provide strategic business and financial consulting services. Under the terms of the agreements, each consultant received a warrant to purchase 100,000 shares of common stock at an exercise price of $34.00 per share. The warrants vest over three years and the unvested shares are subject to remeasurement at each balance sheet date during the vesting period. The original value of the warrants was estimated at $5.5 million. Due to a decrease in the Company stock price, the value at December 31, 2000 was estimated at $3.7 million. In 2000, total non-cash amortization for these agreements was $345,000.

Interest Income and Expense. Interest income increased by $1.9 million, or 167%, to $3.1 million from $1.2 million in 1999. This increase resulted primarily from higher average cash and investment securities balances in 2000 than the average cash and investment securities balances in the prior year.

Interest expense was consistent with 1999 because the amount of borrowings did not change significantly.

Income Taxes. No provision for income taxes has been recorded because the Company has experienced net losses from inception through December 31, 2000. At December 31, 2000, the Company had net operating loss carry-forwards of approximately $65.6 million for federal income tax reporting purposes. The net operating losses begin expiring in 2005 if not previously utilized. In certain circumstances, as specified in the Internal Revenue Code, a 50% or more ownership change by certain combinations of the Company’s shareholders during any three-year period would result in a limitation on the Company’s ability to utilize its net operating loss carry-forwards. The Company has determined that such a change of ownership occurred during 1995 and that the annual utilization of loss carry-forwards generated through the period of that change will be limited to approximately $761,000. An additional change of ownership occurred in 1996; however, the amount of the annual limitation is not material.

YEAR ENDED DECEMBER 31, 1999 COMPARED TO
YEAR ENDED DECEMBER 31, 1998.

Revenue. Revenue decreased by approximately $171,000, or 2%, to $6.9 million in 1999 from $7.1 million in 1998. The decrease resulted from a lower level of development contract business in 1999 than that performed in 1998 on contracts entered into in both 1999 and 1998. Delays in booking development contracts and increases in certain development project budgets contributed to the decline in revenue.

During 1999, the Company went through a reorganization of its Research and Product Development Department to more directly focus its technical capabilities on product development and production. Because the Company recognizes revenue on a percentage of completion basis, the resulting loss of direct labor hours worked on development contracts resulted in lower revenue generation in 1999. Revenue in 1999 includes revenue for which precontract costs were recognized in 1998.

During 1999, the Company entered into several development contracts with both commercial and government entities for further development of the RSD technology for meeting specific customer applications.

In the commercial business area, the Company entered into a multi-year product development and licensing agreement with Carl Zeiss Inc. to develop a range of products in ophthalmic diagnostics and surgical visualization.

In the defense business area, the Company entered into a $4.2 million contract with the U.S. Army’s Aircrew Integrated Systems Program Office to further advance the form and functional development of the helmet-mounted display. In March 1999, the Company entered into a $750,000 SBIR Phase II Contract with U.S. Army's Aviation Applied Technology Directorate ("AADT") for the design of an advanced helmet-mounted display and imaging system to be used in the Virtual Cockpit Optimization Program ("VCOP"). In September 1999, the Company entered into a $1.5 million follow-on SBIR Phase III contract with the AATD to continue development of the VCOP advanced head-worn display.

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

Cost of revenue decreased by approximately $1.5 million or 23% to $4.9 million in 1999 from $6.4 million in 1998. The decrease resulted from a decrease in the direct costs associated with the Company's performance on development contracts in 1999 from that in 1998. The lower level of expense in 1999 as compared to 1998 also resulted from a higher level of investment made by the Company in developing its technologies through work performed on its own internal research and development projects, resulted in greater overhead absorption by such research and development projects.

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
- Related 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 increased by approximately $6.9 million or 210% to $10.2 million in 1999 from $3.3 million in 1998. The increase reflects continued implementation of the Company's operating plan, which calls for building its technical staff and supporting activities to further develop the Company's technology; establishing and equipping its own in-house laboratories; and developing intellectual property related to the Company's business.

In May 1999, the Company entered into a $2.6 million one year development contract with Cree to accelerate development of semi-conductor light-emitting diodes and laser diodes for application in the Company's proposed display and imaging products. The increase in research and development costs includes costs associated with the work performed by Cree pursuant to the development agreement. In addition, during 1999, costs of $452,000 related to the acquisition of an exclusive license were expensed by the Company.

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, accounting, consultants and other operating expenses.

Marketing, general and administrative expenses increased by approximately $2.7 million or 61% to $7.2 million in 1999 from $4.5 million in 1998. The increase includes increased compensation and support costs for employees and contractors.

Non-Cash Compensation Expense. Non-cash compensation expense decreased by $187,000 or 41% to $264,000 in 1999 from $451,000 in 1998. The decrease is due to the Company decreasing the practice of paying consultants with stock in lieu of cash.

Interest Income and Expense. Interest income increased by approximately $856,000 or 279% to $1.2 million in 1999 from $307,000 in 1998. This increase resulted from higher average cash and investment securities balances in 1999, as a result of the financing activities of the Company, from the average cash and investment securities balances in 1998.

Interest expense increased by approximately $91,000 or 111% to $172,000 in 1999 from $82,000 in 1998. This increase resulted from interest related to higher levels of borrowings.

Preferred Stock Dividends. The Company paid a cash dividend of $73,400 to the holder of its Series B Convertible Preferred Stock in connection with the redemption of its convertible preferred stock and issuance of common stock. In October 1999, the Company amended the option to purchase convertible preferred stock to extend the expiration date to June 30, 2000. This extension was accounted for as a preferred stock dividend with a fair market value $154,400. Additionally, during 1999, the Company recorded a charge of $1.8 million attributable to the beneficial conversion feature of convertible preferred stock issued in 1999.

Income Taxes. No provision for income taxes has been recorded because the Company has experienced net losses from inception through December 31, 1999. At December 31, 1999, the Company had net operating loss carry-forwards of approximately $34.2 million for federal income tax reporting purposes.

Liquidity and Capital Resources

The Company has funded its operations to date primarily through the sale of common stock and convertible preferred stock and to a lesser extent, revenues from development contracts and product shipments. At December 31, 2000, the Company had $40.7 million in cash, cash equivalents and investment securities.

Cash used in operating activities totaled approximately $23.1 million in 2000 compared to $14.8 million in 1999. Cash used in operating activities for each period resulted primarily from the net loss for the period.

Cash used in investing activities totaled approximately $9.3 million in 2000 compared to $33.9 million in 1999. The decrease in cash used in investing activities resulted primarily from decreases in the purchase of investment securities offset by increases in purchases of property and equipment.

The Company used cash for capital expenditures of approximately $5.4 million in 2000 compared to approximately $2.1 million 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 the Company's growth. Capital expenditures are expected to continue to increase as the Company expands its operations. The Company currently has no material commitments for capital expenditures.

Cash provided by financing activities totaled approximately $36.9 million in 2000 compared to $49.2 million in 1999. The decrease in cash provided by financing activities resulted primarily from decreases in the net proceeds from the issuance of common stock and preferred stock in 2000.

The Company's future expenditures and capital requirements will depend on numerous factors, including the progress of its research and development program, the progress in commercialization activities and arrangements, the cost of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights, competing technological and market developments and the ability of the Company to establish cooperative development, joint venture and licensing arrangements. In order to maintain its exclusive rights under the Company's license agreement with the University of Washington, the Company is obligated to make royalty payments to the University of Washington with respect to the Virtual Retinal Display technology. If the Company is successful in establishing OEM co-development and joint venture arrangements, the Company expects its partners to fund certain non-recurring engineering costs for technology development and/or for product development. Nevertheless, the Company expects its cash requirements to increase significantly each year as it expands its activities and operations with the objective of commercializing the retinal scanning display technology and other technologies.

The Company believes that its cash, cash equivalent and investment securities balances totaling $40.7 million, will satisfy its budgeted cash requirements for at least the next 12 months based on the Company's current operating plan. Actual expenses, however, may exceed the amounts budgeted therefore and the Company may require additional capital earlier to further the development of its technology, for expenses associated with product development, and to respond to competitive pressures or to meet unanticipated development difficulties. In addition, the Company's operating plan calls for the addition of sales, marketing, technical and other staff and the purchase of additional laboratory and production equipment. The operating plan also provides for the development of strategic relationships with systems and equipment manufacturers that may require additional investments by the Company. There can be no assurance that additional financing will be available to the Company or that, if available, it will be available on terms acceptable to the Company on a timely basis. If adequate funds are not available to satisfy either short-term or long-term capital requirements, the Company may be required to limit its operations substantially. 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.

Subsequent Events

In February 2001, the Company acquired a fully paid-up royalty-free exclusive license to the HALO technology in exchange for 37,000 shares of Microvision common stock and $100,000.

In March 2001, Lumera raised $21.4 million, net of issuance costs, from the sale of 2,136,000 shares of convertible preferred stock to a group of investors in a private placement. In addition, Lumera issued 264,000 shares of convertible preferred stock to Microvision to retire $2.6 million of intercompany debt. The convertible preferred shares are convertible to an equal number of shares of common stock at the option of the holder.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Substantially all of the Company's cash equivalents and investment securities are at fixed interest rates and, as such, the fair value of these instruments is affected by changes in market interest rates. Due to the generally short-term maturities of these investment securities, the Company believes that the market risk arising from its holdings of these financial instruments is not significant. A one-percent change in market interest rates would have approximately a $407,200 impact on the fair value of the investment securities.

Presently, all of the Company's development contract payments are made in U.S. dollars and, consequently, the Company believes it has no foreign currency exchange rate risk. However, in the future the Company may enter into development contracts in foreign currencies which may subject the Company to foreign exchange rate risk. The Company does not have any derivative instruments and does not presently engage in hedging transactions.

The weighted average maturities of cash equivalents and investment securities, available-for-sale, as of December 31, 2000, are as follows.

	Amount	Percent
Cash	$350,200	0.9%
Less than one year	14,867,200	36.5%
One to two years	18,300,000	44.9%
Two to three years	7,200,000	17.7%
	$40,717,400	100.0%

ITEM 8. FINANCIAL STATEMENTS

INDEX TO FINANCIAL STATEMENTS

Report of Independent Accountants

Balance Sheet as of December 31, 2000 and 1999

Statement of Operations for the years ended December 31, 2000, 1999 and 1998

Statement of Shareholders' Equity for the years ended December 31, 2000, 1999 and 1998

Statement of Comprehensive Loss for the years ended December 31, 2000, 1999 and 1998

Statement of Cash Flows for the years ended December 31, 2000, 1999 and 1998

Notes to Financial Statements

Report of Independent Accountants

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

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, of shareholders' equity, of comprehensive loss and of cash flows present fairly, in all material respects, the financial position of Microvision, Inc. and its subsidiary at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of

America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
Seattle, Washington
February 15, 2001, except as
to the second paragraph of Note 16
which is as of March 14, 2001

Microvision, Inc.
Consolidated Balance Sheet

	December 31, 2000	1999
Assets		
Current assets		
Cash and cash equivalents	$7,307,400	$2,798,000
Investment securities, available-for-sale	33,410,000	29,369,400
Accounts receivable, net of allowances of $93,000 and $60,000	1,032,500	1,024,500
Costs and estimated earnings in excess of billings on uncompleted contracts	2,116,400	2,000,400
Current restricted investments	1,125,000	650,000
Other current assets	975,600	847,700
Total current assets	45,966,900	36,690,000
Long-term investment, at cost	623,600	623,600
Property and equipment, net	7,515,900	3,054,700
Restricted investments	951,000	1,100,000
Receivables from related parties	999,900	-
Other assets	113,900	150,700
Total assets	$56,171,200	$41,619,000

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

Liabilities, Mandatorily Redeemable Convertible Preferred Stock and Shareholders' Equity		
Current liabilities		
Accounts payable	$1,974,500	$1,453,100
Accrued liabilities	2,359,000	2,000,100
Allowance for estimated contract losses	295,000	-
Billings in excess of costs and estimated earnings on uncompleted contracts	418,600	167,000
Current portion of capital lease obligations	316,500	220,800
Current portion of long-term debt	51,900	46,900
Total current liabilities	5,415,500	3,887,900
Capital lease obligations, net of current portion	182,300	279,400
Long-term debt, net of current portion	289,600	341,500
Deferred rent, net of current portion	242,100	214,800
Total liabilities	6,129,500	4,723,600
Commitments and contingencies (Note 11)	-	-

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; 11,883,540 and 10,140,733 shares issued and outstanding	120,506,100	75,518,300
Deferred compensation	(4,378,200)	(213,100)
Subscriptions receivable from related parties	(403,200)	(349,100)
Accumulated other comprehensive income (loss)	454,200	(60,600)
Accumulated deficit	(66,137,200)	(39,536,100)
Total shareholders' equity	50,041,700	35,359,400
Total Liabilities, Mandatorily Redeemable Convertible Preferred Stock and Shareholders' Equity	$56,171,200	$41,619,000

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

Microvision, Inc.
Consolidated Statement of Operations

	Year ended December 31,		
	2000	1999	1998
Revenue	$8,120,600	$6,902,700	$7,074,100
Cost of revenue	6,075,800	4,943,500	6,416,900
Gross margin	2,044,800	1,959,200	657,200
Research and development expense (exclusive of non-cash compensation expense of $7,400, $33,700 and $20,200 for 2000, 1999 and 1998, respectively)	19,520,400	10,199,000	3,285,400
Marketing, general and administrative expense (exclusive of non-cash compensation expense of $1,584,400, $230,300 and $430,300 for 2000, 1999 and 1998, respectively)	10,475,400	7,205,200	4,474,300
Non-cash compensation expense	1,591,800	264,000	450,500
Total operating expenses	31,587,600	17,668,200	8,210,200
Loss from operations	(29,542,800)	(15,709,000)	(7,553,000)
Interest income	3,105,300	1,163,200	307,100
Interest expense	(163,600)	(172,200)	(81,600)
Net loss	(26,601,100)	(14,718,000)	(7,327,500)
Less: Preferred dividend	-	(227,800)	-
Non-cash beneficial conversion feature of Series B Preferred Stock	-	(1,754,300)	-
Net loss available for common shareholders	$(26,601,100)	$(16,700,100)	$(7,327,500)
Net loss per share - basic and diluted	$(2.33)	$(2.04)	$(1.22)
Weighted-average shares outstanding -			

basic and diluted	11,420,600	8,168,600	5,993,500

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

Microvision, Inc.
Consolidated Statement of Shareholders' Equity

	Common stock Shares	Amount	Deferred compensation	Subscriptions receivable from related parties	Accumulated other comprehensive (loss) income	Accumulated deficit	Shareholders' equity
Balance at December 31, 1997	5,920,264	$25,375,300	$(701,200)	$-	$(1,200)	$(15,508,500)	$9,164,400
Issuance of stock to board members for services	24,000	120,000	(120,000)				-
Exercise of warrants and options	116,862	344,600		(78,900)			265,700
Issuance of stock and options for services	3,500	34,700					34,700
Deferred compensation on stock options		5,300	(5,300)				-
Forfeitures of unvested stock options		(137,300)	137,300				-
Amortization of deferred compensation			450,500				450,500
Other comprehensive income					1,200		1,200
Net loss						(7,327,500)	(7,327,500)
Balance at December 31, 1998	6,064,626	25,742,600	(238,700)	(78,900)	-	(22,836,000)	2,589,000
Issuance of stock to board members for services	5,400	149,400	(149,400)				-
Exercise of warrants and options	2,961,214	33,556,500		(270,200)			33,286,300
Sales of common stock	709,493	9,738,100					9,738,100
Beneficial conversion feature of mandatorily redeemable preferred stock, net of costs		1,754,300				(1,754,300)	-
Conversion of preferred stock	400,000	4,334,000					4,334,000
Deferred compensation on stock options		197,000	(197,000)				-
Forfeitures of unvested stock options		(108,000)	108,000				-
Amortization of deferred compensation			264,000				264,000
Dividend on preferred stock		154,400				(227,800)	(73,400)
Other comprehensive loss					(60,600)		(60,600)
Net loss						(14,718,000)	(14,718,000)
Balance at December 31, 1999	10,140,733	75,518,300	(213,100)	(349,100)	(60,600)	(39,536,100)	35,359,400

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

Balance at December 31, 1999 (continued)	10,140,733	75,518,300	(213,100)	(349,100)	(60,600)	(39,536,100)	35,359,400
Issuance of stock and options to board members for services	3,400	622,500	(622,500)				-
Exercise of warrants and options	1,108,157	13,341,800		(284,600)			13,057,200
Sales of common stock	500,000	23,976,900					23,976,900
Issuance of stock for acquisition of license	31,250	376,200					376,200
Conversion of mandatorily redeemable preferred stock	100,000	1,536,000					1,536,000
Deferred compensation on warrants and options		6,870,500	(6,870,500)				-
Revaluations of warrants		(1,736,100)	1,736,100				-
Collection of subscriptions receivable				230,500			230,500
Amortization of deferred compensation			1,591,800				1,591,800
Other comprehensive income					514,800		514,800
Net loss						(26,601,100)	(26,601,100)
Balance at December 31, 2000	11,883,540	$120,506,100	$(4,378,200)	$(403,200)	$454,200	$(66,137,200)	$50,041,700

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

Microvision, Inc.
Consolidated Statement of Comprehensive Loss

	Year ended December 31, 2000	1999	1998
Net loss	$(26,601,100)	$(14,718,000)	$(7,327,500)
Other comprehensive income (loss) - unrealized gain (loss) on investment securities, available-for-sale	514,800	(60,600)	1,200
Comprehensive loss	$(26,086,300)	$(14,778,600)	$(7,326,300)

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

Microvision, Inc.
Consolidated Statement of Cash Flows

	Year ended December 31, 2000	1999	1998
Cash flows from operating activities			
Net loss	$(26,601,100)	$(14,718,000)	$(7,327,500)
Adjustments to reconcile net loss to net cash used in operations			
Depreciation	1,247,000	675,600	468,900
Non-cash expenses related to issuance of stock, warrants and options, and amortization of deferred compensation	1,591,800	264,000	485,200

Non-cash deferred rent	27,300	49,200	-
Allowance for estimated contract losses	295,000	(228,000)	228,000
Change in			
Accounts receivable	(8,000)	514,300	(1,388,800)
Costs and estimated earnings in excess of billings on uncompleted contracts	(116,000)	(1,241,900)	85,300
Other current assets	(127,900)	(564,900)	(169,700)
Receivables from related parties	(999,900)	-	-
Other assets	36,800	(31,700)	(99,000)
Accounts payable	521,400	125,400	559,500
Accrued liabilities	735,900	972,000	312,200
Billings in excess of costs and estimated earnings on uncompleted contracts	251,600	(604,500)	771,500
Net cash used in operating activities	(23,146,100)	(14,788,500)	(6,074,400)
Cash flows from investing activities			
Sales of investment securities	29,685,700	26,146,600	7,695,100
Purchases of investment securities	(33,211,500)	(55,576,600)	(3,901,900)
Sales of restricted investment securities	4,174,000	1,950,000	-
Purchases of restricted investment securities	(4,500,000)	(3,700,000)	-
Purchase of long-term investment	-	(623,600)	-
Purchases of property and equipment	(5,429,300)	(2,090,500)	(696,300)
Net cash (used in) provided by investing activities	(9,281,100)	(33,894,100)	3,096,900

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

Cash flows from financing activities			
Principal payments under capital leases	(280,300)	(163,400)	(68,400)
Principal payments under long-term debt	(46,900)	(31,600)	-
Increase in deferred rent	-	165,600	-
Increase in long-term debt	-	420,000	-
Payment of preferred dividend	-	(73,400)	-
Payments received on subscriptions receivable	230,500	-	-
Net proceeds from issuance of common stock	37,033,300	42,730,500	265,700
Net proceeds from issuance of preferred stock	-	6,163,900	-
Net cash provided by financing activities	36,936,600	49,211,600	197,300
Net increase (decrease) in cash and cash equivalents	4,509,400	529,000	(2,780,200)
Cash and cash equivalents at beginning of year	2,798,000	2,269,000	5,049,200
Cash and cash equivalents at end of year	$7,307,400	$2,798,000	$2,269,000
Supplemental disclosure of cash flow information			
Cash paid for interest	$163,600	$172,200	$81,600
Supplemental schedule of non-cash investing and financing activities			
Property and equipment acquired under capital leases	$278,900	$245,700	$394,000
Beneficial conversion feature of Series B Preferred Stock	$-	$1,754,300	$-
Non-cash dividend on Series B Preferred Stock	$-	$154,400	$-
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	$284,600	$270,200	$78,900
Deferred compensation - warrants, options and stock grants	$5,756,900	$238,400	$125,300
Unrealized gain (loss) in investment securities, available-for-sale	$514,800	$(60,600)	$1,200

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

Microvision, Inc.
Notes to Consolidated Financial Statements

1. The Company

Microvision, Inc. ("the Company"), a Washington corporation, was established to acquire, develop, manufacture and market retinal scanning display ("RSD") technology, which projects images onto the retina of the eye. The Company has entered into contracts with commercial and U.S. government customers to develop applications using the RSD technology. As part of these contracts, the Company has produced and delivered several demonstrator units. The Company is working to commercialize the RSD technology for potential defense, healthcare, industrial and consumer applications.

