U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the quarterly period ended June 30, 2001

☐ **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	**91-1600822**
(State or Other Jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

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

As of July 15, 2001, 12,010,000 shares of the Company's common stock, no par value, were outstanding.

PART I
FINANCIAL INFORMATION

Microvision, Inc.

Consolidated Balance Sheet
(In thousands)

	June 30, 2001	December 31, 2000
	(Unaudited)	
Assets		
Current Assets		
Cash and cash equivalents	$ 8,811	$ 7,307
Investment securities, available-for-sale	34,036	33,410
Accounts receivable, net of allowances of $109 and $93	614	1,033
Costs and estimated earnings in excess of billings on uncompleted contracts	982	2,116
Current restricted investments	-	1,125
Other current assets	3,513	976
Total current assets	47,956	45,967
Long-term investment, at cost	624	624
Property and equipment, net	9,098	7,516
Restricted investments	903	951
Receivables from related parties	1,620	1,000
Other assets	1,835	114
Total assets	$ 62,036	$ 56,172
Liabilities, Minority Interest and Shareholders' Equity		
Current Liabilities		
Accounts payable	$ 1,442	$ 1,974
Accrued liabilities	3,337	2,359
Allowance for estimated contract losses	155	295
Billings in excess of costs and estimated earnings on uncompleted contracts	46	419
Current portion of capital lease obligations	240	317
Current portion of long-term debt	55	52
Total current liabilities	5,275	5,416
Capital lease obligations, net of current portion	133	182
Long-term debt, net of current portion	262	290
Deferred rent, net of current portion	250	242
Total liabilities	5,920	6,130
Commitments and Contingencies	-	-
Minority Interest	18,568	-
Shareholders' Equity		
Common stock and paid-in capital, no par value, 31,250 shares authorized; 12,010 and 11,884 shares issued and outstanding	125,995	120,506
Deferred compensation	(3,889)	(4,378)
Subscriptions receivable from related parties	(323)	(403)

Accumulated other comprehensive income	688	454
Accumulated deficit	(84,923)	(66,137)
Total shareholders' equity	37,548	50,042
Total liabilities, minority interest and shareholders' equity	$ 62,036	$ 56,172

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

Microvision, Inc.

Consolidated Statement of Operations
(In thousands, except earnings per share data)
(Unaudited)

	Three months ended June 30,		**Six months ended June 30,**	
	2001	**2000**	**2001**	**2000**
Revenue	$ 1,772	$ 1,176	$ 4,109	$ 3,286
Cost of revenue	1,081	884	2,643	2,352
Gross margin	691	292	1,466	934
Research and development expense (exclusive of non-cash compensation expense of $0 and $3 for the three months and $10 and $6 for the six months ended June 30, 2001 and 2000, respectively)	8,285	4,522	16,352	8,119
Marketing, general and administrative expense (exclusive of non-cash compensation expense of $514 and $ 513 for the three months and $966 and $664 for the six months ended June 30, 2001 and 2000, respectively)	3,303	2,999	7,004	5,339
Non-cash compensation expense	514	516	976	670
Total operating expenses	12,102	8,037	24,332	14,128
Loss from operations	(11,411)	(7,745)	(22,866)	(13,194)
Interest income	723	844	1,429	1,296
Interest expense	(21)	(31)	(45)	(108)
Loss before minority interests	(10,709)	(6,932)	(21,482)	(12,006)
Minority interests in loss of consolidated subsidiary	2,142	-	2,696	-
Net loss	$ (8,567)	$ (6,932)	$ (18,786)	$ (12,006)
Net loss per share - basic and diluted	$ (0.72)	$ (0.60)	$ (1.57)	$ (1.09)
Weighted-average shares outstanding -basic and diluted	11,974	11,531	11,945	11,000

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

Microvision, Inc.

Consolidated Statement of Comprehensive Loss
(In thousands)
(Unaudited)

	Three months ended June 30,	**Six months ended June 30,**

	2001	2000	2001	2000
Net loss	$ (8,567)	$ (6,932)	$ (18,786)	$ (12,006)
Other comprehensive income (loss) -				
Unrealized gain (loss) on investment securities, available-for-sale	(99)	33	234	30
Comprehensive loss	$ (8,666)	$ (6,899)	$ (18,552)	$ (11,976)

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

Microvision, Inc.

Consolidated Statement of Cash Flows
(In thousands)
(Unaudited)

	Six months ended June 30,	
	2001	**2000**
Cash flows from operating activities		
Net loss	$ (18,786)	$ (12,006)
Adjustments to reconcile net loss to net cash used in operations		
Depreciation	1,077	516
Non-cash expenses related to issuance of stock, warrants, options and amortization of deferred compensation	2,291	670
Minority interests in loss of consolidated subsidiary	(2,696)	-
Non-cash deferred rent	8	19
Allowance for estimated contract losses	(140)	-
Change in		
Accounts receivable	419	138
Costs and estimated earnings in excess of billings on uncompleted contracts	1,134	1,140
Other current assets	(1,534)	(942)
Receivables from related parties	(620)	-
Other assets	(58)	49
Accounts payable	(532)	(633)
Accrued liabilities	978	663
Billings in excess of costs and estimated earnings on uncompleted contracts	(373)	10
Net cash used in operating activities	(18,832)	(10,376)
Cash flows from investing activities		
Sales of investment securities	5,000	40,560
Purchases of investment securities	(5,392)	(52,277)
Sales of restricted investment securities	1,173	149
Purchases of restricted investment securities	-	(2,725)
Purchases of property and equipment	(2,603)	(1,014)
Net cash used in investing activities	(1,822)	(15,307)
Cash flows from financing activities		
Principal payments under capital leases	(182)	(126)
Principal payments under long-term debt	(25)	(23)
Payments received on subscriptions receivable	80	57
Net proceeds from issuance of common stock	1,043	36,254
Net proceeds from sale of subsidiary's equity to minority interests	21,242	-
Net cash provided by financing activities	22,158	36,162

	2001	2000
Net increase in cash and cash equivalents	1,504	10,479
Cash and cash equivalents at beginning of period	7,307	2,798
Cash and cash equivalents at end of period	$ 8,811	$ 13,277

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

Microvision, Inc.

