MICROVISION INC
Form 10-K/A
April 27, 2005

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

FORM 10-K/A
(Amendment No. 2)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2004

Commission file number 0-21221

Microvision, Inc.

(Exact name of Registrant as Specified in its Charter)

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

19910 North Creek Parkway
Bothell, Washington 98011-3008

(Address of Principal Executive Offices including Zip Code)

(425) 415-6847

(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, par value $0.001

(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not 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.

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Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes x No

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The aggregate market value of the common stock held by non-affiliates of the registrant as of June 30, 2004 was approximately $175,047,000 (based on the closing price for the registrant's Common Stock on the Nasdaq National Market of $8.40 per share).

The number of shares of the registrant's Common Stock outstanding as of March 1, 2005 was 21,481,000.

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," "will," "anticipate," "estimate," "target," "project," "plan," and similar expressions identify forward-looking statements, which speak only as of the date the statement was made. Certain factors that realistically could cause actual results to differ materially from those projected in the forward-looking statements are set forth in Item 1 "Description of Business - Risk Factors Related to the Company's Business."

ITEM 1. DESCRIPTION OF BUSINESS

Overview

The company has historically included both Microvision, Inc. ("Microvision" or the "Company") and Lumera

Corporation ("Lumera"), a subsidiary that was consolidated prior to July 2004. In July 2004, Lumera completed an initial public offering of its common stock. After July 2004, due to the change in ownership percentage, Microvision changed to the equity method of accounting for its investment in Lumera. Microvision designs and markets information display and image capture products.

Scanned Beam Displays

Microvision is producing and selling the Nomad® Expert Technician System, a wireless, wearable computer with a head-worn see-through display. Microvision introduced this second generation version of the Nomad Augmented Vision System in March 2004 and is initially targeting the automotive repair market and military applications. Microvision has also developed prototype color scanned beam displays, including hand-held, head-worn and projection versions, and is currently refining and further developing its scanned beam display technology for potential automotive, defense, aerospace, industrial, medical and consumer applications. Microvision believes the scanned beam display technology may be useful in a variety of applications, including mobile communications, head-up displays for vehicles, entertainment and consumer displays, and computing and visual simulation applications. Microvision expects that, in contrast to display solutions that use non-scanning technologies, its scanned beam display technology will enable the production of high quality displays that are small and lightweight, use low power, can be held or worn comfortably, and are competitively priced.

Microvision's scanned beam technology includes proprietary technology it has developed, technology licensed from other companies and the Virtual Retinal Display ™ technology licensed from the University of Washington.

Image Capture Devices

Microvision also sells the Flic® Laser Bar Code Scanner, a hand-held bar code scanner that uses its proprietary scanning technology. Microvision has introduced a Bluetooth wireless version, the Flic Cordless Laser Bar Code Scanner. Microvision believes that the basic scanning components of the scanned beam display technology may also be used to develop image capture products, such as miniature high-resolution laser cameras and 2D bar code readers that may have higher performance and lower cost than those currently available.

Technology

Microvision's scanned beam display technology is fundamentally different from existing commercialized display technologies in that it uses a fast-moving beam of light to create an image. By continuously scanning a rapidly moving low power beam of light, the scanned beam display creates a high resolution, full motion image in the eye or on an intermediate screen.

The drive electronics of the scanned beam display 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 red, green and blue light sources. The intensity of each of the light sources is varied to generate a complete palette of colors and shades. Optical elements direct the beam of light into the viewer's eye or onto an intermediate screen. The pixels are arranged by a horizontal scanner motion that sweeps the light beam to place the pixels into a row and a vertical scanner motion that moves the light beam up/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.

The scanned beam technology can be used to create an augmented vision display that allows the user to annotate the user's normal view with electronically displayed information. The user is able to retain full binocular vision and full hand-eye coordination while having electronic information displayed on the user's field of view. The image, in the form of light, is directed to the eye in much the same way as light is commonly reflected from our natural environment. With the scanned beam technology, an image can be overlaid on a user's field of view.

The scanned beam display technology can also be used to achieve a more conventional front or rear projection display. The screen may be transparent, providing the user with a head-up display capability and overlaying the digital information on the view of the outside world. Projection could be used for head- up display applications that demand high brightness, high-resolution and long life in a rugged environment, such as automotive displays. Scanned beam display technology could also be incorporated into other products such as video projectors, large-screen monitors, or rear-projection televisions.

Display Components

Scanned beam display technology consists of the following primary components:

Scanners. To produce an image, a horizontal and a vertical scanner or a single micro-electro-mechanical system ("MEMS") bi-axial scanner directs the light beam that creates the image. Microvision currently uses these scanners in Nomad products and in other prototype displays. Microvision expects to continue development to reduce the size, cost and power consumption of the bi-axial MEMS scanner for use in miniature displays.

Continued development of the scanning sub-system will be required to allow scanning capability to meet standard video formats, including high definition television, HDTV, as well as new digital video standards.

Optics. For applications where the scanned beam display 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. Microvision has developed optics and system designs that produce exit pupils up to 15 millimeters. Additional design and engineering of the optics and systems designs will improve Microvision's competitive position for commercial applications. Microvision has refined optics designs for both monocular (one-eye) and biocular (two-eye) systems. Microvision also has developed a full binocular system, which incorporates two separate video channels (one for each eye) to provide the user with full stereoscopic viewing of three-dimensional imagery. Microvision's ongoing optics development is directed at the creation of optical systems that exhibit lower distortion, are lighter weight and are more cost-effective to manufacture than previous optical systems.

Light Sources. The light source creates the light beam that paints the image on a screen or on the viewer's eye. In a full-color scanned beam display, red, green and blue light sources are modulated and mixed to generate the desired color and brightness. Low power solid-state lasers, laser diodes and light- emitting diodes are suitable light sources for the scanned beam display. Blue and green solid-state lasers are currently available but are useful only for scanned beam display applications where cost and size are less important. Miniaturized laser diodes are commercially available in red, and a number of companies are developing blue laser diodes in anticipation of high volume consumer electronics applications. Miniaturized light-emitting diodes are less expensive and consume less power than laser diodes. Microvision is working with companies that have developed custom red, blue and green light-emitting diodes that provide sufficient brightness for many scanned beam display applications. Microvision has built working prototype full-color scanned beam displays with these light-emitting diodes.

Microvision expects to continue using laser diodes for augmented vision and projection display applications that require enhanced brightness. Microvision intends to rely on third party developments or to contract with other companies to continue development of the desired wavelengths of blue and green laser diodes.

Drive Electronics. The drive electronics of the scanned beam display are the components that convert an image to a signal to drive the light sources and scanner to create the image. Microvision has identified three areas where additional development of the drive electronics is necessary:

- ♦ Further miniaturization using integrated circuits or ASICs and improved packaging techniques,
- ♦ Refining the techniques of driving the light sources and scanners to improve display quality and reduce power consumption and,
- ♦ Improving the compatibility of the drive electronics with existing and emerging video standards. Microvision's current product and demonstration units are compatible with North American video format standards and accommodate output from most personal computers.

Human Factors, Ergonomics and Safety

As part of its research and development activities, Microvision conducts ongoing research on the cognitive, physiological and ergonomic factors that must be addressed by products incorporating the scanned beam display technology and the safety of scanned beam display technology, including such issues as the maximum permissible laser exposure limits established by American National Standards Institute ("ANSI") and others. Researchers from the University of Washington Human Interface Technology Lab and other independent institutions have concluded that laser exposure to the eye resulting from use of the scanned beam displays under normal operating conditions would be below the calculated maximum permissible exposure level set by ANSI. The Nomad display has been certified as a Class 1 laser product ("safe for eye viewing") by Underwriters Laboratories.

Products

Nomad

In March 2004, Microvision introduced a new version of the Nomad System. The Nomad Expert Technician System, ("Nomad") is a hands free wearable computer with a head worn display that enables technicians and other mobile workers to overlay relevant information on their task thereby reducing task time. The new version is about 40% smaller, lighter and costs less to manufacture than the prior version. Microvision is working closely with automotive companies to develop the Nomad for automotive maintenance applications. In maintenance applications, the automotive technician uses the Nomad to provide repair instructions and other information directly in his or her field of view while he or she is performing the repair. The Nomad functions as a wireless thin client computer and is linked to a remote server computer. In trials, technicians using the Nomad have reported substantial efficiency gains in performing repairs.

The U.S. Army has deployed 100 Nomad systems in the US Army's Stryker Brigade Combat Team in Iraq. The helmet-mounted Nomad Augmented Vision System provides the vehicle commander with a head-up, daylight-readable, remote display from the Stryker vehicle's onboard battlefield computer while allowing the commander to operate from the hatch opening. The Nomad allows the commander to observe the surroundings, while choosing the optimum path ahead, commanding the vehicle and using tactical information.

Microvision is producing Nomad at its headquarters facility in Washington State. Microvision is distributing the Nomad to end customers in the United States through its sales force, through independent manufacturers' representatives and through original equipment manufacturers. Microvision is also selling Nomad in Europe and Asia through a small number of independent manufacturer's representatives.

Microvision believes Nomad will compete with other products that bring information to the point of task, including laptop and notebook computers, tablet computers, and personal digital assistants. These other devices must be held, wrist mounted, or placed on a stationary object to be used and the user must look away from the task to get information. In contrast, the Nomad is head-worn (i.e. hands free) and allows images to be painted on the viewer's eye with no screen to block the viewer's field of vision. Other companies are marketing head-worn displays, but the displays are generally occluded and typically provide a fraction of the full-page view provided by the Nomad. Microvision believes that Nomad provides higher brightness, higher resolution, and higher contrast than competing devices and provides true "see through" capability with lower power consumption. Microvision also believes that the manufacturing cost of Nomad and potential future displays using its scanned beam display technology could be less than that of competing technologies, due principally to the lower cost of scanned beam display components and lower capital investment to build high volume manufacturing capacity compared to other technologies.

Flic

Microvision sells the Flic Scanner, a hand held laser bar code scanner and the Flic Cordless Scanner, a Bluetooth version of the Flic Scanner. All Flic Scanners feature a proprietary design that provides for lower power consumption and total operating cost than many other bar code scanners currently available. Microvision expects that the sales volume for Flic Scanner will grow as potential customers complete their trials and application developers release solutions incorporating Flic Scanners.

Flic Scanners are manufactured for Microvision by a contract manufacturer located in Batam, Indonesia. Microvision distributes branded and private- labeled Flic Scanners directly to end users through value added resellers, original equipment manufacturers and phone and internet orders.

The bar code scanning industry is highly competitive. Flic Scanners compete with existing laser wand and CCD imager scanners produced by established bar code scanner companies. Flic Scanners compete on the basis of price, form factor, and performance. The bar code industry is dominated by Symbol Technologies, which sells products that directly compete with the Flic and Flic cordless products.

Image capture

Microvision is applying its scanned beam and other proprietary technology to develop products that capture images and other information. Such products include bar code readers and miniature high-resolution "laser cameras". In December 2004, Microvision entered into an agreement with Ethicon Endo-Surgery Inc. a subsidiary of Johnson & Johnson to integrate Microvision's scanned beam technology into certain medical products for human medical applications. Under the agreement, Microvision is developing prototype units that will be used in product evaluation. The agreement includes terms for product development and a supply agreement for certain products.

Microvision believes that certain components of the scanned beam technology can also be used to develop two-dimensional bar code readers as well as high resolution laser cameras that have cost and performance advantages over existing imaging technologies for certain applications.

Automotive Head-Up Displays

During 2004, Microvision continued to improve upon its prototype automotive head-up displays for automotive companies and Tier 1 suppliers to automotive companies. These head-up displays use scanners, light sources and electronic components similar to those in the Nomad display, but use optics that are unique for this head-up display application. These prototypes demonstrate that scanned beam display technology can be used in a head-up display that projects a day- light or night-light readable image onto the windscreen of an automobile to provide the vehicle operator with a variety of information related to the car's operation. Microvision believes that it can further develop these prototypes into products that will meet the automotive companies' specifications for size, brightness, image quality and cost. Microvision plans to continue this sponsored research and development work in 2005.

Microdisplays

Microvision continues to develop color prototype microdisplays that could be integrated into an electronic viewfinder in a digital still camera, a digital video camera or a cell phone. Microvision continues to reduce the size, cost and power requirements of its prototype microdisplays. Microvision believes that the advances in the scanned beam display technology that are achieved for the microdisplay platform will migrate to Nomad and other products resulting in lower cost. Microvision is performing sponsored and internally funded research and development to improve the performance and reduce the cost of its color microdisplay product development.

Business Strategy

Microvision's objective is to be a leading provider of personal display and imaging products and technologies for a broad range of professional and consumer applications. Key elements of Microvision's strategy to achieve this objective include:

Strategic Partnering to Extend Marketing and Technical Reach

Microvision's key technologies have applications in several markets and products. Microvision has contracted with, and plans to continue to pursue, strategic partners who can provide resources and services that otherwise would require substantial time and additional cost for Microvision to develop independently. Microvision will select strategic partners to provide support depending on the specific requirements of markets and products. Examples of activities that Microvision plans to continue to pursue through strategic partnering are:

Engineering Services to Develop Custom Products

. Microvision expects that some customers will require unique designs for displays. Microvision expects that such relationships will generally involve a period of co- development during which engineering and marketing professionals from potential customers or original equipment manufacturers would work with Microvision's technical staff to specify, design and develop a product appropriate for the targeted market and application. Microvision would charge fees to its customers or original equipment manufacturers to fund the costs of the engineering effort incurred on such development projects. The nature of the relationships with such customers or original equipment manufacturers may vary from partner to partner depending on the proposed specifications for the scanned beam technology, the product to be developed, and the customers' or original equipment manufacturers' design, manufacturing and distribution capabilities. Microvision believes that by limiting its own direct manufacturing investment for consumer products, it will reduce the capital requirements and risks inherent in taking the scanned beam technology to the consumer market.

Manufacture and Sale of High Performance Products

. Microvision anticipates providing high performance products to professional end-users in markets with lower product volume requirements. Microvision expects that end- users in this category will include professionals in defense, industry and medicine. Depending upon the circumstances, Microvision may manufacture these products using standard component suppliers and contract manufacturers as required, may license its technology to original equipment manufacturers 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 scanned beam display technology, such as electronic viewfinders, cellular phones or two-dimensional bar code readers could require integration of Microvision's technology with other unrelated technologies. In markets requiring high volume production of scanned beam components or subsystems that can be integrated with other components, Microvision may provide designs for components, subsystems and systems to original equipment manufacturers under licensing agreements.

Licensing of Proprietary Technology to Original Equipment Manufacturers for Volume Manufacture of Products

. Microvision 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. Microvision may seek both initial license fees from such arrangements as well as ongoing per unit royalties.

Platform Model to Leverage Core Technologies and Components

Microvision is developing the scanned beam display technology as a platform technology. Microvision believes that modularized scanning components or subsystems could be integrated with a variety of other interchangeable system components to more efficiently create a wide range of commercial and defense products. Such products could use the same platform scanning component or subsystem but would be configured for a particular application by using other interchangeable system components. Microvision has currently identified the following key product categories that could benefit from further modular scanning component development:

- ♦ High Performance Helmet-Mounted Displays
- ♦ Augmented Vision and Augmented Reality Displays
- ♦ Near-Eye, Mass-Market Color Displays
- ♦ Image Capture / Professional Cameras
- ♦ Projection Systems (Front- or Rear-Projection)

For example, products in any of these categories could utilize a common MEMS scanner to direct the beam of light. A wearable Nomad display and a projection display could use the same MEMS scanner combined with different optics, light source or drive electronics components. Microvision believes that this leverage of the MEMS scanner with other components will allow greater economies of scale in its fabrication.

Development of an Intellectual Property Portfolio

Microvision believes that it can enhance its competitive position by reducing the cost and improving the performance of its scanned beam technology and by developing an extensive portfolio of intellectual property and proprietary rights. A key part of Microvision's technology development strategy includes developing and protecting (i) concepts relating to the function, design and application of the scanned beam display system; (ii) component technologies and integration techniques essential to the commercialization of the scanned beam 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. Microvision is continuing to develop a portfolio of patents and proprietary processes and techniques that relate directly to the functionality and commercial viability of the scanned beam technology.

Additional Information

Microvision performs research and development 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 development expense for the Company for the fiscal years ended December 31, 2004, 2003 and 2002 was $14.7 million, $23.3 million and $25.5 million respectively. Excluding Lumera, research and development expense was $13.6 million, $16.8 million, and $18.4 million respectively.

Prior to 2004, substantially all of Microvision's revenue has been generated from development contracts to develop the scanned beam display technology to meet customer specifications. Microvision's customers have included both the United States government and commercial enterprises. In 2004, 42% of revenue was derived from performance on development contracts with the United States government, 35% from performance on development contracts with commercial customers and the remainder from sales of Nomad and Flic units. In 2004, one commercial customer accounted for 11% of total of total revenue. In 2003, 27% of Microvision's revenue was earned from development contracts with a single commercial customer. Each of Microvision's contracts with the United States government can be terminated for convenience by the United States government at any time. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Microvision had a backlog of $7.1 million at December 31, 2004 compared to a backlog of $2.6 million at December 31, 2003. The backlog is composed of $7.0 million in development contracts, including amendments, entered into through December 31, 2004 and $114,000 and $43,000 in orders for Nomad and Flic respectively. Microvision plans to complete all of the backlog contracts during 2005.

Competitive Conditions

The information display industry is highly competitive. Microvision's products and the scanned beam display technology will compete with established manufacturers of miniaturized cathode ray tube and flat panel display devices. Microvision's competitors include companies such as Sony Corporation and Texas Instruments Incorporated, most of which have substantially greater financial, technical and other resources than Microvision and many of which are developing alternative miniature display technologies. Microvision will also compete with other developers of miniaturized display devices. Microvision's competitors may succeed in developing information display technologies and products that could render the scanned beam display technology or Microvision's proposed products commercially infeasible or technologically obsolete.

The electronic information display industry has been characterized by rapid and significant technological advances. The scanned beam display technology and Microvision's proposed products may not remain competitive with such advances, and Microvision may not have sufficient funds to invest in new technologies, products or processes. Although Microvision believes that its scanned beam display technology and proposed display products could deliver images of a quality and resolution substantially better than those of commercially available miniaturized liquid crystal displays and cathode ray tube based display products, manufacturers of liquid crystal displays and cathode ray tubes may develop further improvements of screen display technology that could reduce or eliminate the anticipated advantages of Microvision's proposed products.