Lumera Corporation ("Lumera"), a majority owned subsidiary of Microvision, is a development stage company. Lumera was established to develop, manufacture and market optical devices using organic non-linear chromophore materials. Lumera is working to commercialize the devices for potential optical networking applications.

2. Summary of significant accounting policies

Use of estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Principles of consolidation
The consolidated financial statements include the accounts of the Company and Lumera. Lumera is engaged in the research and development of new materials and devices that utilize organic non-linear Optical Materials. As of December 31, 2000 the Company owned 76% of Lumera. The balance of Lumera is owned by its directors, Microvision employees and the University of Washington ("UW"). As of December 31, 2000, Lumera had an accumulated deficit and Microvision had provided the financing for Lumera. As a result, Microvision has included all of the Lumera loss in its consolidated statements and no minority interest is presented. All material intercompany accounts and transactions have been eliminated in consolidation.

Cash, cash equivalents and investment securities
The Company considers all investments that mature within 90 days of the date of purchase to be cash equivalents.

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

Restricted Cash
The current portion of restricted cash represents a certificate of deposit held as collateral for a letter of credit issued to secure payment on a development contract.

The long-term portion of restricted cash represents a certificate of deposit held as collateral for letters of credit issued in connection with a lease agreement for the corporate headquarters building. Most of the balance is required to be maintained for the term of the lease.

Long-term investment
In December 1999, the Company purchased 389,766 shares in Gemfire Corporation ("Gemfire"), a privately held corporation. Gemfire is a developer of components for display applications using diode lasers. The Company accounts for the investment in Gemfire using the cost method.

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

Revenue recognition
Revenue has primarily been generated from contracts for further development of the RSD technology and to produce prototypes for commercial enterprises and the United States government. Revenue on such contracts is recorded using the percentage-of-completion method measured on a cost incurred basis. Losses, if any, are recognized in full as soon as identified. Changes in contract performance, contract conditions, and estimated profitability, including those arising from contract penalty provisions, and final contract settlements, may result in revisions to costs and revenues and are recognized in the period in which the revisions are determined. Profit incentives are included in revenue when realization is assured.

Cost and estimated earnings in excess of billings on uncompleted contracts comprises amounts of revenue recognized on contracts that the Company has not yet billed to a customer because the amounts were not contractually billable at December 31, 2000 and 1999.

Revenue for product shipments is recognized upon acceptance of the product by the customer.

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

The United States government accounted for approximately 91%, 82% and 83% of total revenue during 2000, 1999 and 1998, respectively. Three commercial enterprises represented 5%, 16% and 17% of total revenues during 2000, 1999, and 1998, respectively.

Income taxes
The Company provides for income taxes under the principles of Statement of Financial Accounting Standards ("SFAS") No. 109, which requires that provisions be made for taxes currently due and for the expected future tax effects of temporary differences between book and tax bases of assets and liabilities and for loss and credit carry forwards.

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 2000, 1999 and 1998 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. The common stock equivalents and convertible securities that were not included in the earnings per share were 3,517,000, 3,365,300 and 4,971,300 at December 31, 2000, 1999 and 1998 respectively.

Research and development
Research and development costs are expensed as incurred.

Fair value of financial instruments
The Company's financial instruments include cash and cash equivalents, investment securities, accounts receivable, accounts payable, accrued liabilities, long-term debt and capital lease obligations. Except for capital leases and long-term debt, the carrying amounts of financial instruments approximate fair value due to their short maturities. The carrying amount of capital leases and long-term debt at December 31, 2000 and 1999 was not materially different from the fair value based on rates available for similar types of arrangements.

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

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

New accounting pronouncements
In June 2000, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The statement requires the recognition of all derivatives as either assets or liabilities in the balance sheet and the measurement of those instruments at fair value. The accounting for changes in the fair value of a derivative depends on the planned use of the derivative and the resulting designation. Because the Company does not currently hold any derivative instruments and does not engage in hedging activities, the impact of the adoption of SFAS No. 133 is not currently expected to have a material impact on financial position, results of operations or cash flows. The Company will be required to implement SFAS No. 133 in the first quarter of fiscal 2001.

In September 2000, the FASB issued SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. SFAS 140 replaces SFAS 125, revising the standards governing the accounting for securitizations and other transfers of financial assets and collateral. Adoption of FAS 140 is required for transfers and servicing of financial assets and extinguishment of liabilities occurring after March 31, 2001. The Company is currently evaluating the impact of FAS 140, if any, on current accounting policies regarding the service of assets and extinguishment of liabilities.

3. Investments available-for-sale

The following table summarizes the composition of the Company's available-for-sale investment securities at December 31, 2000 and 1999. The available-for-sale investment securities at December 31, 1999 includes current restricted investments and restricted investments of $650,000 and $1,100,000, respectively.

	December 31, 2000	
	Amortized cost basis	**Aggregate fair value**
U.S. corporate debt securities	$18,278,000	$18,532,400
U.S. government agency debt securities	14,677,800	14,877,600
	$32,955,800	$33,410,000

	December 31, 1999	
	Amortized cost basis	**Aggregate fair value**
U.S. corporate debt securities	$8,588,400	$8,592,500
U.S. government agency debt securities	22,591,600	22,526,900
	$31,180,000	$31,119,400

4. Accrued liabilities

Accrued liabilities consist of the following:

	December 31, 2000	December 31, 1999
Payroll and payroll taxes	$564,000	$435,000
License fees	-	452,000
Professional fees	79,600	425,500
Bonuses	657,000	185,200
Subcontractors	469,600	178,100
Compensated absences	225,000	158,200
Other	363,800	166,100
	$2,359,000	$2,000,100

5. **Property and equipment, net**

Property and equipment consist of the following:

	December 31, 2000	December 31, 1999
Office furniture and equipment	$787,300	$654,100
Computer hardware and software	2,214,300	1,151,000
Lab equipment	3,278,100	1,273,900
Leasehold improvements	3,799,600	1,292,100
	10,079,300	4,371,100
Less: Accumulated depreciation	(2,563,400)	(1,316,400)
	$7,515,900	$3,054,700

6. **Receivables from related parties**

In 2000, the Board of Directors authorized the Company to provide unsecured lines of credit to each of the Company's three executive directors. The limit of the lines of credit is three times the executives' base salary less any amounts outstanding under the Executive Option Exercise Loan Plan. The lines of credit earn interest at a rate of 5.8% to 6.22%. The lines of credit must be repaid within one year of the executive's termination. At December 31, 2000, a total of $999,900 was outstanding under the lines of credit.

In 2000 and 1999, three executive officers of the Company exercised a total of 128,284 and 57,750 stock options, respectively, in exchange for full recourse notes totaling $284,600 and $270,200, respectively. These notes bear interest at 4.64% to 6.56% per annum. Each note is payable in full upon the earliest of (1) a fixed date ranging from January 31, 2001 to December 31, 2004 depending on the expiration of the options exercised; (2) the sale of all of the shares acquired with the note; (3) on a pro rata basis upon the partial sale of shares acquired with the note, or (4) within 90 days of the officer's termination of employment. The notes are included as subscriptions receivable from related parties in shareholders' equity on the consolidated balance sheet.

The interest on both the lines of credit and the full recourse notes is forgiven if the executive is an employee of the Company at December 31 of the respective year. Compensation expense of $43,900 and $13,200 was recognized in 2000 and 1999, respectively, for interest forgiven.

7. **Preferred stock**

In January 1999, the Company raised $5.0 million (before issuance costs) from the sale of 5,000 shares of Series B-1 convertible preferred stock to a private investor, who is also a director, in a private placement. The preferred stock was immediately convertible into common stock at a rate of $12.50 in preferred stock per common share and carried a cumulative dividend of 4% per annum, payable in cash or additional convertible preferred stock at the election of the Company. The investor also acquired an option to purchase an additional 1,600 shares of Series B-2 convertible preferred stock with an exercise price of $16.00 per share with a six-month maturity and an option to purchase an additional 1,920 shares of Series B-3 convertible preferred stock with an exercise price of $19.20 per share with a nine-month maturity from the closing date of the transaction

In May 1999, the Company redeemed the Series B-1 convertible preferred stock and issued 400,000 shares of common stock. In addition, the Company paid a cash dividend of $73,400 to the investor at the time of the redemption.

In July 1999, the investor exercised the option to purchase 1,600 shares of Series B-2 Convertible Preferred Stock for $1.6 million (before issuance costs). The preferred stock was immediately convertible at a rate of $16.00 of preferred stock per common share. Unless converted sooner at the election of the investor, the convertible preferred stock would have automatically converted into 100,000 shares of common stock at the end of its five-year term. The Series B-2 Convertible

Preferred Stock was subject to mandatory redemption at the election of the preferred shareholder upon certain liquidation events (as defined). The convertible preferred stock carried a cumulative dividend of 4% per annum, payable in cash or additional convertible preferred stock at the election of the Company. Due to the mandatory redemption feature noted above, the carrying value of the Series B-2 convertible preferred stock was classified as temporary equity.

The conversion prices of the Series B-1 and Series B-2 convertible preferred stock were less than the closing prices of the Company's common stock on the dates of commitment to purchase the preferred stock. This beneficial conversion feature was valued at $1.8 million. This "discount" is treated as a preferred stock dividend and recorded to accumulated deficit over the period between the date of sale and the date on which the preferred stock first becomes convertible. Because the preferred stock was immediately convertible, the entire value of the beneficial conversion feature was recorded as a dividend in 1999.

In October 1999, the Company amended the option to purchase 1,920 shares of the Series B-3 Convertible preferred stock to extend the expiration date of the option to June 30, 2000. In consideration of the extension, the holder waived the right to receive dividends on the outstanding Series B-2 convertible preferred stock. The terms of the option were also amended to an option to purchase 100,000 shares of common stock at a conversion price of $19.20. The amendment was accounted for as a preferred stock dividend with a fair market value of $154,400.

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.

8. Common stock

In April 1999, the Company raised $6.0 million (before issuance costs) from the sale of 440,893 shares of common stock to a private investor in a private placement. The investor also acquired two warrants to purchase additional common stock, one with a five-year term and the other with a one-year term.

In May 1999, the Company raised $4.5 million (before issuance costs) from the sale of 268,600 shares of common stock to Cree Inc. ("Cree") in a private placement. Concurrently with the sale of the stock, the Company entered into a one-year $2.6 million development contract with Cree to accelerate development of semi-conductor light-emitting diodes and laser diodes for application with the Company's proposed display and imaging products. The agreement called for payment of the $2.6 million cost of the project in four equal quarterly payments, the first of which was made concurrently with the signing of the agreement.

In April 2000, the Company raised $25.0 million (before issuance costs) from the issuance of 500,000 shares of common stock to Cree and General Electric Pension Trust. Concurrently, the Company entered into a two-year, $10.0 million extension of the development agreement with Cree. The Company must pay $4.5 million during the first year of the extension in four equal quarterly payments. The first payment was made concurrently with the signing of the extension. The Company has deposited $1.1 million in a certificate of deposit in a financial institution to secure a letter of credit, which will be used to fund the remaining payment 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 June 2000, the Company raised $1.9 million (before issuance costs) from the exercise, by the investor, of an option to purchase 100,000 shares of common stock at a price of $19.20 per share.

9. Warrants

On April 11, 2000, the Company received $7.5 million (before issuance cost) upon exercise of a warrant to purchase 418,848 shares of common stock at a price of $17.91 per share. In December 2000, the Company issued fully vested warrants to purchase 4,907 shares of common stock, for $61.13 per share, to a consultant in payment of fees arising from this transaction.

On August 10, 2000, the Company issued warrants to purchase an aggregate of 200,000 shares of common stock to two consultants in connection with entering into certain consulting agreements with the Company. One of the consultants subsequently became a director. The warrants grant each of the holders the right to purchase up to 100,000 shares of common stock at a price of $34.00 per share. The warrants vest over three years and are subject to remeasurement at each balance sheet date during the vesting period. The original value of the warrants was estimated at $5,476,000. Due to a decrease in the Company stock price, the value at December 31, 2000 was estimated at $3,739,900. Total non-cash amortization expense during the year was $345,400. The fair value of the warrants was estimated at the issue date and December 31, 2000 using the Black-Scholes option-pricing model with the following weighted-average assumptions: dividend yield of zero percent; expected volatility of 83% risk-free interest rates of 6.0%; and expected lives of 10 years.

The following summarizes activity with respect to warrants during the three years ended December 31, 2000:

	Shares	Exercise price
Outstanding at December 31, 1997	2,689,738	$4.80-12.00
Granted	17,676	12.00
Exercised	(31,684)	8.00-9.60
Canceled/expired	(69,566)	8.00-9.60
Outstanding at December 31, 1998	2,606,164	4.80-12.00
Granted	652,688	8.00-20.32
Exercised	(2,533,428)	4.80-12.00
Canceled/expired	(21,734)	8.00-12.00
Outstanding at December 31, 1999	703,690	4.80-20.32
Granted	261,157	19.20-61.13
Exercised	(484,962)	4.80-20.32
Canceled/expired	(16,933)	6.40-18.00
Outstanding at December 31, 2000	462,952	8.00-61.13

Exercisable at December 31, 2000	462,952	$8.00-61.13

10. Options

During 1993, the Company adopted the 1993 Stock Option Plan ("the 1993 Plan"), which provides for granting incentive stock options ("ISOs") and nonqualified stock options ("NSOs") to employees, directors, officers and certain non-employees of the Company as determined by the Board of Directors, or its designated committee ("Plan Administrator"), for the purchase of up to a total of 228,938 shares of the Company's authorized but unissued common stock. The date of grant, option price, vesting period and other terms specific to options granted under such plan were determined by the Plan Administrator. In September 1995, an additional 625,000 shares were reserved for issuance under the 1993 Plan. The Company expects to terminate the 1993 Plan effective immediately following the issuance of the shares of common stock subject to the outstanding grants thereunder.

During 1994, the Company adopted the 1994 Combined Incentive and Nonqualified Stock Option Plan ("the 1994 Plan"), which provides for the granting of ISOs and NSOs to employees, directors, officers and certain non-employees of the Company as determined by the Plan Administrator for the purchase of common shares not to exceed a total of 435,000 of the Company's authorized but unissued shares of common stock. The date of grant, option price, vesting terms and other terms specific to options granted under such plan were determined by the Plan Administrator. The 1994 Plan was terminated in 1999 following the final issuance of the shares of common stock for outstanding grants.

During 1996, the Company adopted the 1996 Stock Option Plan ("the 1996 Plan") and the 1996 Independent Director Stock Plan ("the Directors Stock Plan"). The 1996 Plan, as amended, provides for granting ISOs and NSOs to employees, officers and agents of the Company as determined by the Plan Administrator, for the purchase of up to 5,500,000 shares of the Company's authorized but unissued common stock. Effective in June 2000, the shareholders authorized the Company to reserve an additional 2,500,000 shares under the 1996 Plan. The terms and conditions of any options granted, including date of grant, the exercise price and vesting period are to be determined by the Plan Administrator. The Independent Directors Stock Plan provides for granting up to a total of 75,000 shares of common stock to non-employee directors of the Company.

During 2000, the Company adopted the Independent Director Stock Option Plan ("the Director Option Plan"). The Director Option Plan provides for an annual NSO grant to each director to purchase 5,000 shares of the Company's authorized but unissued common stock. The total number of authorized shares is 150,000. Options are granted to continuing directors each year on the date of their appointment and granted to new directors on the effective appointment dates. Exercise prices are set at the average closing price of the Company's stock during the ten-day period immediately preceding the grant date.

During 2000, the Company issued 90,809 NSO options to employees, who are not executive officers of the Company, outside of its stock option plans. The Company issued such options during the period from March until June 2000 when shareholders authorized 2,500,000 additional shares under the 1996 Plan. The terms and conditions of the options issued are the same as those issued under the 1996 Plan.

Stock options issued under the 1993 Plan vest over three years and expire five years after the date of vesting. Stock options issued under the 1996 Plan and the options issued outside of any other plan vest over three to four years and typically expire after ten years. Stock options issued under the Director Option Plan vest one day prior to the first regular Annual Shareholder Meeting following the grant date.

The following table summarizes activity with respect to options for the three years ended December 31, 2000:

	Shares	Weighted-average exercise price
Outstanding at December 31, 1997	1,983,467	$11.07
Granted:		
Exercise price greater than fair value	474,043	18.88
Exercise price equal to fair value	96,575	11.91
Exercise price less than fair value	5,000	7.88
Exercised	(85,178)	4.05
Forfeited	(108,756)	14.65
Outstanding at December 31, 1998	2,365,151	12.75
Granted:		
Exercise price greater than fair value	326,444	25.90
Exercise price equal to fair value	380,123	21.33
Exercised	(431,274)	7.45
Forfeited	(178,755)	17.90
Outstanding at December 31, 1999	2,461,689	16.38
Granted:		
Exercise price greater than fair value	5,000	39.74
Exercise price equal to fair value	1,234,578	33.94
Exercise price less than fair value	85,000	35.58
Exercised	(518,995)	7.49
Forfeited	(213,138)	29.38
Outstanding at December 31, 2000	3,054,134	24.65

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

	Year ended December 31, 2000	1999	1998
Exercise price greater than fair value	$16.09	$9.31	$4.71
Exercise price equal to fair value	23.70	14.88	6.70
Exercise price less than fair value	25.81	-	5.28

The following table summarizes information about stock options outstanding and exercisable at December 31, 2000:

	Options outstanding			Options exercisable	
Range of exercise prices	**Number outstanding at December 31, 2000**	**Weighted-average remaining contractual life**	**Weighted-average exercise price**	**Number exercisable at December 31, 2000**	**Weighted-average exercise price**
$6.00-$8.80	365,865	3.34	$7.10	365,865	$7.10
$9.06-$14.00	257,761	6.85	$12.92	229,095	$13.10
$14.06-$23.50	917,810	7.67	$20.64	456,353	$19.42
$23.69-$37.50	1,321,568	8.84	$31.87	99,928	$30.29
$37.56-$57.75	186,731	9.52	$43.02	-	-
$60.75-$61.13	4,399	9.17	$60.83	-	-
$6.00-$61.13	3,054,134			1,151,241	

Deferred compensation of $1,840,000, $137,000 and $125,300 was recorded during 2000, 1999 and 1998, respectively, for stock options granted to employees and directors at exercise prices below fair market value.

Had compensation cost for options issued been determined using the fair values at the grant dates consistent with the methodology prescribed under SFAS 123, the Company's net loss available to common shareholders and associated net loss per share would have increased to the pro forma amounts indicated below:

		Year ended December 31, 2000	1999	1998
Net loss available for common shareholders	As reported	$(26,601,100)	$(16,700,100)	$(7,327,500)
	Pro forma	$(39,448,500)	$(20,236,000)	$(10,689,200)
Net loss per share	As reported	$(2.33)	$(2.04)	$(1.22)
	Pro forma	$(3.45)	$(2.48)	$(1.78)

The fair value of the options granted was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 2000, 1999, and 1998, respectively: dividend yield of zero percent for all years; expected volatility of 83%, 83%, and 60%; risk-free interest rates of 6.13%, 5.50%, and 5.11%; and expected lives of 5 years for all years. Actual forfeitures were used beginning in 2000 and assumed forfeiture rates of 5% were used for 1999 and 1998.

11. Commitments and contingencies

Agreements with the University of Washington
In October 1993, the Company entered into a Research Agreement and an Exclusive License Agreement ("License Agreement") with the University of Washington ("the UW"). The License Agreement grants the Company the rights to certain intellectual property, including the technology being developed under the Research Agreement, whereby the Company has an exclusive, royalty-bearing license to make, use and sell or sublicense the licensed technology. In consideration for the license, the Company agreed to pay a one-time nonrefundable license issue fee of $5,133,500. Payments under the Research Agreement were credited to the license fee. In addition to the nonrefundable fee, which has been paid in full, the Company is required to pay certain on going royalties. In 2000, 1999 and 1998 these royalties were not material.