Consolidated Statement of Cash Flows (Continued)
(In thousands)
(Unaudited)

	Six months ended June 30,	
	2001	**2000**
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 45	$ 108
Supplemental schedule of non-cash investing and financing activities		
Property and equipment acquired under capital leases	$ 56	$ 246
Conversion of preferred stock to common stock	$ -	$ 1,536
Payments for exclusive license agreements by issuance of common stock	$ 971	$ 377
Issuance of subsidiary common stock under sponsored research agreement	$ 3,001	$ -
Exercise of stock options for subscriptions receivable	$ -	$ 397
Deferred compensation - warrants, options and stock grants	$ 474	$ 1,872
Unrealized gain on investment securities, available-for-sale	$ 234	$ 30

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

MICROVISION, INC.
Notes to Consolidated Financial Statements
June 30, 2001

Management's Statement

The Consolidated Balance Sheet as of June 30, 2001, the Consolidated Statements of Operations, Cash Flows and Comprehensive Loss for the three and six months ended June 30, 2001, and June 30, 2000 have been prepared by Microvision, Inc. ("the Company") and have not been audited. In the opinion of management, all adjustments necessary to present fairly the financial position, results of operations and cash flows at June 30, 2001 and all periods presented, have been made. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. You should read these condensed financial statements in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000. The results of operations for the three and six months ended June 30, 2001 are not necessarily indicative of the operating results that may be attained for the entire fiscal year.

Principles of Consolidation

The consolidated financial statements of the Company include the accounts of its majority owned subsidiary Lumera Corporation ("Lumera"). All material intercompany accounts and transactions have been eliminated in consolidation.

Lumera losses have been allocated to common shareholders of Lumera until their book interest was depleted and then to preferred shareholders of Lumera.

Net Loss Per Share

Basic net loss per share is calculated on the basis of the weighted-average number of common shares outstanding during the reporting periods. Diluted net loss per share is calculated on the basis of the weighted-average number of common shares outstanding and taking into account the dilutive effect of all potential common stock equivalents outstanding. Diluted net loss per share for the periods ended June 30, 2001 and June 30, 2000 is equal to basic net loss per share because the effect of potential common stock equivalents outstanding during the periods, including options and warrants is anti-dilutive.

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

	Three months ended June 30,		Six months ended June 30,	
	2001	2000	2001	2000
Numerator:				
Net loss	$ (8,567)	$ (6,932)	$ (18,786)	$ (12,006)
Denominator:				
Basic and diluted weighted-average common shares outstanding	11,974	11,531	11,945	11,000
Basic and diluted net loss per share	$ (.72)	$ (.60)	$ (1.57)	$ (1.09)

As of June 30, 2001 and 2000, the Company had outstanding options and warrants to purchase 3,868,000 and 3,373,000 shares of common stock, respectively.

Equity

In March 2001, Lumera raised $21,360,000, before issuance costs, from the sale of 2,136,000 shares of mandatorily redeemable convertible preferred stock ("Preferred Stock"). In addition, Lumera issued 264,000 shares of Preferred Stock to Microvision to retire $2,640,000 of intercompany debt. The Preferred Stock is convertible to an equal number of shares of Lumera Class A Common Stock.

In February 2001, the Company issued 37,000 shares of common stock and paid $100,000 to the University of Washington as final payment for a fully paid exclusive license for the HALO technology. The total value of the payment of $1.1 million was recorded as an expense.

In January 2001, Lumera issued 802,414 of Lumera Class A Common Stock, valued at $3,009,000, to the University of Washington as partial consideration for a three year sponsored research agreement. The value of the shares will be amortized over the three year term of the sponsored research agreement.

Segment Information

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

A significant portion of the segments' expenses arise from shared services that Microvision provides to the segments to realize economies of scale and to efficiently use resources. These services include centralized management, legal, accounting, human resources, real estate, management information systems, treasury and other corporate services. Expenses related to these services are allocated to the segments on a basis that the Company considers 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 for the three months and six months ended June 30, 2001. The performance of each segment is measured based on appropriate metrics. These results are used, in part, by management in evaluating the performance of, and in the allocation of resources to, each of the segments.

	Three months ended June 30, 2001			
	Microvision	Lumera	Elimination	Total
Revenues	$ 1,749	$ 23	$ -	$ 1,772
Interest income	619	143	(39)	723
Interest expense	21	39	(39)	21
Depreciation	360	210	-	570
Segment loss	8,302	2,407	(2,142)	8,567
Segment assets	48,375	20,139	(6,478)	62,036
Expenditures for capital assets	658	1,487	-	2,145

	Six months ended June 30, 2001			
	Microvision	Lumera	Elimination	Total
Revenues	$ 4,070	$ 39	$ -	$ 4,109
Interest income	1,636	186	(393)	1,429
Interest expense	45	393	(393)	45
Depreciation	720	357	-	1,077
Segment loss	16,223	5,259	(2,696)	18,786
Segment assets	48,375	20,139	(6,478)	62,036
Expenditures for capital assets	1,016	1,643	-	2,659

As of June 30, 2000, there was no significant activity in the Lumera segment.

New Accounting Pronouncements

The Company adopted SFAS No. 133 "Accounting for Derivatives and Hedging Activities" in the quarter ended March 31, 2001. The adoption of this standard did not have a material impact on the Company's financial position, results of operations or cash flows.

In July of 2001 the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard No. 141 "Business Combinations" (SFAS No. 141).

It is effective for all business combinations initiated after July 1, 2001. SFAS No. 141, supersedes APB Opinion No. 16, Business Combinations, and FSAB Statement No. 38, Accounting for Preacquisition Contingencies of Purchased Enterprises, and requires that all business combinations be accounted for using the purchase method of accounting. In addition, SFAS No. 141 requires certain intangibles to be recognized as assets apart from goodwill if they meet certain criteria, and expanded disclosures regarding the primary reasons for consummation of the combination and the allocation of the purchase price paid to the assets acquired and liabilities assumed by major balance sheet caption. The Company does not currently expect adoption to have a material impact on its financial position, results of operations or cash flows. The Company will be required to implement SFAS No. 141 in the third quarter of fiscal 2001.