Microvision competes with other companies in the display industry and other technologies for government funding. In general, Microvision's government customers plan to integrate Microvision's technology into larger systems. Ongoing contracts are awarded based on Microvision's past performance on government contracts, the customer's progress in integrating Microvision's technology into the customer's overall program objectives, and the status of the customer's overall program.

The image capture industry is also highly competitive. Microvision's current and planned bar code products will compete with existing laser and wand type scanners produced by established bar code companies. Microvision's current products compete on the basis of price and performance. The bar code industry is dominated by Symbol Technologies. Symbol Technologies sells products that directly compete with Microvision's current and planned bar code products.

Intellectual Property and Proprietary Rights

University of Washington

In 1993, Microvision acquired the exclusive rights to the Virtual Retinal Display technology under a 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 Microvision's research agreement. The University of Washington has received forty-five patents on the Virtual Retinal Display technology and has an additional fourteen U.S. patent applications pending in the United States and twenty-four foreign counterpart applications in certain foreign countries.

Microvision's ability to compete effectively in the information display market will depend, in part, on its ability and the ability of 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 mechanical resonance scanner.

The Virtual Retinal Display technology comprises a substantial part of Microvision's scanned beam display technology. The Virtual Retinal Display technology was originally developed at the University of Washington's Human Interface Technology Lab. The scope of the license covers all 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 Microvision or the University of Washington as discussed below. 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 Microvision's sublicensing arrangements and to the prosecution and settlement by Microvision of infringement disputes. In addition, the University of Washington retains the right to publish for academic purposes information it creates regarding the Virtual Retinal Display technology.

Microvision could lose the exclusivity under the license agreement if it 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 its exclusivity, Microvision 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 Microvision or 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. Microvision 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 Microvision would terminate.

Under the terms of the license agreement, Microvision agreed to pay a non- refundable fee of $5.1 million, which was fully paid in August 1997, and to issue to the University of Washington shares of Microvision's common stock, which shares have been issued. In addition, the University of Washington is entitled to receive ongoing royalties. Microvision also entered into a research agreement with the University of Washington to further develop the Virtual Retinal Display technology, payments of which were credited to the license fee.

Other Licenses and Intellectual Property

During 1998, Microvision entered into a license agreement with a third party whereby it acquired the exclusive license to certain intellectual property related to the design and fabrication of micro miniature devices using semiconductor fabrication techniques. The licensor has received thirteen patents and has twenty-nine patent applications pending pertaining to the Microvision field of use.

Microvision also generates intellectual property as a result of its ongoing performance on development contracts and as a result of its internal research and development activities. Microvision has filed fifty-four patent applications and received thirty 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.

Microvision 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.

Microvision also relies on unpatented proprietary technology. To protect its rights in these areas, Microvision requires all employees and, where appropriate, contractors, consultants, advisors and collaborators, to enter into confidentiality and non-compete agreements. There can be no assurance, however, that these agreements will provide meaningful protection for Microvision'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.

Microvision has registered the mark "Microvision" with its associated "tri-curve" logo with the United States Patent and Trademark Office. Microvision has filed for registration of various other marks including "Virtual Retinal

Display," "VRD," "Nomad," and "Flic" 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. Microvision believes the opposition filing is without merit and that it should prevail in the proceedings. Regardless of the outcome, Microvision believes that it will be entitled to continue to use the terms "Virtual Retinal Display," "VRD," "Nomad," and "Flic".

Employees

As of March 1, 2005, Microvision had 166 employees.

Further Information

Microvision was founded in 1993 as a Washington corporation and reincorporated in 2003 under the laws of the State of Delaware. Our principal office is located at 19910 North Creek Parkway, Bothell, Washington 98011 and our telephone number is (425) 415-6847.

Microvision's Internet address is www.microvision.com. Microvision makes available free of charge its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities and Exchange Act of 1934 as soon as reasonably practicable after it electronically files such material with, or furnishes it to, the SEC. Investors can access this material by visiting Microvision's website, clicking on "Investors," and then clicking on "SEC Filings."

Risk Factors Relating to the Microvision Business

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

We have had substantial losses since our inception and we anticipate an operating loss at least through the year ending December 31, 2005. We cannot assure you that we will ever become or remain profitable.

- As of December 31, 2004, we had an accumulated deficit of $187.5 million.
- We incurred consolidated net losses of $100.9 million from inception through 2001, $27.2 million in 2002, $26.2 million in 2003, and $33.2 million in 2004.

The likelihood of our success must be considered in light of the expenses, difficulties and delays frequently encountered by companies formed to develop and market new technologies. In particular, our operations to date have focused primarily on research and development of the scanned beam technology and development of demonstration units. We introduced our first two commercial products during 2002. We are unable to accurately estimate future revenues and operating expenses based upon historical performance.

We cannot be certain that we will succeed in obtaining additional development contracts or that we will be able to obtain substantial customer orders for our products. In light of these factors, we expect to continue to incur substantial losses and negative cash flow at least through 2005 and likely thereafter. We cannot be certain that we will achieve positive cash flow at any time in the future.

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

Based on our current operating plan and budgeted cash requirements, we believe that we can fund our operations from existing sources of liquidity though 2005. We will require additional capital to continue to fund our operations, including to:

- Further develop the scanned beam technology,
- Add manufacturing capacity,
- Develop and protect our intellectual property rights, and
- Fund long-term business development opportunities.

We will require additional capital to fund our operations in 2006. If revenues are less than we anticipate, if the level and mix of revenues vary from anticipated amounts and allocations or if expenses exceed the amounts budgeted, we may require additional capital earlier to further the development of our technologies, for expenses associated with product development, and to respond to competitive pressures or to meet unanticipated development difficulties. In addition, our operating plan provides for the development of strategic relationships with systems and equipment manufacturers that may require additional investments by us. Additional financing may not be available to us or, if available, may not be available on terms acceptable to us on a timely basis. If adequate funds are not available to satisfy either short-term or long-term capital requirements, we may be required to limit our operations substantially. Our capital requirements will depend on many factors, including, but not limited to, the rate at which we can, directly or through arrangements with original equipment manufacturers, introduce products incorporating the scanned beam and optical material technologies and the market acceptance and competitive position of such products. Raising additional capital may involve issuing securities with rights and preferences that are senior to our common stock and may dilute the value of current shareholders' shares. This limitation of operations may include reductions in capital expenditures and reductions in staff and discretionary cost, which may include non-contractual research cost.

The value of our investment in Lumera may decrease.

A significant portion of our assets and present source of liquidity are constituted by our investment in Lumera. Lumera's stock price is subject to fluctuation and may decrease, lowering the value of our investment. We own approximately 33% of Lumera's common stock. Since we hold a large percentage of Lumera's common stock, if an active market does not develop or is not sustained, it may be difficult for us to sell our shares of Lumera's common stock at an attractive price or at all. The likelihood of Lumera's success, and the value of the common stock we hold, must be considered in light of the risks frequently encountered by early stage companies, especially those formed to develop and market new technologies. These risks include Lumera's potential inability to establish product sales and marketing capabilities; to establish and maintain markets for their potential products; and to continue to develop and upgrade their technologies to keep pace with changes in technology and the growth of markets using polymer materials. If Lumera is unsuccessful in meeting these challenges, its stock price, and the value of our investment, could decrease.

Our Senior Secured Exchangeable Convertible Notes may adversely impact our common stockholders or limit our ability to obtain additional financing.

In March 2005, we issued the Senior Secured Exchangeable Convertible Notes (the "Notes") described in Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operation - Liquidity and Capital Resources. Among other provisions, the Notes include material limitations on our ability to incur additional debt or incur liens while the Notes are outstanding. These limitations could materially adversely affect our ability to raise funds we expect to need in 2006.

We cannot be certain that the scanned beam technology or products incorporating this technology will achieve market acceptance. If the scanned beam technology does not achieve market acceptance, our revenues may not grow.

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

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

Our common stock is listed for quotation on the NASDAQ National Market. To keep our listing on this market, we must meet NASDAQ's listing maintenance standards. If we are unable to continue to meet NASDAQ's listing maintenance standards, our common stock could be delisted from the NASDAQ National Market. If our common stock were delisted, we likely would seek to list the common stock on the NASDAQ SmallCap Market, the American Stock Exchange or on a regional stock exchange. Listing on such other market or exchange could reduce the liquidity for our common stock. If our common stock were not listed on the SmallCap Market or an exchange, trading of our common stock would be conducted in the over-the-counter market on an electronic bulletin board established for unlisted securities or directly through market makers in our common stock. If our common stock were to trade in the over-the-counter market, an investor would find it more difficult to dispose of, or to obtain accurate quotations for the price of, the common stock. A delisting from the NASDAQ National Market and failure to obtain listing on such other market or exchange would subject our securities to so-called penny stock rules that impose additional sales practice and market-making requirements on broker-dealers who sell or make a market in such securities. Consequently, removal from the NASDAQ National Market and failure to obtain listing on another market or exchange could affect the ability or willingness of broker-dealers to sell or make a market in our common stock and the ability of purchasers of our common stock to sell their securities in the secondary market. In addition, when the market price of our common stock is less than $5.00 per share, we become subject to penny stock rules even if our common stock is still listed on the NASDAQ National Market. While the penny stock rules should not affect the quotation of our common stock on the NASDAQ National Market, these rules may further limit the market liquidity of our common stock and the ability of investors to sell our common stock in the secondary market. During the second, third and fourth quarters of 2002, the first and second quarter of 2003, and the third quarter of 2004, the market price of our stock traded below $5.00 per share. On March 1, 2005 the closing price of our stock was $5.59.

Our lack of the financial and technical resources relative to our competitors may limit our revenues, potential profits, overall market share or value.

Our current products and potential future products will compete with established manufacturers of existing products and companies developing new technologies. Many of our competitors have substantially greater financial, technical and other resources than us. Because of their greater resources, our competitors may develop products or technologies that are superior to our own. The introduction of superior competing products or technologies could result in reduced revenues, lower margins or loss of market share, any of which could reduce the value of our business.

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

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

We may not succeed in these efforts because of:

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

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

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

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

Our planned future products are dependent on advances in technology by other companies.

We rely on and will continue to rely on technologies, such as light sources and optical components that are developed and produced by other companies. The commercial success of certain of our planned future products will depend in part on advances in these and other technologies by other companies. Due to the current business environment, many companies that are developing new technologies are reducing expenditures on research and development. This may delay the development and commercialization of components we would use to manufacture certain of our planned future products.

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

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

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

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To date, we have produced limited quantities of Nomad and Flic and demonstration units for research, development and demonstration purposes. The cost per unit for these units currently exceeds the level at which we could expect to profitably sell these products. If we cannot lower our cost of production, we may face increased demands on our financial resources, possibly requiring additional equity and/or debt financing to sustain our business operations.

Our future growth will suffer if we do not achieve sufficient market acceptance of our products to compete effectively

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Our success depends, in part, on our ability to gain acceptance of our current and future products by a large number of customers. Achieving market- based acceptance for our products will require marketing efforts and the expenditure of financial and other resources to create product awareness and demand by potential customers. We may be unable to offer products consistently or at all that compete effectively with products of others on the basis of price or performance. Failure to achieve broad acceptance of our products by potential customers and to effectively compete would have a material adverse effect on our operating results.

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

We currently use a contract manufacturer in Asia to manufacture Flic, and we plan to continue using foreign manufacturers to manufacture some of our products where appropriate. These international operations are subject to inherent risks, which may adversely affect us, including:

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

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

We began production of the current version of Nomad in the first quarter of 2004. In September 2002, we introduced Flic. In addition, we have developed demonstration units incorporating the scanned beam technology. However, we must undertake additional research, development and testing before we are able to develop additional products for commercial sale. Product development delays by us or our potential product development partners, or the inability to enter into relationships with these partners, may delay or prevent us from introducing products for commercial sale.

If we cannot supply products in commercial quantities, we will not achieve commercial success.

We are developing our capability to manufacture products in commercial quantities. Our success depends in part on our ability to provide our components and future products in commercial quantities at competitive prices. Accordingly, we will be required to obtain access, through business partners or contract manufacturers, to manufacturing capacity and processes for the commercial production of our expected future products. We cannot be certain that we will successfully obtain access to sufficient manufacturing resources. Future manufacturing limitations of our suppliers could result in a limitation on the number of products incorporating our technology that we are able to produce.

If our licensors and we are unable to obtain effective intellectual property protection for our products and technology, we may be unable to compete with other companies.

Intellectual property protection for our products is important and uncertain. If we do not obtain effective intellectual property protection for our products, processes and technology, we may be subject to increased competition. Our commercial success will depend in part on our ability and the ability of the University of Washington and our other licensors to maintain the proprietary nature of the scanned beam display and other key technologies by securing valid and enforceable patents and effectively maintaining unpatented technology as trade secrets. We try to protect our proprietary technology by seeking to obtain United States and foreign patents in our name, or licenses to third-party patents, related to proprietary technology, inventions, and improvements that may be important to the development of our business. However, our patent position and the patent position of the University of Washington and other licensors involve complex legal and factual questions. The standards that the United States Patent and Trademark Office and its foreign counterparts use to grant patents are not always applied predictably or uniformly and can change. Additionally, the scope of patents are subject to interpretation by courts and their validity can be subject to challenges and defenses, including challenges and defenses based on the existence of prior art. Consequently, we cannot be certain as to the extent to which we will be able to obtain patents for our new products and technology or the extent to which the patents that we already own or license from others protect our products and technology. Reduction in scope of protection or invalidation of our licensed or owned patents, or our inability to obtain new patents, may enable other companies to develop products that compete with ours on the basis of the same or similar technology.

We also rely on the law of trade secrets to protect unpatented know-how and technology to maintain our competitive position. We try to protect this know-how and technology by limiting access to the trade secrets to those of our employees, contractors and partners with a need to know such information and by entering into confidentiality agreements with parties that have access to it, such as our employees, consultants and business partners. Any of these parties could breach the agreements and disclose our trade secrets or confidential information, or our competitors might learn of the information in some other way. If any trade secret not protected by a patent were to be disclosed to or independently developed by a competitor, our competitive position could be materially harmed.

We could be exposed to significant product liability claims that could be time-consuming and costly, divert management attention and adversely affect our ability to obtain and maintain insurance coverage.

We may be subject to product liability claims if any of our product applications are alleged to be defective or cause harmful effects. For example, because our scanned beam displays are designed to scan a low power beam of colored light into the user's eye, the testing, manufacture, marketing and sale of these products involve an inherent risk that product liability claims will be asserted against us. Product liability claims or other claims related to our products, regardless of their outcome, could require us to spend significant time and money in litigation, divert management time and attention, require us to pay significant damages, harm our reputation or hinder acceptance of our products. Any successful product liability claim may prevent us from obtaining adequate product liability insurance in the future on commercially desirable or reasonable terms. An inability to obtain sufficient insurance coverage at an acceptable cost or otherwise to protect against potential product liability claims could prevent or inhibit the commercialization of our products.

We rely heavily on a limited number of development contracts with the U.S. government, which are subject to immediate termination by the government for convenience at any time, and the termination of one or more of these contracts could have a material adverse impact on our operations.

During 2004 and 2003, 42%, and 49% respectively, of Microvision's consolidated revenue was derived from performance on a limited number of development contracts with the U.S. government. Therefore, any significant disruption or deterioration of our relationship with the U.S. government would significantly reduce our revenues. Our government programs must compete with programs managed by other contractors for limited amounts and uncertain levels of funding. The total amount and levels of funding are susceptible to significant fluctuations on a year-to-year basis. Our competitors continuously engage in efforts to expand their business relationships with the government and are likely to continue these efforts in the future. Our contracts with the government are subject to immediate termination by the government for convenience at any time. The government may choose to use contractors with competing display technologies or it may decide to discontinue any of our programs altogether. In addition, those development contracts that we do obtain require ongoing compliance with applicable government regulations. Termination of our development contracts, a shift in government spending to other programs in which we are not involved, a reduction in government spending generally, or our failure to meet applicable government regulations could have severe consequences for our results of operations.

Our products have long sales cycles, which make it difficult to plan our expenses and forecast our revenues.

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

Our exploratory arrangements may not lead to products that will be profitable.

Our developmental contracts, including our relationships with parties such as the U.S. government, Ethicon Endo-Surgery, Inc., Canon, BMW and Volkswagen of America, are exploratory in nature and are intended to develop new types of products for new applications. These efforts may prove unsuccessful and these relationships may not result in the development of products that will be profitable.

Our revenues are highly sensitive to developments in the defense industry.

Our revenues to date have been derived principally from product development research relating to defense applications of the scanned beam 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.

Our Virtual Retinal Display technology depends on our licenses from the University of Washington. If we lose our rights under the licenses, our operations would be adversely affected.

We have acquired the exclusive rights to the Virtual Retinal Display under a license from the University of Washington. The license expires upon expiration of the last of the University of Washington's patents that relate to this technology, which we currently anticipate will not occur until after 2011. We could lose our exclusivity under the license if we fail to respond to an infringement action or fail to use our best efforts to commercialize the licensed technology. In addition, the University of Washington may terminate the license upon our breach and has the right to consent to all sublicense arrangements. If we were to lose our rights under the license, or if the University of Washington were to refuse to consent to future sublicenses, we would lose a competitive advantage in the market, and may even lose the ability to commercialize our products completely. Either of these results could substantially decrease our revenues.

We are dependent on third parties in order to develop, manufacture, sell and market our products.

Our strategy for commercializing the scanned beam technology and products incorporating the scanned beam technology includes entering into cooperative development, manufacturing, sales and marketing arrangements with corporate partners, original equipment manufacturers and other third parties. We cannot be certain that we will be able to negotiate arrangements on acceptable terms, if at all, or that these arrangements will be successful in yielding commercially viable products. If we cannot establish these arrangements, we would require additional capital to undertake such activities on our own and would require extensive manufacturing, sales and marketing expertise that we do not currently possess and that may be difficult to obtain. In addition, we could encounter significant delays in introducing the scanned beam technology or find that the development, manufacture or sale of products incorporating the scanned beam 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 performance of third parties. We cannot be certain that any such arrangements will be successful.

Loss of any of our key personnel could have a negative effect on the operation of our business.

Our success depends on our executive officers and other key personnel and on the ability to attract and retain qualified new personnel. Achievement of our business objectives will require substantial additional expertise in the areas of sales and marketing, research and product development and manufacturing. Competition for qualified personnel in these fields is intense, and the inability to attract and retain additional highly skilled personnel, or the loss of key personnel, could reduce our revenues and adversely affect our business.

Our quarterly performance may vary substantially and this variance, as well as general market conditions, may cause our stock price to fluctuate greatly and potentially expose us to litigation.