Beginning in 2001, the Company is required to pay the UW a nonrefundable license maintenance fee of $10,000 per quarter, to be credited against royalties due.

In March 1994, the Company entered into an Exclusive License Agreement ("HALO Agreement") with the UW. The HALO Agreement grants the Company the right to receive certain technical information relating to HALO Display technology and an exclusive right to market the technical information for the purpose of commercial exploitation to unaffiliated entities. Under the agreement, the Company is obligated to pay to the UW $75,000 and issue 31,250 common shares upon filing of the first patent application and $100,000 and issue 62,500 common shares upon issuance of the first patent awarded. In 1999, the UW filed a patent application under the HALO Agreement and the Company recorded $452,000, based on the value of the common stock, as an expense. A patent has not yet been issued.

In October 2000, Lumera entered into an exclusive license agreement ("Lumera License Agreement") and a Research Agreement with the UW. The Lumera License Agreement grants Lumera exclusive rights to certain intellectual property including technology being developed under the Lumera Research Agreement whereby Lumera has an exclusive royalty-bearing license to make, use, sell or sublicense the licensed technology. In consideration for the Lumera License Agreement, Lumera agreed to pay a one-time nonrefundable license issue fee of $200,000 to the UW. Under terms of the Lumera Research Agreement, Lumera is required to issue 802,414 shares of Lumera common stock and to pay $9,000,000 in quarterly payments over three years. The first license and research payments are due upon Lumera's acceptance of the UW research plan.

Litigation

The Company is subject to various claims and pending or threatened lawsuits in the normal course of business. Management believes that the outcome of any such lawsuits would not have a materially adverse effect on the Company's financial position, results of operations or cash flows.

Lease commitments

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

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

	Capital leases	Operating leases
2001	$361,700	$1,644,400
2002	171,600	1,945,200
2003	27,500	2,087,400
2004	7,500	1,736,900
2005	-	1,719,400
Thereafter	-	428,400
Total minimum lease payments	568,300	$9,561,700
Less: Amount representing interest	(69,500)	
Present value of capital lease obligations	498,800	
Less: Current portion	(316,500)	
Long-term obligation at December 31, 2000	$182,300	

The capital leases are collateralized by the related assets financed and by security deposits held by the lessors under the lease agreements. The cost and accumulated depreciation of equipment under capital leases was $1,083,400 and $396,100, respectively, at December 31, 2000; and $752,400 and $208,300, respectively, at December 31, 1999.

Rent expense was $1,255,000, $1,007,700, and $294,000 for 2000, 1999 and 1998, respectively.

Long-term debt

During 1999, the Company entered into a loan agreement with the lessor of the Company's corporate headquarters to finance $420,000 in tenant improvements. The loan carries a fixed interest rate of 10%, is repayable over the term of the lease and is secured by a letter of credit.

12. Income taxes

A provision for income taxes has not been recorded for 2000, 1999 or 1998 due to taxable losses incurred during such periods. A valuation allowance has been recorded for deferred tax assets because realization is primarily dependent on generating sufficient taxable income prior to expiration of net operating loss carry-forwards.

At December 31, 2000, the Company has net operating loss carry-forwards of approximately $65,567,900 for federal income tax reporting purposes. The net operating losses will expire beginning in 2005 if not previously utilized. In certain circumstances, as specified in the Internal Revenue Code, a 50% or more ownership change by certain combinations of the Company's stockholders during any three-year period would result in limitations on the Company's ability to utilize its net operating loss carry-forwards. The Company has determined that such a change occurred during 1995 and the annual utilization of loss carry-forwards generated through the period of that change will be limited to approximately $761,000. An additional change occurred in 1996; however, the amount of the annual limitation is not material.

Deferred tax assets are summarized as follows:

	December 31, 2000	1999
Net operating loss carry-forward	$22,293,100	$11,637,000
Capitalized research and development	1,060,300	1,173,800
Expenses related to issuance of equity instruments		341,700
Other	501,300	231,500
	23,854,700	13,384,000
Less: Valuation allowance	(23,854,700)	(13,384,000)
Deferred tax assets	$-	$-

The difference between the zero provisions for income taxes in 2000, 1999 and 1998 and the expected amounts determined by applying the federal statutory rate to losses before income taxes results primarily from increases in the valuation allowance.

Certain net operating losses arise from the deductibility for tax purposes of compensation under nonqualified stock options equal to the difference between the fair value of the stock on the date of exercise and the exercise price of the options. For financial reporting purposes, the tax effect of this deduction when recognized will be accounted for as a credit to shareholders' equity.

13. Retirement savings plan

On January 1, 1998 the Company established a retirement savings plan ("the Plan") that qualifies under Internal Revenue Code Section 401(k). The plan covers all qualified employees. Contributions to this plan by the Company are made at the discretion of the Board of Directors. The Company did not contribute to the Plan in 1999.

In February 2000, the Board of Directors approved a plan amendment to match 50% of employee contributions to the Plan up to 6% of the employee's per pay period compensation, starting on April 1, 2000. During 2000, the Company contributed $134,000 to the Plan under the matching program.

14. Quarterly Financial Information (Unaudited)

The following table presents the Company's unaudited quarterly financial information for the years ending December 31, 2000 and 1999.

	Year ended December 31, 2000			
	December 31	September 30	June 30	March 31
Revenue	$2,864,600	$1,970,500	$1,176,000	$2,109,500
Gross Margin	857,100	253,600	292,100	642,000
Net loss available for common shareholders	(6,912,600)	(7,682,900)	(6,932,400)	(5,073,200)
Net loss per share - basic and diluted	(.58)	(.65)	(.60)	(.48)

	Year ended December 31, 1999			
	December 31	September 30	June 30	March 31
Revenue	$1,742,500	$1,465,700	$1,392,900	$2,301,600
Gross Margin	540,100	973,700	(146,600)	592,000
Net loss available for common shareholders	(4,428,700)	(3,869,300)	(5,252,100)	(3,150,000)
Net loss per share - basic and diluted	(.45)	(.41)	(.74)	(.51)

15. Segment Information

The Company is organized into two major groups - Microvision, which is engaged in retinal scanning displays and related technologies, and Lumera, which is engaged in optical systems components technology. The segments were determined based on how management views and evaluates the Company's operations.

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

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

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

	Year ended December 31, 2000			
	Microvision	Lumera	Elimination	Total

Revenues from				
external sources	$8,059,500	$61,100	-	$8,120,600
Interest revenue	3,504,600	900	$(400,200)	3,105,300
Interest expense	163,600	400,200	(400,200)	163,600
Depreciation	1,093,100	153,900	-	1,247,000
Segment loss	23,696,200	2,904,900	-	26,601,100
Segment assets	53,023,000	3,148,200	-	56,171,200
Expenditures for				
capital assets	2,495,600	3,212,600	-	5,708,200

16. Subsequent Event

In February 2001, the Company acquired a fully paid-up royalty-free exclusive license to the HALO technology in exchange for 37,000 shares of Microvision common stock and $100,000.

In March 2001, Lumera raised $21,360,000 from the sale of 2,136,000 shares of Lumera convertible preferred stock to a group of private investors. In addition, Lumera issued 264,000 shares of convertible preferred stock to Microvision to retire $2,640,000 in intercompany debt. The convertible preferred shares are convertible to an equal number of shares of common stock at the option of the holder.

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

There have been no changes in or disagreements with accountants in accounting or financial disclosure matters during the Company's fiscal years ended December 31, 2000 and 1999.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Set forth below are the name, position held and age of each of the executive officers and directors of the Company. The principal occupation and recent employment history of each are described below. The number of shares of Common stock beneficially owned by each person as of March 1, 2001, is set forth in Item 12 – Security Ownership of Certain Beneficial Owners and Management.

Name	Age	Position
Richard F. Rutkowski(3)	45	Chief Executive Officer, President and Director
Stephen R. Willey	46	Executive Vice President and Director
Richard A. Raisig(3)	53	Chief Financial Officer, Vice President, Operations and Director
Jacob Brouwer(3)	73	Director
Richard A. Cowell(2)	52	Director
Margaret Elardi(2)	76	Director
Walter J. Lack(1)(2)(3)	52	Director
William A. Owens(2)	59	Director
Robert A. Ratliffe(1)	39	Director
Dennis Reimer	60	Director
Jacqueline Brandwynne(1)	54	Director

(1) Member of the Compensation Committee

(2) Member of the Audit Committee

(3) Member of the Finance Committee

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

Stephen R. Willey has served as Executive Vice President of the Company since October 1995 and as a director since June 1995. Mr. Willey served as the Company's technical liaison to the University of Washington's HIT Lab. From January 1994 to April 1996, Mr. Willey served as an outside consultant to the Company through The Development Group, Inc. ("DGI"), a business and technology consulting firm founded by Mr. Willey in 1985. Mr. Willey served as Division Manager CREO Products, Inc., an electro–optics equipment manufacturer, from June 1989 to December 1992. Mr. Willey serves as a director of eDispatch.com, Wireless Data Inc. and eVenture Capital Corporation.

Richard A. Raisig has served as Chief Financial Officer and Vice President, Operations of the Company since August 1996, as Secretary since April 1998, and as a director of the Company since March 1996. From June 1995 to August 1996, Mr. Raisig was Chief Financial Officer of Videx Equipment Corporation, a manufacturer and rebuilder of wire processing equipment for the cabling industry. From July 1992 to May 1995, Mr. Raisig was Chief Financial Officer and Senior Vice President–Finance for Killion Extruders, Inc., a manufacturer of plastic extrusion equipment. From February 1990 to July 1992, Mr. Raisig was Managing Director of Crimson Capital Company, an investment banking firm. Prior to 1990, Mr. Raisig was a Senior Vice President of Dean Witter Reynolds, Inc. Mr. Raisig is a Certified Public Accountant.

Jacob Brouwer has served as a director of the Company since July 1996. Mr. Brouwer is the Chairman and Chief Executive Officer of Brouwer Claims Canada & Co. Ltd., an insurance adjusting company that he founded in 1956. Mr. Brouwer has served as a director for numerous companies, including the Canadian National Railway Company, Grand Trunk Railway (USA), First Interstate Bank of Washington and First Interstate Bank of Canada, The Insurance Corporation of British Columbia, Air BC, Golden Tulip Hotels Ltd., Prime Resources Group Inc. (Homestake), and Pioneer Life Assurance Company and former Chairman of the International Financial Centre of British Columbia and Northwestel Inc. Mr. Brouwer currently serves as a Director of Doman Industries Inc., a major Canadian Forest Company, The Family Insurance Company, Stox.com.Ltd., and Great Canadian Gaming Corporation and was recently appointed as a board member of the West Vancouver Police Commission for the Province of British Columbia. He also serves on the Board of Governors of several charitable organizations such as the YMCA, Vancouver Aquarium, the Vancouver Bach Choir and the PC Canada Fund.

Colonel Richard A. Cowell, USA, (Ret.) has served as a director of the Company since August 1996. Colonel Cowell is a Principle at Booz Allen & Hamilton where he is involved in advanced concepts development and technology transition, joint and service experimentation, and the interoperability and integration of command and control systems for Department of Defense and other agencies. Prior to joining Booz Allen in March of 1996, Colonel Cowell served in the United States Army for 25 years. Immediately prior to his retirement from the Army, Colonel Cowell served as Director of the Louisiana Maneuvers Task Force reporting directly to the Chief of Staff, Army. Colonel Cowell has authored and received awards for a number of documents relating to the potential future capabilities of various services and agencies.

Margaret Elardi has served as a director of the Company since January 1999. A long–time entrepreneur and philanthropist, Mrs. Elardi is a prominent real estate developer with a distinguished career spanning more than 30 years in the Nevada real estate and destination entertainment industry. Mrs. Elardi has served as a director of Nevada State Bank and Community Bank of Nevada. Mrs. Elardi instituted a first–of–its–kind scholarship program at the University of Nevada Las Vegas, which guarantees a four–year tuition waiver for virtually every high school valedictorian in the state.

Walter J. Lack has served as a director of the Company since August 1995. Mr. Lack is a partner of Engstrom, Lipscomb & Lack, a Los Angeles, California law firm that he founded in 1974. Mr. Lack has acted as a special arbitrator for the Superior Court of the State of California since 1976 and for the American Arbitration Association since 1979. He is a member of the International Academy of Trial Lawyers and an Advocate of the American Board of Trial Advocates. Mr. Lack also serves as a director of HCCH Insurance Holdings, Inc., a multinational insurance company listed on The New York Stock Exchange. He is a director of SUPERGEN, Inc., a pharmaceutical company listed on NASDAQ, dedicated to the development of products for the treatment of various cancers. Mr. Lack has been involved in a number of start–up companies, both as an investor and as a director.

Admiral William A. Owens, USN, (Ret.) has served as a director of the Company since October 1998. Admiral Owens is the Vice Chairman and Co–Chief Executive Officer of Teledesic LLC, a satellite communications network company. Prior to joining Teledesic, Admiral Owens was President, Chief Operating Officer and Vice Chairman of the Board of Science Applications International Corporation (“SAIC”), a diversified high–technology research and engineering company. Prior to joining SAIC, Admiral Owens was Vice Chairman of the Joint Chiefs of Staff, the nation's second highest ranking military officer. From 1991 to 1993, Admiral Owens was deputy chief of Naval Operations for Resources, Warfare Requirements and Assessments, and from 1990 to 1991 served as commander of the U.S. Sixth Fleet. From 1988 to 1991, Admiral Owens served as senior military assistant to the Secretary of Defense. In 1988 Admiral Owens was the director of the Office of Program Appraisal for the Secretary of the Navy and in 1987 he served as commander of Submarine Group Six, the Navy's largest submarine group.

Robert A. Ratliffe has served as a director of the Company since July 1996. Since 1996, Mr. Ratliffe has been Vice President and principal of Eagle River, Inc., an investment company specializing in the telecommunications and technology sectors, and Vice President of Communications for Nextel Communications, Inc., a wireless telecommunications company. From 1986 to 1996, Mr. Ratliffe served as Senior Vice President, Communications, for AT&T Wireless Services, Inc., and its predecessor, McCaw Cellular Communications, Inc., where he also served as Vice President of External Affairs and as Vice President of Acquisitions and Development. Prior to joining McCaw Cellular Communications, Inc., Mr. Ratliffe was a Vice President with Seafirst Bank.

General Dennis J. Reimer, USA, (Ret.) has served as a director of the Company since February 2000. General Reimer is the Director of the National Memorial Institute for the Prevention of Terrorism in Oklahoma City. General Reimer became the 33rd Chief of Staff, U.S. Army on June 20, 1995. Prior to that, he was the Commanding General of the United States Army, Forces Command, Fort McPherson, Georgia. During his military career he has commanded soldiers from company to Army level. General Reimer served in a variety of joint and combined assignments and has served two combat tours in Vietnam. He also served in Korea as the Chief of Staff, Combined Field Army and Assistant Chief of Staff for Operations and Training, Republic of Korea/United States Combined Forces Command. He served three other tours at the Pentagon as aide–de–camp to the Army Chief of Staff, General Creighton Abrams, as the Deputy Chief of Staff for Operations and Plans for the Army during Desert Storm, and as Army Vice Chief of Staff.

Jacqueline Brandwynne has served as a director of the Company since October 2000. Ms. Brandwynne is the founder and CEO of Brandwynne Corporation, a venture capital business focusing on investments in communications, internet infrastructure and support, and fiber optics companies. Ms. Brandwynne founded Brandwynne Corporation in 1981. Ms. Brandwynne also owns and manages Very Private, a specialized consumer products and media company. Ms. Brandwynne is a business strategist with over twenty-five years of experience working with companies including Citicorp, where she was the Global Business Strategist, American Cyanamid, Bristol Myers/Clairol, Revlon, National Liberty Life, Seagram & Sons and Neutrogena. She has recently been appointed to the Board of the Fantastic Corporation and serves on several not-for-profit Boards, including the California Institute of the Arts, the Los Angeles Opera, and Amici Degli Uffici in Florence, Italy.

ITEM 11. EXECUTIVE COMPENSATION

Information regarding compensation of directors and compensation committee interlocks and insider participation, the report of the Compensation Committee of the Board of Directors, and the stock performance graph are set forth in the Company’s Proxy Statement under the heading Executive Compensation, which information is incorporated herein by reference.

The following table sets forth the compensation awarded or paid to or earned by our Chief Executive Officer and all other executive officers of the Company receiving compensation in excess of $100,000 during each of the fiscal years ended December 31, 2000, 1999 and 1998 respectively (the "Named Executive Officers"):

Summary Compensation Table

		Annual Compensation			Long–term Compensation Awards
Name and Principal Position	Fiscal Year	Salary ($)	Bonus(1) ($)	All Other Compen-sation(2) ($)	Securities Underlying Options #

Richard F. Rutkowski	2000	225,000	200,000	37,925	300,000
Chief Executive Officer	1999	200,000	90,000	102,304	-
and President	1998	175,000	105,000	-	-
Stephen R. Willey	2000	185,000	127,000	14,705	72,000
Executive Vice President	1999	170,000	70,000	87,856	-
	1998	150,000	88,000	-	238,000
Richard A. Raisig	2000	170,000	105,000	378,587	204,000
Chief Financial Officer,	1999	150,000	60,000	74,195	-
and Vice President,	1998	130,000	64,000	-	-
Operations					

(1) Bonus amounts for 1998 include amounts paid in 1999 for services performed in 1998.

(2) All Other Compensation amounts for 2000 include unrealized gains resulting from the exercise of nonqualified stock options reported as income of $23,900 and $362,930 for Messrs. Rutkowski, and Raisig, respectively. The amounts also include forgiveness of $14,000, $14,700 and $15,100 of interest for Messrs. Rutkowski, Willey and Raisig, respectively, under the Company's Executive Option Exercise Note Plan and Executive Loan Plan. For descriptions of the two plans, see Item 13 - Certain Relationships and Related Transactions below.

All Other Compensation amounts for 1999 include special bonuses of $100,000, $80,000 and $70,000 awarded to Messrs. Rutkowski, Willey and Raisig, respectively, in connection with the redemption of the company's publicly traded warrants. The amounts also include forgiveness of $2,304, $7,856 and $4,915 of interest for Messrs. Rutkowski, Willey and Raisig, respectively, under the Company's Executive Option Exercise Note Plan. For a description of the Executive Option Exercise Note Plan, see Item 13 - Certain Relationships and Related Transactions below.

Aggregated Option Values as of Year–End 2000.

The following table provides information regarding the aggregate number of options exercised during the fiscal year ended December 31, 2000, by each of the Named Executive Officers and the number of shares subject to both exercisable and unexercisable stock options as of December 31, 2000.

			Number of Securities Underlying Unexercised Options at December 31, 2000		Value of Unexercised In-the-Money Options at December 31, 2000*	
Name	**Shares Acquired On Exercise**	**Value Realized ($)**	**Exercisable**	**Unexercisable**	**Exercisable ($)**	**Unexercisable ($)**
Richard F. Rutkowski	168,666	3,826,100	357,851	380,000	1,624,000	-
Stephen R. Willey	78,125	1,849,600	243,625	184,000	1,699,700	-
Richard A. Raisig	29,033	530,900	175,717	204,000	558,100	-

* The value of unexercised in-the-money options is based on the difference between $18.50 (the fair market value of the Company's Common as reflected by the closing price of the common stock on the Nasdaq National Market as of December 31, 2000) and the exercise price of such options multiplied by the number of shares issuable upon exercise thereof.

In 1997, Mr. Rutkowski received options to purchase up to an aggregate of 340,000 shares of Common Stock for service to the Company through December 31, 2001, and Mr. Raisig received options to purchase up to an aggregate of 136,000 shares of Common Stock for service to the Company through December 31, 2000. In 1998, Mr. Willey received options to purchase up to an aggregate of 238,000 shares of Common Stock for service to the Company through December 31, 2002.

In connection with the extension of their employment agreements, in April 2000, Mr. Rutkowski was granted options to purchase up to 300,000 shares of common stock for services to the Company during the period January 1, 2002, through December 31, 2004; Mr. Willey was granted options to purchase up to 72,000 shares of common stock for services to the Company during the period January 1, 2003, through December 31, 2003; and Mr. Raisig was granted options to purchase up to 204,000 shares of common stock for services to the Company during the period January 1, 2001, through December 31, 2003.