In July of 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 142 "Goodwill and Other Intangible Assets" (SFAS No. 142). It is effective for fiscal years beginning after December 15, 2001. SFAS No. 142 supercedes APB Opinion No. 17, Intangible Assets, and addresses financial accounting and reporting for intangible assets acquired individually, or with a group of other assets, and the accounting and reporting for goodwill and other intangible assets subsequent to their acquisition. Under the model set forth in SFAS No. 142, goodwill is no longer amortized to earnings, but instead is subject to periodic testing for impairment. The Company is currently in the process of assessing the impact of this statement, if any, on the financial position of the Company. The Company will be required to implement SFAS No. 142 in the first quarter of fiscal 2002.

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

Forward-Looking Statements

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

Overview

Microvision, Inc. ("Microvision" or the "Company") develops information display and related technologies that allow electronically generated images and information to be projected directly onto a viewer's retina. The Company has defined three distinct business platforms relating to the delivery of images and information:

- Retinal Scanning Displays - Utilizing the retinal scanning display technology to display information on the viewer's retina.
- Imaging Solutions – Utilizing proprietary scanning technology and the retinal scanning display technology to capture images and information.
- Optical Materials – Utilizing a new class of organic non-linear chromophore materials ("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 potential 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 original equipment manufacturers or to OEMs. The Company believes the retinal scanning display technology will be useful in a variety of applications, including portable communications and visual simulations 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 proprietary technology developed by the Company, technology licensed from other companies and the Virtual Retinal Display ™ technology licensed from the University of Washington.

Imaging Solutions

The Imaging Solutions group develops products, such as bar code readers or miniature high resolution cameras, that capture images 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 and miniature high resolution cameras that have higher performance and lower cost than those currently available. The Company has developed proprietary scanner technology, that it has used to build a prototype handheld bar code scanner. During 2001, the Company plans to continue to refine the design of the hand held scanner and plans to introduce the device in 2002.

Optical Materials

During 2000, the Company formed Lumera Corporation ("Lumera") to develop and commercialize the Optical Materials technology and devices that utilize the properties of these proprietary materials. Lumera expects that the Optical Materials and devices made from 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. Lumera plans to introduce its first product, an electro-optic modulator, in late 2002.

Plan of Operation

The Company plans to introduce a production version of a retinal scanning display in late 2001.To support the product introduction, the Company has produced engineering prototypes of the commercial product. These prototypes are being used by the Company's sales and marketing groups to demonstrate the technology to potential customers and to obtain customer feedback on market requirements. (See "Considerations Relating to the Company's Business").

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

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

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. The first product planned for introduction is a high-speed electro-optical ("EO") modulator that will provide a direct replacement for currently available lithium niobate modulators. The function of an EO modulator is to encode data into laser beams that carry and deliver data through optical fiber. Lumera believes its Optical Materials will overcome the fundamental limitations of materials currently used in EO modulators. A distinct advantage of Lumera's approach is that the Optical Materials can be chemically designed to optimize performance for a specific application. Lumera believes the Optical Materials technology has potential applications in a broad range of optical networking components.

Lumera's Optical Materials technology may ultimately be sold in a variety of forms, including coated wafers, non-packaged discrete devices, non-packaged integrated devices, packaged discrete components, packaged integrated components, and intellectual property in the form of licenses, integrated cells, and other forms. Lumera's target customers include strategic technology partners, sub-system manufacturers, private label component vendors, component distributors and systems manufacturers in the telecommunications industry.

Results of Operations

THREE MONTHS ENDED JUNE 30, 2001 COMPARED TO
THREE MONTHS ENDED JUNE 30, 2000

Contract Revenue. The Company earns revenue from performance on development contracts and sales of engineering prototypes. Revenue in the three months ended June 30, 2001 increased by $600,000, or 51%, to $1.8 million from $1.2 million in the same period in 2000. For the three months ended June 30, 2001, all revenue was derived from performance on development contracts. The Company's customers include both the United States government and commercial enterprises.

In April 2001, the Company entered into a $4.6 million modification of its Aircrew Integrated Helmet System contract. In April 2001, the Company also entered into a $2.9 million modification of its Virtual Cockpit Optimization Program contract. The modifications fund continued improvements in helmet mounted displays developed under the respective programs.

The backlog of development contracts and product sales at June 30, 2001 was $7.9 million, all of which is scheduled for completion during the next twelve months.

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

Cost of revenue for the three months ended June 30, 2001 increased by $200,000, or 22% to $1.1 million from $900,000 in the same period in 2000. The increase is attributable to higher direct cost and overhead cost allocation to cost of revenue in the three months ended June 30, 2001 than in the same period in 2000. The higher level of direct cost is attributable to the timing and structure of the performance on development contracts. Research and development overhead is allocated to cost of revenue and research and development expense based on the relative direct labor cost incurred in cost of revenue and research and development, respectively.

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

Research and Development Expense. Research and development expense consists of:

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

Included in research and development expense are costs incurred in acquiring and maintaining licenses of technology from other companies. The Company has charged all costs associated with product development activity not allocable to cost of revenue to research and development expense.

Research and development expense in the three months ended June 30, 2001 increased by $3.8 million, or 83%, to $8.3 million from $4.5 million in the same period in 2000. 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.

During the three months ended June 30, 2001, Lumera recognized $250,000 of expense relating to the issuance of $3.0 million of Lumera Class A Common Stock to the University of Washington pursuant to a sponsored research agreement. In addition, during the three months ended June 30, 2001, Lumera recognized $750,000 as expense for quarterly cash payments required to be paid under the sponsored research agreement with the University of Washington. Additional equal quarterly payments are required over the three-year term of the sponsored research agreement. Research and development expense for Lumera during the three months ended June 30, 2001 was $1.9 million. As of June 30, 2000, there was no significant activity in the Lumera segment.

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 amount of spending on research and development will continue to grow, compared to prior years, in future periods as the Company:

- Continues development of its retinal scanning display technology,

- Develops and commercializes the Optical Materials technology,
- Prepares for the planned introduction of the Company's first commercial product in late 2001,
- Accelerates development of microdisplays to meet emerging market opportunities,
- Incurs additional cost to develop new bar code reader technology, and
- Pursues other potential business opportunities.