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

- reductions or delays in funding of development programs involving new information display technologies by the U.S. government or our current or prospective commercial partners;
- changes in evaluations and recommendations by any securities analysts following our stock or our industry generally;
- announcements by other companies in our industry;
- changes in business or regulatory conditions;
- announcements or implementation by our competitors of technological innovations or new products;
- the status of particular development programs and the timing of performance under specific development agreements;
- economic and stock market conditions; or
- other factors unrelated to our company or industry.

In one or more future quarters, our results of operations may fall below the expectations of securities analysts and investors and the trading price of our common stock may decline as a consequence. In addition, following periods of volatility in the market price of a company's securities, shareholders often have instituted securities class action litigation against that company. If we become involved in a class action suit, it could divert the attention of management, and, if adversely determined, could require us to pay substantial damages.

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

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

ITEM 2. DESCRIPTION OF PROPERTY

The Company currently leases approximately 92,500 square feet of combined use office, laboratory and manufacturing space at its headquarters facility in Bothell, Washington. The seven-year lease expires in 2006.

Lumera rents approximately 16,000 square feet space from Microvision within the Company's headquarters facility in Bothell, Washington.

The Company also leases approximately 5,200 square feet of combined use office and laboratory space in San Mateo, California. The 42 month lease expires in 2005. Microvision closed its branch office in San Mateo, California during 2003 and currently subleases this office space.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY

HOLDERS

There were no matters submitted to a vote of shareholders during the fourth quarter of the year ending December 31, 2004.

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, 2005, there were 375 holders of record of 21,481,000 shares of common stock outstanding. 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:

	Common Stock	
Quarter Ended	**HIGH**	**LOW**
2003		
March 31, 2003	$ 8.20	$ 3.43
June 30, 2003	6.76	3.85
September 30, 2003	9.38	5.89
December 31, 2003	9.09	6.50
2004		
March 31, 2004	$ 10.93	$ 7.34
June 30, 2004	10.00	5.06
September 30, 2004	8.95	3.75
December 31, 2004	8.00	5.04
2005		
January 1, 2005 to March 1, 2005	$ 7.70	$ 5.03

ITEM 6. SELECTED FINANCIAL DATA

A summary of selected financial data as of and for the five years ended December 31, 2004 is set forth below:

	Years En		
	2004	2003	2002
		(in thousands, exce	
Statement of Operations Data:			
Revenue	$ 11,418	$ 14,652	$ 15,91
Net loss available for common shareholders	(33,543)	(26,163)	(27,17
Basic and diluted net loss per share	(1.56)	(1.46)	(1.9
Weighted average shares outstanding basic and diluted	21,493	17,946	14,06
Balance Sheet Data:			
Cash, cash equivalents and investments available-for-sale	$ 1,268	$ 21,778	$ 15,17
Working capital	903	19,781	14,51
Total assets	25,538	33,918	32,26
Long-term liabilities	52	2,204	1,48
Mandatorily redeemable preferred stock	7,647	--	-
Total shareholders' equity	7,190	23,295	17,41

Lumera was deconsolidated in July 2004.

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 scanned beam technology.

In February 2004, Microvision introduced a new version of its see-through monochrome head-worn display called Nomad Expert Technician System. The Company also produces and sells Flic, a hand-held bar code scanner. The Company has also developed demonstration scanned beam displays, including hand-held and head-worn color versions and is currently refining and developing its scanned beam display technology for potential medical, defense, industrial, aerospace and consumer applications. The Company expects to continue funding prototype and demonstration versions of products incorporating the scanned beam technology at least through 2005. 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 scanned beam technology by various industries and original equipment manufacturers, market acceptance of products incorporating the scanned beam technology and the technical performance of such products.

The Company has incurred substantial losses since its inception and expects to incur a substantial loss during the year ended December 31, 2005.

Key Accounting Policies and Estimates

The Company's discussions and analysis of its financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent liabilities. On an on-going basis, the Company evaluates its estimates, including those related to revenue recognition, contract losses, bad debts, investments and contingencies and litigation. The Company bases its estimates on historical experience, terms of existing contracts, its evaluation of trends in the display and image capture industries, information provided by its current and prospective customers and strategic partners, information available from other outside sources, and on various other assumptions management believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The Company believes the following key accounting policies require its more significant judgments and estimates used in the preparation of its consolidated financial statements:

Revenue Recognition

. The Company recognizes revenue as work progresses on long-term, cost plus fixed fee and fixed price contracts using the percentage-of-completion method, which relies on estimates of total expected contract revenue and costs. The Company uses this revenue recognition methodology because it can make reasonably dependable estimates of the revenue and costs. Recognized revenues are subject to revisions as the contract progresses to completion and actual revenue and cost become certain. Revisions in revenue estimates are reflected in the period in which the facts that give rise to the revision become known.

The Company's product sales generally include acceptance provisions. The Company recognizes revenue for product shipments upon acceptance of the product by the customer or expiration of the contractual acceptance period.

Losses on Uncompleted Contracts

. The Company maintains an allowance for estimated losses if a contract has an estimated cost to complete that is in excess of the remaining contract value. The entire estimated loss is recorded in the period in which the loss is first determined. The Company determines the estimated cost to complete a contract through a detail review of the work to be completed, the resources available to complete the work and the technical difficulty of the remaining work. If the actual cost to complete the contract is higher than the estimated cost, the entire loss is recognized. The actual cost to complete a contract can vary significantly from the estimated cost, due to a variety of factors including availability of technical staff, availability of materials and technical difficulties that arise during a project. Most of the Company's development contracts are cost plus fixed fee type contracts. Under these types of contracts, the Company is not required to spend more than the contract value to complete the contracted work.

Allowance for uncollectible receivables

. The Company maintains general allowances for uncollectible receivables, including accounts receivable, cost and estimated earnings in excess of billings on uncompleted contracts and receivables from related parties. The Company reviews several factors in determining the allowances including the customer's past payment history and financial condition. If the financial condition of our customers or the related parties with whom the Company has receivables were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances could be required.

Inventory.

The Company values inventory at the lower of cost or market with cost determined on a weighted average cost basis. The Company reviews several factors in determining the market value of its inventory including evaluating the replacement cost of the raw materials and the net realizable value of the finished goods. If we do not achieve our targeted sales prices or if market conditions for our components or products were to decline, additional reductions in the carrying value of the inventory would be required.

Litigation.

The Company believes that the probability of an unfavorable outcome to any potential pending or threatened litigation is low and therefore has not recorded an accrual for any potential loss. The Company's current estimated range of liability related to any potential pending litigation is based on claims for which our management can estimate the amount and range of potential loss. As additional information becomes available, the Company will assess the potential liability related to any pending litigation and, if appropriate, revise its estimates. Such revisions in the Company's estimates of the potential liability could materially impact our results of operation and financial position.

The key accounting policies described above are not intended to be a comprehensive list of all of our accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by generally accepted accounting principles, with no need for management to apply its judgment or make estimates. There are also areas in which management's judgment in selecting any available alternative would not produce a materially different result to the Company's consolidated financial statements. Additional information about Microvision's accounting policies, and other disclosures required by generally accepted accounting principles, are set forth in the notes to the Company's consolidated financial statements, which begin on page 36 of this Annual Report on Form 10-K.

Inflation has not had a material impact on the Company's net sales, revenues, or income from continuing operations over the Company's three most recent fiscal years.

Results of Operations

Until July 2004, the Company was organized into two segments - Microvision, which is engaged in scanned beam 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.

A portion of each segments' administration expenses arose from shared services and infrastructure that Microvision provided to both segments in order to realize economies of scale and to efficiently use resources. These efficiencies included costs of certain legal, accounting, human resources and other Microvision corporate and infrastructure costs. These expenses were allocated to the segments and the allocation was 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.

In connection with the Lumera initial public offering, all Lumera Series A and Series B Preferred Stock was converted into Lumera common stock. Immediately after the offering, Microvision owned 5,434,000 shares, or 33%, of the common stock of Lumera. As a result of the change in ownership percentage, Microvision changed the method of accounting for its investment in Lumera to the equity method. Microvision recorded a non-cash change in ownership interest gain of $13.7 million to stockholders equity as a component of additional paid-in capital during the third quarter. Microvision consolidated Lumera's results through July 2004 in its consolidated financial statements.

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

	Year Ended December 31, 2004			
	Microvision	Lumera	Elimination	Total
Contract Revenue	$ 8,135	$ 686	$ --	$ 8,82
Product Revenue	2,597	--	--	2,59
Cost of Contract Revenue	5,106	433	--	5,53
Cost of Product Revenue	3,868	--	--	3,86
Research and development expense	13,581	1,129		14,71
Marketing, general and administrative expense	17,795	1,433	--	19,22
Non-cash compensation expense	821	1,297	--	2,11
Interest income	270	2	--	27
Interest expense	31	120	--	15
Segment loss	32,257	3,724	(2,438)	33,54
Depreciation	1,711	695	--	2,40

Expenditures for capital assets	970	70	--	1,04
Segment assets	25,538	--		25,53

	Year Ended December 31, 2003			
	Microvision	**Lumera**	**Elimination**	**Total**
Contract Revenue	$ 11,792	$ 1,725	$ --	$ 13,51
Product Revenue	1,135	--	--	1,13
Cost of Contract Revenue	5,015	1,014		6,02
Cost of Product Revenue	1,017			1,01
Research and development expense	16,755	6,561	--	23,31
Marketing, general and administrative expense	14,557	1,270	--	15,82
Non-cash compensation expense	1,115	1,041	--	2,15
Interest income	342	39	--	38
Interest expense	51	--	--	5
Segment loss	25,205	8,083	(7,125)	26,16
Depreciation	1,924	1,185	--	3,10
Expenditures for capital assets	1,094	455	--	1,54
Segment assets	37,224	4,058	(7,364)	33,91

	Year Ended December 31, 2002			
	Microvision	**Lumera**	**Elimination**	**Total**
Contract Revenue	$ 14,443	$ 946	$ --	$ 15,38
Product Revenue	528	--	--	52
Cost of Contract Revenue	6,139	330		6,46
Cost of Product Revenue	528			52
Research and development expense	18,362	7,157	--	25,51
Marketing, general and administrative expense	15,577	1,221	--	16,79
Non-cash compensation expense	841	1,143	--	1,98
Interest income	860	199	--	1,05
Interest expense	59	--	--	5
Segment loss	26,219	8,698	(7,741)	27,17
Depreciation	1,894	1,049	--	2,94
Expenditures for capital assets	792	562	--	1,35
Segment assets	30,144	8,589	(6,466)	32,26

YEAR ENDED DECEMBER 31, 2004 COMPARED TO YEAR ENDED DECEMBER 31, 2003

Contract Revenue.

Contract revenue decreased by $4.7 million, or 35%, to $8.8 million from $13.5 million in 2003. The decrease resulted from a lower level of development contract business performed in 2004 than that performed in 2003 on contracts entered into in both 2004 and 2003.

Contract revenue is earned from the Company's work on development contracts with the United States government and commercial enterprises. In 2004, 55% of contract revenue was derived from performance on development contracts with the United States government and 45% from performance on development contracts with commercial customers. In comparison to 53% of revenue was derived from performance on development contracts with the United States government and 47% from performance on development contracts with commercial customers in 2003. In 2003, 29% of consolidated contract revenue was earned from development contracts with a single commercial customer. The Company expects contract revenue to fluctuate significantly from year to year.

In May 2004, Microvision entered into a $3.9 million contract modification 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 December 2004, Microvision entered into a $6.2 million contract with Ethicon Endo-Surgery, Inc., a subsidiary of Johnson & Johnson, to integrate Microvision's technology into certain medical products. The contract includes an exclusive license for Microvision's technology for certain human medical applications during the term of the development agreement.

The Company had a contract revenue backlog of $7.0 million at December 31, 2004. The backlog is composed of development contracts, including amendments, entered through December 31, 2004. The Company plans to complete all of the contract backlog during 2005.

Product Revenue.

Microvision earns product revenue from the sale of Nomad and Flic. Microvision recognizes revenue on product sales upon customer acceptance or when the right to return has expired. Product revenue increased $1.5 million or 129% to $2.6 million from $1.1 million in 2003. The increase resulted from increased sales of both Flic and Nomad in 2004.

During 2004, Microvision earned $864,000 from the sale of 208 Nomads compared to $855,000 from the sale of 133 Nomads in 2003. Microvision introduced a new version of the Nomad in March 2004. The new version is 40% smaller than the previous version and cost less to produce. Microvision is targeting automotive repair applications for the Nomad. The Nomad is currently installed in 62 automotive repair facilities.

During 2004 and 2003, Microvision recorded $1,732,000 and $280,000 respectively, in revenue from sales of Flic barcode scanners.

The Company had a product revenue backlog of $157,000 at December 31, 2004. The backlog is composed of orders for Nomad and Flic received through December 31, 2004. The Company plans to deliver all products in backlog during 2005.

Cost of Contract Revenue.

Cost of contract revenue includes both the direct and allocated indirect costs of performing on development contracts. Direct costs include labor, materials and other costs incurred directly in performing specific projects. Indirect costs include labor and other costs associated with operating the Company's research and product development department and building the technical capabilities of the Company. 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 contract 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 contract revenue decreased by $449,000, or 8%, to $5.5 million from $6.0 million. On a percentage of revenue basis, cost of contract revenue increased by 43 % to 63% from 44% in 2003. The change in cost of revenue as a percentage of revenue is primarily attributable to changes in the contract costs mix. Total direct costs in 2004 decreased approximately 6% from 2003. The direct labor cost portion of direct cost decreased by approximately 6% from 2003. The decrease in direct labor cost resulted from a lower volume of contract work performed during 2004 compared to 2003.

During 2004, the Company experienced unplanned technical difficulties on one significant project. As a result of the difficulties, more direct costs than planned were incurred in completing the project resulting in a lower gross margin during 2004 than in 2003.

Research and development overhead is allocated to both cost of contract revenue and research and development expense based on the proportion of direct labor cost incurred in cost of contract revenue and research and development, respectively.

The Company expects that cost of contract revenue on an absolute dollar basis will increase in the future. This increase will likely result from planned additional development contract work that the Company expects to perform, and commensurate growth in the Company's personnel and technical capacity required to perform on such contracts. The cost of contract revenue, as a percentage of contract revenue, can fluctuate significantly from period to period depending on the contract mix and the level of direct and indirect cost incurred.

Cost of Product Revenue.

Cost of product revenue includes both the direct and allocated indirect costs of manufacturing Nomads and Flics sold to customers. Direct costs include labor, materials and other costs incurred directly in the manufacture of Flic and Nomad. Indirect costs include labor and other costs associated with maintaining Microvision manufacturing capabilities and capacity. Cost of product revenue increased $2.8 million or 266% to $3.9 million from $1.1 million in 2003.

Microvision's costs to produce Nomad units during 2004 were substantially higher than product revenue. Until October 2004, Microvision classified production cost in excess of product revenue as research and development expense. In October 2004, management determined that Nomad production and manufacturing processes were sufficiently mature to support "commercial production" as described in SFAS No. 2 "Accounting for Research and Development Costs". As a result of this determination Microvision began full absorption of manufacturing overhead cost. During the fourth quarter of 2004, the cost of product revenue exceeded product revenue for both the Flic and Nomad products.

Cost of product revenue in 2004 includes the write off of $764,000 of Flic inventory and $479,000 of Nomad inventory. The write off's were due to changes in product design and customer demand that caused components and accessories to become obsolete or slow moving. Microvision values inventory at the lower of cost or market. Microvision also reduces the value of its inventory to its estimated scrap value when management determines that it is not probable that the inventory will be utilized through normal production during the next 12 months.

The Company expects that cost of product revenue on an absolute dollar basis will increase in the future. This increase will likely result from increased shipments of commercial products. The Company expects that cost of product revenue will be higher than product revenue until the Company achieves sales volumes that match its production capability.

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,
- research fees paid to the University of Washington under the Lumera Sponsored Research Agreement,
- laboratory operations, outsourced development and processing work,
- fees and expenses related to patent applications, prosecution and protection,
- related operating expenses and
- cost relating to acquiring and maintaining licenses.

Research and development expense decreased by $8.6 million, or 37%, to $14.7 million from $23.3 million in 2003.

Research and Development expense attributable to Lumera decreased $5.5 million, or 83%, to $1.1 million from $6.6 million in 2003. The decrease in Research and Development expense attributable to Lumera accounts for 64% of the decrease in consolidated Research and Development expense.

In April 2004, Lumera and the University of Washington entered into a fourth amendment to the Sponsored Research Agreement that requires payments of $125,000 for quarters ending March 31, 2004 and June 30, 2004 and eliminates the contingent payment of $2.0 million. For each of the quarters ending September 30, 2004 and December 31, 2004, Lumera was required to pay $250,000. The agreement will terminate in 2005 after payments of $375,000 are made in quarters ending March 31, 2005 and June 30, 2005. Total payments under the Sponsored Research Agreement will be $5.8 million instead of the original $9.0 million. Lumera recognizes research and development expense under the Sponsored Research Agreement on a straight line basis over the term of the agreement. At the time of the fourth amendment to the Sponsored Research Agreement, Lumera had recognized $6.5 million in expense related to the Sponsored Research Agreement. In April 2004, Lumera recorded a reduction in its liability and an offsetting reduction in expense of $2.4 million to reduce the cumulative expense recognized under the Sponsored Research Agreement to the expense incurred under the fourth amendment on a straight line basis.

Research and development expense in 2003 included $645,000 for the closure of Microvision's research and development facility in San Mateo, California. Microvision consolidated its research and development activities in Bothell, Washington in May 2003.

The Company believes that a substantial level of continuing research and development expense will be required to develop commercial products using the scanned beam technology. Accordingly, the Company anticipates that its research and development expenditures will continue to be significant. These expenses could be incurred as a result of:

- subcontracting work to development partners,
- expanding and equipping in-house laboratories,
- acquiring rights to additional technologies,
- incurring related operating expenses, and
- hiring additional technical and support personnel.

The Company expects that the amount of spending on research and product development will remain high in future quarters as we:

- continue development and commercialization of the Company's scanned beam technology,
- accelerate development of microdisplays and imaging products to meet emerging market opportunities, and
- pursue other potential business opportunities.

Sales, Marketing, General and Administrative Expense.

Sales, 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, consulting and other operating expenses.

The Company's marketing activities include corporate awareness campaigns, such as web site development and participation at trade shows, corporate communications initiatives, and working with potential customers and joint venture partners to identify and evaluate product applications in which the Company's technology could be integrated or otherwise used.