All of these options have ten–year terms, vest quarterly, and will vest immediately and become exercisable upon the occurrence of certain events following a change in control. Upon a Named Executive Officer's termination without cause, options granted thereto will continue to vest and become exercisable until fully vested.

Employment Agreements

Effective October 1, 1997, the Company entered into an employment agreement with Mr. Rutkowski. Under the employment agreement, Mr. Rutkowski receives a base salary and an annual cash performance bonus in an amount determined by the Compensation Committee of the Board of Directors("Compensation Committee") . Mr. Rutkowski also is entitled to all benefits offered generally to the Company's employees. In January 2000, the Compensation Committee adjusted Mr. Rutkowski's base salary to $225,000, and in April 2000 extended the term of his employment agreement to December 31, 2004. Upon termination without cause, Mr. Rutkowski will be entitled to a severance payment of the greater of his current base salary, from the date of termination to December 31, 2004, or his current base salary for one year.

Effective October 1, 1998, the Company entered into an employment agreement with Mr. Willey. Under the employment agreement, Mr. Willey receives a base salary and an annual cash performance bonus in an amount determined by the Compensation Committee. Mr. Willey also is entitled to all benefits offered generally to the Company's employees. In January 2000, the Compensation Committee adjusted Mr. Willey's base salary to $185,000, and in April 2000 extended the term of his employment agreement to December 31, 2003. Upon termination without cause, Mr. Willey will be entitled to a severance payment of the greater of his current base salary, from the date of termination to December 31, 2003, or his current base salary for one year

Effective October 1, 1997, the Company entered into an employment agreement with Mr. Raisig. Under the employment agreement, Mr. Raisig receives a base salary and an annual cash performance bonus in an amount determined by the Compensation Committee. Mr. Raisig also is entitled to all benefits offered generally to the Company's employees. In January 2000, the Compensation Committee adjusted Mr. Raisig's base salary to $170,000, and in April 2000 extended the term of his employment agreement to December 31, 2003. Upon termination without cause, Mr. Raisig will be entitled to a severance payment of the greater of his current base salary, from the date of termination to December 31, 2003, or his current base salary for one year

Executive Loan Plans

The Company has adopted two loan plans under which Richard F. Rutkowski, Stephen Willey and Richard Raisig may borrow funds from the Company. Under the Executive Option Exercise Note Plan (the "Option Exercise Plan"), each executive may borrow up to two times their base salary from the Company, against full recourse promissory notes, to exercise options to purchase the Company's Common Stock. Under the Executive Loan Plan (the "Loan Plan"), adopted in July 2000, each executive may borrow funds from the Company on a line of credit. The combined borrowings under both facilities may not exceed three times an executive's base salary. At the end of each year, the Company will forgive the interest that accrues under the loans if the executive remains employed by the Company. In 2000, the Company forgave $14,000, $14,700 and $15,100 in interest for Messrs. Rutkowski, Willey and Raisig, respectively. For additional details regarding loan balances and terms, see Item 13 -- Certain Relationships and Related Transactions.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table shows as of March 1, 2001, to the best of the Company's knowledge, the number of shares of Common stock beneficially owned by all persons we know to beneficially own at least 5% of the Company's Common stock, the Company's directors, the executive officers named in the Summary Compensation Table (see Item 11 – Executive Compensation) and all directors and executive officers as a group.

Name and Address of Beneficial Owner	**Number of Shares(1)**	**Percentage of Common Stock(2)**
Margaret Elardi(3) 3411 Las Vegas Blvd. South Las Vegas, NV 89109	666,800	5.6%
Richard F. Rutkowski(4) c/o Microvision, Inc. 19910 North Creek Parkway Bothell, WA 98011	590,692	4.8%
Stephen R. Willey(5) c/o Microvision, Inc. 19910 North Creek Parkway Bothell, WA 98011	430,260	3.5%
Richard A. Raisig(6) c/o Microvision, Inc. 19910 North Creek Parkway Bothell, WA 98011	238,550	2.0%
Walter Lack(7) c/o Engstrom, Lipscomb & Lack 10100 Santa Monica Blvd., 16th Floor Los Angeles, CA 90067	187,837	1.6%
Jacqueline Brandwynne(8) c/o Brandwynne Corporation 649 Stone Canyon Road Los Angeles, CA 90077	76,675	*
Robert Ratliffe(9) c/o Eagle River 2300 Carillon Point Kirkland, WA 98033–7353	17,850	*
Richard Cowell(9) 7840 Virginia Oak Drive Gainesville, VA 20155	10,400	*
Jacob Brouwer(9) c/o Brouwer Claims 1200 West Pender Street, Suite 306 Vancouver, BC, Canada V6E2S9	10,200	*

William Owens(9) c/o Teledesic 1445 120th Avenue NE Bellevue, WA 98005	10,200	*
Dennis Reimer(9) P.O. Box 889 Oklahoma City, OK 71301	5,500	*
All executive officers and directors as a group (11 persons)	2,244,964	17.5%

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* Less than 1% of the outstanding shares of Common stock.

(1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission (the "SEC") and generally includes voting or investment power with respect to securities. Shares of Common stock subject to options or warrants that are currently exercisable or convertible or may be exercised or converted within sixty days are deemed to be outstanding and to be beneficially owned by the person holding these options or warrants for the purpose of computing the number of shares beneficially owned and the percentage of ownership of the person holding these securities, but are not outstanding for the purpose of computing the percentage ownership of any other person or entity.

(2) Percentage of Common stock is based on 11,900,600 shares of Common stock outstanding as of March 1, 2001.

(3) Includes 5,000 shares issuable upon exercise of options.

(4) Includes 377,851 shares issuable upon exercise of options.

(5) Includes 257,625 shares issuable upon exercise of options.

(6) Includes 192,717 shares issuable upon exercise of options.

(7) Includes 5,000 shares issuable upon exercise of options.

(8) Includes 44,175 shares issuable upon exercise of warrants.

(9) Includes 5,000 shares issuable upon exercise of options.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In March 2000, the Company redeemed the Series B-2 Convertible Preferred Stock, owned by Margaret Elardi, a director of the Company, and issued 100,000 shares of Common stock. In June 2000, Mrs. Elardi exercised an option to purchase 100,000 shares of Common stock at $19.20 per share which option was issued pursuant to an amendment to the Series B-3 Convertible Preferred Stock, originally issued to Mrs. Elardi in January 1999.

On August 10, 2000, the Company issued warrants to purchase an aggregate of 100,000 shares of common stock to Jacqueline Brandwynne, who subsequently became a director of the Company. The warrants were issued in connection with entering into certain consulting agreements with the Company. The warrants grant the holder the right to purchase up to 100,000 shares of common stock at a price of $34.00 per share. The warrants vest over three years and are subject to remeasurement at each balance sheet date during the vesting period. The original value of the warrants was estimated at $2,738,000. Due to a decrease in the Company stock price, the value at December 31, 2000 was estimated at $1,869,950.

The Company has adopted two executive loan plans under which Richard F. Rutkowski, Stephen R. Willey and Richard A. Raisig may borrow funds from the Company. The following table lists certain information describing each executive’s loans as of December 31, 2000.

	Option Exercise Plan	Loan Plan	Total
Mr. Rutkowski -			
Balance outstanding	$218,200	$119,900	$338,100
Highest aggregate bal. during year	$223,900	$119,900	$338,200
Mr. Willey -			
Balance outstanding	$185,000	$370,000	$555,000
Highest aggregate bal. during year	$187,400	$370,000	$555,000
Mr. Raisig -			
Balance outstanding	-	$510,000	$510,000
Highest aggregate bal. during year	$170,000	$510,000	$510,000
Other Information -			
Interest Rate Range	4.64%-6.21%	5.80%-6.22%	4.64%-6.22%

Under the Option Exercise Plan, each note is payable in full upon the earliest of (1) a fixed date ranging from January 31, 2001, to December 31, 2004, depending on the option; (2) the sale of all of the shares acquired with the note; (3) pro rata upon the partial sale of shares acquired with the note, or (4) within 90 days of the officer's termination of employment.

Under the Loan Plan, the advances must be repaid within one year of the executive's termination of employment.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

a)	Documents filed as part of the report
(1)	Financial Statements
	Balance Sheet as of December 31, 2000 and 1999
	Statement of Operations for the years ended December 31, 2000, 1999 and 1998
	Statement of Shareholders' Equity for the years ended
	December 31, 2000, 1999 and 1998
	Statement of Comprehensive Loss for the years ended
	December 31, 2000, 1999 and 1998
	Statement of Cash Flows for the years ended December 31, 2000, 1999 and 1998
(2)	None
(3)	Exhibits
3.1	Amended and Restated Articles of Incorporation of Microvision, Inc., as filed on August 14, 1996 with the Secretary of State of the State of Washington(1)
3.1.1	Articles of Amendment of Articles of Incorporation Containing the Statement of Rights and Preferences of the Series B Convertible Preferred Stock of Microvision, Inc., dated January 13, 1999(2)
3.2	Amended and Restated Bylaws of Microvision, Inc. (3)
4.1	Form of specimen certificate for Common Stock(1)
4.2	Microvision, Inc. Series 2 Stock Purchase Warrant, dated April 1, 1999 issued to Capital Ventures International(5)
4.3	Common Stock Purchase Warrant, dated as of April 1, 1999, issued to Josephthal & Co, Inc.(11)
10.1	Assignment of License and Other Rights between The University of Washington and the Washington Technology Center and the H. Group, dated July 25, 1993(1)
10.2	Project II Research Agreement between The University of Washington and the Washington Technology Center and Microvision, Inc., dated October 28, 1993 (1)†
10.3	Exclusive License Agreement between The University of Washington and Microvision, Inc., dated October 28, 1993 (1)†
10.4	Exclusive License Agreement between the University of Washington and Microvision, Inc. dated March 3, 1994(1)
10.5	Employment Agreement between Microvision, Inc., and Richard F. Rutkowski, effective October 1, 1997(4)
10.6	Employment Agreement between Microvision, Inc., and Stephen R. Willey, effective October 1, 1998 (5)
10.7	Employment Agreement between Microvision, Inc., and Richard A. Raisig, effective October 1, 1998(4)
10.8	FORM OF FIRST AMENDMENT TO THE EMPLOYMENT AGREEMENT FOR RICHARD F. RUTKOWSKI, dated April 18, 2000 between Microvision, Inc. and Richard F. Rutkowski(8)
10.9	FORM OF FIRST AMENDMENT TO THE EMPLOYMENT AGREEMENT FOR STEPHEN R. WILLEY, dated April 18, 2000 between Microvision, Inc. and Stephen R. Willey(8)
10.10	FORM OF FIRST AMENDMENT TO THE EMPLOYMENT AGREEMENT FOR RICHARD A. RAISIG, dated April 18, 2000 between Microvision, Inc. and Richard A. Raisig(8)
10.11	1993 Stock Option Plan(1)
10.11	1996 Stock Option Plan, as amended.(8)
10.12	1996 Independent Director Stock Plan, as amended(7)
10.13	Form of Executive Option Exercise Loan Plan(3)
10.14	Independent Director Stock Option Plan(7)
10.15.	Lease Agreement between S/I Northcreek II, LLC and Microvision, Inc., dated October 27, 1998(4)
10.15.1	Lease Amendment No 1 to Lease between S/I Northcreek II, LLC and Microvision, Inc., dated July 12, 1999(10)
10.15.2	Lease Amendment No 1 to Lease between S/I Northcreek II, LLC and Microvision, Inc., dated February 14, 2001(10)
10.16	Form of Consulting Agreement between Microvision, Inc. and Avram Miller and Jacqueline Brandwynne dated August 10, 2000(9)
10.17	Form of Common Stock Purchase Agreement issued to Avram Miller and Jacqueline Brandwynne dated August 10, 2000(9)
10.18	Exclusive Licensing Agreement between the University of Washington and Lumera Corporation dated October 20, 2000. †
10.19	Sponsored Research Agreement between the University of Washington and Lumera Corporation dated October 20, 2000.
23	Consent of PricewaterhouseCoopers LLP

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(1) Incorporated by reference to the Company's Form SB-2 Registration Statement, Registration No. 333-5276-LA.
(2) Incorporated by reference to the Company's Current Report on Form 8-K filed on January 28, 1999.
(3) Incorporated by reference to the Company's Form 10-QSB for the quarterly period ended June 30, 1998.
(4) Incorporated by reference to the Company's Annual Report on form 10-K for the year ended December 31, 1997, Registration No. 0-21221.
(5) Incorporated by reference to the Company's Annual Report on form 10-K for the year ended December 31, 1998.
(6) Incorporated by reference to Registration Statement on Form S-3, Registration No. 333-33612.
(7) Incorporated by reference to the Company's definitive Proxy Statement, filed with the Securities and Exchange Commission on April 28, 2000.
(8) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended June 30, 2000.
(9) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended September 30, 2000.

(10) Incorporated by reference to the Company's annual report on Form 10-K for the year ended December 31, 1999, Registration No. 0-21221.

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

† Subject to confidential treatment.

(b) Reports on Form 8-K.

Microvision filed no reports on Form 8-K during the last quarter of the fiscal year ended December 31, 2000.

SIGNATURES

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

MICROVISION, INC.

Date: March 30, 2001

By Richard F. Rutkowski
Richard F. Rutkowski
President and Chief Executive Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the following capacities on March 30, 2001.

Signature	Title
Richard F. Rutkowski Richard F. Rutkowski	Chief Executive Officer, President and Director (Principal Executive Officer)
Stephen R. Willey Stephen R. Willey	Executive Vice President and Director
Richard A. Raisig Richard A. Raisig	Chief Financial Officer and Vice President, Operations and Director (Principal Financial Officer)
Jeff Wilson Jeff Wilson	Chief Accounting Officer (Principal Accounting Officer)
Jacob Brouwer Jacob Brouwer	Director
Richard A. Cowell Richard A. Cowell	Director
Margaret Elardi Margaret Elardi	Director
Walter J. Lack Walter J. Lack	Director
William A. Owens William A. Owens	Director
______________ Robert A. Ratliffe	Director
Dennis J. Reimer Dennis J. Reimer	Director
Jacqueline Brandwynne Jacqueline Brandwynne	Director

EXHIBIT INDEX

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

3.1	Amended and Restated Articles of Incorporation of Microvision, Inc., as filed on August 14, 1996 with the Secretary of State of the State of Washington(1)
3.1.1	Articles of Amendment of Articles of Incorporation Containing the Statement of Rights and Preferences of the Series B Convertible Preferred Stock of Microvision, Inc., dated January 13, 1999(2)
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10.4	Exclusive License Agreement between the University of Washington and Microvision, Inc. dated March 3, 1994(1)
10.5	Employment Agreement between Microvision, Inc., and Richard F. Rutkowski, effective October 1, 1997(4)
10.6	Employment Agreement between Microvision, Inc., and Stephen R. Willey, effective October 1, 1998 (5)
10.7	Employment Agreement between Microvision, Inc., and Richard A. Raisig, effective October 1, 1998(4)
10.8	FORM OF FIRST AMENDMENT TO THE EMPLOYMENT AGREEMENT FOR RICHARD F. RUTKOWSKI, dated April 18, 2000 between Microvision, Inc. and Richard F. Rutkowski(8)
10.9	FORM OF FIRST AMENDMENT TO THE EMPLOYMENT AGREEMENT FOR STEPHEN R. WILLEY, dated April 18, 2000 between Microvision, Inc. and Stephen R. Willey(8)
10.10	FORM OF FIRST AMENDMENT TO THE EMPLOYMENT AGREEMENT FOR RICHARD A. RAISIG, dated April 18, 2000 between Microvision, Inc. and Richard A. Raisig(8)
10.11	1993 Stock Option Plan(1)
10.11	1996 Stock Option Plan, as amended.(8)
10.12	1996 Independent Director Stock Plan, as amended(7)
10.13	Form of Executive Option Exercise Loan Plan(3)
10.14	Independent Director Stock Option Plan(7)
10.15.	Lease Agreement between S/I Northcreek II, LLC and Microvision, Inc., dated October 27, 1998(4)
10.15.1	Lease Amendment No 1 to Lease between S/I Northcreek II, LLC and Microvision, Inc., dated July 12, 1999(10)
10.15.2	Lease Amendment No 1 to Lease between S/I Northcreek II, LLC and Microvision, Inc., dated February 14, 2001(10)
10.16	Form of Consulting Agreement between Microvision, Inc. and Avram Miller and Jacqueline Brandwynne dated August 10, 2000(9)
10.17	Form of Common Stock Purchase Agreement issued to Avram Miller and Jacqueline Brandwynne dated August 10, 2000(9)
10.18	Exclusive Licensing Agreement between the University of Washington and Lumera Corporation dated October 20, 2000.†
10.19	Sponsored Research Agreement between the University of Washington and Lumera Corporation dated October 20, 2000.
23	Consent of PricewaterhouseCoopers LLP

(1) Incorporated by reference to the Company’s Form SB-2 Registration Statement, Registration No. 333-5276-LA.
(2) Incorporated by reference to the Company’s Current Report on Form 8-K filed on January 28, 1999.
(3) Incorporated by reference to the Company's Form 10-QSB for the quarterly period ended June 30, 1998.
(4) Incorporated by reference to the Company’s Annual Report on form 10-K for the year ended December 31, 1997, Registration No. 0-21221.
(5) Incorporated by reference to the Company’s Annual Report on form 10-K for the year ended December 31, 1998.
(6) Incorporated by reference to Registration Statement on Form S-3, Registration No. 333-33612.
(7) Incorporated by reference to the Company’s definitive Proxy Statement, filed with the Securities and Exchange Commission on April 28, 2000.
(8) Incorporated by reference to the Company’s Form 10-Q for the quarterly period ended June 30, 2000.
(9) Incorporated by reference to the Company’s Form 10-Q for the quarterly period ended September 30, 2000.
(10) Incorporated by reference to the Company’s annual report on Form 10-K for the year ended December 31, 1999, Registration No. 0-21221.
(11) Incorporated by reference to Registration Statement on Form S-3, Registration No. 333-33612.

Exclusive Licensing Agreement

between
The University of Washington
and
Lumera Corporation

Effectively Dated October 16, 2000

TABLE OF CONTENTS

1.0 Recitals

2.0 Definitions

3.0 Grant

4.0 Sublicensing

5.0 Disclosure of Patents and Technical Information

6.0 Diligence

7.0 Patent Prosecution and Cost Recovery

8.0 Consideration; Licensing Fees, Common Stock and Royalty

9.0 Payment and Reports

10.0 Recordkeeping

11.0 Term and Termination of Agreement; Dispute Resolution

12.0 Notices

13.0 Proprietary Rights

14.0 Patent Marking

15.0 Patent Infringement

16.0 Patent Validity Claims

17.0 Use of Names; Relationship of Parties

18.0 Representations, Warranties, Disclaimer; Assumption of Risk and Release

19.0 Indemnification

20.0 Applicable Laws; Jurisdiction; Venue

21.0 Attorney's Fees

22.0 Insurance

23.0 Confidential Information

24.0 General

List of Exhibits

Exhibit A Field of Use

Exhibit B Description of Invention

Exhibit C Invention Disclosures, Patent Applications and/or Patents

Exhibit D University Inventors

Exhibit E Notices

Exhibit F Restricted Stock Purchase Agreement

Exhibit G Voting Agreement

Exhibit H Electro-Optic Modulator Product Development Schedule

EXCLUSIVE LICENSING AGREEMENT

This Exclusive Licensing Agreement is entered into by and between the University of Washington (the "University") and Lumera, Inc., a Washington corporation (the "Licensee") as of the Effective Date, subject to the following terms and conditions.

1.0 Recitals

WHEREAS, the University has developed, owns and/or has the right to license certain technology relating to electro-optic polymers and related organic materials and processes;

WHEREAS, the University desires that the technology be used as soon as possible in the public interest and to this end desires to license the technology to a company capable of commercially exploiting the technology;

WHEREAS, Licensee desires, for the purpose of commercial exploitation, to acquire a license to certain patent rights in and to the technology and to certain related information;

WHEREAS, Licensee desires to advance the development of a new class of nonlinear optical (NLO) materials currently under development at the University that appear to offer the potential to enable a range of light modulation components and systems for a variety of optical processing and communications applications;

WHEREAS, Licensee intends to complement such development with component and device fabrication capabilities and facilities to achieve rapid commercialization of the underlying materials technology; and

WHEREAS, University and Lumera believe that University research facilities and capabilities can play a role in the further development of this technology, including related systems and applications, and to that end have also entered into a Sponsored Research Agreement in connection with this Agreement.