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

Marketing, general and administrative expenses in the three months ended June 30, 2001 increased by $300,000, or 10%, to $3.3 million from $3.0 million in the same period in 2000. The change includes increases in compensation expenses and support costs for employees and contractors. Marketing general and administrative expense for Lumera for the three months ended June 30, 2001 was $700,000. As of June 30, 2000 there was no significant activity in the Lumera segment. A significant portion of Lumera's marketing, general and administrative expenses, for the three months ended June 30, 2001, are for shared services that Microvision provides to Lumera. The Company expects marketing, general and administrative expenses to increase substantially in future periods as the Company:

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

Non-Cash Compensation Expense. Non-cash compensation expense in the three months ended June 30, 2001 was consistent with the same period in 2000. 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,
- The amortization of the excess of fair market value over the exercise price for options issued to employees and the Board of Directors, and
- The amortization of the value of stock granted to the Board of Directors.

Non-cash compensation expense in 2001 includes the amortization of the value of options issued in connection with two five-year consulting agreements that the Company entered into with two independent consultants in August 2000 to provide strategic business and financial consulting services to Microvision. Non-cash compensation expense of approximately $300,000 related to these agreements was recorded in the three months ended June 30, 2001.

Interest Income and Expense. Interest income in the three months ended June 30, 2001 decreased by $100,000, or 14%, to $700,000 from $800,000 in the same period in 2000. This decrease resulted primarily from lower average cash and investment securities balances in the three months ended June 30, 2001 than the average cash and investment securities balances in the same period of the prior year.

Interest expense in the three months ended June 30, 2001 was consistent with the same period in 2000.

SIX MONTHS ENDED JUNE 30, 2001 COMPARED TO
SIX MONTHS ENDED JUNE 30, 2000

Contract Revenue. Revenue in the six months ended June 30, 2001 increased by $800,000, or 25%, to $4.1 million from $3.3 million in the same period in 2000. For the six months ended June 30, 2001, all revenue was derived from performance on development contracts.

Cost of Revenue. Cost of revenue for the six months ended June 30, 2001 increased by $300,000, or 12%, to $2.7 million from $2.4 million in the same period in 2000. The increase is attributable to higher direct costs and offset in part by lower overhead cost allocation to cost of revenue in the six months ended June 30, 2001 than in the same period in 2000. The higher level of direct cost is attributable to the timing and structure of the performance on development contracts. Research and development overhead is allocated to cost of revenue and research and development expense based on the relative direct labor cost incurred in cost of revenue and research and development, respectively. Revenue in both the six months ended June 30, 2001 and June 30, 2000, includes revenue for which precontract costs were recognized in the prior quarters.

Research and Development Expense. Research and development expense in the six months ended June 30, 2001 increased by $8.2 million, or 101%, to $16.3 million from $8.1 million in the same period in 2000. 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 February 2001, the Company made the final payment on a fully paid exclusive license for the "HALO" technology from the University of Washington. This technology involves the projection of data and images onto the inside of a dome that is placed over the viewer's head. The Company issued 37,000 shares of Common Stock valued at $1.0 million and paid $100,000 to the University of Washington for the license. The total value of the final payment of $1.1 million was recorded as an expense.

In March 2001, Lumera paid $200,000 to the University of Washington for an exclusive royalty-bearing license relating to the Optical Materials technology. The payment was recorded as an expense. In addition, Lumera issued 802,414 shares of its Class A Common Stock to the University of Washington pursuant to a sponsored research agreement. The total value of the stock of $3.0 million is being amortized over the three year life of the research agreement. The total amortization expense relating to the research agreement during the six months ended June 30, 2001 was $300,000. In addition, during the six months ended June 30, 2001, Lumera has made three $750,000 payments to the University of Washington as quarterly payments under the research agreement. Continued quarterly payments of $750,000 are required over the remaining term of the three year research agreement. Lumera amortized $1.0 million to expense for the cash portion of the payments under the sponsored research agreement during the six months ended June 30, 2001. The remaining $1.3 million paid to the University of Washington is recorded as an other current asset at June 30, 2001.

Research and development expense for Lumera during the six months ended June 30, 2001, including the payments under the research agreement was $3.7 million.

Marketing, General and Administrative Expense. Marketing, general and administrative expenses in the six months ended June 30, 2001 increased by $1.7 million, or 31%, to $7.0 million from $5.3 million in the same period in 2000. The increase includes increases in compensation expenses and support costs for employees and contractors.

Marketing, general and administrative expenses for Lumera during the six months ended June 30, 2001 were $1.4 million. The Company expects marketing, general and administrative expenses to increase substantially in future periods as the Company:

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

Non-Cash Compensation Expense. Non-cash compensation expense in the six months ended June 30, 2001 increased by $300,000, or 46%, to $1.0 million from $700,000 in the same period in 2000.

Non-cash compensation expense in 2001 includes the amortization of the value of options issued in connection with two five-year consulting agreements that the Company entered into with two independent consultants in August 2000 to provide strategic business and financial consulting services. Non-cash compensation expense of approximately $500,000 related to these agreements was recorded in the six months ended June 30, 2001.

Interest Income and Expense. Interest income in the six months ended June 30, 2001 increased by $100,000, or 10%, to $1.4 million from $1.3 million in the same period in 2000. This increase resulted primarily from higher average cash and investment securities balances in the six months ended June 30, 2001 than the average cash and investment securities balances in the same period of the prior year.

Interest expense in the six months ended June 30, 2001 was consistent with the same period in 2000.

Liquidity and Capital Resources

The Company has funded operations to date primarily through the sale of common stock, convertible preferred stock and, to a lesser extent, contract revenue. At June 30, 2001, the Company had $42.8 million in cash, cash equivalents and investment securities.

Cash used in operating activities totaled $18.8 million during the six months ended June 30, 2001 compared to $10.4 million during the same period in 2000. Cash used in operating activities for each period resulted primarily from the net loss for the period.

Cash used in investing activities totaled $1.8 million during the six months ended June 30, 2001, compared to $15.3 million during the same period of 2000. The decrease resulted from less activity in the Company's available-for-sale investment security portfolio.

The Company used $2.6 million for capital expenditures during the six months ended June 30, 2001 compared to $1.0 million during the same period in 2000. The increase is primarily a result of additional leasehold improvements and laboratory equipment for Lumera. Historically, capital expenditures have been used to make leasehold improvements to leased office space, laboratory equipment, computer hardware and software, and furniture and fixtures to support growth. The Company expects capital expenditures to continue to increase substantially as the Company continues to expand operations.