Sales, marketing, general and administrative expenses increased by $3.4 million, or 22%, to $19.2 million from $15.8 million in 2003. The increase in Sales, marketing, general and administrative expenses are due to the increase in sales and marketing activity related to Nomad and Flic sales. The Company has added sales staff, demonstration equipment and promotion materials to support increased sales of Nomad and Flic. The Company expects sales, marketing, general and administrative expenses to increase as product revenue increases 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 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 as well as employee stock based compensation expenses. Non-cash compensation expense decreased by $38,000 or 2% to $2.1 million from $2.2 million in 2003.

In September 2003, Microvision issued two warrants to purchase an aggregate of 70,000 shares of common stock to a third party for services provided to Microvision. One warrant grants the holder the right to purchase up to 60,000 shares of common stock at a price of $7.50 per share. The warrant vested in three equal tranches on the date of grant, in December 2003 and in March 2004. The other warrant to purchase up to 10,000 shares of common stock at a price of $12.00 per share vested in March 2004. The deferred compensation related to these warrants was amortized to non-cash compensation expense over the fourteen month service period of the agreement. There is no amortization remaining at December 31, 2004. Non-cash amortization expense related to these warrants was $140,000 and $192,000 for 2004 and 2003 respectively. The total value of the warrants was estimated on December 31, 2003 and the grant date at $318,000 and $328,000, respectively. The fair values of the warrants were estimated on the date of grant and December 31, 2003, using the Black-Scholes option-pricing model with the following weighted-average assumptions: expected volatilities of 83%, risk-free interest rates of 2.7% and dividend yields of zero percent. The expected lives used at the measurement dates above were 4 years and 3.9 years, respectively.

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In August 2000, Microvision entered into five-year consulting agreements with two independent consultants 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 vested over three years and the unvested portions were subject to remeasurement at each balance sheet date during the vesting period until the end of the vesting period on June 7, 2003. The original value of the warrants was estimated at $5.5 million, however, due to decreases in the Company stock price, the value in June 2003 was estimated to be $3.0 million. In 2004 and 2003, total non-cash amortization for these agreements was $447,000 and $595,000, respectively. The fair values of the warrants were determined in June 2003 and the issue date, using the Black- Scholes option-pricing model with the following weighted-average assumptions: dividend yield of zero percent, expected volatility of 83% for both measurement dates, risk-free interest rates of 4.0% and 5.9%, and expected lives of 7.4 and 9.2 years. Deferred compensation related to these warrants at December 31, 2004 was $270,000.

During 2004, Lumera granted options to purchase 415,000 shares of Class A common stock to Lumera employees and directors with a weighted-average exercise price of $2.00. Lumera subsequently determined that the fair market value of its common stock was greater than the exercise price of the options. Lumera recorded aggregate charges of $216,000 during 2004 related to these grants.

During 2004, Lumera granted vested options to purchase 40,000 shares of Class A common stock to Microvision employees with a weighted-average exercise price of $2.00. Lumera subsequently determined that the fair market value of its common stock was greater than the exercise price of the options. The Company recorded aggregate charges of $134,000 during 2004 related to these grants.

The following table shows the components of non-cash compensation expense for 2004 and 2003, respectively.

	2004	2003
Microvision stock options issued to third parties	587,000	849,000
Microvision stock options issued to employees	54,000	265,000
Microvision stock and options issued to Independent Directors	46,000	1,000
Lumera options issued to Microvision employees	134,000	--
Lumera non-cash compensation expense	1,297,000	1,041,000
	$ 2,118,000	$ 2,156,000

At December 31, 2004, the Company had $305,000 of unamortized non-cash compensation expense that will be amortized over the next year.

Interest Income and Expense.

Interest income in 2004 decreased by $109,000, or 29%, to $272,000 from $381,000 in 2003. This decrease resulted primarily from lower average cash and investment securities balances in 2004 than the average cash and investment securities balances in the prior year.

Interest expense was consistent with 2004 because the amount of borrowings did not change significantly.

Loss on equity in investment subsidiary

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In July 2004, Lumera completed an initial public offering of its common stock. In connection with the offering, all Lumera Series A and Series B Preferred Stock was converted to Lumera common stock. Immediately after the offering, Microvision owned 5,434,000 shares, or 33%, of the common stock of Lumera. As a result of the change in ownership percentage, Microvision has changed the method of accounting for its investment in Lumera to the equity method. Under the equity method, Microvision recorded its ownership interest in the net book value of Lumera immediately following the initial public offering as an investment in equity method subsidiary of $11.9 million. Microvision records its pro rata share of Lumera's income or loss as an adjustment in the value of its investment in Lumera. For the period from July 2004 to December 31, 2004 Microvision's share in Lumera's losses was $1.7 million.

Income Taxes.

No provision for income taxes has been recorded because the Company has experienced net losses from inception through December 31, 2004. At December 31, 2004, Microvision had net operating loss carry-forwards of approximately $168.0 million for federal income tax reporting purposes. In addition, Microvision has research and development tax credits of $2.2 million. The net operating losses begin expiring in 2008 if not previously utilized. In certain circumstances, as specified in the Internal Revenue Code, a 50% or more ownership change by certain combinations of Microvision's shareholders during any three-year period would result in a limitation on Microvision's ability to utilize a portion of its net operating loss carry-forwards. Microvision 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 and the limitation for losses generated in 1996 is approximately $1.6 million.

Non-cash Beneficial Conversion Feature of Preferred Stock.

In September 2004, Microvision raised $10.0 million before issuance costs of $90,000 from the sale of 10,000 shares of convertible preferred stock and a warrant to purchase 361,795 shares of common stock. The preferred stock is convertible on demand by the holder into common stock at a conversion price of $6.91 per share of common stock. The initial conversion price is subject to adjustment in the event Microvision issues common stock or derivative securities at a price per share of common stock below the market price or the conversion price of the preferred stock. In addition, upon the request of the preferred stockholder, Microvision is required to redeem the preferred stock for cash in certain circumstances, including in the event of a material breach of our representations, warranties or covenants under the purchase agreement or a change in control. Accordingly, Microvision has classified the preferred stock as "mandatorily redeemable convertible preferred stock" in its consolidated balance sheet.

The preferred stock terms include a dividend of 3.5% per annum, payable quarterly in cash or registered common stock, at the election of the Company, subject to certain conditions. The preferred stock matures on September 10, 2007, at which time it is payable in cash or registered common stock, at the election of the Company, subject to certain conditions. Some of the conditions which would preclude the Company from paying in common stock are not within the Company's immediate control. The Company can elect to convert the preferred stock into common stock if the common stock price exceeds $12.09 per share, subject to certain conditions.

The warrant vested on the date of grant, has an exercise price of $8.16 per share and expires on September 10, 2009. The initial exercise price is subject to adjustment in the event the Company issues common stock or derivative securities at a price per share of common stock below the market price or the exercise price of the warrant.

The net cash proceeds of $9,910,000 were allocated to the preferred stock and the warrant based on the relative fair values of the securities. The warrants were valued using the Black-Scholes option-pricing model with the following assumptions: expected volatility, 75%, risk free interest rate of 3.4%, and a contractual life 5 years. $1.3 million of the proceeds were allocated to the warrant and were recorded as an increase to additional paid-in capital.

Subsequent to the relative fair value allocation, the effective accounting conversion price of the convertible preferred stock was less than the closing price of Microvision's common stock on the date of commitment to purchase the preferred stock. This beneficial conversion feature was measured as $1.2 million, which represents the difference between the fair value of the common stock and the effective accounting conversion price. This beneficial conversion feature was recorded to additional paid-in capital and will be recorded as a deemed dividend to preferred stockholders (accretion) over the stated life of the preferred stock which is three years.

YEAR ENDED DECEMBER 31, 2003 COMPARED TO YEAR ENDED DECEMBER 31, 2002

Contract Revenue.

Contract revenue decreased by $1.9 million, or 12%, to $13.5 million from $15.4 million in 2002. The decrease resulted from a lower level of development contract business in 2003 than that performed in 2002 on contracts entered into in both 2003 and 2002.

In 2003, 53% of contract revenue was derived from performance on development contracts with the United States government, 47% from performance on development contracts with commercial customers. In comparison, to 86% of revenue was derived from performance on development contracts with the United States government and 14% from performance on development contracts with commercial customers in 2002. In 2003, 29% of consolidated contract revenue was earned from development contracts with a single commercial customer.

During 2003, the Company entered into several development contracts with both commercial and government entities for further development of the scanned beam technology to meet specific customer applications.

- In February 2003, Microvision extended a development agreement with Canon to further develop miniature displays for use in consumer products including digital cameras and digital video equipment.
- In April 2003, Microvision entered into a $2.2 million contract modification 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 April 2003, Microvision entered into a $1.6 million contract modification with the U.S. Army's Medical Research Acquisition Activities, Telemedicine and Advanced Technology Research Center to continue development of a mobile wireless personal display system for medical applications.
- In October 2003, Microvision entered into a new agreement with Canon to further develop miniature displays for use in consumer products including digital cameras and digital video equipment.
- In December 2003, Lumera entered into a contract extension with a U.S. government agency to continue development of electro-optical polymer materials and devices for wideband optical modulators.
- During 2003, Microvision performed development work for several automotive companies including BMW and Volkswagen of America, to develop automotive displays using the scanned beam technology. The total value of these contracts was approximately $1.3 million.

The Company had a contract revenue backlog of $3.8 million at December 31, 2003.

Product Revenue.

Product revenue increased by $607,000, or 115 % to 1.1 million from $528,000 in 2002.

During 2003, Microvision recorded $855,000 in product revenue from the sale of 133 Nomads. In September 2003, Microvision entered into a contract with the Program Executive Office Soldier within the U.S. Army to supply the Stryker Brigade Combat Team with 100 Nomads. In addition, Microvision continued development of a next generation Nomad that was launched in February 2004.

During 2003, Microvision recorded $280,000 in product revenue from sales of Flic barcode scanners. In January 2003, Microvision entered into a supply agreement to provide a private labeled Flic bar code scanner to NCR. During 2003, Microvision and NCR worked together to optimize the Flic performance for NCR's customers. NCR placed orders for $392,000 of product during the fourth quarter of 2003. Microvision ended the year with a backlog of $378,000 in Flic product and accessories

Cost of Contract Revenue.

Cost of contract revenue decreased by $481,000, or 7%, to $6.0 million from $6.5 million in 2002. On a percentage of revenue basis, cost of contract revenue increased by 5 % to 44% from 42% in 2002. The change in cost of revenue as a percentage of revenue is primarily attributable to changes in the contract mix. Total direct costs decreased by approximately 14% from 2002. The direct labor cost portion of direct cost decreased by approximately 10% from 2002. The decrease in direct labor cost resulted from a lower volume of contract work performed during 2003 compared to 2002.

Cost of Product Revenue.

Cost of product revenue increased by $530,000, or 100%, to $1.1 million from $528,000 in 2002. Microvision's costs to produce Nomad units during 2003 were substantially higher than product revenue. In 2003, Microvision classified production cost in excess of product revenue as research and development expense. Through December 31, 2003, Nomad production and the design and manufacturing processes had not become sufficiently mature to support "commercial production" as described in SFAS No. 2 "Accounting for Research and Development Costs."

Management periodically assesses the need to provide for obsolescence of inventory and adjusts the carrying value of inventory to its net realizable value when required. During 2003, Microvision recorded a write down of Nomad inventory of approximately $450,000.

Research and Development Expense

Research and development expense decreased by $2.2 million, or 9%, to $23.3 million from $25.5 million in 2002. During 2002, the Company recorded $1.5 million in expense relating to light source research performed for the Company by Cree Inc. The Company's research agreement with Cree ended in April 2002, resulting in a $1.4 million expense reduction in 2003 from 2002.

In 2003, Lumera recorded $1.9 million expense on its sponsored research agreement with the University of Washington compared to $2.4 million in 2002. The reduction in expense came as a result of two modifications to the sponsored research agreement with the University of Washington.

In May 2003, Microvision closed its research and development facility in San Mateo, California and consolidated its research and development activities in Bothell, Washington. Research and development expense for 2003 included $540,000 for the closing of Microvision's approximately 5,200 square foot facility in San Mateo and $290,000 for severance and relocation of 11 employees. Microvision paid $270,000 in severance and relocation costs in 2003. The accrual related to the closing of the facility at December 31, 2003 is $431,000.

Marketing, General and Administrative Expense.

Marketing, general and administrative expenses decreased by $971,000, or 6%, to $15.8 million from $16.8 million in 2002. The decrease was primarily attributable to a reduction in the charge to the allowance for doubtful accounts for receivables from senior officers.

The Board of Directors authorized Microvision to provide unsecured lines of credit to each of its three senior officers. No loans have been made under either Microvision's Executive Option Exercise Note Plan or the Executive Loan Plan since July 2002, and Microvision does not intend to make any additional loans under these plans.

In 2002 and again in 2003, Microvision determined that certain of its senior officers may have had insufficient net worth and short-term earnings potential to repay their outstanding loans. As a result, Microvision recorded an allowance for doubtful accounts for the receivables from senior officers of $200,000 and $700,000 during 2003 and 2002, respectively. The balance of the allowance for doubtful accounts for receivables from senior officers was $900,000 at December 31, 2003. Microvision has no plans to forgive any portion of the principal of the outstanding receivable balance.

Non-Cash Compensation Expense.

Non-cash compensation expense increased by $172,000 or 9% to $2.2 million from $2.0 million in 2002.

In September 2003, Microvision issued two warrants to purchase an aggregate of 70,000 shares of common stock to a third party for services provided to Microvision. The deferred compensation related to these warrants is being amortized to non-cash compensation expense over the fourteen month service period of the agreement. Non-cash amortization expense related to these warrants was $192,000 for 2003.

In August 2003, Lumera issued options to purchase an aggregate of 164,000 shares of its Class A Common Stock to two consultants in connection with entering into consulting agreements. Each holder was granted a warrant to purchase up to 82,000 shares of Class A Common Stock at a price of $3.65 per share with a ten year life. In aggregate, 41,000 of the options were vested on the grant date. The remaining 123,000 shares vest one-third on each subsequent annual anniversary of the grant date and are subject to remeasurement at each balance sheet date during the vesting period. The deferred compensation and liability related to these options is being amortized to non-cash compensation expense over the two year period of service under the agreements. The aggregate value of both options was estimated at $136,000 at the grant date and December 31, 2003. Total non-cash compensation expense was $32,000 for the year ended December 31, 2003. The fair values of the options were estimated at the grant date and December 31, 2003, using the Black-Scholes option pricing model with the following weighted-average assumptions: underlying security fair market value of $0.98, dividend yield of zero percent; expected volatility of 100% for both measurement dates, risk-free interest rates of 4.4% and 4.3%; and expected lives of 10 and 9.7 years, respectively.

In January 2001, Lumera issued 802,000 shares of its Class A Common Stock to the University of Washington pursuant to the Sponsored Research Agreement. The shares were valued at the fair market price of $3.75 per share, as determined by the Board of Directors. The total value of the stock of $3.0 million was recorded as a prepaid research expense and is being amortized over the term of the Sponsored Research Agreement. The total amortization expense relating to the Sponsored Research Agreement was $1.0 million in both 2003 and 2002.

In August 2000, Microvision entered into five-year consulting agreements with two independent consultants 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. In 2003, total non-cash amortization for these agreements was $595,000 compared to $542,000 recognized in 2002.

The following table shows the components of non-cash compensation expense for 2003 and 2002, respectively.

	2003	2002
Lumera stock issued to the University of Washington	$ 1,003,000	$ 1,003,000
Microvision and Lumera stock options issued to third parties	882,000	571,000
Lumera stock warrant issued to Arizona Microsystems	--	133,000
Microvision and Lumera stock options issued to employees	270,000	219,000
Microvision stock and options issued to Independent Directors	1,000	58,000
	$ 2,156,000	$ 1,984,000

Interest Income and Expense.

Interest income in 2003 decreased by $678,000, or 64%, to $381,000 from $1.1 million in 2002. This decrease resulted primarily from lower average cash and investment securities balances in 2003 than the average cash and investment securities balances in the prior year.

Interest expense was consistent with 2003 because the amount of borrowings did not change significantly.

Income Taxes.

No provision for income taxes was recorded because the Company has experienced net losses from inception through December 31, 2003. At December 31, 2003, Microvision had net operating loss carry-forwards of approximately

$139.3 million for federal income tax reporting purposes. In addition, Microvision has research and development tax credits of $1.9 million.

Liquidity and Capital Resources

The Company has funded operations to date primarily through the sale of common stock, convertible preferred stock, warrants and, to a lesser extent, from development contract revenues and product sales. At December 31, 2004, Microvision had $1.3 million in cash and cash equivalents. Microvision has incurred significant losses since inception

Cash used in operating activities totaled $30.8 million during 2004, compared to $26.4 million during 2003. Cash used in operating activities for each period resulted primarily from the net loss for the period.

The Company had the following material changes in assets and liabilities during the year ended December 31, 2004.

- *"Inventory"*

increased by $2.8 million to $3.2 million at December 31, 2004 from $331,000 at December 31, 2003. The increase was primarily attributable to purchases of raw materials to produce Nomad. The Company made commitments to purchase certain minimum quantities of inventory at the start of Nomad production. Microvision has taken delivery of most of this inventory and plans for inventory as a percent of revenue to decline as Nomad product revenue is expected to increase. The Company values inventory at the lower of cost or market with cost determined on a weighted average cost basis. The following table shows the composition of the inventory at December 31, 2004 and December 31, 2003, respectively:

	December 31, 2004	**December 31, 2003**
Raw materials	$ 1,607,000	$ 98,000
Work in process	77,000	--
Finished goods	1,483,000	233,000
	$ 3,167,000	$ 331,000

- *"Investment in Lumera"*

In July 2004, Lumera completed an initial public offering of its common stock. In connection with the offering, all Lumera Series A and Series B Preferred Stock was converted to Lumera common stock. Immediately after the offering, Microvision owned 5,434,000 shares, or 33%, of the common stock of Lumera. As a result of the change in ownership percentage, Microvision has changed the method of accounting for its investment in Lumera to the equity method. Under the equity method, Microvision recorded it ownership interest in the net book value of Lumera immediately following the initial public offering as an investment in equity subsidiary of $11.9 million. Microvision records its pro rata share of Lumera's income or loss as an adjustment in the value of its investment in Lumera. Microvision recorded a non-cash change in ownership interest gain of $13.7 million to stockholders equity as a component of additional paid-in capital during the third quarter as a result of the public offering.

- *"Property and equipment, net"*

decreased $3.6 million to $2.3 million at December 31, 2004 from $6.0 million at December 31, 2003. The decline is principally due to the deconsolidation of Lumera in July 2004. Lumera had $2.2 million in net property and equipment at the time of the deconsolidation. Depreciation expense accounts for the remaining decrease.