NOW, THEREFORE, in consideration of the foregoing and the mutual agreements set forth herein, the University and Licensee do hereby agree as follows:

2.0 Definitions

Unless the context clearly requires otherwise, the following capitalized terms, used in either the singular or plural, shall be defined as follows:

2.1 "**Agreemen**t" means this Exclusive Licensing Agreement, including the exhibits attached hereto, which are incorporated by reference herein.

2.2 "**Affiliate**" means any corporation, company, or other business entity (including any joint venture, partnership, form of association or otherwise) directly or indirectly controlling, controlled by, or under common control with Licensee. For purposes of this definition, control of an entity means having the right to direct or to appoint or remove a majority of the members of the entity's board of directors (or its equivalent) or the entity's management (including the entity's president, chairman of the board, or general or managing partner, as applicable), irrespective of whether such right exists by reason of one or more of the following: (i) contract, agreement, arrangement or understanding; (ii) provisions in the applicable articles, bylaws or other similar governing document; (iii) ownership of or holding rights to vote sufficient numbers of voting shares, securities or other rights entitled to vote for, appoint, or remove; (iv) any applicable law; or (v) otherwise.

2.3 "**Confidential Information**" has the meaning set forth in Section 23.1 of this Agreement.

2.4 "**Effective Dat**e" means October 16, 2000.

2.5 "**Electro-Optic Modulator**" means an integral device capable of using an electrical signal to modulate a laser light source at high speed commonly employing, but not limited to, a Mach-Zehnder design, examples of which are generally represented (and referenced herein for illustrative purposes only) by the following commercially available products: Lucent Technologies Part Numbers 2623N, 2623CSA, JDS Uniphase Part Numbers 25150-002280, 25150-002281, DZ150-002282, DZ150-002283, PM-150-080-50-1-1-C2 and SDL Integrated Optics Ltd. Part Numbers IOAP-MOD 9140, 9189, 9201, 9203

2.6 "**Field of Use**" means the field of use described in Exhibit A attached hereto.

2.7 "**First Commercial Use**" means the date upon which Net Sales Revenue or Sublicense Fees first occurs.

2.8 "**Invention**" means the inventions (i) described in Exhibit B attached hereto and (ii) that Licensee may hereafter elect to add to this Agreement by exercise of an option to license pursuant to Section 8 of the Sponsored Research Agreement.

2.9 "**Licensed Patents**" means the invention disclosures, patent applications, and/or patents (i) described in Exhibit C attached hereto and (ii) that Licensee may hereafter elect to add to this Agreement by exercise of an option to license pursuant to Section 8 of the Sponsored Research Agreement. Licensed Patents shall also include all patents, reissues, divisionals, continuations, reexaminations and extensions thereof, and subject matter in any continuations-in-part on which claims issuing obtain the benefit of a priority date of any of the foregoing, together with all corresponding foreign patents, extensions, supplemental protection certificates, applications, and related intellectual property rights corresponding thereto now issued or issued during the term of this Agreement and which directly relate to the Invention.

2.10 "**License**" means the license granted to Licensee under the terms of this Agreement.

2.11 "**Licensed Subject Matter**" means any subject matter, including but not limited to products and processes, (i) that is covered in whole or in part by any issued, unexpired patent claim or a claim in a pending patent application contained in the Licensed Patents in the country in which said subject matter is made, used, or sold, or (ii) that incorporates any Technical Information.

2.12 "**License**e" means Lumera, Inc., a Washington corporation.

2.13 "**Net Sales Revenue**" means the gross revenues billed or invoiced by Licensee for sales of Electro-Optic Modulators using or incorporating Licensed Subject Matter and for sales of other Licensed Subject Matter, whether billed or invoiced by Licensee or its Sublicensees, less discounts and allowances given and actually taken and which are customary in Licensee's trade, other than those which permit a reduction in payment by the customer in exchange for early payment, and less sales and similar taxes actually paid by Licensee on said sales transactions (but not including any taxes assessed on Licensee's business generally), import and export duties actually paid, and amounts allowed or credited due to returns (not to exceed the original billing or invoice). Licensed Subject Matter shall be deemed "sold" upon the earlier of billing out, invoicing, or shipping.

2.14 "**Party**" or "**Parties**" mean the University and/or Licensee as the context requires.

2.15 "**Restricted Stock Purchase Agreement**" means the agreement entered into by and between the Parties attached as Exhibit F hereto.

2.16 "**Sponsored Research Agreement**" means a research agreement entered into by and between the Parties as of the Effective Date of this Agreement.

2.17 "**Sublicense**" means the present, future or contingent transfer of any license, right, option, first right to negotiate or other right granted to a Sublicensee under the Licensed Subject Matter, in whole or in part. Sublicense shall also include, without limitation, strategic partnerships, affiliations, and marketing collaborations.

2.18 "**Sublicensee**" means a third party not an Affiliate of Licensee granted a Sublicense pursuant to a bona fide arms length transaction.

2.19 "**Sublicense Fees**" means all forms of consideration received by Licensee for a Sublicense, including, but not limited to royalties, cash, stock and other valuable non-cash consideration.

2.20 "**Technical Information**" means Confidential Information –

i. that is owned by the University or whose use or disclosure is legally controlled by the University, and

ii. that is in any manner related to any Invention or the Licensed Subject Matter or to the Project as defined in the Sponsored Research Agreement, and

iii. that is included within one or more of the following:

(a) a Licensed Patent, as defined herein,

(b) a disclosure of Technical Information by the University to the Company pursuant to Section 5.3 of this Agreement,

(c) Research Results, as defined in the Sponsored Research Agreement, including any description of Research Results contained in any report to the Company,

(d) a report by the University to the Company pursuant to Sections 2.7 or 2.8 of the Sponsored Research Agreement,

(e) a Disclosure, as defined in the Sponsored Research Agreement, made pursuant to Section 8.1 thereof;

(f) a disclosure by the University to the Company and identified in writing as Technical Information by the University pursuant to any material transfer, nondisclosure or other similar agreement, document or arrangement between the University and the Company, or

(g) a disclosure by the University to the Company pursuant to that certain Nondisclosure Agreement among the Parties hereto executed on July 19, 2000 and effectively dated January 1, 2000.

Notwithstanding anything in the foregoing to the contrary, Technical Information shall not in any event include any information to the extent and as of the date: (x) excluded as Confidential Information under Sections 23.2 or 23.6 of this Agreement, (y) publicly disclosed by the University as a Scholarly Disclosure pursuant to Article 5.0 of the Sponsored Research Agreement, or (z) included within a Licensed Patent upon public disclosure thereof by the University or by any applicable governmental patenting authority.

2.21 “**Territory**” means the entire world.

2.22 “**University of Washington,**” “**University,**” and “**UW**” all mean the University of Washington, a public institution of higher education and an agency of the State of Washington, having its principal campus located in Seattle, Washington.

2.23 “**University Inventors**” means (i) the persons described in Exhibit D attached hereto and (ii) any other University Personnel who may participate in the development of Inventions arising from the Sponsored Research Agreement.

2.24 “**University Personnel**” shall have the same meaning as defined in the Sponsored Research Agreement.

2.25 “**Voting Agreement**” means the agreement entered into by and between the Parties and others attached as Exhibit G. hereto.

3.0 Grant

3.1 Subject to Licensee’s performance of the terms and conditions of Articles 8.0 and 9.0 of this Agreement and Article 3.0 of the Sponsored Research Agreement, University hereby grants to Licensee for the term of this Agreement, and Licensee accepts, an exclusive, royalty-bearing license, with the right to sublicense, to import, make, have made, use, sell, offer for sale, have sold, and otherwise commercially exploit Licensed Subject Matter within the Field of Use in the Territory.

3.2 The License granted herein is subject to a reserved non-exclusive, non-transferable license in the Field of Use retained by the University to: (i) publish the general scientific findings from research related to Licensed Subject Matter, subject to the terms regarding publication described in Article 5.0 of the Sponsored Research Agreement; and (ii) use the Licensed Subject Matter only for its own bona fide research, teaching and other educationally-related purposes.

3.3 In the event the University has received or will receive any funding from a funding agency of the U. S. government for research contributing in whole or part to the development of the Licensed Subject Matter, Invention, Licensed Patents, and Technical Information, Licensee understands and agrees that such intellectual property may be subject to the rights and limitations of U.S. Public Laws 96-517 and 98-620, 35 USC §§200-211, and various implementing regulations, including those codified at 37 CFR Part 401, known generally and collectively as the “Bayh-Dole Requirements.” In such case, the Parties agree to include, where applicable, in any application for a U.S. Patent a statement fully identifying the rights of the U.S. government under the Bayh-Dole Requirements; and Company acknowledges that the University shall be required to grant the U.S. government a worldwide, non-exclusive, royalty-free license for such intellectual property, including the Licensed Patents, notwithstanding anything in this Agreement to the contrary.

4.0 Sublicensing

4.1 During the term of exclusivity of the license granted in this Agreement, Licensee shall have the right to grant Sublicenses to Licensed Patents in the Field of Use, or any part thereof, and for the Territory, or any portion thereof, at royalty rates and with other terms and conditions not less favorable to University than those required of Licensee by this Agreement.

4.2 Licensee agrees to forward to University a copy of any and all fully executed Sublicense agreements pertaining to Licensed Patents within thirty (30) days of the date of execution.

5.0 Disclosure of Patents and Technical Information

5.1 University, within sixty (60) days of the Effective Date, shall provide to Licensee copies of all issued patents and pending patent applications comprising the Licensed Patents as of that date.

5.2 University agrees to provide Licensee with a copy of any future patent application or applications filed by University relating to the Invention. University acknowledges that such patents and applications may become Licensed Subject Matter as otherwise provided under the terms of this Agreement and the Sponsored Research Agreement.

5.3 University agrees to disclose to Licensee any other Technical Information, not obtained by University under conditions of confidentiality, in University's possession as of the Effective Date or during the term of this Agreement that University reasonably considers to be necessary or valuable to the commercial exploitation of Licensed Patents.

5.4 Where Technical Information is intended or reasonably expected to be included in a patent application, Licensee agrees to keep such Technical Information received from University and identified by University as confidential under conditions of strict secrecy until the filing and public disclosure of such application and to use the same degree of care Licensee would for its own confidential information, but not less than reasonable care, to protect University's confidential Technical Information from disclosure to unauthorized third parties.

6.0 Diligence

6.1 Licensee, during the term of this Agreement, shall utilize its best efforts in proceeding with the development, manufacture and sale of commercial products and/or processes incorporating and/or utilizing the Licensed Subject Matter and with other commercial exploitation of the Licensed Subject Matter, and in creating a supply and demand for the Licensed Subject Matter.

6.2 Without limiting the foregoing, Licensee shall: (i) develop an Electro-Optic Modulator incorporating and/or utilizing Licensed Subject Matter substantially in accord with the schedule attached as Exhibit H hereto, including the milestones specified therein; and (ii) offer for general commercial sale an Electro-Optic Modulator incorporating and/or utilizing Licensed Subject Matter no later than eighteen (18) months after University discloses to and fully enables Company to obtain a sample of a nonlinear electro-optic material suitable for use in a commercially-saleable Electro-Optic Modulator, except that with respect to any such disclosure and enablement in existence on or after June 1, 2001, no later than twelve (12) months after the occurrence of any such disclosure and enablement.

6.3 If Licensee fails to adhere to the diligence obligations set forth in this Agreement, University may terminate this Agreement in accordance with Article 11.0 of this Agreement.

7.0 Patent Prosecution and Cost Recovery

7.1 University or its designee shall have sole control over the filing, prosecution and maintenance of any and all patent applications, whether pending or not yet filed as of the Effective Date of this Agreement, in Licensed Patents, and of the maintenance and other management of any and all issued patents in Licensed Patents. The Parties agree to use the Seattle, Washington law firm of Christensen, O'Connor, Johnson and Kindness as legal counsel for all patent matters and to change such counsel by mutual agreement.

7.2 University shall keep Licensee informed of the status of any and all patents and patent applications comprising Licensed Patents and shall provide to Licensee timely copies of all correspondence with the United States Patent and Trademark Office (as well as any foreign equivalent bodies), and shall provide Licensee with the opportunity from time to time to advise University on courses of action respecting the filing of new patent applications relating to the Invention, prosecution of patent applications, and management of patents in Licensed Patents, provided University shall have sole authority to prosecute Licensed Patents. If University determines that it will not maintain any of the Licensed Patents, University will provide timely notice to Licensee and shall provide to Licensee reasonable opportunity to maintain such Licensed Patents.

7.3 Licensee agrees to reimburse University for all fees and costs relating to the preparation (including any investigation and analysis directly relating to such preparation), filing, prosecution and maintenance of patent applications, including, without limitation, interferences, oppositions, and reexaminations, and maintenance and defense of patents, in Licensed Patents, whether incurred prior to the execution of this Agreement or during the term of this Agreement. Such fees and costs shall not include costs incurred by the University in the use of its own resources, such as employee time, and shall not extend to patenting fees and costs incurred by University after termination of this Agreement. Licensee agrees to pay invoices for such fees and costs submitted by University with thirty (30) days after receipt of any such invoice. Alternatively, University may instruct its legal counsel to send copies of all invoices related to the Licensed Patents directly to Licensee, and Licensee shall reimburse the invoicer directly as if that invoicer were University. University shall further instruct its legal counsel to notify University should any such invoice remain unreimbursed for a period of more than thirty days from the date of invoice. In any country where Licensee fails to pay fees and costs invoiced to Licensee by University within sixty (60) days of the date of such invoice, University may file, prosecute and/or maintain a patent application or patent at its own expense and for its own exclusive benefit, and Licensee thereafter shall not be licensed under such patent or patent application within such country.

8.0 Consideration; Licensing Fees, Common Stock and Royalty

8.1 Licensee agrees to pay to University a one-time, non-refundable, non-creditable license issue fee of Two Hundred Thousand Dollars ($200,000.00) due and payable upon execution of the Research Plan of the Sponsored Research Agreement.

8.2 Licensee will deliver to the University shares of its common stock and perform such other obligations in accordance with the Stock Subscription and Rights Agreement attached hereto as Exhibit F.

8.3 Commencing upon First Commercial Use but in no event later than January 1, 2002, Licensee agrees to pay to University a non-refundable annual license maintenance fee of seventy-five thousand dollars ($75,000) due and payable in four quarterly installments on the schedule specified in Section 9.1 of this Agreement and fully creditable against any royalties payable by Licensee under Section 8.4 of this Agreement.

8.4 Licensee agrees to pay to University an earned royalty calculated as a percentage of Net Sales Revenue during the term of this Agreement in accordance with the following:

8.4.1 With respect to Net Sales Revenue arising from sales of software constituting Licensed Subject Matter, the royalty rate shall be determined in accordance with Section 8.5 of this Agreement.

8.4.2 With respect to Net Sales Revenue arising from sales of Electro-Optic Modulators, the royalty rate shall be determined in accordance with Section 8.5. [CONFIDENTIAL TREATMENT REQUESTED]

8.4.3 With respect to Net Sales Revenue arising from sales of any Licensed Subject Matter other than as described in subsections 8.4.1 and 8.4.2, the royalty rate shall be determined in accordance with Section 8.5. [CONFIDENTIAL TREATMENT REQUESTED]

8.4.4 No multiple royalties on Net Sales Revenue shall be payable by Licensee to University more than once on a particular product or process licensed under this Agreement as a result of any Licensed Subject Matter, its manufacture, use, or sale, are or being included within any of the following: (i) one or more patents (including any invention disclosures and patent applications) constituting Licensed Patents; or (ii) any item of Technical Information (irrespective of whether any such Technical Information is also included as part of a Licensed Patent). Royalties shall be determined at the component level for sales or similar transfers of items, i.e., if the component or process is used as a component that is part of a larger system, the royalty shall be payable on the component, not the system, unless the Licensed Subject Matter covers the system as a whole.

8.5 Royalties and royalty rates under this Agreement shall be determined in accordance with the following:

8.5.1 Within any applicable ranges set forth in Section 8.4 of this Agreement, the Parties agree to negotiate and determine royalty rates and other factors material to the application of a royalty on a product-by-product basis no later than the first sale or other commercial use of each product incorporating Licensed Subject Matter, except that, with respect to Electro-Optic Modulators, the royalty rate shall be determined no later than September 1, 2001. [CONFIDENTIAL TREATMENT REQUESTED] The Parties agree to promptly execute appropriate amendments to this Agreement reflecting all such determinations.

8.5.2 Royalty rates under this Agreement shall be commercially reasonable, taking into account usual and customary commercial factors, including, without limitation, the nature and character of the particular product, the industry within which it will be marketed and sold, Licensee's anticipated profitability from the particular product sales, and the value added of Licensed Subject Matter to the product, and with respect to Licensed Subject Matter arising from Joint Intellectual Property as defined in the Sponsored Research Agreement, the relative contributions of the Parties to the development of such Joint Intellectual Property. Determination of the relative contributions of the Parties to the development of such Joint Intellectual Property shall be based on the relative value added by each Party to the commercial value of such Joint Intellectual Property and shall not necessarily be limited to matters disclosed in any Licensed Patent. Notwithstanding the foregoing, in no event shall royalty rates be inconsistent with any applicable ranges set forth in Section 8.4 of this Agreement.

8.5.3 Licensee agrees to provide timely notice of the planned offering for sale of any product incorporating any Licensed Subject Matter, which notice shall in no event be less than one-hundred twenty (120) days prior to the first sale. Either Party may at any time request the other Party to meet for the purpose of negotiating a royalty rate with respect to a particular product, including the definition of the product for purposes of calculating the royalty; providing, however, a Party shall not be required to enter into negotiations more than one-hundred twenty (120) days prior to the planned offering for sale of the particular product that is the subject of the requested negotiation.

8.5.4 In the event the Parties are unable to agree on the royalty rate for a particular product after three (3) meetings, either Party may submit the particular matter to binding interest arbitration to be decided by a single arbitrator in Seattle, Washington and administered by the American Arbitration Association. The arbitrator shall be experienced in conducting interest arbitration proceedings and knowledgeable in matters relating to the marketing and sale of electronic devices in the telecommunications industry, including usual and customary licensing arrangements. The arbitrator's authority shall be limited to determining (without issuing either a reasoned opinion or findings of fact): (i) a commercially reasonable royalty rate in accordance with the requirements set forth in Section 8.4 and subsection 8.5.2 of this Agreement, and (ii) the definition of the particular product to which such royalty shall apply. The arbitrator shall have no authority to award any damages, costs or attorney fees or to decide any other matter or dispute arising under this Agreement, including without limitation any disputes regarding the validity of the Licensed Patents. All arbitration proceedings shall be conducted on an informal basis and no rules of evidence shall be applicable to such proceedings, except those as the arbitrator deems appropriate to a speedy and efficient determination. Prior to commencement of arbitration, each Party shall submit to the arbitrator and exchange with each other in advance of the hearing their last, best offers. The arbitrator shall be limited to awarding only one or the other of the two figures submitted, providing such figure is within any range applicable to the particular product as specified in Section 8.4 of this Agreement. Each Party shall bear its own costs and expenses and an equal share of the arbitrator's and administrative fees of arbitration. The written decision of the arbitrator shall be binding and final on the Parties and shall not be subject to any judicial or other appeal. Upon issuance, the arbitrator's written decision shall be deemed to be incorporated herein and shall, without further action of the Parties, be deemed to be an amendment to this Agreement.

8.6 Licensee agrees to pay to University a percentage of Sublicense Fees, due and payable at the end of each calendar quarter in which such Sublicense Fees are received by Licensee on the schedule specified in Section 9.1 of this Agreement, according to the following:

8.6.1 With respect to Sublicense Fees received by Licensee from the sale of Electro-Optic Modulators by a Sublicensee, Licensee will pay to the University. [CONFIDENTIAL TREATMENT REQUESTED]

8.6.2 With respect to Sublicense Fees received by Licensee from the sale of software by a Sublicensee, Licensee will pay to the University a commercially reasonable percentage of all such Sublicense Fees determined in accordance with Section 8.5.4 of this Agreement.