Cash provided by financing activities totaled $22.2 million during the six months ended June 30, 2001, compared to $36.2 million during the same period in 2000. During the six months ended June 30, 2001, Lumera raised $21.4 million, before issuance costs, from the issuance of 2,136,000 shares of mandatorily redeemable convertible preferred stock.

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

- The progress of research and development programs,
- The progress in commercialization activities and arrangements,
- The cost of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights,
- Competing technological and market developments, and
- The Company's ability to establish cooperative development, joint venture and licensing arrangements.

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

Lumera is required to make payments of $750,000 per quarter to the University of Washington until March 2003 under the sponsored research agreement.

The Company believes that its cash, cash equivalents and investment securities balances at June 30, 2001 will satisfy its budgeted cash requirements for at least the next 12 months. Actual expenses, however, may be higher than estimated and the Company may require additional capital earlier than anticipated to:

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

The Company's operating plan calls for the addition of technical and business staff and the purchase of additional computer and laboratory equipment and leasehold improvements. The operating plan also provides for the development of strategic relationships with systems and equipment manufacturers. There can be no assurance that additional financing will be available to the Company or that, if available, it will be available on acceptable terms on a timely basis. If adequate funds are not available to satisfy either short-term or long-term capital requirements, the Company may be required to substantially reduce operations. 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 optical materials technology and the market acceptance and competitive position of such products.

New Accounting Pronouncements

The Company adopted SFAS No. 133 “Accounting for Derivatives and Hedging Activities” in the six month period ended June 30, 2001. The adoption of this standard did not have a material impact to the Company’s financial position, results of operations or cash flow.

In July of 2001 the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standard No. 141 “Business Combinations” (SFAS No. 141). It is effective for all business combinations initiated after July 1, 2001. SFAS No. 141, supersedes APB Opinion No. 16, Business Combinations, and FSAB Statement No. 38, Accounting for Preacquisition Contingencies of Purchased Enterprises, and requires that all business combinations be accounted for using the purchase method of accounting. In addition, SFAS No. 141 requires certain intangibles to be recognized as assets apart from goodwill if they meet certain criteria, and expanded disclosures regarding the primary reasons for consummation of the combination and the allocation of the purchase price paid to the assets acquired and liabilities assumed by major balance sheet caption. The Company does not currently expect adoption to have a material impact on its financial position, results of operations or cash flows. The Company will be required to implement SFAS No. 141 in the third quarter of fiscal 2001.

In July of 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 142 “Goodwill and Other Intangible Assets” (SFAS No. 142). It is effective for fiscal years beginning after December 15, 2001. SFAS No. 142 supercedes APB Opinion No. 17, Intangible Assets, and addresses financial accounting and reporting for intangible assets acquired individually, or with a group of other assets, and the accounting and reporting for goodwill and other intangible assets subsequent to their acquisition. Under the model set forth in SFAS No. 142, goodwill is no longer amortized to earnings, but instead is subject to periodic testing for impairment. The Company is currently in the process of assessing the impact of this statement, if any, on the financial position of the Company. The Company will be required to implement SFAS No. 142 in the first quarter of fiscal 2002.

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, 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 whom 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 ofinfringement 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 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 June 30, 2001, we had an accumulated deficit of $84.9 million

- We incurred net losses of $22.8 million from inception through 1998, $16.7 million in 1999, $26.6 million in 2000, and $18.8 million during the six months ended June 30, 2001.

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 2002 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 June 30, 2001, we had outstanding:

- Options to purchase an aggregate of 3,408,000 shares of Microvision common stock, and

- Warrants to purchase 460,000 shares of Microvision 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 and this could depress our stock price.

Certain provisions of Washington law and our amended and restated articles of incorporation and bylaws contain provisions that create burdens and delays when someone attempts to purchase our 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 risks 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. Many companies, with substantially greater financial, technical and other resources than us, are working on competing 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 the telecommunications market could represent a significant portion of our future revenues. Developments that adversely affect the telecommunications sector, including delays or reductions in infrastructure investments, delays in traffic growth, government regulation or a general economic downturn, could slow or halt our revenue growth.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Substantially all of the Company's cash equivalents and investment securities are at fixed interest rates and, as such, the fair value of these instruments is affected by changes in market interest rates. Due to the generally short-term maturities of these investment securities, the Company believes that the market risk arising from its holdings of these financial instruments is not material. A one hundred basis point change in market interest rates would have approximately a $336,000 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 or product sales 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 June 30, 2001, are as follows.

		Amount	Percent
Cash	$	1,826	4.3%
Less than one year		17,566	41.0%
One to two years		20,031	46.7%
Two to three years		3,424	8.0%
	$	42,847	100.0%

Part II
OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

On June 28, 2001, the Company issued 3,000 shares of common stock to a warrant holder upon an exercise of a warrant. The Company received cash consideration of $37,500 in connection with the transaction. This transaction was exempt from registration under the Securities Act pursuant to Section 4(2) thereof as a transaction not involving a public offering.

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

The Company's Annual Meeting of Shareholders was held on June 6, 2001. The following proposals were introduced and vote upon:

Proposal No. 1 – Election of Directors

Name	Votes For	Votes Withheld
Richard F. Rutkowski	10,624,154	14,671
Stephen R. Willey	10,624,154	14,671
Richard A. Raisig	10,624,154	14,671
Jacqueline Brandwynne	10,624,154	14,671
Jacob Brouwer	10,624,154	14,671
Richard A. Cowell	10,624,154	14,671
Margaret Elardi	10,624,154	14,671
Walter J. Lack	10,624,154	14,671
William A. Owens	10,624,154	14,671
Robert A. Ratliffe	10,624,154	14,671
Dennis Reimer	10,624,154	14,671

Subsequent to the annual meeting of shareholders in June 2001, Mrs. Elardi resigned as a director of the Company. Mrs. Elardi resigned in order to devote more time to other business ventures.

ITEM 5. OTHER MATTERS

In June 2001, Mr. William L. Sydnes joined Microvision as Chief Operating Officer. He most recently served as vice president, product development and operations for SENSAR, Inc. a New Jersey-based firm that developed identification technology that verifies the identification of an individual by utilizing the unique pattern of the iris of an individual's eye. Prior to joining SENSAR, Mr. Sydnes served as president and CEO for Sarnoff Real Time Corporation (SRTC), which developed a family of scaleable massively parallel streaming servers. Sydnes also served as president of Commodore International Services Corporation, and was with IBM for 18 years as a business unit manager for low-end systems where he helped define the base architecture for the IBM PC, XT, AT and PCjr.