- *"Accounts Payable"*

increased $1.4 million to $2.6 million at December 31, 2004 from $1.2 million at December 31, 2003. The increase in Accounts Payable is directly attributable to the increase in inventory.

- *"Research liability"*

decreased $1.9 million to $0 at December 31, 2004 from $1.9 million at December 31, 2003. The decline is due to the deconsolidation of Lumera in July 2004. The entire research liability was attributable to Lumera.

Cash provided by investing activities totaled $10.0 million in 2004 compared to cash used in investing activities of $7.3 million in 2003. During 2004, the Company had net sales of investment securities of $11.1 million compared to net purchases of investment securities of $5.8 million during 2003. The proceeds from the sales of investment securities were used to fund the Company's operations.

The Company used cash of $1.0 million for capital expenditures in 2004, compared to $1.5 million in 2003. Capital expenditures include leasehold improvements to leased office space and computer hardware and software, laboratory equipment and furniture and fixtures to support operations.

Cash provided by financing activities totaled $12.8 million in 2004, compared to $34.5 million in 2003.

In March 2005, Microvision raised $10.0 million before issuance costs, from the issuance of senior secured exchangeable convertible notes (the "Notes") and warrants to purchase an aggregate of 462,330 shares of Microvision common stock. The Notes are payable in six equal quarterly payments starting in December 2005. The Notes are convertible on demand by the holders into Microvision common stock at a conversion price of $6.84 per share of Microvision common stock and exchangeable on demand by the holders into Lumera common stock at an exchange price of $5.64 per share of Lumera common stock. The terms include a limit on the aggregate number of Lumera common shares that can be used to pay principal of 1,750,000 shares. The Notes are secured by the same 1,750,000 shares of Lumera common stock. The initial conversion price is subject to adjustment in the event Microvision issues common stock or derivative securities, other than employee options, at a price per share of common stock below the conversion price of the Note. In addition, upon the request of the Note holders, Microvision is required to redeem the Notes for cash in certain circumstances, including in the event of a material breach of representations, warranties or covenants under the purchase agreement or a change in control.

The Note terms include variable interest at a rate of LIBOR plus 3% within a range of 6% to 8%, payable quarterly Each principal payment is payable in cash or registered common stock, at the election of the Company, subject to certain conditions. If the Company elects to pay principal in registered common stock, the Note holder can elect to receive payment in either Microvision or Lumera common stock. Interest is payable in cash or Microvision common stock subject to certain conditions. Some of the conditions which would preclude the Company from paying in common stock are not within the Company's immediate control. The Company can elect to convert the Notes into Microvision common stock if the stock price equals or exceeds $11.97 per share for any 20 out of any 30 consecutive days, subject to certain conditions. The warrants are immediately exercisable, have an exercise price of $6.84 per share and expire in March 2010. The initial exercise price is subject to adjustment in the event Microvision issues common stock or derivative securities at a price per share of common stock below the exercise price of the warrant.

The following is a list of stock issuances during 2004 and 2003.

- In September 2004, Microvision raised $10.0 million before issuance costs of $90,000 from the sale of 10,000 shares of convertible preferred stock and a warrant to purchase 361,795 shares of common stock. The preferred stock is convertible on demand by the holder into common stock at a conversion price of $6.91 per share of common stock. The initial conversion price is subject to adjustment in the event Microvision issues common stock or derivative securities at a price per share of common stock below the market price or the conversion price of the preferred stock. In addition, upon the request of the preferred stockholder, Microvision is required to redeem the preferred stock for cash in certain circumstances, including in the event of a material breach of representations, warranties or covenants under the purchase agreement or a change in control. Accordingly, Microvision has classified the preferred stock as "mandatorily redeemable convertible preferred stock" in its consolidated balance sheet. The preferred stock terms include a dividend of 3.5% per annum, payable quarterly in cash or registered common stock, at the election of the Company, subject to certain conditions. The preferred stock matures on September 10, 2007, at which time it is payable in cash or registered common stock, at the election of the Company, subject to certain conditions. Some of the conditions which would preclude the Company from paying in common stock are not within the Company's immediate control. The Company can elect to convert the preferred stock into common stock if the stock price exceeds $12.09 per share, subject to certain conditions. The warrant vested on the date of grant, has an exercise price of $8.16 per share and expires on September 10, 2009. The initial exercise price is subject to adjustment in the event Microvision issues common stock or derivative securities at a price per share of common stock below the market price or the exercise price of the warrant.

The net cash proceeds of $9.9 million were allocated to the preferred stock and the warrant based on the relative fair values of the securities. The warrants were valued using the Black-Scholes option-pricing model with the following assumptions: expected volatility, 75%, risk free interest rate, 3.4%, and contractual life five years. $1.3 million of the proceeds were allocated to the warrant and were recorded as an increase to additional paid-in capital.

Subsequent to the relative fair value allocation, the effective conversion price of the convertible preferred stock was less than the closing price of Microvision's common stock on the date of commitment to purchase the preferred stock. This beneficial conversion feature was measured as $1.2 million which represents the difference between the fair value of the common stock and the effective conversion price. This beneficial conversion feature was recorded to additional paid-in capital and will be recorded as a deemed dividend to preferred stockholders (accretion) over the stated life of the preferred stock which is three years.

- In April 2004, Lumera raised $2.3 million from the issuance of convertible promissory notes. The notes accrue interest at a rate of 6.5% per annum and are payable on demand upon the closing of an underwritten public offering of Lumera's common stock. Lumera completed an initial public offering in July 2004. The principal amount and any accrued but unpaid interest in respect of each note is convertible at any time, at the option of the holder, into shares of Lumera's Class A common stock. The conversion price is $6.00 per share of common stock. In connection with the sale of these convertible notes, Lumera also issued warrants to purchase shares of common stock. The number of shares is based on a formula based on the exercise price of the warrant and the face amount of the holder's convertible note. The exercise price of the warrants is equal to $7.20 per share. All of the warrants are exercisable on the date of grant and expire in April 2009. The value of the warrants granted was estimated to be approximately $344,000 using the Black Scholes option pricing model. The relative fair value of the warrants of $299,000 was treated as a debt issuance cost and amortized to interest expense over the one year term of the convertible notes.

- In March 2004 Lumera raised $500,000, before issuance costs, from the sale of 250,000 shares of Series B convertible preferred stock to a group of private investors. Microvision did not participate in the offering.

- In November 2003, Microvision raised $22.3 million before issuance costs of $1.5 million from the sale of 3,560,000 shares of common stock.

- In August 2003, Lumera raised $1.9 million before issuance costs of $34,000 from the sale of 944,000 shares of Series B convertible preferred stock to Microvision and other purchasers. Microvision purchased 434,000 of these shares of Series B preferred stock for an aggregate purchase price of $868,000. On October 30, 2003, Lumera raised $782,000, before issuance costs, from the sale of 391,000 shares of Series B preferred stock to a group of investors. Microvision did not purchase additional shares of the Series B preferred stock in the October 2003 offering.

- In March 2003, Microvision raised $12.6 million before issuance costs of $970,000 from the sale of 2,644,000 shares of common stock and warrants to purchase 529,000 shares of common stock at an exercise price of $6.50 per share to a group of investors. Each share of common stock and accompanying partial warrant was sold for $4.75. The five year warrants are first exercisable in September 2003 and expire in March 2008.

The Company's investment policy restricts investments to ensure principal preservation and liquidity. Generally, the Company invests cash that it expects to use within approximately sixty days in U.S. treasury-backed instruments. The Company invests the balance of its cash in high quality investment securities. The investment securities portfolio is limited to U.S. government and U.S. government agency debt securities and other high-grade securities generally with maturities of three years or less.

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
- Microvision's ability 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 original equipment manufacturer 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 at a rate consistent with revenue growth as it expands its activities and operations with the objective of commercializing the scanned beam technology.

The following table lists the Company's contractual obligations (in thousands):

	December 31,				
	2005	2006	2007	2008	2009
Contractual Obligations:					
Open purchase orders *	$ 1,719	$ 44	$ 34	$ --	$
Minimum payments under senior secured convertable notes	1,667	6667	1666		
Minimum payments under capital leases	42	6	4	--	
Minimum payments under operating leases	1,985	473	46	--	
Minimum payments under research, royalty and licensing agreements	215	390	390	215	2
Total	$ 5,628	$ 7,580	$ 2,140	$ 215	$ 2

* Open purchase orders represent commitments to purchase inventory, materials, capital equipment and other goods used in the normal course of the Company's business.

\+ License and royalty obligations continue through the lives of the underlying patents, which is currently at least 2017.

Microvision's cash balance at December 31, 2004 was $1.3 million. In addition Microvision raised $10.0 million, before issuance costs, in March 2005. To the extent required to implement the Microvision's operating plan, Microvision may sell or pledge as collateral, its unpledged shares of Lumera common stock. As of March 11, 2005 Microvision owns 3.7 million shares of unpledged Lumera common stock with a market value of $17.1 million based on the closing price of $4.65 per share as of March 15, 2005. Microvision believes that the combination of cash and Lumera common stock will satisfy its budgeted cash requirements through 2005 based on Microvision's current operating plan. Since we hold a large percentage of Lumera's common stock, if an active market is not sustained, it may be difficult for us to sell our shares of Lumera's common stock at value sufficient to fund our operating plans.

Microvision may also raise financing through future sales of Microvision preferred or common stock, issuance of debt securities or other borrowings,. In addition, there can be no assurance that other additional financing will be available to Microvision or that, if available, it will be available on terms acceptable to Microvision on a timely basis. If adequate funds are not available to satisfy either short-term or long-term capital requirements, Microvision will be required to limit its operations substantially. This limitation of operations may include reduction in capital expenditures, as well as reductions in staff and operating costs.

Should expenses exceed the amounts budgeted, 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 or planned revenues are not generated, the Company may be required to limit its operations substantially. This limitation of operations may include reduction in capital expenditures and reductions in staff and discretionary costs, which may include non-contractual research costs. 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 original equipment manufacturers, introduce products incorporating the scanned beam technology and the market acceptance and competitive position of such products.

Recently Issued Accounting Pronouncements

- On December 16, 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123(R), "Share-Based Payment", which is a revision of SFAS No. 123 and supersedes APB Opinion No. 25. SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be valued at fair value on the date of grant, and to be expensed over the applicable vesting period. Pro forma disclosure of the income statement effects of share-based payments is no longer an alternative. SFAS No. 123(R) is effective for all share-based awards granted on or after July 1, 2005. In addition, companies must also recognize compensation expense related to any awards that are not fully vested as of the effective date. Compensation expense for the unvested awards will be measured based on the fair value of the awards previously calculated in developing the pro forma disclosures in accordance with the provisions of SFAS No. 123. The Company is evaluating the alternative methods for implementing SFAS No. 123(R). If the Company elects to implement SFAS No. 123(R) on July 1, 2005 using the modified prospective method it expects that the impact on 2005 earnings will be in the range of $0.6 to $1.6 million.

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.

The Company's investment policy restricts investments to ensure principal preservation and liquidity. The Company invests cash that it expects to use within approximately sixty days in U.S. treasury-backed instruments. The Company invests cash in excess of sixty days of its requirements in high quality investment securities. The investment securities portfolio is limited to U.S. government and U.S. government agency debt securities and other high-grade securities generally with maturities of three years or less.

The maturities of cash equivalents and investment securities, available-for- sale, as of December 31, 2004, are as follows:

	Amount	Percent
Cash	$ 695,000	54.8 %
Less than one year	573,000	45.2

$ 1,268,000	100.0 %
============	=========

Presently, the Company has one immaterial development contract denominated in yen; all of the Company's other development contract payments are made in U.S. dollars. However, in the future the Company may enter into additional development contracts in foreign currencies that may subject the Company to additional foreign exchange rate risk. The Company intends to enter into foreign currency hedges to offset the exposure to currency fluctuations when it can determine the timing and amounts of the foreign currency exposure.

The Company owns 5.4 million shares of Lumera common stock with a market value of $25.3 million based on the closing price of $4.65 per share on March 15, 2005. This investment represents a significant portion of the Company's assets and present source of liquidity. Lumera's stock price is subject to fluctuation and may decrease, lowering the value of our investment. The Company owns approximately 33% of Lumera's common stock. Since the Company holds a large percentage of Lumera's common stock, if an active market does not develop or is not sustained, it may be difficult to sell the shares of Lumera's common stock at an attractive price or at all. The likelihood of Lumera's success, and the value of the Company's common stock, must be considered in light of the risks frequently encountered by early stage companies, especially those formed to develop and market new technologies. These risks include Lumera's potential inability to establish product sales and marketing capabilities; to establish and maintain markets for their potential products; and to continue to develop and upgrade their technologies to keep pace with changes in technology and the growth of markets using polymer materials. If Lumera is unsuccessful in meeting these challenges, its stock price, and the value of the Company's investment, could decrease.

ITEM 8. FINANCIAL STATEMENTS

INDEX TO FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

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

We have completed an integrated audit of Microvision's 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2004 and audits of its 2003and 2002 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements and financial statement schedule

In our opinion, the consolidated financial statements listed in the accompanying index, present fairly, in all material respects, the financial position of Microvision and its subsidiary at December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated

financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements 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.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in *Management's Report on Internal Control Over Financial Reporting* appearing in Item 9A (b) the Company maintained effective internal control over financial reporting as of December 31, 2004 based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control - Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP

Seattle, Washington

March 15, 2005

Microvision, Inc.

Consolidated Balance Sheets
(in thousands, except share and per share amounts)

	Decem
	2004
Assets	
Current assets	
Cash and cash equivalents	$ 1,268
Investment securities, available-for-sale	--
Accounts receivable, net of allowances of $193 and $109	5,227
Costs and estimated earnings in excess of billings on uncompleted contracts	597
Inventory	3,167
Other current assets	1,293
Total current assets	11,552
Investment in Lumera	10,201
Property and equipment, net	2,318
Restricted investments	1,238
Other assets	229
Total assets	$ 25,538
Liabilities, Mandatorily Redeemable Convertible Preferred Stock and Shareholders' Equity	
Current liabilities	
Accounts payable	$ 2,624
Accrued liabilities	4,538
Allowance for estimated contract losses	53
Billings in excess of costs and estimated earnings on uncompleted contracts	3,318
Current portion of capital lease obligations	39
Current portion of long-term debt	77
Total current liabilities	10,649
Research liability, net of current portion	--
Capital lease obligations, net of current portion	9
Long-term debt, net of current portion	22
Deferred rent, net of current portion	21
Other long-term liabilities	--
Total liabilities	10,701
Commitments and contingencies (note 14)	--
Minority interests	--
Mandatorily redeemable convertible preferred stock, par value $.001 25,000 shares authorized; 10 and 0 shares issued and outstanding (liquidation preference of $10,108)	7,647
Shareholders' equity	
Common stock, par value $.001; 73,000 shares authorized;	

21,509 and 21,449 shares issued and outstanding	22
Additonal paid-in capital	196,929
Deferred compensation	(305)
Subscriptions receivable from related parties	(166)
Receivables from related parties, net	(1,823)
Accumulated other comprehensive income	--
Accumulated deficit	(187,467)
Total shareholders' equity	7,190
Total liabilities, minority interests and shareholders' equity	$ 25,538

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

Microvision, Inc.

Consolidated Statements of Operations
(in thousands, except share and per share amounts)

	Year
	2004
Contract revenue	$ 8,821
Product revenue	2,597
Total revenue	11,418
Cost of contract revenue	5,539
Cost of product revenue	3,868
Total cost of revenue	9,407
Gross margin	2,011
Research and development expense (exclusive of non-cash compensation expense of $548, $1,006 and $1,138 for 2004, 2003 and 2002, respectively)	14,709
Sales, Marketing, general and administrative expense (exclusive of non-cash compensation expense of $1,570, $1,150 and $846 for 2004, 2003 and 2002, respectively)	19,228
Non-cash compensation expense	2,118
Loss (gain) on disposal of fixed assets, net	1
Total operating expenses	36,056
Loss from operations	(34,045)
Interest income	272
Interest expense	(151)
Realized gain on sale of investment securities	--
Loss due to impairment of long-term investment	--
Loss before minority interests and equity in losses of Lumera	(33,924)
Minority interests in loss of consolidated subsidiary	2,438
Equity in losses of Lumera	(1,711)
Net loss	$ (33,197)
Less: Stated dividend on mandatorily redeemable convertible preferred stock	(108)
Non-cash accretion on preferred stock	(238)
Net loss available for common shareholders	$ (33,543)
Net loss per share basic and diluted	$ (1.56)
Weighted-average shares outstanding basic and diluted	21,493

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

Microvision, Inc.

Consolidated Statements of Stockholders' Equity
(in thousands)

	Mandatorily redeemable convertible preferred stock		Common Stock		C n
	Shares	Par Value	Shares	Par Value	
Balances at December 31, 2001	--	$ --	12,998	$ --	$
Exercise of warrants and options			8		
Sales of common stock			2,148		
Revaluations of warrants and options					
Collection of subscriptions receivable					
Amortization of deferred compensation					
Other comprehensive income					
Net loss					
Balance at December 31, 2002	--	--	15,154	--	
Issuance of options to board members for services					
Issuance of stock, options and warrants to non-employees for services			9		
Exercise of warrants and options			82		
Sales of common stock			6,204		
Revaluations of warrants and options					
Extension of expiring employee options					
Amortization of deferred compensation					
Reclassification of receivables from related parties					
Establishment of par value of common stock				21	
Other comprehensive income					
Net loss					
Balance at December 31, 2003	--	--	21,449	21	
Issuance of options to board members for services					
Issuance of stock, options and warrants to non-employees for services					
Issuance of Lumera options to Microvision employees					
Amortization of deferred compensation					
Exercise of warrants and options			60	1	
Sales of common stock					
Sales of preferred stock and warrants	10	8,590			
Beneficial conversion feature of mandatorily redeemable convertible preferred stock		(1,181)			
Dividend on preferred stock					
Non-cash accretion on mandatorily redeemable convertible preferred stock		238			
Net change in interest gain on Lumera initial public offering					
Other comprehensive income					

Net loss					
Balance at December 31, 2004	10	$ 7,647	21,509	$ 22	$

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

Microvision, Inc.

Consolidated Statements of Comprehensive Income
(in thousands)

	Year
	2004
Net loss	$ (33,197)
Other comprehensive income (loss)	
Unrealized gain (loss) on investment securities, available-for-sale:	
Unrealized holding gains (losses) arising during period	(25)
Less: reclassification adjustment for gains realized in net loss	--
Net unrealized gain (loss)	(25)
Comprehensive loss	$ (33,222)

See accompanying notes to consolidated financial statements.