8.6.3 With respect to Sublicense Fees received by Licensee other than as described in either subsection 8.6.1 or 8.6.2, Licensee will pay to the University a commercially reasonable percentage of all such Sublicense Fees determined in accordance with Section 8.5.4 of this Agreement, providing, however, that the percentage payable to the University as set forth in subsection 8.6.1 will be presumed to be commercially reasonable for purposes of this subsection 8.6.3 unless the objecting Party can produce clear and convincing evidence to the contrary.

8.6.4 Licensee shall be entitled to a credit for amounts payable to University under Section 8.5 of this Agreement for any amounts of Sublicense Fees allowed or credited by Licensee to a Sublicensee due to returns or similar circumstances (not to exceed the original billing or invoice).

8.7 If Licensee receives consideration in any form other than cash in connection with the use or sale of Licensed Subject Matter, or in connection with the grant of any Sublicense, Licensee shall, in the applicable report pursuant to Article 9 (Payment and Reports) of this Agreement, state the cash value to Licensee of such non-cash consideration. University may either (a) accept Licensee's statement of cash value, in which case such stated cash value will be shared with University in accordance with the provisions in Article 8 (Licensing Fees and Royalty) of this Agreement; or (b) elect to have such non-cash consideration appraised by a qualified third party appraiser selected by University and reasonably acceptable to Licensee, in which case the appraised cash value will be shared with University in accordance with the provisions in Section 8.4 of this Agreement. If the appraised cash value is either more than one-hundred ten percent (110%) of Licensee's stated value or more than $100,000 over Licensee's stated value, the Licensee shall pay for the appraisal. In all other cases, the University shall pay for the appraisal.

8.8 If Licensee receives Sublicense Fees in the form of equity, all provisions of Section 8.6 of this Agreement shall apply, except that University may, at its sole discretion, elect to receive University's share of such equity as either equity or the cash equivalent of such equity. If University elects to receive the equity, such equity shall be issued in the name "***University of Washington**."*

9.0 Payment and Reports

9.1 Licensee shall pay earned royalties to University quarterly within sixty (60) days of March 31, June 30, September 30, and December 31 of each year during the term of this Agreement. Each such payment shall reflect royalties due with respect to Net Sales Revenue occurring during the preceding calendar quarter.

9.2 With each payment, Licensee shall include a report setting forth such particulars of the business conducted by Licensee and each Sublicensee during the preceding calendar quarter as shall be pertinent to accounting as specified in this Agreement. The report, for Licensee and each Sublicensee, shall include at least (a) the number of units of Licensed Subject Matter manufactured, used, or sold; (b) gross amounts billed or invoiced for Licensed Subject Matter; (c) names and addresses of any and all Sublicensees; (d) the amount of Sublicense income received; (e) discounts and allowances; and (f) calculation of total amounts due University.

9.3 Until Licensee or any Sublicensees engage in First Commercial Use or other commercial use of Licensed Subject Matter, Licensee shall prepare and submit to University within sixty (60) days of June 30 and December 31 of each year a report regarding the progress of Licensee and any Sublicensee in developing Licensed Subject Matter for commercial exploitation. Said report shall include such particulars as are necessary to demonstrate compliance with diligence obligations set forth in the Article 6.0 of this Agreement.

9.4 On or before the ninetieth (90^{th}) day following the close of Licensee's fiscal year, Licensee shall provide University with Licensee's certified financial statements (or, if available, audited financial statements) for the preceding fiscal year, including, at a minimum, a balance sheet and an operating statement.

9.5 All payments required under this Agreement shall be made in U.S. dollars by check or money order payable to the "***University of Washington***", and delivered to the Attention of Fiscal Specialist at the University's Office of Technology Transfer delivered to the address as specified in this Agreement; or, if so directed in writing by University, in such currency, form, and to such account as University may designate. If applicable, the rate of exchange to be used in computing the amount of currency equivalent to the United States dollars shall be the rate of exchange as published in the Wall Street Journal on the last business day of the calendar quarter in which the Net Sales Revenue occurred.

9.6 Licensee agrees to pay a late fee for any payment more than ten (10) days overdue University under the terms of this Agreement, which shall be computed as simple interest at the rate of twelve percent (12%) per annum on any such overdue amounts. The payment of such a late fee shall not foreclose or limit University from exercising any other rights it may have as a consequence of the lateness of any payment.

10.0 Recordkeeping

10.1 Licensee shall keep complete and accurate records and books of account containing all information necessary for the computation and verification of the amounts to be paid hereunder. Licensee shall keep these records and books for a period of five (5) years following the end of the accounting period to which the information pertains.

10.2 Licensee agrees, at the request of University, to permit one or more accountants selected by University ("Accountant") and reasonably acceptable to Licensee to have access to Licensee's records and books of account during ordinary working hours with reasonable notice to audit with respect to any payment period ending prior to such request, the correctness of any report or payment made under this Agreement, or to obtain information as to the payments due for any such period in the case of failure of the Licensee to report or make payment pursuant to the terms of this Agreement.

10.3 The Accountant shall not disclose to University any information relating to the business of Licensee except that which is necessary to inform University of: (a) the accuracy or inaccuracy of Licensee's reports and payments; (b) compliance or noncompliance by Licensee with the terms and conditions of this Agreement; and (c) the extent of any inaccuracy or noncompliance.

10.4 Should the Accountant believe there is an inaccuracy in any of the Licensee's payments or noncompliance by the Licensee with any of such terms and conditions, the Accountant shall have the right to make and retain copies (including photocopies) of any pertinent portions of the records and books of account.

10.5 In the event that Licensee's royalties calculated for any quarterly period are underreported by more than ten per cent (10%) or by more than $25,000, the costs of any audit and review initiated by University will be borne by Licensee; but, otherwise, University shall bear the costs of any audit initiated by University.

11.0 Term and Termination of Agreement; Dispute Resolution

11.1 The term of this Agreement shall commence on the Effective Date and shall continue until the last of Licensed Patents expires, unless sooner terminated in accordance with the provisions set forth in this Article 11.0 of this Agreement.

11.2 If Licensee breaches any material obligation imposed by this Agreement or fails to cure, within the appropriate cure period, a material obligation of the Sponsored Research Agreement, including without limitation any payment obligation under Section 3.1 of the Sponsored Research Agreement, then University may, at its option, send a written notice that it intends to terminate the license granted by this Agreement. If Licensee does not cure the breach within sixty (60) days from the notice date, then University shall have the right, without further notice, to immediately terminate this Agreement.

11.3 In no event shall an early termination of the Sponsored Research Agreement by the University pursuant to Section 11.1 of the Sponsored Research Agreement be deemed to be or give rise to a breach of this Agreement.

11.4 This Agreement, and the license granted to Licensee herein, shall terminate immediately in the event that (1) Licensee seeks liquidation, reorganization, dissolution or winding-up of itself, Licensee makes any general assignment for the benefit of its creditors, or Licensee ceases doing business; (2) a petition is filed by or against Licensee, or any proceeding is initiated by or against Licensee, or any proceeding is initiated against Licensee as a debtor, under any bankruptcy or insolvency law, unless the laws then in effect void the effectiveness of this provision, and such filing remains unopposed for a period exceeding thirty (30) business days; or (3) a receiver, trustee, or any similar officer is appointed to take possession, custody, or control of all or any part of Licensee's assets or property.

11.5 Beginning five (5) years after the Effective Date, Licensee shall have the right to terminate this Agreement with or without cause, upon ninety (90) days prior written notice to University. Notwithstanding the foregoing, Licensee may terminate this Agreement upon ninety (90) days written notice to University upon payment to the University, to the extent not previously paid, of five (5) years of annual maintenance fees as described in Section 8.3 of this Agreement.

11.6 Termination of this Agreement pursuant to Articles 11.2, 11.3, or 11.4 shall terminate all rights and licenses granted to Licensee hereunder.

11.7 Upon termination of this Agreement, any and all existing Sublicense agreements shall be immediately assigned to University and University agrees to keep them in force to the extent that University is capable of performing as a licensor in place of Licensee.

11.8 Termination by University or Licensee under the options set forth in this Agreement shall not relieve Licensee from any obligation to University arising under Article 8 of this Agreement and accruing prior to termination and shall not relieve either party from performing according to any and all other provisions of this Agreement that survive termination.

11.9 In the event that there remain no valid, enforceable, and infringed Licensed Patents covering Licensed Subject Matter, then following termination Licensee and any Sublicensees shall have no further obligation to pay royalties thereon or to account to University therefor.

11.10 The provisions under which this Agreement may be terminated shall be in addition to any and all other legal remedies which either Party may have for the enforcement of any and all terms hereof and shall not in any way be interpreted to limit any other legal remedy such Party may have.

11.11 In the event of termination of this Agreement for whatever reason, Articles 18.0 and 19.0 shall survive such termination.

11.12 Prior to commencing any legal action, the Parties will attempt in good faith to resolve through negotiation any dispute, claim or controversy arising out of or relating to this Agreement. Either Party may initiate such negotiations by providing written notice to the other Party specifying that this provision of this Agreement is being utilized and setting forth the subject of the dispute and the relief requested. The Party receiving such notice will respond in writing within five (5) business days with a statement of its position on and recommended solution to the dispute. If the dispute is not resolved by this exchange of correspondence, then representatives of each Party with full settlement authority shall meet at a mutually agreeable time and place in Seattle, Washington within ten (10) business days of the date of the initial notice in order to exchange relevant information and perspectives, and to attempt in good faith to resolve the dispute. If the dispute is not resolved by these negotiations, the matter will be submitted to a mutually agreeable and recognized mediation service prior to initiating legal action. Any such mediation shall be conducted in Seattle, Washington and the costs of the mediation service shall be shared equally by the Parties.

12.0 Notices

12.1 Any notice to a Party provided pursuant to the terms of this Agreement shall be delivered either in person, mailed by registered mail (return receipt requested and postage prepaid), or transmitted by facsimile or electronic mail with operator confirmation, and addressed as indicated in Exhibit 5 attached hereto.

12.2 Notice shall be deemed effective upon the earlier of: (i) actual delivery to the Party; (ii) five (5) days after the date on which such notice was postmarked within the United States; or (iii) receipt by facsimile or other electronic means with operator confirmation. All notices given by facsimile or other electronic means shall be immediately followed by delivery in person or delivery by first class mail.

13.0 Proprietary Rights

Licensee will not, by performance under this Agreement, obtain any ownership interest in Licensed Patents or any other proprietary rights or information of University, its officers, inventors, employees, students, or agents.

14.0 Patent Marking

Licensee shall mark, and shall require any sublicensee to mark, any and all material forms of Licensed Subject Matter or packaging pertaining thereto made and sold by Licensee (and/or by its Sublicensees) in the United States with an appropriate patent marking identifying the pendency of any U.S. patent application and/or any issued U.S. or foreign patent forming any part of Licensed Patents. All Licensed Subject Matter shipped to or sold in other countries shall be marked in such a manner as to provide notice to potential infringers pursuant to the patent laws and practice of the country of manufacture or sale.

15.0 Patent Infringement

15.1 Each Party shall promptly inform the other Party of any alleged infringement of Licensed Patents by a third party of which that Party is aware and provide any available evidence thereof.

15.2 During the term of exclusivity of the license granted hereunder, Licensee shall have the first right to settle any alleged infringement of Licensed Patents by securing cessation of the infringement, instituting suit against the infringer, or entering into a sublicensing agreement in and to relevant patents in Licensed Patents. To enjoy said first right, Licensee must notify University of such infringement within ninety (90) days of learning of said infringement and if University notifies Licensee in writing of its intent to initiate litigation on its own behalf, Licensee must initiate bona fide action to settle any alleged infringement within ninety (90) days of such notice. After Licensee has recovered its reasonable attorney's fees and other out-of-pocket expenses directly related to any action, suit, or settlement for infringement of Licensed Patents, University and Licensee shall divide any remaining damages, awards, or settlement proceeds in the following manner:

University [CONFIDENTIAL TREATMENT REQUESTED]

Licensee [CONFIDENTIAL TREATMENT REQUESTED]

provided, however, that any payment by an alleged infringer as consideration for the grant of a Sublicense shall be handled according to the payment provisions for Sublicenses set forth in this Agreement.

15.3 In the event Licensee institutes suit against an alleged infringer during the term of exclusivity as provided in this Agreement, then the University may agree to voluntarily participate as a named party at its sole discretion. Otherwise, the University shall participate as an involuntary plaintiff only if the University is determined by a court to be a necessary or indispensable party, in which case the University agrees to be bound by any final judgment rendered by the court. Providing, however, the foregoing shall not be interpreted to limit any right of the University to intervene in any such suit within three (3) months of initiation of such lawsuit, and at any time thereafter for good cause, which right is hereby fully reserved. Unless the University intervenes, the University's participation in any such suit shall be at Licensee's sole expense, and University shall at Licensee's expense for University's direct associated expenses, fully and promptly cooperate and assist Licensee in connection with any such suit.

15.4 If Licensee fails, within ninety (90) days of the University's written notice as described in Section 15.2 above, to secure cessation of the infringement, institute suit against the infringer, or provide to University reasonably satisfactory evidence that Licensee is engaged in bona fide negotiation for the acceptance by infringer of a sublicense in and to relevant patents in Licensed Patents, University may then, upon written notice to Licensee, assume full right and responsibility to secure cessation of the infringement, institute suit against the infringer, or secure acceptance of a sublicense from Licensee in and to relevant patents in Licensed Patents, approval for which sublicense Licensee shall not unreasonably withhold.

15.5 If University in accordance with the terms and conditions of this Agreement chooses to institute suit against an alleged infringer, University may bring such suit in its own name (or, if required by law, in its and Licensee's name) and at its own expense, and Licensee shall, but at University's expense for Licensee's direct associated expenses, fully and promptly cooperate and assist University in connection with any such suit. Any and all damages, awards, or settlement proceeds arising from such a University-initiated action shall be the sole property of the University.

15.6 Neither Licensee nor University shall be obligated under this Agreement to institute a suit against an alleged infringer of the Licensed Patents.

16.0 Patent Validity Claims

16.1 If any claim challenging the validity or enforceability of any Licensed Patents shall be brought against Licensee, Licensee shall promptly notify University. University, at its option, shall have the right, within thirty (30) days after notification by Licensee of such action, to intervene and take over the sole defense of the claim at University's expense.

16.2 If Licensee challenges the validity or enforceability of any Licensed Patents, Licensee agrees not to suspend any payments due University until such time as that patent in Licensed Patents is determined to be invalid or unenforceable by final judgment of a court of competent jurisdiction. During the pendency of any appeal there from, Licensee agrees to deposit any such payments due University into an escrow mutually agreeable to the Parties. Upon expiration of any period from which no further appeals can be taken in such proceedings, the proceeds of such escrow shall be paid to Licensee if the Licensed Patent at issue is determined to be invalid or unenforceable and shall be paid to University if the Licensed Patent at issue is determined to be valid and enforceable.

17.0 Use of Names; Relationship of Parties

17.1 Each Party agrees that it will not use the name, trademark or other identifier of the other Party for any advertising, promotion, or other commercially related purpose without the express prior written consent of the other Party. Nothing contained in this Agreement shall be construed as conferring any right to use in advertising, publicity or other promotional activities any name, trade name, trademark or other designation of a Party hereto including any contraction, abbreviation or simulation of any of the foregoing, unless the express written permission of the other Party has been obtained, provided that Licensee may state the existence of this Agreement and the fact that both Parties entered into it. For any use other than the foregoing, Licensee hereby expressly agrees not to use any name, tradename or trademark of the University, including without limitation "***University of Washington***" or its substantial equivalent, without the prior written approval from University.

17.2 The Parties each agree and understand that they are each acting as independent contractors and nothing contained herein shall be construed to be inconsistent with such relationship or status. Under no circumstances, shall either Party be considered an agent, representative or employee of the other Party. This Agreement shall not constitute, create, nor in any way be interpreted as giving rise to any joint venture, partnership, profit-sharing, or other similar business relationship of any kind between the Parties.

18.0 Representations, Warranties, Disclaimer; Assumption of Risk and Release

18.1 University represents and warrants that it has the right to grant the License in and to Licensed Patents and to disclose the Technical Information set forth in this Agreement.

18.2 FOR PURPOSES OF ARTICLE 18.0 OF THIS AGREEMENT, "SUBJECT MATTER" MEANS ALL LICENSED SUBJECT MATTER, LICENSED PATENTS, INVENTIONS, AND TECHNICAL INFORMATION AND ANY OTHER MATTER RELATING TO THE FOREGOING. THE SUBJECT MATTER IS PRELIMINARY AND EXPERIMENTAL IN NATURE. LICENSEE HAS BEEN PROVIDED A FULL OPPORTUNITY TO REVIEW AND INQUIRE ABOUT THE SUBJECT MATTER PRIOR TO USE AND ENTERING INTO THIS AGREEMENT. EXCEPT AS EXPRESSLY SET FORTH IN THIS AGREEMENT, THE UNIVERSITY MAKES NO REPRESENTATIONS AND DISCLAIMS: ALL WARRANTIES, BOTH EXPRESS AND IMPLIED, WITH RESPECT TO THE UTILITY, PATENTABILITY, SAFETY, MERCHANTABILITY, OR FITNESS FOR A PARTICULAR PURPOSE OF THE SUBJECT MATTER; AND THAT LICENSEE USE OF THE SUBJECT MATTER WILL NOT INFRINGE ANY THIRD PARTY PATENT, COPYRIGHT, TRADEMARK, OR OTHER RIGHTS. ALL OBLIGATIONS OR LIABILITIES ON THE PART OF THE UNIVERSITY FOR DAMAGES, INCLUDING BUT NOT LIMITED TO, INCIDENTAL, DIRECT, INDIRECT OR CONSEQUENTIAL DAMAGES, ARISING OUT OF OR IN CONNECTION WITH THE FURNISHING, PERFORMANCE, OR USE OF THE SUBJECT MATTER ARE DISCLAIMED. IF LICENSEE UTILIZES ANY OF THE SUBJECT MATTER, LICENSEE DOES SO AT ITS OWN RISK AND RELEASES AND DISCHARGES THE UNIVERSITY, ITS REGENTS, OFFICERS, AGENTS, EMPLOYEES, AND STUDENTS, FROM ALL LOSSES, CLAIMS, DAMAGES, AND EXPENSES (INCLUDING ATTORNEY'S FEES AND LEGAL COSTS) ARISING FROM LICENSEE'S USE OF THE SUBJECT MATTER. IN NO EVENT SHALL THE UNIVERSITY'S TOTAL LIABILITY UNDER THIS AGREEMENT EXCEED THE COSTS AND FEES PAID TO UNIVERSITY UNDER THIS AGREEMENT.

19.0 Indemnification

19.1 Except for those matters referred to Article 18.0 and section 19.2 of this Agreement, the Parties agree to defend, indemnify, and hold each other harmless from losses, claims, damages, and expenses (including reasonable attorneys' fees and legal costs) arising from the negligent acts or omissions of their respective officers, employees, and agents acting in the course and scope of their duties under this Agreement. However, neither Party assumes responsibility for indirect or consequential damages suffered by the other Party or by any person, firm, or corporation not a Party to this Agreement.

19.2 Licensee agrees to defend, indemnify, and hold University harmless from losses, claims, damages, and expenses (including reasonable attorneys' fees and legal costs) resulting from any theory of product liability (including, but not limited to, actions in the form of tort, warranty or strict liability) concerning any product, process or service made, used, or sold pursuant to any right or license granted under this Agreement, except to the extent attributable to the gross negligence or willful misconduct of the University, its officers, employees, and agents.

19.3 When invoking its rights under sections 19.1 or 19.2 of this Agreement, a Party shall promptly notify the other Party of the action, claim or other matter which gives rise to the defense and indemnity obligation and shall cooperate fully with the defense or settlement of the action, claim or other matter. The indemnifying Party shall have full control of the defense or settlement of the action, claim or other matter and shall ensure that all indemnified liabilities of the indemnified Party are fully discharged.

20.0 Applicable Laws; Jurisdiction; Venue

20.1 Licensee agrees to abide by all applicable federal, state, and local laws and regulations pertaining to the management and commercial deployment of any intellectual property or other rights transferred to Licensee under this Agreement or under any other agreement entered into pursuant to this Agreement.