ITEM 6. Exhibits

(a.) Exhibits

10.1 Employment Agreement between Microvision, Inc. and William L. Sydnes effective June 27, 2001.

SIGNATURES

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

MICROVISION, INC.

Date: August 9, 2001

/s/ RICHARD F. RUTKOWSKI

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

Date: August 9, 2001

/s/ JEFF WILSON

Jeff Wilson
Controller
(Principal Accounting Officer)

EXHIBIT INDEX

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

Exhibit Number	**Description**
10.1	Employment Agreement between Microvision, Inc. and William L. Sydnes effective June 27, 2001.

EMPLOYMENT AGREEMENT
FOR
WILLIAM L. SYDNES

This AGREEMENT, effective as of June 27, 2001 is made by and between**MICROVISION, INC.,** a corporation of the State of Washington, having its principal place of business at 11910 North Creek Parkway, P.O. Box 3008, Bothell, Washington 98011, (hereinafter referred to as the "Company"), and William L. Sydnes (hereinafter called "Executive").

W I T N E S S E T H:

WHEREAS, the Company wishes to retain the services of the Executive to work for the Company as its Chief Operating Officer (herein referred to as the "Position") upon the terms and conditions hereinafter set forth; and

WHEREAS, in consideration for continued service in the Position, the Executive has agreed to enter into and be bound by the terms of this Agreement.

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

1. **EMPLOYMENT**

1.1 The Company hereby employs Executive to serve in the Position and Executive hereby accepts such employment as of the effective date of this Agreement.

1.2 Executive will devote his best efforts and full time and attention to performing all duties assigned or delegated to him by the Board of Directors of the Company consistent with the Position.

1.3 The term of employment shall end on June 30, 2005, unless this Agreement is extended by the parties.

2. **COMPENSATION - SALARY AND BENEFITS**

2.1 For his services hereunder for the period June 27, 2001 through December 31, 2002, Executive shall receive an annual salary of $215,000, payable in regular installments under the payroll policies of the Company.

2.2 For years beginning after December 31, 2002, the level of Executive's salary shall be reviewed by the Board of Directors on an annual basis and upon such review, may remain the same or be increased in such amount as the Board of Directors, in its discretion, based upon merit, determines, provided that there shall be no decrease in the salary of the Executive without his consent.

2.3 In addition to the salary to which Executive is entitled under Section 2.1, Executive shall be entitled to participate in benefit plans, if any, that the Company may offer or establish from time to time for Executives of equal or lesser rank. Participation in benefit plans for the Executive shall terminate if the Company terminates similar benefits for Executives of equal or lessor rank.

2.4 If at any time the Company does not maintain medical and dental insurance coverage for all Executives, the Company shall reimburse the Executive for securing private coverage during the term of this Agreement.

2.5 All salary and benefits, if any, shall be subject to the customary withholding of taxes as required by law. Except as otherwise provided in Section 8 hereof, Executive's salary and benefits end immediately upon the termination of employment.

3. **INCENTIVE COMPENSATION**

3.1 If the Company maintains a formal cash incentive plan for senior management, the Executive shall be eligible to participate in such plan with a target incentive opportunity at least equal to the highest percentage opportunity provided to any other Executive covered under such plan.

3.2 If such a formal plan is not maintained by the Company, the Executive shall be eligible for consideration to receive an annual cash incentive payment from the Company. Executive's eligibility for such a discretionary incentive payment ends upon termination of employment. This amount shall be determined annually in the sole and complete discretion of the Board of Directors, which may take into account in its decision, among other items, such items as:

3.2.1 The financial performance of the Company, including, but not limited to revenues, operating income, and net income, if any;

3.2.2 The individual accomplishments of the Executive;

3.2.3 Other company achievements, including, but not limited to, product research, development and introduction; market offerings and the arrangement of strategic alliances; and

3.2.4 Competitive practice for executives in similar situations.

3.3 The annual target cash incentive for the period beginning on the effective date of this Agreement and ending on December 31, 2002 shall be 50% of the Executive's annual salary, prorated for the period from the effective date through December 31, 2001.

4. **STOCK OPTIONS**

The Executive shall receive options to purchase common stock of the Company in the amounts set forth below. All such options shall be granted in accordance with the stock option plan maintained by the Company and shall be subject to the terms and conditions set forth therein and in the stock option grant letter issued by the Company to Executive thereunder. If there are insufficient shares available under the stock option plan in existence at the time of this Agreement, such shares shall be granted subject to the approval of shareholders at the next annual meeting subsequent to the execution of this Agreement. The options shall be exercisable for ten years from the date of grant and shall vest in installments as noted below.

4.1 An option to purchase up to 50,000 shares at a price of $20.00. This option shall vest in three installments as follows: 25,000 shares on December 31, 2001; 12,500 on March 31, 2002 and 12,500 on June 30, 2002.

4.2 An option to purchase up to 50,000 shares at a price of $27.00. This option shall vest in four equal quarterly installments commencing July 1, 2002.

4.3 An option to purchase up to 100,000 shares at a price of $34.00. This option shall vest in eight equal quarterly installments commencing July 1, 2003.

5. **BUSINESS EXPENSES**

5.1 The parties acknowledge that Executive may incur, from time to time, for the benefit of the Company and in furtherance of the Company's business, various expenses such as travel, entertainment and promotional expenses. The Company agrees that it shall either pay such expenses directly, advance sums to Executive to be used for payment of such expenses, or reimburse Executive for such expenses incurred by him.

5.2 The Company agrees to pay such expenses, in accordance with its written policies covering the payment of business expenses and to the extent that these expenses do not exceed limits contained in such policies or applicable law. Executive agrees to submit to the Company such documentation as may be necessary to substantiate that all expenses paid or reimbursed pursuant to this Section 5 were reasonable and necessary for the performance of his duties under this Agreement.

6. **PERFORMANCE OF EMPLOYMENT**

6.1 Executive will observe and comply with such reasonable rules, regulations and policies as may from time to time be established by the Company, the Chief Executive Officer or the Board of Directors, either orally or in writing.