Microvision, Inc.

Consolidated Statement of Cash Flows
(in thousands)

	Yea
	2004
Cash flows from operating activities	
Net loss	$ (33,197
Adjustments to reconcile net loss to net cash used in operations	
Depreciation	2,406
Loss (gain) on disposal of fixed assets, net	1
Non-cash expenses related to issuance of stock, warrants, and options, and amortization of deferred compensation	2,118
Impairment of long-term investment	--
Allowance for receivables from related parties	--
Realized gain on sale of investment securities	--
Minority interests in loss of consolidated subsidiary	(2,438
Equity in losses of Lumera	1,711
Non-cash deferred rent	(86
Non-cash interest on notes payable	125
Allowance for estimated contract losses	53
Change in	
Accounts receivable	(3,420
Intercompany receivable	38
Costs and estimated earnings in excess of billings on uncompleted contracts	35
Inventory	(2,836
Other current assets	(427
Other assets	87
Accounts payable	2,631
Accrued liabilities	865
Billings in excess of costs and estimated earnings on uncompleted contracts	3,265
Research liability, current and long-term	(1,762
Net cash used in operating activities	(30,831
Cash flows from investing activities	
Sales of investment securities	12,053
Purchases of investment securities	(1,000
Sales of restricted investment securities	1,269
Purchases of restricted investment securities	(1,238
Collections of receivables from related parties	--
Advances under receivables from related parties	--
Purchases of property and equipment	(1,040
Net cash provided by (used in) investing activities	10,044
Cash flows from financing activities	
Principal payments under capital leases	(63
Proceeds from issuance of notes	2,300
Principal payments under long-term debt	(70
Payment of preferred dividend	(108
Payments received on subscriptions receivable	--

Net proceeds from issuance of common stock and warrants	360
Net proceeds from issuance of preferred stock and warrants	9,886
Net proceeds from sale of subsidiary's equity to minority interests	500
Net cash provided by financing activities	12,805
Net increase (decrease) in cash and cash equivalents	(7,982
Cash and cash equivalents at beginning of year	10,700
Change in cash due to Lumera deconsolidation	(1,450
Cash and cash equivalents at end of year	$ 1,268
Supplemental disclosure of cash flow information	
Cash paid for interest	$ 151
Supplemental schedule of non-cash investing and financing activities	
Property and equipment acquired under capital leases	$ 15
Other non-cash additions to property and equipment	$ 18
Issuance of common stock and warrants for services	$ --
Effect of change in interest in subsidiary from issuance of subsidiary common stock	$ --
Issuance of subsidiary stock and stock options for services rendered	$ --

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

1. **The Company**

The consolidated financial statements include the accounts of Microvision, Inc. ("Microvision"), a Delaware corporation, and, Lumera Corporation ("Lumera"), a Delaware corporation, (collectively the "Company") a subsidiary that was consolidated prior to July 2004. In July 2004 Lumera completed an initial public offering of its common stock. Microvision was established to acquire, develop, manufacture and market scanned beam technology, which projects images using a single beam of light. Microvision has entered into contracts with commercial and U.S. government customers to develop applications using the scanned beam technology. Microvision has introduced two commercial products, Nomad, a see through head-worn display, and Flic, a hand-held bar code scanner. In addition, Microvision has produced and delivered various demonstration units using Microvision's display technology. Microvision is working to commercialize additional products for potential medical, defense, industrial, aviation, and consumer applications.

Lumera was established to develop, manufacture and market optical devices using organic non-linear electro-optical chromophore materials. Lumera is working to commercialize the devices for potential wireless networking and optical networking applications.

Microvision has incurred significant losses since inception. Microvision believes that its cash, cash equivalent and investment securities balances totaling $1,268,000 at December 31, 2004, in addition to proceeds of $10,000,000, from the sale of convertible notes before issuance costs, raised in March 2005 and potential sales of Lumera common stock will satisfy its budgeted cash requirements through December 31, 2005 based on its current operating plan.

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 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. 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 or planned revenues are not generated, the Company may be required to limit its operations substantially. This limitation of operations may include reduction in capital expenditures and reductions in staff and discretionary costs, which may include non-contractual research costs. 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 original equipment manufacturers, introduce products incorporating the scanned beam technology and optical polymer based products and the market acceptance and competitive position of such products.

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. The Company's management has identified the following areas where significant estimates and assumptions have been made in preparing the financial statements: revenue recognition, allowance for uncollectible receivables, inventory valuation and potential losses from litigation.

Principles of consolidation

The company has historically included both Microvision and Lumera Corporation ("Lumera"), a subsidiary that was consolidated through July 2004. In July 2004, Lumera completed an initial public offering of its common stock.

In connection with the Lumera initial public offering, all Lumera Series A and Series B Preferred Stock was converted into Lumera common stock. Immediately after the offering, Microvision owned 5,434,000 shares, or 33%, of the common stock of Lumera. As a result of the change in ownership percentage, Microvision

changed the method of accounting for its investment in Lumera to the equity method and after July 2004 recorded its share of Lumera income or losses. Microvision recorded a non-cash change in ownership interest gain of $13.7 million to stockholders equity as a component of additional paid-in capital during 2004.

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 presented separately on the income statement. The cost of securities sold is based on the specific identification method.

Inventory

Inventory consists of raw material; work in process and finished goods for the Company's Nomad and Flic products. Inventory is recorded at the lower of cost or market with cost determined on the weighted-average method. Management periodically assesses the need to provide for obsolescence of inventory and adjusts the carrying value of inventory to its net realizable value when required. In addition, Microvision reduces the value of its inventory to its estimated scrap value when management determines that it is not probable that the inventory will be consumed through normal production during the next twelve months.

Restricted Investments

Restricted investments represents certificates of deposit held as collateral for letters of credit issued in connection with a lease agreement for the corporate headquarters building. Substantially all of the balance is required to be maintained for the term of the lease, which expires in 2006.

Long-term investment

In December 1999, the Company invested $624,000 in Gemfire Corporation ("Gemfire"), a privately held corporation. Gemfire is a developer of diode laser components for display applications. The Company accounts for the investment in Gemfire using the cost method.

In June 2002, Gemfire announced a recapitalization plan that reduced the value of the Company's investment. As a result, in June 2002, the Company recorded an impairment for the entire value of the investment in Gemfire.

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 scanned beam technology and to produce demonstration units 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. The percentage of completion method is used because the Company can make reasonably dependable estimates of the contract cost. 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.

The Company recognizes losses, if any, as soon as identified. Losses occur when the estimated direct and indirect costs to complete the contract exceed unrecognized revenue. The Company evaluates the reserve for contract losses on a contract-by-contract basis.

Revenue from product shipments is recognized in accordance with Staff Accounting Bulletin No. 104 "Revenue Recognition." Revenue is recognized when there is sufficient evidence of an arrangement, the selling price is fixed and determinable and collection is reasonably assured. Revenue for product shipments is recognized upon acceptance of the product by the customer or expiration of the contractual acceptance period, after which there are no rights of return. Provision is made for warranties at the time revenue is recorded. Warranty expense was not material during 2004, 2003, or 2002.

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 42%, 49%, and 83% of total revenue during 2004, 2003 and 2002, respectively. Contracts with three commercial customers represented 25%, 35%, and 14% of total revenues during 2004, 2003, and 2002, respectively. At December 31, 2004 one commercial customer accounted for 65% of the accounts receivable balance. The receivable was paid in full in January 2005. The United States government accounted for approximately 21% and 34% of the accounts receivable balance at December 31, 2004 and 2003, respectively. In 2004 and 2003, 11% and 27%, respectively, of consolidated revenue was earned from development contracts with a single commercial customer.

Income taxes

Deferred tax assets and liabilities are recorded for differences between the financial statement and tax bases of the assets and liabilities that will result in taxable or deductible amounts in the future, based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is recorded for the amount of income tax payable for the period increased or decreased by the change in deferred tax assets and liabilities during the period.

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 potentially dilutive

securities, including common stock equivalents and convertible securities. Net loss per share assuming dilution for 2004, 2003 and 2002 is equal to basic net loss per share because the effect of dilutive securities outstanding during the periods including options and warrants computed using the treasury stock method, is anti-dilutive. The dilutive securities and convertible securities that were not included in earnings per share were 6,836,000, 6,295,000, and 4,051,000, at December 31, 2004, 2003 and 2002, respectively.

Research and development

Research and development costs are expensed as incurred. As described in Note 9, Lumera issued shares of its common stock in connection with a research agreement. The value of these shares was amortized over the period of the research agreement.

Fair value of financial instruments

The Company's financial instruments include cash and cash equivalents, investment securities, accounts receivable, accounts payable, accrued liabilities and long-term debt. The carrying amount of long-term debt at December 31, 2004 and 2003 was not materially different from the fair value based on rates available for similar types of arrangements.

Long-lived assets

The Company evaluates the recoverability of its long-lived assets when an impairment is indicated 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.

Research liability

The Company recognized expense under the Lumera Sponsored Research Agreement with the UW on a straight-line basis over the remaining term of the agreement. The Company has recorded a liability for the difference between the expense recognized and cash payments. As of December 31, 2003, the Company had recognized cumulative expense of $6.3 million and made cumulative cash payments of $4.4million.

In April 2004, Lumera and the University of Washington entered into a fourth amendment to the Sponsored Research Agreement. Total payments under the Sponsored Research Agreement were reduced to $5.8 million instead of the original $9.0 million. Lumera recognizes research and development expense under the Sponsored Research Agreement on a straight line basis over the term of the agreement. At the time of the fourth amendment to the Sponsored Research Agreement, Lumera had recognized $6.5 million in expense related to the Sponsored Research Agreement. In April 2004, Lumera recorded a reduction in its liability and an offsetting reduction in expense of $2.4 million to reduce the cumulative expense recognized under the Sponsored Research Agreement to the expense incurred under the fourth amendment on a straight line basis. During 2004, the Company recognized a credit to expense of $1.8 million as a result of the changes to the agreement.

Stock-based compensation

The Company and its subsidiary each have stock-based employee compensation plans, which are more fully described in Note 12.

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 ("FIN") 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.

Total non-cash stock option expense related to employee and director awards was $1,057,000, $271,000, and $277,000 for the years ended December 31, 2004, 2003 and 2002, respectively. Had compensation cost for employee and director options been determined using the fair values at the grant dates consistent with the methodology prescribed under SFAS 123, the Company's consolidated net loss available to common shareholders and associated net loss per share would have increased to the pro forma amounts indicated below (in thousands):

	Year Ended Decemb		
	2004	2003	2002
Net loss available for common shareholders, as reported	$ (33,543)	$ (26,163)	$ (27,1
Add: Stock-based employee compensation expense included in net loss			

available for common shareholders, as reported	339	266	2
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	(5,886)	(8,915)	(16,4
Net loss available for common shareholders, pro forma	$ (39,090)	$ (34,812)	$ (43,3
Net loss per share As reported	$ (1.56)	$ (1.46)	$ (1.
Basic and diluted Pro forma	$ (1.82)	$ (1.94)	$ (3.

New accounting pronouncements

On December 16, 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123(R), "Share-Based Payment", which is a revision of SFAS No. 123 and supersedes APB Opinion No. 25. SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be valued at fair value on the date of grant, and to be expensed over the applicable vesting period. Pro forma disclosure of the income statement effects of share-based payments is no longer an alternative. SFAS No. 123(R) is effective for all share-based awards granted on or after July 1, 2005. In addition, companies must also recognize compensation expense related to any awards that are not fully vested as of the effective date. Compensation expense for the unvested awards will be measured based on the fair value of the awards previously calculated in developing the pro forma disclosures in accordance with the provisions of SFAS No. 123. The Company is evaluating the alternative methods for implementing SFAS No. 123(R). If the Company elects to implement SFAS No. 123(R) on July 1, 2005 using the modified prospective method, it expects that the impact on 2005 earnings will be in the range of $600,000 to $1,600,000.

3. Long-term contracts

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 customers because the amounts were not contractually billable at December 31, 2004 and 2003. The following table summarizes when the Company will be contractually able to bill the balance as of December 31, 2004 and 2003.

	Year Ended D
	2004
Billable within 30 days	$ 577,000
Billable between 31 and 90 days	2,000
Billable after 90 days	18,000
	$ 597,000

The Company's current contracts with the U.S. government are primarily cost plus fixed fee type contracts. Under the terms of a cost plus fixed fee contract, the U.S. government reimburses the Company for negotiated actual direct and indirect cost incurred in performing the contracted services. The Company is under no

obligation to spend more than the contract value to complete the contracted services. The period of performance is generally one year. Each of the Company's contracts with the United States government can be terminated for convenience by the government at any time.

In May 2004, Microvision entered into a $3,900,000 contract modification 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 December 2004, Microvision entered into a $6,200,000 contract with Ethicon Endo-Surgery, Inc a subsidiary of Johnson & Johnson to integrate Microvision's technology into certain medical products. The

contract includes an exclusive license for Microvision's technology for certain human medical applications during the term of the development agreement.

In April 2003, the Company entered into a $2,200,000 contract modification 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 April 2003, the Company entered into a $1,600,000 contract modification with the U.S. Army's Medical Research Acquisition Activities, Telemedicine and Advanced Technology Research Center to continue development of a mobile wireless personal display system for medical applications.

In May 2002, the Company entered into a $3,300,000 contract modification 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 July 2002, the Company entered into a $1,900,000 contract with the NASA Langley Research Center to deliver a prototype cockpit helmet display for the Synthetic Visions Systems project.

In August 2002, the Company entered into a $1,100,000 contract modification with the U.S. Army's Medical Research Acquisition Activities Telemedicine and Advanced Technology Research Center to continue development of a mobile wireless personal display system for medical applications.

In November 2002, Lumera entered into a $1,000,000 contract modification with the U.S. government to design new Optical Materials appropriate for the fabrication of a wideband optical modulator demonstration system.

The following table summarizes the costs incurred on the Company's revenue contracts:

	December 31, 2004	December 31, 2003
Costs and estimated earnings incurred on uncompleted contracts	$ 6,410,000	$ 15,478,000
Billings on uncompleted contracts	(9,131,000)	(14,867,000)
	$ (2,721,000)	$ 611,000

Included in accompanying balance sheets under the following captions:

Costs and estimated earnings in excess of billings on uncompleted contracts	$ 597,000	$ 664,000
Billings in excess of costs and estimated earnings on uncompleted contracts	(3,318,000)	(53,000)
	$ (2,721,000)	$ 611,000

4. Investments available-for-sale

The following table summarizes the composition of the Company's available- for-sale investment securities at December 31, 2004 and 2003.

	Year Ended D
	2004
U.S. governmnet debt securites	--
U.S. corporate debt securites	--
	$ --

The available-for-sale investment securities and December 31, 2003 consisted of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Type of security:				
Corporate debt securities	$ 4,080,000	$ 24,000	$ (2,000)	$ 4,102,000
U.S. government and agency securities	6,973,000	3,000	--	6,976,000
	$11,053,000	$ 27,000	$ (2,000)	$ 11,078,000
Maturity date:				
Less than one year	$11,053,000	$ --	$ --	$ 11,078,000
Due in 1-3 years	--	--	--	--
	$11,053,000	$ --	$ --	$ 11,078,000

5. Inventory

Inventory consists of the following:

	December 31, 2004	December 31, 2003
Raw materials	$ 1,607,000	$ 98,000
Work in process	77,000	--
Finished goods	1,483,000	233,000
	$ 3,167,000	$ 331,000

6. Accrued liabilities

Accrued liabilities consist of the following:

	December 31,	
	2004	2003
Bonuses	$ 1,600,000	$ 1,487,000
Payroll and payroll taxes	763,000	858,000
Compensated absences	475,000	508,000
Taxes other than income taxes	43,000	429,000
Facility closing cost	253,000	431,000
Professional Fees	371,000	236,000
Relocation	90,000	205,000
Subcontractors		81,000
Other	943,000	929,000
	$ 4,538,000	$ 5,164,000

7. Property and equipment, net

Property and equipment consists of the following:

	December 31,	
	2004	2003
Lab and production equipment	$ 4,455,000	$ 7,152,000
Leasehold improvements	2,165,000	4,666,000
Computer hardware and software	3,873,000	3,874,000
Office furniture and equipment	1,057,000	1,030,000

	11,550,000	16,722,000
Less: Accumulated depreciation	(9,232,000)	(10,764,000)
	$ 2,318,000	$ 5,958,000

The property and equipment balance at December 31, 2003 included $6,105,000 and $3,238,000 of cost and accumulated depreciation, respectively, attributable to Lumera.

8. 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 senior officers. The limit of the line of credit is three times the executives' base salary less any amounts outstanding under the Executive Option Exercise Note Plan. In 2002 and 2001, the Board of Directors authorized a $200,000 and $500,000 addition, respectively, to the limit for one senior officer. The

lines of credit carry interest rates of 5.4% to 6.2%. The lines of credit must be repaid within one year of the senior officer's termination or within thirty days of demand by the Company in the event of a plan termination, provided that in the event of such a demand the senior officer may elect to deliver a promissory note with a one-year term in lieu of payment. At December 31, 2004 and 2003, a total of $2,723,000 and $2,723,000, respectively, was outstanding under the lines of credit.

The Company determined that one of its senior officers may have insufficient net worth and short-term earnings potential to repay loans outstanding under the Company's lines of credit. In 2003 and 2002, the Company recorded an allowance for doubtful accounts for receivables from senior officers of $200,000 and $700,000, respectively. The balance of the allowance for doubtful accounts for receivables from senior officers was $900,000 and $900,000 at December 31, 2004 and 2003, respectively.

Under current SEC rules, the Company is prohibited from changing the repayment terms of the lines of credit. No repayments have been made on the outstanding lines of credit. At December 31, 2003, the Company reclassified the loan balance to shareholder's equity under the guidance provided by the SEC for loans to shareholders due to the absence of any repayments of the loans to date. The Company has no plans to forgive the principal balance outstanding under the lines of credit.

In 2000, three executive officers of the Company exercised a total of 128,284 stock options, in exchange for full recourse notes totaling $285,000. These notes bear interest at 4.6% to 6.2% 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. At both December 31, 2004 and 2003, a total of $165,600 was outstanding under the full recourse notes. The $165,600 plus accrued interest was paid in full in February 2005. 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 $163,000 was recognized in both 2004 and 2003, respectively, for interest forgiven.

9. Lumera Subsidiary Equity Transactions

In March 2000, Lumera issued 4,700,000 shares of its Class B common stock to the Company for services provided by the Company to Lumera valued at $94,000. At the same time, Lumera issued 670,000 shares of its Class B common stock to certain Microvision employees for $12,000 in cash.