20.2 Licensee understands that the University is subject to the laws and regulations of the United States, including the export of technical data, computer software, laboratory prototypes and other commodities (including the Arms Export Control Act, as amended, and the Export Administration Act of 1979), and that the University's obligations hereunder are contingent upon compliance with all applicable laws and regulations, including those for export control. Licensee understands that any transfer of any intellectual property or other rights to Licensee under this Agreement or under any other agreement entered into pursuant to this Agreement, including transfers to Licensee's Affiliates and permitted uses by certain third parties, may require a license from a cognizant agency of the United States Government and/or written assurances by Licensee that Licensee shall not transfer data or commodities to certain foreign countries without the prior approval of an appropriate agency of the United States government. The University neither represents that any such export license shall not be required, nor that, if required, it shall be issued.

20.3 This Agreement shall be governed by and enforced according to the laws of the State of Washington, without giving effect to its or any other jurisdiction's choice of law provisions, and the Superior Court of Washington for King County shall have exclusive jurisdiction and venue of all disputes arising under this Agreement, except that in any case where the courts of the United States shall have exclusive jurisdiction over the subject matter of the dispute, the United States District Court for the Western District of Washington, Seattle division, shall have exclusive jurisdiction and venue.

21.0 Attorney's Fees

The prevailing Party in any action sought to enforce or interpret this Agreement or any provision of this Agreement shall be entitled to its reasonable attorney's fees and costs, including any appeals thereon, as determined by a court in conjunction with any such legal proceeding.

22.0 Insurance

22.1 Licensee shall maintain general liability insurance including product liability and contractual liability coverage in such commercially reasonable amounts and with such qualified commercial insurers as are reasonably acceptable to University, but in no event less than one (1) million dollars. Licensee must declare whether the insurance is provided on a "claims-made" form and must notify University if coverage is canceled.

22.2 Licensee shall issue irrevocable instructions to its insurance agent and to the issuing company to notify University of any discontinuance or lapse of such insurance not less than thirty (30) days prior to the time that any such discontinuance or lapse is due to become effective. Licensee shall provide University a copy of such instructions upon their transmittal to the insurance agent and issuing company. Licensee shall further provide University, at least annually, proof of continued coverage.

23.0 Confidential Information

23.1 For purposes of this Agreement, "Confidential Information" shall mean: (i) all non-public information pertaining to any Invention or to the Licensed Subject Matter in written, graphic, oral or other tangible form, including without limitation all data, algorithms, formulae, techniques, improvements, technical drawings, computer software and materials; or (ii) Confidential Information as defined in the Sponsored Research Agreement.

23.2 Notwithstanding any other provisions of this Article 23.0 of this Agreement, a Party shall be free from any obligations of confidentiality hereunder regarding any information which is or becomes:

23.2.1 already known to such Party, other than under an obligation of confidentiality, at the time of disclosure;

23.2.2 generally available to the public or otherwise part of the public domain at the time of disclosure to such Party;

23.2.3 generally available to the public or otherwise part of the public domain after its disclosure other than through any act or omission of such Party in breach of this Agreement or other agreement or legal obligation;

23.2.4 subsequently lawfully disclosed to such Party by a third party under no obligation of confidentiality to the other Party;

23.2.5 independently developed by such Party as documented by written evidence;

23.2.6 approved for release by written authorization of the other Party;

23.2.7 furnished to a third party by the other Party without a similar restriction on the third party's rights; or

23.2.8 disclosed pursuant to the requirement of a governmental agency or was legally required to be disclosed, including with respect to the University, disclosures of public records pursuant to RCW 42.17.250 et seq., and any administrative rules adopted pursuant thereto.

23.3 Subject to the University's publications rights set forth in Article 5.0 of the Sponsored Research Agreement and the limitations of Sections 4.2 and 4.7 of the Sponsored Research Agreement, the University and Licensee agree not to engage in unauthorized disclosure or use of Confidential Information and to take reasonable measures to prevent unauthorized disclosure and use of Confidential Information, including without limitation taking reasonable measures to prevent creating a premature bar to a United States or foreign patent application. Each Party shall limit access to Confidential Information received from the other Party to those persons having a need to know in connection with the Licensed Subject Matter or in the operation of the business of the Company and shall use reasonable efforts to ensure that any such person receiving Confidential Information understands its confidential nature and agrees not to make unauthorized disclosure or use thereof. Each Party further agrees to employ no less than the same measures to protect Confidential Information that it uses to protect its own valuable information.

23.4 The Parties will take reasonable measures to mark and identify all Confidential Information as confidential. Confidential Information disclosed in oral form shall be identified as such by the disclosing Party to the other Party in writing within thirty (30) days of any such disclosure. Information that is not marked or not identified in writing as confidential within such period shall not be Confidential Information. Upon termination of this Agreement and to the extent otherwise consistent with this Agreement, any Confidential Information of the disclosing Party shall be promptly returned or destroyed upon written request of the disclosing Party.

23.5 In no event shall the obligations of confidentiality set forth in this Agreement be construed to limit either Party's right to independently develop products or conduct research without the use of the other Party's Confidential Information, except as may be expressly limited by this Agreement or any other applicable agreements between the Parties.

23.6 The Parties agree that, unless otherwise mutually agreed to in writing, the obligations regarding nondisclosure, protection and nonuse of Confidential Information set forth in this Agreement shall, in any event, end three (3) years after disclosure of Confidential Information.

24.0 General

24.1 If any provision of this Agreement shall be held to be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not be in any way affected or impaired thereby.

24.2 No omission or delay of either Party hereto in requiring due and punctual fulfillment of the obligations of any other Party hereto shall be deemed to constitute a waiver by such Party of its rights to require such due and punctual fulfillment, or of any other of its remedies hereunder.

24.3 No amendment or modification hereof shall be valid or binding upon the Parties unless it is made in writing, cites this Agreement, and is signed by duly authorized representatives of University and Licensee.

24.4 This Agreement, and any rights or obligations hereunder, may be assigned by the University but shall not be assigned, transferred or delegated in whole or in part by Licensee, whether by a merger, a sale of assets, or in any other manner, except with the University's express written approval. Any attempted assignment, transfer or delegation in breach of this provision shall be deemed to be void and of no effect, and shall entitle the University to terminate this Agreement upon written notice to Licensee. Except as otherwise provided, this Agreement shall be binding upon and inure to the benefit of the Parties' successors and lawful assigns.

24.5 The headings of the several sections of this Agreement are inserted for convenience and reference only, and are not intended to be a part of or to affect the meaning or interpretation of this Agreement.

24.6 This Agreement, the exhibits attached hereto, and the Sponsored Research Agreement embody the entire understanding of the Parties and supersede all previous communications, representations, or understandings, either oral or written, between the Parties relating to the subject matter hereof.

24.7 Nonperformance by a Party, other than payment of any amounts due hereunder by Licensee, shall not operate as a default under or breach of the terms of this Agreement to the extent and for so long any such nonperformance is due to: strikes or other labor disputes; prevention or prohibition by law; the loss or injury to products in transit; an Act of God; or war or other cause beyond the control of such Party.

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The University and Licensee, each agreeing to be bound hereby, do hereby assent to the above Agreement by the signatures of their duly-authorized representatives.

	The University of Washington		**Lumera Corporation**
By:	/s/ Robert C. Miller	By:	/s/ Todd R. McIntyre

Name:	Robert C. Miller		Name:	Todd R. McIntyre
Title:	Vice Provost		Title:	Vice President
Date:	October 20, 2000		Date:	October 20, 2000

Sponsored Research Agreement

between

The University of Washington

and

Lumera Corporation

Effectively Dated October 16, 2000

TABLE OF CONTENTS

Recitals

1.0 Definitions

2.0 Research Plan, Project Work, Principal Investigator and Reports

3.0 Company Payments

4.0 Confidential Information

5.0 University Publication Rights

6.0 Intellectual Property

7.0 Patents, Patent Costs and Option to License

8.0 Technology Transfer; Option Exercise and License Agreement

9.0 University Disclaimer; Company Assumption of Risk and Release

10.0 Indemnification

11.0 Early Termination, Nonrenewal and Termination

12.0 Notices

13.0 Other Sponsored Research Agreements

14.0 Compliance with Applicable Laws

15.0 Internal Revenue Code

16.0 Sublicenses and Assignments

17.0 Relationship of the Parties

18.0 Disputes; Attorney's Fees and Legal Costs

19.0 Miscellaneous

List of Exhibits

Exhibit 1 Project Goals and Objectives

Exhibit 2 Background Intellectual Property

Exhibit 3 Company Representative, Principal Investigator, and Certain University Personnel

Exhibit 4 Company Payments

Exhibit 5 Notices

Exhibit 6 Form of Research Plan

Exhibit 7 Progress Report Information

SPONSORED RESEARCH AGREEMENT

This Research Agreement is entered into by and between the University of Washington (the “University”) and Lumera, Inc. (the “Company”) as of the Effective Date, subject to the following terms and conditions.

Recitals

WHEREAS, Company desires to sponsor certain research to be conducted under the direction of the University;

WHEREAS, the University desires to conduct the Project as defined herein and is willing to grant certain rights to Company upon the terms and conditions set forth herein and in a related Exclusive Licensing Agreement also entered into in connection with this Agreement;

WHEREAS, the University and Company desire to achieve the goals and objectives of the Project as described in Exhibit 1 attached hereto and to appropriately commercialize the results of the Project;

WHEREAS, Lumera desires to sponsor directed research by the University for the ongoing development of new and/or improved nonlinear electro-optic materials and devices designed to address a broad range of microphotonics applications based on a mutually agreed Research Plan.

NOW, THEREFORE, in consideration of the foregoing and the mutual agreements set forth herein, the University and Company do hereby agree as follows:

1.0 Definitions

Unless the context clearly requires otherwise, the following capitalized terms, used in either the singular or plural, shall be defined as follows:

1.1 “**Agreement**” means this Sponsored Research Agreement, including the exhibits attached hereto, which are incorporated by reference herein.

1.2 “**Company**” means Lumera, Inc., a Washington corporation.

1.3 “**Company Representative**” means the representative designated by Company and described in Exhibit 3 to be the primary contact with Principal Investigator with respect to Project Work.

1.4 “**Company Personnel**” means Company staff, employees, contractors, subcontractors, and volunteers and any other similar persons or entities to the limited extent that any of the foregoing are performing Project Work and other similar activities related to the Project.

1.5 “**Confidential Information**,” “**University Confidential Information,**” “**Company Confidential Information,**” and “**Joint Confidential Information**” have the meanings set forth in Section 4.1 of this Agreement.

1.6 “**Disclosure**” means the disclosure of Intellectual Property and Research Results described in Section 8.1 of this Agreement.

1.7 “**Effective Date**” means October 16, 2000.

1.8 “**Exclusive Licensing Agreement**” means an exclusive licensing agreement entered into by and between the Parties as of the Effective Date of this Agreement.

1.9 “**Good Cause**” means: (i) the University’s failure, without legal excuse, to perform its material obligations under this Agreement; or (ii) the substantial failure of the Project to make reasonable progress towards achieving the goals and objectives described in Exhibit 1.

1.10 “**Intellectual Property,**” “**University Intellectual Property,**” “**Company Intellectual Property,**” “**Joint Intellectual Property,**” “**Background Intellectual Property,**” “**University Background Intellectual Property,**” and “**Company Background Intellectual Property**” means the meanings set forth in Section 6.1 of this Agreement.

1.11 “**OIPTT**” means the University’s Office of Intellectual Property and Technology Transfer.

1.12 “**Option to License**” means the option to obtain a license to Intellectual Property as described in Section 7.3 of this Agreement.

1.13 “**Party**” or “**Parties**” mean the University and/or Company as the context requires.

1.14 “**Principal Investigator**” means Dr. Larry Dalton and any other principal investigator thereafter assigned by the University and approved by Company pursuant to Section 2.6 of this Agreement to manage the Project and supervise Project Work.

1.15 “**Project**” means the research project that is the subject of this Agreement whose goals and objectives are described in Exhibit 1 and whose work plan will be outlined in the Research Plan.

1.16 “**Project Period**” means the period of time described in Section 2.3 of this Agreement.

1.17 “**Project Schedule**” means the schedule for the Project and conduct of Project Work described in the Research Plan.

1.18 “**Project Work**” means all work, research, study and analysis performed by the University Personnel and Company Personnel on behalf of and during the existence of the Project as generally described in the Research Plan, but shall not include any work, research, study or analysis performed by University Personnel or Company Personnel in connection with any other research agreements or any other arrangements, other than the Project, to which the Parties may now or hereafter become a party.

1.19 “**Research Plan**” means a written plan to be mutually agreed upon by the Parties after the execution of this Agreement that includes a summary, in outline form, of the research activities and an estimated schedule, to be undertaken by University Personnel in accomplishing the goals and objectives of the Project and in carrying out Project Work, the general form of which is attached as Exhibit 6.

1.20 “**Research Results**” means all Intellectual Property, Confidential Information, data, other information, materials, and work products developed as part of the Project and as a result of Project Work, including without limitation all inventions, discoveries, products, devices, models, prototypes, computer software, documentation, and technical data, regardless of whether protectable by patents, copyrights, or otherwise.

1.21 “**Scholarly Disclosure**” means usual and customary scientific and scholarly disclosures of Project Results and Project Work (whether performed directly by University Personnel or otherwise), of Intellectual Property, of information connected with or arising from Project Work, and of any Confidential Information incidental to disclosure of any of the foregoing, including presentations at scientific and governmental meetings and publications (whether in the form of written, electronic, or other media) in scientific, scholarly or professional journals.

1.22 “**Start Date**” means the date set forth in the Research Plan.

1.23 “**University of Washington,**” “**University,**” and “**UW**” all mean the University of Washington, a public institution of higher education and an agency of the State of Washington, having its principal campus located in Seattle, Washington.

1.24 “**University Personnel**” means the Principal Investigator, University faculty, staff, employees, students, fellows, visiting scholars, contractors, subcontractors, and volunteers and any other similar persons or entities to the limited extent that any of the foregoing are performing Project Work and other similar activities related to the Project, the initial roster for which is partially set forth in Exhibit 3 and the Research Plan.

2.0 Research Plan, Project Work, Principal Investigator and Reports

2.1 Promptly after execution of this Agreement, representatives of the Parties will meet and confer in good faith for the purpose of outlining the terms of a Research Plan consistent with the goals and objectives of the Project as set forth in Exhibit 1 and diligently work towards preparation of a mutually agreeable Research Plan within the time period stated herein. Unless extended by mutual agreement of the Parties, no later than forty-five (45) days after execution of this Agreement, the Parties will execute a document setting forth a mutually agreeable Research Plan, generally in the form attached hereto as Exhibit 6. Upon execution, the Research Plan shall be deemed to be an amendment to and become part of this Agreement. In the event a Research Plan is not executed within such period, this Agreement and the Exclusive Licensing Agreement shall thereupon terminate.

2.2 The University will make all reasonable efforts to achieve the goals and objectives of the Project and to carry out the Project Work within the Project Period substantially in accordance with Exhibit 1 and the Research Plan, using commonly accepted professional standards of workmanship and effort, subject to the Company providing the support described in Article 4.0 of this Agreement.

2.3 The Project Period shall consist of a period of time beginning on the Start Date and ending three (3) years after the Start Date, except if as provided in Section 11.2, Company for Good Cause elects not to renew this Agreement, the Project Period shall end two (2) years after the Start Date.

2.4 The University shall have the exclusive and sole authority to manage, control and direct the Project, conduct Project Work, and supervise University Personnel and any Company Personnel working at University facilities pursuant to the mutual agreement of the Parties; providing, however, that Company shall have reasonable opportunities to advise and consult with the University and Principal Investigator regarding the Project and the conduct of Project Work.

2.5 Company understands that because the Project is experimental in nature, the outcome is inherently uncertain and unpredictable. Company agrees and understands that the University makes no representation, guarantee or warranty, express or implied, regarding the outcome of the Project, the Research Results or the patentability, legal protectability or usefulness of any Intellectual Property arising from the Project.

2.6 The University shall promptly advise Company of any change in the employment status of the Principal Investigator that could adversely affect the Project and conduct of Project Work. If the Principal Investigator ceases to be associated with the University or otherwise becomes unavailable to manage the Project and supervise Project Work, the Principal Investigator shall be replaced by a qualified research scientist nominated by the University and reasonably acceptable to Company. If no such Principal Investigator is identified, Company shall have the right to terminate this Agreement upon not less than thirty (30) days' written notice to the University prior to the due date of the next payment under Exhibit 4.

2.7 The University shall provide Company quarterly progress reports (or as often as otherwise specified in the Project Schedule) during the period Project Work is being conducted. Progress reports may be oral or written, or a combination thereof, depending on the nature of the information conveyed. If requested by Company, the University shall confirm such oral progress reports with written reports. The reports shall include the information described in Exhibit 7. All such progress reports shall be considered Confidential Information under this Agreement.

2.8 The University shall provide Company a final written report within ninety (90) after the conclusion of the Project Work (or such other time period specified in the Project Schedule) summarizing the Research Results, including any discoveries made or innovations developed during the course of the Project, and other pertinent findings and results from the Project and describing the methods used and the results obtained.

3.0 Company Payments

3.1 Company shall pay the University the amounts in the manner and on the dates as described in Exhibit 4.

3.2 If, as of the end of the quarter in which the first anniversary of the Start Date occurs (and from time to time thereafter as may be necessary and appropriate), the Company's total payments under Section 3.1 of this Agreement exceed the University's total incurred expenditures for performance of Project Work under this Agreement (including all amounts irrevocably committed and all amounts expended as indirect costs in accordance with University's normal and customary practices) by more than $750,000, the Parties agree to renegotiate in good faith a reasonable revision to the payment schedule described in Exhibit 4 such that the Company's payments under this Agreement do not exceed, at any time, approximately $750,000 more than the University's anticipated actual expenditures.

3.3 In the event the University terminates this Agreement pursuant to Section 11.1 herein, the Company payments as described Exhibit 4 shall be adjusted to cease as of the effective date of any such early termination by the University, subject to payment by the Company of any additional amounts described in Section 11.4 herein.

3.4 Unless otherwise expressly agreed in writing by the Parties, the University shall have sole right and interest to all equipment and other tangible materials purchased, acquired or otherwise used in the Project, whether as in-kind support from Company, purchased by the University using funds paid to the University by Company, or otherwise.

3.5 Company agrees to pay simple interest at the rate of twelve percent (12%) per annum on any amounts more than thirty (30) days overdue under this Agreement.

4.0 Confidential Information

4.1 For purposes of this agreement, the following terms shall have the indicated meanings:

4.1.1 "Confidential Information" shall mean all non-public information pertaining to the Project, Project Work and Research Results in written, graphic, oral or other tangible form, including without limitation all data, algorithms, formulae, techniques, improvements, technical drawings, computer software and materials.

4.1.2 "University Confidential Information" means Confidential Information owned by the University or whose use or disclosure is legally controlled by the University.

4.1.3 "Company Confidential Information" means Confidential Information owned by the Company or whose use or disclosure is legally controlled by Company.

4.1.4 "Joint Confidential Information" means Confidential Information jointly owned by the University and Company or whose use or disclosure is legally controlled jointly by the University and Company.

4.2 Notwithstanding any other provisions of this Article 4.0 of this Agreement, a Party shall be free from any obligations of confidentiality hereunder regarding any information which is or becomes:

4.2.1 already known to such Party, other than under an obligation of confidentiality, at the time of disclosure;

4.2.2 generally available to the public or otherwise part of the public domain at the time of disclosure to such Party;

4.2.3 generally available to the public or otherwise part of the public domain after its disclosure other than through any act or omission of such Party in breach of this Agreement or other agreement or legal obligation;

4.2.4 subsequently lawfully disclosed to such Party by a third party under no obligation of confidentiality to the other Party;

4.2.5 independently developed by such Party as documented by written evidence;

4.2.6 approved for release by written authorization of the other Party;

4.2.7 furnished to a third party by the other Party without a similar restriction on the third party's rights; or

4.2.8 disclosed pursuant to the requirement of a governmental agency or was legally required to be disclosed, including with respect to the University, disclosures of public records pursuant to RCW 42.17.250 et seq., and any administrative rules adopted pursuant thereto.

4.3 Subject to the University's publications rights set forth in Article 5.0 and the limitations of Sections 4.2 and 4.7 of this Agreement, the University and Company agree not to engage in unauthorized disclosure or use of Confidential Information and to take reasonable measures to prevent unauthorized disclosure and use of Confidential Information, including without limitation taking reasonable measures to prevent creating a premature bar to a United States or foreign patent application. Each Party shall limit access to Confidential Information received from the other Party to those persons having a need to know in connection with the Project or in the operation of the business of the Company and shall use reasonable efforts to ensure that any such person receiving Confidential Information understands its confidential nature and agrees not to make unauthorized disclosure or use thereof. Each Party further agrees to employ no less than the same measures to protect Confidential Information that it uses to protect its own valuable information.