6.2 Executive specifically agrees that he will comply with the confidentiality and security rules established by the Company and the Board of Directors with respect to confidential and financial information of the Company.

7. **EMPLOYMENT CONDUCT AND CONFIDENTIAL INFORMATION**

7.1 Executive shall, at all times during the term of this Agreement, observe and conform to all laws regulating the business of the Company.

7.2 Executive acknowledges and recognizes that during the term of this Agreement, he will necessarily become privy to certain confidential and proprietary information of the Company and customers of the Company (hereinafter referred to as "Confidential Data"). Confidential Data shall shall include but not be limited to all information concerning the identity of the Company's customers and suppliers, technical, financial and business activities, plans, operations, proprietary software, systems, procedures or know-how of the Company and any information regarding customers of the Company and their business affairs or endeavors. Executive agrees that he will hold all Confidential Data in the strictest confidence and that he will not disclose to any person or entity for any reason nor use any Confidential Data in any way other than on behalf of the Company or as the Company may otherwise direct.

7.3 Executive agrees that all business records and files, including but not limited to memoranda, notes, client lists, and proposals pertaining to the business, services or processes of the Company, shall be the sole property of the Company and he shall not retain, remove or copy such materials during the term of this Agreement or upon its termination or expiration, without the prior unanimous written consent of the Board of Directors of the Company. Upon the termination of this Agreement, or at any other time upon the request of the Board of Directors of the Company, Executive shall deliver all such materials to the Company.

7.4 The foregoing obligations of Executive shall survive the termination or expiration of this Agreement.

8. **SEVERANCE PAYMENTS**

8.1 If the Executive terminates the Agreement for any reason other than Constructive Termination (as defined in Section 8.3.5), or if the Company terminates the Agreement for Cause, no severance payment of any kind shall be made.

8.2 If the Company terminates this Agreement for reasons other than Cause, or if the Executive is Constructively Terminated prior to a Change in Control, the Company shall:

8.2.1 Pay to the Executive a lump sum equal to the Executive's salary of record for a period of one year, if the date of termination is prior to July 1, 2003, or for a period equal to the greater of one year or the remaining period of this Agreement, if the date of termination is subsequent to June 30, 2003.

8.2.2 Continue to provide medical and dental insurance to the Executive for the period of one year, if the date of termination is prior to July 1, 2003, or for a period equal to the greater of one year or the remaining period of this Agreement, if the date of termination is subsequent to June 30, 2003.

8.3 If the Executive is terminated or Constructively Terminated by the Company following a Change of Control, the Company shall:

8.3.1 Pay to the Executive a lump sum equal to the Executive's salary of record for a period of three (3) years;

8.3.2 Pay to the Executive a lump sum equal to three (3) times the average of the Executive's cash bonuses received in the three (3) preceding calendar years;

8.3.3 Continue to provide medical and dental insurance to the Executive for a period of one (1) year on the same terms as if the Executive were an active Executive of the Company.

8.3.4 For purposes of this Agreement, a Change of Control shall be deemed to occur on any of the following events:

8.3.4.1 Any "person", including a "group" as determined in accordance with Section 13(d)(3) of the Securities Exchange Act of 1934, as amended, is, or becomes, the beneficial owner of securities of the Company representing more than thirty percent (30%) of the combined voting power of the Company's then outstanding securities;

8.3.4.2 As a result of, or in connection with, any tender offer or exchange offer, merger or other business combination, sale of assets or contested election, or any combination of the foregoing transactions (a "Transaction"), the persons who constituted the Board of Directors the Company prior to the Transaction cease to constitute a majority of the Board of Directors of the Company or any successor to the Company;

8.3.4.3 The Company is merged or consolidated with another Company and as a result of the merger or consolidation, less than fifty percent (50%) of the outstanding voting securities of the surviving or resulting Company shall then be owned in the aggregate by the former stockholders of the Company;

8.3.4.4 A tender offer or exchange offer is made and consummated for the ownership of securities of the Company representing more than thirty percent (30%) of the combined voting power of the Company's then outstanding voting securities; or

8.3.4.5 The Company transfers substantially all of its assets to another Company of which the Company owns less than fifty percent (50%) of the outstanding voting securities.

8.3.5 For purposes of this Agreement, Constructive Termination means:

8.3.5.1 The reduction of the Executive's salary or target incentive;

8.3.5.2 The demotion or reduction in duties of the Executive;

8.3.5.3 The relocation of the Executive's place of employment more than 50 miles from the existing place of employment; or

8.3.5.4 Breach by the Company or its successor of any material provision of this Agreement.

8.4 For purposes of this Agreement, "Cause" shall be defined as any of the following:

8.4.1 Repeated failure or refusal of the Executive to carry out the reasonable directions of the Board of Directors of the Company consistent with the duties and obligations of the Executive;

8.4.2 Willful violation of state or federal law involving the commission of a crime against the Company or a felony adversely affecting the Company; or

8.4.3 Any material breach of this Agreement or of any covenant herein or the falsification of any material representation or warranty not corrected as provided in Section 8.5 hereof.

8.5 If a breach of this Agreement by either party is relied upon as a justification for any action taken by a party pursuant to any provision of this Agreement, before such action is taken, the party asserting the breach shall give the other party written notice of the existence and nature of the breach and the opportunity to correct such breach during the thirty (30) day period following the delivery of such notice.

9. **RESTRICTIVE COVENANT AND INJUNCTIVE RELIEF.** During the term of this agreement and for a period of twenty-four (24) months after the termination of this Agreement for any reason:

9.1 Executive shall not, directly or indirectly, as an individual or representative of any other person and/or entity, deal with or solicit for business purposes that are in competition with any product or service offered by the Company, any current customer of the Company or any person and/or entity that is, or has commenced negotiations to become, a customer of the Company.

9.2 Executive shall not, directly or indirectly, solicit, raid, entice, or induce any other Executive of the Company to become employed by or associated with any other person or entity.

9.3 Executive shall not, directly or indirectly, as an Executive, consultant, agent, partner, principal, stockholder (other than as a holder of less than one percent (1%) of the shares of a publicly or privately held company), officer, director, or in any other individual or representative capacity, engage in any business activity that is competitive with any products or services offered by the Company at the time of the Executive's termination.