In January 2001, Lumera issued 802,000 shares of Lumera Class A common stock to the UW at a value of $3.75 per share in connection with the research agreement. The valuation of the shares issued to the UW was more than the per share carrying amount of the Company's interest in Lumera. Although the Company's percentage ownership in Lumera was reduced as a result of this transaction, the increased value of Lumera stock on the change in ownership interest resulted in a gain for the Company. The amount of the gain of $3,001,000 resulting from the revaluation of the Company's interest in Lumera was credited to paid-in capital.

In March 2001, Lumera issued 2,400,000 shares of its Series A preferred stock at a price of $10.00 per share. Included in this total were 264,000 shares issued to the Company in repayment of intercompany borrowings.

In September 2001, Lumera issued fully vested options to purchase 33,000 shares of Class A common stock at an exercise price of $10.00 per share to a consultant for services completed. The options expire 10 years following the date of issue. The options were valued at $137,000 on the grant date, are not subject to remeasurement and were fully expensed in the period granted. The estimated fair value was determined using the Black-Scholes option-pricing model with the following assumptions: underlying security fair market value

of $5.34, dividend yield of zero percent, expected volatility of 80%, risk- free interest rate of 4.0%, expected life of 10 years.

In October 2002, Lumera paid $200,000 and issued a warrant to purchase 164,000 shares of Lumera Class A Common Stock at an exercise price of $3.65 per share to Arizona Microsystems, Inc. in exchange for a license of certain Arizona Microsystems, Inc. technology. The warrant expires 10 years following the date of grant, and vests 25% on the date of grant and 25% annually from the date of grant. The warrant was valued at the date of grant at $133,000. The total purchase price of $333,000 was recorded as capitalized licensing costs . The fair value of the warrant was estimated using the Black Scholes option pricing model with a stock price of $0.98 per share, dividend yield of zero percent; expected volatility of 100%; risk-free interest rate of 4.0% and expected life of ten years.

In August 2003, Lumera raised $1,900,000, before issuance costs of $34,000, from the sale of 944,000 shares of Series B convertible preferred stock to Microvision and other purchasers. Microvision purchased 434,000 of these shares for an aggregate purchase price of $868,000. In October 2003, Lumera raised $782,000 before

issuance costs of $32,000, from the sale of 391,000 shares of Series B convertible preferred stock. Microvision did not purchase additional shares of Series B preferred stock in the October 2003 offering.

In August 2003, Lumera issued options to purchase an aggregate of 164,000 shares of its Class A Common Stock to two consultants in connection with entering into certain consulting agreements. Each holder was granted a warrant to purchase up to 82,000 shares of Class A Common Stock at a price of $3.65 per share with a ten year life. In aggregate, 41,000 of the options were vested on the grant date. The remaining 123,000 shares vest one-third on each subsequent annual anniversary of the grant date were subject to remeasurement at each balance sheet date during the vesting period. The deferred compensation and liability related to these options was amortized to non-cash compensation expense over the two year period of service under the agreements. The aggregate value of both options was estimated at $136,000 at the grant date and December 31, 2003. Total non-cash compensation expense was $315,000 for the period from January 1, 2004 through July 2004, and $32,000 for the year ended December 31, 2003. The fair values of the options were estimated at the grant date and December 31, 2003, using the Black-Scholes option pricing model with the following weighted-average assumptions: underlying security fair market value of $0.98, dividend yield of zero percent; expected volatility of 100% for both measurement dates; risk-free interest rates of 4.4% and 4.3%; and expected lives of 10 and 9.7 years, respectively.

During 2004, Lumera granted options to purchase 415,000 shares of Class A common stock to Lumera employees and directors with a weighted-average exercise price of $2.00. Lumera subsequently determined that the fair market value of its common stock was greater than the exercise price of the options. Lumera recorded aggregate charges of $216,000 during 2004 related to these grants.

During 2004, Lumera granted vested options to purchase 40,000 shares of Class A common stock to Microvision employees with a weighted-average exercise price of $2.00. Lumera subsequently determined that the fair market value of its common stock was greater than the exercise price of the options. The Company recorded aggregate charges of $134,000 during 2004 related to these grants.

In July 2004, Lumera completed an initial public offering of its common stock. As a result of the offering, Microvision's ownership interest in Lumera was reduced to 33%. As a result of the reduction in ownership, Microvision changed to the equity method of accounting for its investment in Lumera. Microvision recorded a non-cash change in interest gain of $13.7 million during the third quarter. Because of uncertainty surrounding the ultimate realizability of the gain, the gain was recorded as an increase to stockholders' equity as a component of additional paid-in capital. As of December 31, 2004, Microvision owned 5,434,000 shares or 33% of Lumera's common stock.

During the period from inception to July 2004, losses in Lumera were first allocated to the holders of the common stock and then to the holders of the preferred shareholders pro rata in accordance with their respective ownership interest. Losses were not allocated to the options and warrants until exercised.

Lumera common stock, Series A preferred stock and Series B preferred stock were eliminated in consolidation with Microvision interests in Lumera common stock, Series A preferred stock, Series B preferred stock and options and warrants to purchase equity in Lumera held by investors other than the Company, and are presented as minority interests on the Company's consolidated balance sheet.

A reconciliation of the changes in ownership interests through Lumera's initial public offering is as follows (in thousands):

	Minority Interests			
	Common	Preferred	Total	Microvision
Balance at December 31, 2001	$ 168	$ 14,656	$ 14,824	$ 517
Options and warrants	140	--	140	--
Loss allocation for 2002	--	(7,741)	(7,741)	(957)

Balance at December 31, 2002	308	6,915	7,223	(440)
Issuance of preferred stock, net	--	1,735	1,735	868
Options and warrants	14	--	14	--
Loss allocation for 2003	--	(7,125)	(7,125)	(958)
Balance at December 31, 2003	322	1,525	1,847	(530)
Issuance of preferred stock, net	--	500	500	--
Preferred stock reallocation	--	413	413	(413)
Options and warrants	342	--	342	
Loss allocation for 2004		(2,438)	(2,438)	(1,286)
Balance at July 2004	$ 664	$ --	$ 664	$ (2,229)

As a result of the Series B stock issuance, the allocations of Lumera losses changed between Microvision and other minority interests and resulted in an additional $413,000 of losses being allocated to minority interest during 2004, with a resultant change in interest loss allocated to Microvision. In July 2004, Microvision's ownership interest in Lumera was reduced to 33% as a result of Lumera completing an initial public offering of its common stock. As a result of the reduction in ownership, Microvision changed to the equity method of accounting for its investment in Lumera. Microvision recorded a non-cash change in interest gain of $14,139,000 during the third quarter as a result of the change to the equity method. The net change in interest gain for 2004 was $13,727,000Because of uncertainty surrounding the ultimate realizability of the gain, the gain was recorded as an increase to stockholders' equity as a component of additional paid-in capital.

The following table shows the Lumera balances included in the consolidated balance sheet immediately prior to the change in interest and the reconciliation to the investment account shown at December 31, 2004.

Cash and cash equivalents	$ 657
Costs and estimated earnings in excess of billings on uncompleted contracts	117
Other current assets	1,077
Property and equipment, net	2,369
Other assets	33
Accounts payable	(434)
Accrued liabilities	(1,315)
Current portion of research liability	(78)
Notes payable - current	(2,386)
Other long-term liabilities	(245)
Net Assets	(205)
Less minority interest options and warrants	(664)
Cumulative losses in excess of investment	(1,360)
	(2,229)
Gain on change in interest	14,138
Investment losses from July 2004 to December 31,2004	(1,708)
Investment in Lumera	$ 10,201

10. Convertible Preferred Stock

In September 2004, Microvision raised $10,000,000 before issuance costs of $90,000 from the sale of 10,000 shares of convertible preferred stock and a warrant to purchase 361,795 shares of common stock. The

preferred stock is convertible on demand by the holder into common stock at a conversion price of $6.91 per share of common stock. The initial conversion price is subject to adjustment in the event Microvision issues common stock or derivative securities at a price per share of common stock below the market price or the conversion price of the preferred stock. In addition, upon the request of the preferred stockholder, Microvision is required to redeem the preferred stock for cash in certain circumstances, including in the event of a material breach of representations, warranties or covenants under the purchase agreement or a change in control. Accordingly, Microvision has classified the preferred stock as "mandatorily redeemable convertible preferred stock" in its consolidated balance sheet.

The preferred stock terms include a dividend of 3.5% per annum, payable quarterly in cash or registered common stock, at the election of the Company, subject to certain conditions. The preferred stock matures on September 10, 2007, at which time it is payable in cash or registered common stock, at the election of the Company, subject to certain conditions. Some of the conditions which would preclude the Company from paying in common stock are not within the Company's immediate control. The Company can elect to convert the preferred stock into common stock if the stock price exceeds $12.09 per share, subject to certain conditions. The warrant was vested on the date of grant, has an exercise price of $8.16 per share and expires on September 10, 2009. The initial exercise price is subject to adjustment in the event Microvision issues

common stock or derivative securities at a price per share of common stock below the market price or the exercise price of the warrant.

The net cash proceeds of $9,910,000 were allocated to the preferred stock and the warrant based on the relative fair values of the securities. The warrants were valued using the Black-Scholes option-pricing model

with the following assumptions: expected volatility of 75%, risk free interest rate of 3.4%, and contractual life of five years. $1.3 million of the proceeds were allocated to the warrant and were recorded as an increase to additional paid-in capital.

Subsequent to the relative fair value allocation, the effective conversion price of the convertible preferred stock was less than the closing price of Microvision's common stock on the date of commitment to purchase the preferred stock. This beneficial conversion feature was measured as $1,181,000 which represents the

difference between the fair value of the common stock and the effective conversion price. This beneficial conversion feature was recorded to additional paid-in capital and will be recorded as a deemed dividend to preferred stockholders (accretion) over the stated life of the preferred stock which is three years.

11. Common stock

In November 2003, the Company raised $22,250,000, before issuance costs of $1,454,000, from the sale of 3,560,000 shares of common stock to a group of private investors.

In August 2003, the Company issued 8,600 fully vested shares of Microvision common stock to a professional services firm in connection with consulting services provided to the Company. The shares were valued at $7.28, the closing price on the date of issuance, and the full value of the shares, $63,000, was charged to non-cash compensation at the time of issuance.

In March 2003, the Company raised $12,560,000, before issuance costs of $970,000, from the sale of 2,644,000 shares of common stock and warrants to purchase 529,000 shares of common stock at an exercise price of $6.50 per share. Each share of common stock and accompanying partial warrant was sold for $4.75. The warrants are first exercisable in September 2003 and expire in March 2008. The exercise price of the warrants was greater than the fair market value of the common stock on the date of issue.

In August 2002, the Company raised $3,000,000 (before issuance costs) upon issuance of 686,000 shares of common stock to a group of private investors. The investors also acquired fully vested warrants to purchase

137,000 shares of common stock at a price of $6.56 per share, for a period of five years. The exercise price of the warrants was greater than the fair market value of the common stock on the date of issue.

In July 2002, the Company raised $3,000,000 (before issuance costs) upon issuance of 938,000 shares of common stock to a group of private investors. The investors also acquired fully vested warrants to purchase 234,000 shares of common stock at a price of $4.80 per share, for a period of five years. The exercise price of the warrants was greater than the fair market value of the common stock on the date of issue.

In March 2002, the Company raised $6,028,000 (before issuance costs) upon issuance of 524,000 shares of common stock to a group of private investors.

12. Warrants

In September 2003, the Company issued two warrants to purchase an aggregate of 70,000 shares of common stock to a third party in exchange for services provided to the Company. One warrant grants the holder the right to purchase up to 60,000 shares of common stock at a price of $7.50 per share. The warrant vests in three equal tranches on the date of grant, in December 2003, and March 2004. The other warrant grants the holder the right to purchase up to 10,000 shares at a price of $12.00 per share and vests in March 2004. The unvested warrants were subject to remeasurement at each balance sheet date. The deferred compensation related to these warrants was being amortized to non-cash compensation expense over the fourteen month service period of the agreement. Non-cash amortization expense related to these warrants was $140,000 and $192,000 for 2004 and 2003 respectively. The total value of the warrants was estimated on December 31, 2003 and the grant date at $318,000 and $328,000, respectively. The fair values of the warrants were estimated on the date of grant and December 31, 2003, using the Black-Scholes option-pricing model with the following weighted-average assumptions: expected volatilities of 83%, risk- free interest rates of 2.7% and dividend yields of zero percent. The expected lives used at the measurement dates above were 4 years and 3.9 years, respectively.

In August 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 to purchase an aggregate of 150,000 shares vested over three years and were subject to remeasurement at each balance sheet date during the vesting period. The remaining warrants to purchase an aggregate of 50,000 shares had a measurement date at the time of grant. The deferred compensation related to these warrants is being amortized to non-cash compensation expense over the five-year period of service under the agreements. The total original value of

both warrants was estimated at $5,476,000. Due to stock price fluctuations, the subsequent values for those warrants subject to remeasurement. On June 7, 2003, the warrants became fully vested and the value of both warrants was fixed. Total non-cash amortization expense was $447,000, $595,000, and $542,000 for the years ended

December 31, 2004, 2003 and 2002, respectively. The fair values of the warrants were estimated at June 7, 2003 and December 31, 2002 using the Black- Scholes option-pricing model with the following weighted-average assumptions: dividend yield of zero percent, and expected volatility of 83% for all measurement dates; risk-free interest rates of 4.0%, and 5.0% and expected lives of 7.4 and 8.1 years. Deferred compensation related to these warrants at December 31, 2004 was $270,000.

The following summarizes activity with respect to Microvision common stock warrants during the three years ended December 31, 2004:

	Shares	Weighted-average excercise price
Outstanding at December 31, 2001	615,000	$ 25.55
Granted:		
Exercise price greater than fair value	372,000	5.45
Exercised	(5,000)	8.00
Canceled/expired	(7,000)	8.00
Outstanding at December 31, 2002	975,000	18.10
Granted:		
Exercise price greater than fair value	539,000	6.60
Exercise price less than fair value	60,000	7.50
Exercised	--	--
Canceled/expired	--	--
Outstanding at December 31, 2003	1,574,000	13.76
Granted:		
Exercise price greater than fair value	362,000	8.16
Exercised	22,000	6.50
Canceled/expired	(196,000)	18.41
Outstanding at December 31, 2004	1,718,000	12.14
Exercisable at December 31, 2004	1,718,000	$ 12.14

The following table summarizes information about the weighted-average fair value of Microvision common stock warrants granted:

	Year Ended	
	2004	2003
Exercise price greater than fair value	$ 4.07	$ 1.69
Exercise price less than fair value		4.10

The following table summarizes information about Microvision common stock warrants outstanding and exercisable at December 31, 2004:

Range of exercise prices	Warrants outstanding: Number outstanding at December 31, 2004	Weighted average remaining contractual life	Weighted average excercise price	Warrants ex: Number excercisable at December 31, 2004
		(years)		
$4.80	234,000	2.56	$ 4.80	234,000
$6.50-$6.56	645,000	3.07	6.51	645,000
$7.50-$8.16	422,000	4.41	8.07	422,000
$12.00-$19.20	162,000	0.88	14.64	162,000
$34.00	200,000	5.61	34.00	200,000
$53.00-$61.13	55,000	0.28	53.73	55,000
$4.80-$61.13	1,718,000			1,718,000

The fair value of the Microvision common stock warrants 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 2004, 2003 and 2002, respectively: dividend yield of zero percent for all years; expected volatility of 75%, 83% and 83%; risk-free interest rates of 3.4%, 2.1%, and 2.2% and expected lives of 5, 3 and 2 years, respectively.

13. Options

The Company has several stock option plans ("Option Plans") that provide 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"). The Company deems the fair market value of its stock on any given trading day to be the closing price of its stock on the NASDAQ National Market on that date.

In June 2004, the Company granted its independent directors options to purchase an aggregate of 90,000 shares of common stock at an exercise price of $8.35. The exercise price of the options was less than the fair market value of the shares at the date of grant. The Company recorded $81,000 of deferred compensation expense related to these options in June 2004. The deferred compensation is amortized to non cash compensation expense over the one-year vesting period of the grants. Deferred compensation expense of $46,000 was recorded in 2004, and the remaining $35,000 is recorded as deferred compensation at December 31, 2004.

In December 2003, the Board of Directors authorized extending the original expiration date for all outstanding employee options with original expiration terms of less than 10 years. Under terms of the offer, employees could extend the life of options that had original lives less than ten years by five years from the original expiration date. No other terms of the options were amended. All options were fully vested on the offer date. The extensions were voluntary and, in total, holders elected to extend 263,000 of the 264,000 eligible shares. At the time of the extensions the Company recorded $145,000 in non-cash compensation expense for the

excess of the fair market value of the common stock over the relevant exercise prices of the options on the modification date.

In November 2002, the Company offered to exchange most of its outstanding options to purchase common stock for new options scheduled to be granted on or after June 11, 2003. All eligible options that were properly submitted for exchange were accepted and cancelled effective December 10, 2002. Employees tendered options to purchase an aggregate of 2,521,714 shares of the Company's common stock. Under the terms of the exchange program, the Company granted new options to purchase an aggregate of 1,731,825 shares of the Company's common stock on June 13, 2003. The exercise price of the new options was $7.00 per share.

In May 2002, shareholders approved an amendment to the 1996 Stock Option Plan, increasing the number of shares reserved for the Plan by 2,500,000 to 8,000,000. The shareholders also approved amendments to the

Independent Director Stock Option Plan ("Director Option Plan") that increased the total shares reserved for the Plan by 350,000 to 500,000 shares; established a fully vested option grant to purchase 15,000 shares to each independent director upon initial election or appointment to the Board of Directors; increased the number of shares granted in the annual initial and reelection grants from 5,000 to 15,000; granted a one-time option to each independent director to purchase 10,000 shares; and, authorized the Board of Directors to make discretionary grants.

For Option Plan grants, other than non-discretionary grants to directors, the date of grant, option price, vesting period and other terms specific to options granted are determined by the Plan Administrator. The specific terms of Mandatory Director Grants are specified by the plan document.

Stock options issued under the Option Plans, other than the Director Option Plan, generally have vesting ranges from three years to four years; expirations of 10 years; and exercise prices greater than or equal to the fair market value of the Company's stock on the date of grant.