4.4 The Parties will take reasonable measures to mark and identify all Confidential Information as confidential. Confidential Information disclosed in oral form shall be identified as such by the disclosing Party to the other Party in writing within thirty (30) days of any such disclosure. Information that is not marked or not identified in writing as confidential within such period shall not be Confidential Information. Upon termination of the Project and to the extent otherwise consistent with this Agreement, any Confidential Information of the disclosing Party shall be promptly returned or destroyed upon written request of the disclosing Party.

4.5 In no event shall the obligations of confidentiality set forth in this Agreement be construed to limit either Party's right to independently develop products or conduct research without the use of the other Party's Confidential Information, except as may be expressly limited by this Agreement or any other applicable agreements between the Parties.

4.6 The Parties agree that, unless otherwise mutually agreed to in writing, the obligations regarding nondisclosure, protection and nonuse of Confidential Information set forth in this Agreement shall, in any event, end three (3) years after disclosure of Confidential Information.

5.0 University Publication Rights

5.1 Notwithstanding any other provision in this Agreement to the contrary, the University reserves the right to make or permit to be made "Scholarly Disclosures" subject only to the express limitations with respect thereto as described in this Article 5.0 of this Agreement.

5.2 To prevent unauthorized disclosure of Company Confidential Information, Joint Confidential Information, Company Background Intellectual Property, or materials proprietary to Company, and to protect possible patent rights with respect to Intellectual Property, the University shall provide Company Representative with a copy or other appropriate description of any proposed Scholarly Disclosure no less than thirty (30) days prior to public disclosure thereof.

5.3 If during such thirty (30) day review period, Company reasonably determines that information of the Company restricted from public disclosure is included in the proposed Scholarly Disclosure and so notifies the University in writing describing with particularity the information not entitled to be disclosed by the University as Scholarly Disclosure, the University will at Company's request remove such information from the proposed Scholarly Disclosure.

5.4 If during such thirty (30) day review period, Company reasonably determines that a patent application would be adversely affected by the proposed Scholarly Disclosure and so notifies the University in writing describing with particularity the nature of the potential patent claims that would be so adversely affected, the University will delay such Scholarly Disclosure for a period of up to an additional ninety (90) days for the purpose of preparing and filing an appropriate patent application.

6.0 Intellectual Property

6.1 For purposes of this agreement, the following terms shall have the indicated meanings:

6.1.1 "Intellectual Property" means the following rights developed in the course of, or as a direct result of the Project: any and all patents or rights to patent, copyrights, trademarks, and any and all technical data and computer software within the scope of Confidential Information.

6.1.2 "University Intellectual Property" means Intellectual Property developed solely by University Personnel.

6.1.3 "Company Intellectual Property" means Intellectual Property developed solely by Company Personnel.

6.1.4 "Joint Intellectual Property" means Intellectual Property developed jointly by Company Personnel and University Personnel, except that in the case of works subject to copyright, "Joint Intellectual Property" shall mean only those works in which the University and Company intend that their contributions be merged into inseparable or interdependent parts of a unitary whole.

6.1.5 "Background Intellectual Property" means intellectual property not arising within the Project but of use to the Project, the rights to which are controlled by the University or Company, as the case may be, and which is expressly made available to the Project by the controlling party as further set forth in Exhibit 2.

6.1.6 "University Background Intellectual Property" means Background Intellectual Property under the control of the University.

6.1.7 "Company Background Intellectual Property" means Background Intellectual Property under the control of Company.

6.2 Nothing in this Agreement shall be interpreted as granting or conveying to a Party any ownership interest in the other Party's Background Intellectual Property, except as provided in the Exclusive Licensing Agreement.

6.3 Title to University Intellectual Property shall be vested in the University and title to Company Intellectual Property shall be vested in the Company. Title to Joint Intellectual Property shall be vested jointly as tenants in common in the University and Company and neither Party may use Joint Intellectual Property except as provided in the Exclusive Licensing Agreement or other written agreement between the Parties.

7.0 Patents, Patent Costs and Option to License

7.1 Subject to Section 7.2 of this Agreement, the University shall have the sole and exclusive right to file or have filed and to prosecute or have prosecuted and shall undertake to pay all reasonable costs thereof, all United States and foreign patent applications relating to University Intellectual Property and Joint Intellectual Property, providing that prior to any such filing, the University shall consult with Company. The Parties agree to use the Seattle, Washington law firm of Christensen, O'Connor, Johnson and Kindness as legal counsel for all patent matters and to change such counsel only by mutual agreement.

7.2 In the event the University elects not to file any patent applications relating to all or a portion of University Intellectual Property or Joint Intellectual Property or in the event the University elects to abandon any such previously filed patent applications, it shall provide timely notice thereof to Company, and to the extent lawful and otherwise consistent with University policies regarding such matters, the University will, upon Company's written request, assign such rights to Company.

7.3 In addition to the license granted to Company by University under the Exclusive Licensing Agreement, in consideration of Company's agreement to pay all reasonable costs of prosecuting the patent applications referred to Section 7.1, the University hereby grants Company an option to license the Intellectual Property, including Joint Intellectual Property, and to certain additional University Background Intellectual Property not previously licensed to Company by University as described in Section 8.4 of this Agreement (the "Option to License") exercisable in accordance with Article 8.0 of this Agreement. In the event Company fails to pay any such patenting costs within thirty (30) days of invoice from the University, Company's Option to License will terminate.

8.0 Technology Transfer; Option Exercise and License Agreement

8.1 The University and Company shall make all reasonable efforts to ensure that their respective University Personnel and Company Personnel prepare, sign and submit a comprehensive written disclosure to OIPTT of all Intellectual Property, Research Results and any other matters that are potentially protectable as to ownership (the "Disclosure") prior to any public disclosure thereof. Within thirty (30) days of receipt of any such Disclosure, the University will provide Company a copy thereof together with a general description of any University Background Intellectual Property to the extent that the University: (i) reasonably believes such University Background Intellectual Property would be beneficial to a successful exploitation of the matters set forth in the Disclosure; (ii) is reasonably aware of the existence of the University Background Intellectual Property; and (iii) is able, within limitations imposed by any obligations to third parties, to disclose and/or license the University Background Intellectual Property to Company.

8.2 Company shall have a period of three (3) months from the date upon which the University delivers any such Disclosure to Company to exercise the Option to License. If Company fails to exercise the Option to License within such period by notifying the University in writing of its unconditional exercise thereof, Company's Option to License shall thereupon terminate, without further notice by the University, at the end of such exercise period.

8.3 If Company exercises the Option to License, such rights shall become Licensed Patents and/or Licensed Subject Matter under the Exclusive Licensing Agreement subject to all of the terms and conditions therein.

8.4 In the event Company so elects in writing and subject to the limitations specified in Section 8.1 of this Agreement, the University shall include within the license described in Section 8.3 of this Agreement, such University Background Intellectual Property as is reasonably beneficial to practice and commercially exploit the Intellectual Property that is the subject of the Option to License; providing, however, such University Background Intellectual Property shall be included only to the extent consistent with any applicable laws, rules and regulations governing the University.

9.0 University Disclaimer; Company Assumption of Risk and Release

9.1 FOR PURPOSES OF ARTICLE 9.0 OF THIS AGREEMENT, "SUBJECT MATTER" MEANS ALL INTELLECTUAL PROPERTY, CONFIDENTIAL INFORMATION, TECHNICAL INFORMATION, OTHER INFORMATION, DATA, PATENTS, COPYRIGHTS, PROPRIETARY MATTER, AND ANY OTHER MATTER ARISING FROM PROJECT WORK AND OTHER PROJECT ACTIVITIES.

9.2 THE SUBJECT MATTER IS PRELIMINARY AND EXPERIMENTAL IN NATURE. COMPANY HAS BEEN PROVIDED A FULL OPPORTUNITY TO REVIEW AND INQUIRE ABOUT THE SUBJECT MATTER PRIOR TO USE. EXCEPT AS EXPRESSLY SET FORTH IN THIS AGREEMENT, THE UNIVERSITY MAKES NO REPRESENTATIONS AND DISCLAIMS: ALL WARRANTIES, BOTH EXPRESS AND IMPLIED, WITH RESPECT TO THE UTILITY, PATENTABILITY, SAFETY, MERCHANTABILITY, OR FITNESS FOR A PARTICULAR PURPOSE OF THE SUBJECT MATTER; AND THAT COMPANY USE OF THE SUBJECT MATTER WILL NOT INFRINGE ANY THIRD PARTY PATENT, COPYRIGHT, TRADEMARK, OR OTHER RIGHTS. ALL OBLIGATIONS OR LIABILITIES ON THE PART OF THE UNIVERSITY FOR DAMAGES, INCLUDING BUT NOT LIMITED TO, INCIDENTAL, DIRECT, INDIRECT OR CONSEQUENTIAL DAMAGES, ARISING OUT OF OR IN CONNECTION WITH THE FURNISHING, PERFORMANCE, OR USE OF THE SUBJECT MATTER ARE DISCLAIMED. IF COMPANY UTILIZES ANY OF THE SUBJECT MATTER, COMPANY DOES SO AT ITS OWN RISK AND RELEASES AND DISCHARGES THE UNIVERSITY, ITS REGENTS, OFFICERS, AGENTS, EMPLOYEES, AND STUDENTS, FROM ALL LOSSES, CLAIMS, DAMAGES, AND EXPENSES (INCLUDING ATTORNEY'S FEES AND LEGAL COSTS) ARISING FROM COMPANY'S USE OF THE SUBJECT MATTER.

10.0 Indemnification

10.1 Except for those matters referred to in Sections 9.1, 9.2 and 10.2 of this Agreement, the Parties agree to defend, indemnify, and hold each other harmless from losses, claims, damages, and expenses (including reasonable attorneys' fees and legal costs) arising from the negligent acts or omissions of their respective officers, employees, and agents acting in the course and scope of their duties under this Agreement. However, neither Party assumes responsibility for indirect or consequential damages suffered by the other Party or by any person, firm, or corporation not a Party to this Agreement.

10.2 Company agrees to defend, indemnify, and hold University harmless from losses, claims, damages, and expenses (including reasonable attorneys' fees and legal costs) resulting from any theory of product liability (including, but not limited to, actions in the form of tort, warranty or strict liability) concerning any product, process or service made, used, or sold pursuant to any right or license granted under this Agreement, except to the extent attributable to the gross negligence or willful misconduct of the University, its officers, employees, and agents.

10.3 When invoking its rights under Sections 10.1 or 10.2 of this Agreement, a Party shall promptly notify the other Party of the action, claim or other matter which gives rise to the defense and indemnity obligation and shall cooperate fully with the defense or settlement of the action, claim or other matter. The indemnifying Party shall have full control of the defense or settlement of the action, claim or other matter and shall ensure that all indemnified liabilities of the indemnified Party are fully discharged.

11.0 Early Termination, Nonrenewal and Termination

11.1 University may terminate this Agreement prior to the completion of the Project and Project Work upon sixty (60) days' written notice to Company. In the event of any such early termination by the University, the Company's payments to the University shall be adjusted as provided in Section 3.3 of this Agreement.

11.2 During the period beginning eighteen (18) months after the Start Date and ending twenty-one (21) months after the Start Date, Company may, for Good Cause only, elect not to renew this Agreement prior to the completion of the Project and Project Work upon written notice to University during such period. Any such notice of nonrenewal shall be effective not earlier than two (2) years after the Start Date and shall specify with particularly what facts shall constitute Good Cause.

11.3 Upon failure of a Party to cure a material breach of this Agreement within sixty (60) days after written demand thereof from the non-breaching Party, the non-breaching Party shall have the right to terminate this Agreement upon five (5) business days' written notice to the breaching Party, including, with respect to the University, the right to terminate the Option to License and any licenses arising from the exercise of the Option to License.

11.4 In the event of any early termination or nonrenewal of this Agreement, the University will take reasonable steps to mitigate costs and expenses arising from any outstanding obligations; providing, however, Company shall pay all non-cancelable costs incurred by the University for a period of three (3) months following any termination by Company, including any employment, graduate student and contractual commitments.

11.5 In no event will Company be entitled to a refund of the payments or other support, or any part thereof, nor will Company be relieved of any obligations arising under this Agreement or under any license agreement entered into by Company pursuant to this Agreement (including payment of any amounts due under all such agreements), prior to any termination of this Agreement, whether by the University, Company or operation of law.

12.0 Notices

12.1 Any notice to a Party provided pursuant to the terms of this Agreement shall be delivered either in person, mailed by registered mail (return receipt requested and postage prepaid), or transmitted by facsimile or electronic mail with operator confirmation, and addressed as indicated in Exhibit 5 attached hereto.

12.2 Notice shall be deemed effective upon the earlier of: (i) actual delivery to the Party; (ii) five (5) days after the date on which such notice was postmarked within the United States; or (iii) receipt by facsimile or other electronic means with operator confirmation. All notices given by facsimile or other electronic means shall be immediately followed by delivery in person or delivery by first class mail.

13.0 Other Sponsored Research Agreements

13.1 The Parties understand and agree that nothing herein shall preclude either the University or the Company from entering into sponsored research agreements or other activities with each other or with third parties that may be related to but the conduct of which are otherwise outside and independent of the Project, Project Work, and other Project activities on condition that any such sponsored research agreements or other activities are not inconsistent with the rights and obligations of the Parties to this Agreement.

14.0 Compliance with Applicable Laws

14.1 Company agrees to abide by all applicable federal, state, and local laws and regulations pertaining to the management and commercial deployment of any intellectual property or other rights transferred to Company under this Agreement or under any other agreement entered into pursuant to this Agreement.

14.2 Company understands that the University is subject to the laws and regulations of the United States, including the export of technical data, computer software, laboratory prototypes and other commodities (including the Arms Export Control Act, as amended, and the Export Administration Act of 1979), and that the University's obligations hereunder are contingent upon compliance with all applicable laws and regulations, including those for export control. Company understands that any transfer of any intellectual property or other rights to Company under this Agreement or under any other agreement entered into pursuant to this Agreement, including transfers to Company's affiliates and permitted uses by certain third parties, may require a license from a cognizant agency of the United States Government and/or written assurances by Company that Company shall not transfer data or commodities to certain foreign countries without the prior approval of an appropriate agency of the United States government. The University neither represents that any such export license shall not be required, nor that, if required, it shall be issued.

14.3 In the event the University receives any funding from a funding agency of the U. S. government for the Project, Company understands and agrees that the intellectual property or other similar rights covered by this Agreement may be subject to the rights and limitations of U.S. Public Laws 96-517 and 98-620, 35 USC §§200-211, and various implementing regulations, including those codified at 37 CFR Part 401, known generally and collectively as the "Bayh-Dole Requirements." In such case, the Parties agree to include, where applicable, in any application for a U.S. Patent a statement fully identifying the rights of the U.S. government under the Bayh-Dole Requirements; and Company acknowledges that the University shall be required to grant the U.S. government a worldwide, non-exclusive, royalty-free license for such invention covered by any Patent notwithstanding anything in this Agreement to the contrary.

15.0 Internal Revenue Code

15.1 The University will comply with any present or future requirements of the Internal Revenue Code and its regulations with respect to providing information that may affect the allowance of tax credits for payments made to qualified organizations for basic research. Upon request, the University will inform Company, within ninety (90) days after the close of Company's taxable year, what proportion of payments and other support provided by Company pursuant to this Agreement were expended on basic research during the taxable year.

16.0 Sublicenses and Assignments

16.1 Except as otherwise expressly permitted herein or by the Exclusive Licensing Agreement, neither Party shall sublicense, assign, or otherwise transfer any rights, duties or obligations, other than a right to receive payment of money, conferred by this Agreement and exhibits attached hereto without the prior, written consent of the other Party. Any such attempt to sublicense, assign, or transfer by a Party without such consent shall be null and void. Any sublicenses, assignments, or transfers shall be subject to the terms of this Agreement, including the duties of confidentiality herein.

17.0 Relationship of the Parties

17.1 Each Party agrees that it will not use the name, trademark or other identifier of the other Party for any advertising, promotion, or other commercially related purpose without the express prior written consent of the other Party.

17.2 The Parties each agree and understand that they are each acting as independent contractors and nothing contained herein shall be construed to be inconsistent with such relationship or status. Under no circumstances, shall either Party be considered an agent, representative or employee of the other Party. This Agreement shall not constitute, create, nor in any way be interpreted as giving rise to any joint venture, partnership, profit-sharing, or other similar business relationship of any kind between the Parties.

18.0 Disputes; Attorney's Fees and Legal Costs

18.1 Prior to commencing any legal action, the Parties will attempt in good faith to resolve through negotiation any dispute, claim or controversy arising out of or relating to this Agreement. Either Party may initiate such negotiations by providing written notice to the other Party specifying that this provision of this Agreement is being utilized and setting forth the subject of the dispute and the relief requested. The Party receiving such notice will respond in writing within five business (5) days with a statement of its position on and recommended solution to the dispute. If the dispute is not resolved by this exchange of correspondence, then representatives of each Party with full settlement authority shall meet at a mutually agreeable time and place in Seattle, Washington within ten business (10) days of the date of the initial notice in order to exchange relevant information and perspectives, and to attempt in good faith to resolve the dispute. If the dispute is not resolved by these negotiations, the matter will be submitted to a mutually agreeable and recognized mediation service prior to initiating legal action. Any such mediation shall be conducted in Seattle, Washington and the costs of the mediation service shall be shared equally by the Parties.

18.2 This Agreement shall be governed by and enforced according to the laws of the State of Washington, without giving effect to its or any other jurisdiction's choice of law provisions, and the Superior Court of Washington for King County shall have exclusive jurisdiction and venue of all disputes arising under this Agreement, except that in any case where the courts of the United States shall have exclusive jurisdiction over the subject matter of the dispute, the United States District Court for the Western District of Washington, Seattle division, shall have exclusive jurisdiction and venue.

18.3 The prevailing Party in any action sought to enforce or interpret this Agreement or any provision of this Agreement shall be entitled to its reasonable attorney's fees and costs, including any appeals thereon, as determined by a court in conjunction with any such legal proceeding.

19.0 Miscellaneous

19.1 No waiver or modification of this Agreement shall be valid or enforceable unless it is in writing and signed by both Parties. The waiver by any Party of the other Party's default under or breach of any provision of this Agreement shall not operate or be construed as a waiver by a Party of any subsequent default under or breach of this Agreement by the other Party.

19.2 This Agreement, the exhibits attached hereto, and the Exclusive Licensing Agreement, including the exhibits attached thereto, embody the entire understanding of the parties and supersede all previous communications, representations, or understandings, either oral or written, between the Parties relating to the subject matter hereof.

19.3 If any of the provisions of this Agreement shall be determined to be illegal or unenforceable by a court of competent jurisdiction, the other provisions shall remain in force and effect.

19.4 This Agreement shall inure to the benefit of and be binding upon each Party's successors and assigns.

19.5 Nonperformance by a Party, other than payment of any amounts due hereunder by Company, shall not operate as a default under or breach of the terms of this Agreement to the extent and for so long any such nonperformance is due to: strikes or other labor disputes; prevention or prohibition by law; the loss or injury to products in transit; an Act of God; or war or other cause beyond the control of such Party.

19.6 The headings herein are for convenience and reference only and shall not govern the interpretation of any of the terms of this Agreement.

The University and Company, each agreeing to be bound hereby, do hereby assent to the above Agreement by the signatures of their duly-authorized representatives.

The University of Washington

By: /s/ Carol Zuiches

Name: Carol Zuiches

Title: Director of Grant and Contract Services

Date: October 20, 2000

Lumera Corporation
a Washington Corporation

By: /s/ Todd R. McIntyre

Name: Todd R. McIntyre

Title: Vice President

Date: October 20, 2000

Exhibit 23

Consent of Independent Accountants

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-79753, 333-81311, 333-84587, 333-89257, 333-76395 and 333-33612) and Form S-8 (Nos. 333-71373, 333-42276, 333-45534 and 333-19011) of Microvision, Inc. of our report dated February 15, 2001, except as to the second paragraph of Note 16 which is as of March 14, 2001, relating to the financial statements which appears in this Form 10-K.

PricewaterhouseCoopers LLP
Seattle, Washington
March 29, 1999