9.4 The parties hereto acknowledge that the Executive's services, knowledge and experience are unique and of special value to the Company, and that, in the event of a breach or threatened breach by Executive of any of his obligations under this Agreement, including but not limited to those set forth in this Section 9, the Company will not have an adequate remedy at law. Accordingly, in the event of any breach or threatened breach of any provision of this Agreement by Executive, the Company shall be entitled to such equitable and injunctive relief as may be available to restrain Executive and any other individual or entity participating in breach or threatened breach, from violating the provisions of this Agreement. Nothing herein shall be construed as prohibiting the Company from pursuing any other remedies available at law for such breach or threatened breach, including the recovery of damages and the immediate termination of Executive's employment hereunder.

10. **INVENTIONS, CREATIONS AND DISCOVERIES**

10.1 Executive acknowledges that during the course of his employment he may, either alone or in conjunction with others, be involved with the creation, authorship or development of inventions, materials or property, including but not limited to the field of laser or LED-based scanning display technologies, computer software, computer software and hardware applications (hereinafter referred to as "Materials"). Executive agrees that he will disclose all such Materials to the Board of Directors of the Company. Executive acknowledges that all such Materials shall be the property of the Company whether or not patent or copyright applications are filed with respect thereto from the date of their conception. If an assignment is necessary to transfer ownership thereof to the Company, Executive agrees that this Agreement, without more, shall constitute such an assignment. At the Company's request, Executive shall be required to make or assist in the filing of letters of patent, copyright applications or the like with respect to such Materials. In connection therewith, Executive agrees to execute all documents necessary or beneficial to establish or maintain the Company's rights in such property, applications or the like. All such filings shall be made, if possible, in the name of the Company, at its expense. If made during the term of his employment, Executive shall receive no additional compensation therefor. If such filings are required after the termination of the Executive's employment by the Company, he shall receive reasonable compensation for his assistance.

10.2 Pursuant to RCW 49.44.140, the Company has no rights under Section 10.1 of this Agreement to any invention for which no equipment, supplies, facilities, or trade secret information of the Company was used and which was developed entirely on Executive's own time, unless: (a) the invention relates (i) directly to the business of the Company or (ii) to the Company's actual or demonstratably anticipated research or development; or (b) the invention results from any work performed by Executive for the Company.

10.3 The obligations of Executive under Section 10.1 shall survive the termination or expiration of this Agreement.

11. **ASSIGNMENT**. The rights of either party shall not be assigned or transferred without the other party's consent, nor shall the duties of either party be delegated in whole or in part without the other party's consent. Any unauthorized assignment, transfer or other delegation shall be of no force or effect.

12. **AMENDMENTS**. No amendments or additions to this Agreement shall be binding unless in writing and signed by both parties.

13. **GOVERNING LAW**. This Agreement shall be governed in all respects by the laws of the State of Washington.

14. **BINDING ARBITRATION**. Any disagreement, dispute, controversy or claim arising out of or in any way related to this Agreement, the subject matter hereof or the interpretation hereof or any arrangements relating hereto or contemplated herein or the breach, termination or invalidity hereof or the provision or failure to provide for any other benefits pursuant to any other bonus or compensation plans, stock option plan, life insurance or benefit plan or similar plan or agreement with the Company shall be settled exclusively and finally by binding arbitration. If this Section 14 conflicts with any provision in any such plan or agreement, this provision requiring arbitration shall control.

14.1 The arbitration shall be conducted through Judicial Arbitration and Mediation Services/Endispute (henceforth referred to as "JAMS") to be held before such arbitrator as the parties may agree, or if they are unable to agree, to be selected by obtaining five proposed arbitrators from JAMS and alternately striking names until one name remains.

14.2 The arbitration shall be conducted in accordance with the Judicial Arbitration and Mediation Services Rules of Practice and Procedure as are then in effect, except as modified by the agreement of the parties.

14.3 Either party may initiate a claim by contacting JAMS.

14.4 The decision of the arbitrator shall be final and binding on all parties and the parties waive their right to trial *de novo* or appeal, except and only for the purpose of enforcing the decision of the arbitrator, for which purpose the parties hereby agree that the Superior Court of King Country Washington shall have jurisdiction.

14.5 The prevailing party shall be entitled to recover reasonable attorneys’ fees and the costs of bringing or defending the arbitration and any action for enforcement, the amount of the awards being determined by the arbitrator.

15. **PARAGRAPH HEADINGS**. The paragraph headings used in this Agreement are included solely for convenience and shall not affect or be used in connection with the interpretation of this Agreement.

16. **WAIVER, MODIFICATION, CANCELLATION.** Any waiver, alteration or modification of any of the provisions of this Agreement or cancellation or replacement of this Agreement shall not be valid unless in writing and signed by all of the parties hereto.

17. **HEIRS AND SUCCESSORS**. This Agreement shall be binding upon the Company, Executive and their successors, heirs, personal representatives and transferees.

18. **WAIVER**. The waiver by either party of a breach of any provision contained herein must be in writing and shall in no way be construed as a waiver of any succeeding breach of such provision or the waiver of the provision itself.

19. **NOTICE**. Whenever under the provisions of this Agreement notice is required to be given, it shall be in writing and shall be deemed given when hand delivered or mailed, postage prepaid by registered or certified mail, return receipt requested, addressed to the Executive or the Company at the following addresses:

Executive:	William L. Sydnes c/o Microvision, Inc. 19910 North Creek Parkway Bothell, WA 98011
Company:	Microvision, Inc. 19910 North Creek Parkway Bothell, WA 98011 Attn: Secretary

Either party hereto may change his or its address for purposes of this Agreement by notification to the other party in accordance with this Section.

20. **SEVERABILITY**. If any provision of this Agreement is held invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions will not in any way be affected or impaired thereby.

21. **ENTIRE AGREEMENT**. This Agreement contains the entire agreement of the parties regarding the subject matter hereof and supersedes all prior agreements, understandings and negotiations regarding the same.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

MICROVISION, INC.

by

/s/ RICK RUTKOWSKI	/s/ RICHARD RAISIG
	Witness

EXECUTIVE

/s/ WILLIAM L. SYDNES	/s/ MARIA J. MATTSON
	Witness