The Director Option Plan provides for two types of Mandatory Grants: a fully vested option to purchase 15,000 shares of common stock to each independent director upon initial election or appointment to the Board of Directors, and an additional initial or annual reelection option to purchase 15,000 shares of common stock, which the earlier of one year or no later than the Company's subsequent regularly scheduled annual shareholders' meeting. For both types of Mandatory Grants, the exercise prices are set equal to the closing price of the Company's common stock as reported on the NASDAQ National Market on the date of grant and have ten year terms. Upon leaving the Board, the director's grants remain exercisable until their expiration dates.

The following table summarizes activity with respect to Microvision common stock options for the three years ended December 31, 2004:

	Shares	Weighted-average excercise price
Outstanding at December 31, 2001	5,057,000	$ 21.52
Granted:		
Exercise price greater than fair value	106,000	10.23
Exercise price equal to fair value	694,000	9.71
Exercised	(3,000)	7.40
Canceled under exchange program	(2,522,000)	24.63
Forfeited	(256,000)	20.28
Outstanding at December 31, 2002	3,076,000	16.03
Granted:		
Exercise price greater than fair value	1,935,000	7.15
Exercise price equal to fair value	378,000	6.76
Exercise price less than fair value	197,000	6.93
Exercised	(82,000)	6.60
Forfeited	(783,000)	10.06
Outstanding at December 31, 2003	4,721,000	12.43
Granted:		
Exercise price greater than fair value	177,000	7.55
Exercise price equal to fair value	487,000	6.76
Exercise price less than fair value	90,000	8.35
Exercised	(38,000)	6.25
Forfeited	(319,000)	12.03
Outstanding at December 31, 2004	5,118,000	11.72
Exercisable at December 31, 2004	3,908,000	$ 12.66

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

	Year Ended	
	2004	2003

Exercise price greater than fair value	$ 3.19	$ 3.19
Exercise price equal to fair value	3.33	4.26
Exercise price less than fair value	4.58	2.69

The following table summarizes information about Microvision common stock options outstanding and exercisable at December 31, 2004:

	Options outstanding			Options exe
Range of exercise prices	**Number outstanding December 31, 2004**	**Weighted average aremaining contractual life**	**Weighted average excercise price**	**Number excercisable December 31, 2004**
		(years)		
$3.25-$6.81	603,000	8.36	$ 5.87	514,000
$7.00-$7.07	1,657,000	8.44	7.00	1,219,000
$7.20-$10.47	881,000	8.04	8.49	370,000
$10.60-$14.94	369,000	6.26	12.55	274,000
$15.00-$15.16	897,000	6.80	15.00	897,000
$15.63-$20.00	214,000	6.08	18.42	179,000
$20.25-$33.50	241,000	6.05	25.62	199,000
$34.00-$60.75	256,000	5.30	35.71	256,000
$3.25-$60.75	5,118,000			3,908,000

Fair Value Disclosures

The fair values of Microvision common stock options granted were estimated on the date of each grant using the Black Scholes option pricing model with the following weighted average assumptions used for grants in 2004, 2003 and 2002, respectively: dividend yield of zero percent for all years; expected volatility of 76%, 83% and 83%; risk free interest rates of 3.0%, 2.2%, and 4.2%; and expected lives of 3, 3 and 5 years. Actual forfeitures of 6.8%, 25.4% and 54.9% were used for the years ended December 31, 2004, 2003, and 2002 respectively. Excluding shares cancelled under the voluntary extension for grants with terms less than ten years, the actual forfeiture rate for 2003 was 16.3%. Excluding shares cancelled under the November 1, 2002 voluntary stock option exchange offer, the actual forfeiture rate for 2002 was 5.0%.

Lumera Stock Options

In 2000, Lumera adopted the 2000 Stock Option Plan (the "2000 Plan"). The 2000 Plan provided for the granting of stock options to employees, consultants and non-employee directors of Lumera. Lumera reserved 3,000,000 shares of Lumera Class A Common Stock for issuance pursuant to the 2000 Plan. Following the adoption of the 2004 Equity Incentive Plan in July 2004, no more options will be issued under the 2000 Stock Option Plan. Grants, net of shares exercised and forfeited, under the Lumera 2000 Stock Option Plan totaled 1,521,080 shares at December 31, 2004.

In July 2004, Lumera adopted the 2004 Equity Incentive Plan (the "2004 Plan"). Awards under the Plan, can be a combination of stock options, stock appreciation rights, restricted stock, unrestricted stock, stock units (including restricted stock units), performance awards, cash awards and other awards not described that are convertible into or otherwise based on Lumera's stock. The 2004 Plan established an initial option pool of 2,000,000 shares.

Options under both the 2000 plan and the 2004 Plan may be granted for periods up to 10 years. Options granted under either plan may be either Incentive Stock Options ("ISO"'s) or non-qualified stock options. The exercise price of an ISO cannot be less than 100% of the estimated fair value of the common stock at the date of grant. To date, options granted generally vest over four years.

The following table presents activity under the Plans:

	Shares		Weighted-average exercise price
	-	-	
Outstanding at December 31, 2001	634,830	$	7.36
Granted:			
Exercise price equal to fair value	96,600		10.00
Forfeited	(98,000)		4.63
	-		
Outstanding at December 31, 2002	633,430		8.18
Granted:			
Exercise price greater than fair value	308,450		3.38
Forfeited	(36,700)		10.00
	-		

Outstanding at December 31, 2003	905,180		6.47
Granted:			
Exercise price greater than fair value	5,000		2.00
Exercise price less than fair value	709,900		2.19
Forfeited	(91,500)		3.11
	-		
Outstanding at July 22, 2004	1,528,580		4.67
	==========		
Exercisable at July 22, 2004	800,718	$	5.83
	==========		

14. 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 UW. The License Agreement grants the Company the rights to certain intellectual property, including the technology being subsequently developed under the Microvision research agreement ("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 $5,134,000. 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 ongoing royalties. 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.

Litigation

The Company is subject to various claims and pending or threatened lawsuits in the normal course of business. The Company is not currently party to any legal proceedings that management believes the adverse

outcome of which would have a material 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 facility lease that commenced in April 1999, which includes extension 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.

The company entered into a 42 month facility lease that commenced in 2002 for office space in San Mateo, California. The Company has entered into a sublease agreement for this office space.

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

	Capital leases	Operating leases
2005	$ 42,000	$ 1,985,000
2006	6,000	473,000
2007	4,000	46,000
2008	--	--
2009	--	--
Thereafter	--	--
Total minimum lease payments	52,000	$ 2,504,000
Less: Amount representing interest	(4,000)	
Present value of capital lease obligations	48,000	
Less: Current portion	(39,000)	
Long-term obligation at December 31, 2004	$ 9,000	

Operating lease commitments amounts do not include the impact of contractual sublease receipts of $474,000 and $79,000 for the years ended December 31, 2005 and 2006, respectively.

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 $1,175,000 and $1,053,000 respectively at December 31, 2004 and $1,160,000 and $928,000, respectively, at December 31, 2003.

Net rent expense was $1,689,000, $2,302,000, and $1,639,000 for 2004, 2003 and 2002, respectively. Rent expense in 2003 includes $540,000 for the closure of the Company's facility in San Mateo, California. Sub- lease income of $363,000, $226,000 and $77,000 for 2004, 2003, and 2002 respectively was included as a reduction in rent expense.

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% per annum, is repayable over the initial term of the lease, which expires in 2006, and is secured by a letter of credit. The balance of the loan was $99,000 and $169,000 at December 31, 2004 and 2003 respectively.

15. Income taxes

A provision for income taxes has not been recorded for 2004, 2003 or 2002 due to valuation allowances placed against the net operating losses and deferred tax assets arising during such periods. A valuation allowance has been recorded for all deferred tax assets because based on the Companies' history of losses

since inception, the available objective evidence creates sufficient uncertainty regarding the realizability of the deferred tax assets.

At December 31, 2004, Microvision has net operating loss carry forwards of approximately $168 million, for federal income tax reporting purposes. In addition, Microvision has research

and development tax credits of $2,218,000. The net operating loss carry forwards and research and development credits available to offset future taxable income, if any, will expire in varying amounts from 2008 to 2024 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; and the limitation for losses generated in 1996 is approximately $1,600,000.

Deferred tax assets are summarized as follows:

	December 31,	
	2004	**2003**
Net operating loss carry forwards Microvision	$ 57,112,000	$ 47,351,000
R&D credit carry forwards Microvision	2,218,000	1,927,000
Other	4,642,000	3,679,000
	63,972,000	52,957,000
Less: Valuation allowance	(63,972,000)	(52,957,000)
Deferred tax assets	$ --	$ --

The valuation allowance and the research and development credit carry forwards account for substantially all of the difference between the Company's effective income tax rate and the Federal statutory tax rate of 34%.

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 is accounted for as a credit to shareholders' equity.

16. Retirement savings plan

The Company has a retirement savings plan ("the Plan") that qualifies under Internal Revenue Code Section 401(k). The Plan covers all qualified employees. Contributions to the Plan by the Company are made at the discretion of the Board of Directors.

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 2004, 2003 and 2002, the Company contributed $337,000, $392,000 and $351,000 respectively, to the Plan under the matching program.

17. Segment Information

Prior to Lumera's initial public offering in July 2004, the Company was organized into two segments - Microvision, which is engaged in scanned beam 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 described in Note 2, "Summary of Significant Accounting Policies."

A portion of each segments' administration expenses arise from shared services and infrastructure that Microvision has provided to both segments in order to realize economies of scale and to efficiently use resources. These efficiencies include costs of certain legal, accounting, human resources 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.

Since 2000, Microvision has held an investment in Lumera. From inception to July 2004, Lumera was a consolidated subsidiary and treated as a separate segment within Microvision. Subsequent to July 2004, Lumera became an equity method investment.

At December 31, 2004, Lumera is a significant unconsolidated equity investment of Microvision. For the period that Lumera is an unconsolidated investment (July 2004 through December 31, 2004) Lumera revenue was $303,000, Gross profit was $85,000, Loss from operations was $5,205,000 and Net loss was $5,199,000. At December 31, 2004 Lumera had Current assets of $19,623,000, Noncurrent assets of $13,263,000, Current liabilities of $1,493,000 and Shareholders equity of $31,393,000.

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 (in thousands):

	Year Ended December 31		
	Microvision	Lumera	Eliminati
Contract Revenue	$ 8,135	$ 686	$ -

Product Revenue	2,597	--	-
Cost of Contract Revenue	5,106	433	-
Cost of Product Revenue	3,868	--	-
Research and development expense	13,581	1,129	
Marketing, general and administrative expense	17,795	1,433	-
Non-cash compensation expense	821	1,297	-
Interest income	270	2	-
Interest expense	31	120	-
Segment loss	32,257	3,724	(2,43
Depreciation	1,711	695	-
Expenditures for capital assets	970	70	-
Segment assets	25,538	--	

	Year Ended December 31		
	Microvision	Lumera	Eliminati
Contract Revenue	$ 11,792	$ 1,725	$ -
Product Revenue	1,135	--	-
Cost of Contract Revenue	5,015	1,014	
Cost of Product Revenue	1,017		
Research and development expense	16,755	6,561	-
Marketing, general and administrative expense	14,557	1,270	-
Non-cash compensation expense	1,115	1,041	-
Interest income	342	39	-
Interest expense	51	--	-
Segment loss	25,205	8,083	(7,12
Depreciation	1,924	1,185	-
Expenditures for capital assets	1,094	455	-
Segment assets	37,224	4,058	(7,36

	Year Ended December 31		
	Microvision	Lumera	Eliminati
Contract Revenue	$ 14,443	$ 946	$ -
Product Revenue	528	--	-
Cost of Contract Revenue	6,139	330	
Cost of Product Revenue	528		
Research and development expense	18,362	7,157	-
Marketing, general and administrative expense	15,577	1,221	-
Non-cash compensation expense	841	1,143	-
Interest income	860	199	-
Interest expense	59	--	-
Segment loss	26,219	8,698	(7,74
Depreciation	1,894	1,049	-
Expenditures for capital assets	792	562	-
Segment assets	30,144	8,589	(6,46

18. Quarterly Financial Information (Unaudited)

The following table presents the Company's unaudited quarterly financial information for the years ending December 31, 2004 and 2003:

Year Ended December 31, 2004

	December 31,	September 30,	June 30,
Revenue	$ 3,317,000	$ 2,729,000	$ 2,398,000
Gross Margin	76,000	263,000	568,000
Net loss available for common shareholde	(8,247,000)	(10,094,000)	(8,512,000)
Net loss per share basic and diluted	(0.38)	(0.47)	(0.40)

	Year Ended December 31, 2003		
	December 31,	September 30,	June 30,
Revenue	$ 4,039,000	$ 2,565,000	$ 4,511,000
Gross Margin	2,102,000	1,066,000	2,310,000
Net loss	(5,210,000)	(6,865,000)	(6,692,000)
Net loss per share basic and diluted	(0.26)	(0.39)	(0.38)

19. Subsequent Event

In March 2005, Microvision raised $10,000,000 before issuance costs, from the issuance of senior secured exchangeable convertible notes (the "Notes") and warrants to purchase an aggregate of 462,330 shares of Microvision common stock. The Notes are payable in six equal quarterly payments starting in December 2005. The Notes are convertible on demand by the holders into Microvision common stock at a conversion price of $6.84 per share of Microvision common stock and exchangeable on demand by the holders into Lumera common stock at an exchange price of $5.64 per share of Lumera common stock. The terms include a limit on the aggregate number of Lumera common shares that can be used to pay principal of 1,750,000 shares. The Notes are secured by the same 1,750,000 shares of Lumera common stock. The initial conversion price is subject to adjustment in the event Microvision issues common stock or derivative securities at a price per share of common stock below the conversion price of the Note. In addition, upon the request of the Note holders, Microvision is required to redeem the Notes for cash in certain circumstances, including in the event of a material breach of representations, warranties or covenants under the purchase agreement or a change in control.

The Note terms include variable interest at a rate of LIBOR plus 3% within a range of 6% and 8%, payable quarterly.

Each principal payment is payable in cash or registered common stock, at the election of the Company, subject to certain conditions. If the Company elects to pay principal in registered common stock, the Note holder can elect to receive payment in either Microvision or Lumera common stock. Interest is payable in cash or Microvision common stock, subject to certain conditions. Some of the conditions which would preclude the Company from paying in common stock are not within the Company's immediate control. The Company can elect to convert the Note into Microvision common stock if the stock price exceeds $11.97 per share for any 20 out of any 30 consecutive days, subject to certain conditions. The warrants are immediately exercisable, have an exercise price of $6.84 per share and expire in March 2010. The initial exercise price is subject to adjustment in the event Microvision issues common stock or derivative securities at a price per share of common stock below or the exercise price of the warrant.

MICROVISION, INC.

VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

(in thousands)

Description	Balance at beginning of fiscal period	Additions: Charges to costs and expenses	Additions: Charges to other accounts	
Year Ended December 31, 2002				
Allowance for receivables from related parties	$ --	$ 700	$ --	$
Tax valuation allowance	39,971	--	12,088	
Year Ended December 31, 2003				
Allowance for receivables from related parties	700	200	--	
Tax valuation allowance	52,059	--	11,454	
Year Ended December 31, 2004				
Allowance for receivables from related parties	900	--	--	
Tax valuation allowance	--	--	--	

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, 2004 and 2003.

ITEM 9A. CONTROLS AND PROCEDURES

(a) *Evaluation of disclosure controls and procedures.* The Chief Executive Officer and the Chief Financial Officer evaluated our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15-d-15(e) under the Securites and Exchange Act of 1934) prior to the filing of this annual report. Based on that evaluation, they concluded that, as of the end of the period covered by this annual report, our disclosure controls and procedures were, in design and operation, effective.

(b) *Management's Report on Internal Control Over Financial Reporting*. Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Our management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its evaluation under the framework in *Internal Control - Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2004.

Our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2004 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included in Item 8 of this Annual Report on Form 10-K.

(c) Changes in internal controls over financial reporting. There have not been any changes in the Company's internal control over financial reporting during the quarter ended December 31, 2004 which have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None

Item 10. Directors

AND EXECUTIVE OFFICERS

Set forth below are the name, position held and age of each of the directors of the Company. The principal occupation and recent employment history of each of the directors are described below:

Name	Age	Position
Richard F. Rutkowski(3)	49	Chief Executive Officer, Director
Stephen R. Willey	51	President, Director
Jacqueline Brandwynne(1)(3)(4)*	67	Director
Richard A. Cowell(2)(4)*	57	Director
Slade Gorton(4)*	77	Director
Walter J. Lack(1)(2)(3)(4)*	57	Chairman of the Board, Director
Robert A. Ratliffe(1)(4)*	44	Director
Dennis Reimer(1)(2)(4)*	65	Director

* Independent Directors

(1)

Member of the Compensation Committee

(2)

Member of the Audit Committee

(3)

Member of the Finance Committee

(4)

Member of the Nominating and Corporate Governance Committee

Richard F. Rutkowski has served as Chief Executive Officer of the Company since September 1995 and as a director since August 1995. Mr. Rutkowski also served as the Company's President from July 1996 to August 2002. 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 Lumera Corporation and CMT Crimble Microtest.

Stephen R. Willey has served as President of the Company since August 2002 and as a director since June 1995. Mr. Willey served as the Company's Executive Vice President from October 1995 to August 2002, and an Industrial Fellow for the University of Washington's HIT Lab from October 1993 to October 1996. 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 Pro.Net Communications, Inc., AirIQ, Inc., and eVenture Capital Corporation.

Jacqueline Brandwynne has served as a director of the Company since October 2000. Ms. Brandwynne is President and CEO of Brandwynne Corporation, a business focusing on marketing healthcare products. 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 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.

Colonel Richard A. Cowell, USA, (Ret.) has served as a director of the Company since August 1996. Colonel Cowell is a Principal at Booz Allen Hamilton, Inc. 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 Hamilton, Inc. 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.

Slade Gorton joined the company as a director in September 2003. Mr. Gorton is currently Of Counsel at the law firm of Preston Gates & Ellis LLP. Prior to joining the firm, he represented Washington State in the United States Senate for 18 years. Mr. Gorton began his political career in 1958 as a Washington State Representative and went on to serve as State House Majority Leader. In 1968 he was elected Attorney General of Washington State where he served until 1980. Mr. Gorton also served on the President's Consumer Advisory Council (1975-77), the Washington State Criminal Justice Training Commission (1969- 1981), the National Commission on Federal Election Reform (2001), and was chairman of the Washington State Law & Justice Commission (1969-76). Mr. Gorton also served in the U.S. Army, U.S. Air Force, and the U.S. Air Force Reserves. Mr. Gorton was a Commissioner on the National Commission on Terrorist Attacks upon the United States ("9-11 Commission").

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. He is also a director of Spectrum Laboratories, Inc. Mr. Lack has been involved in a number of start-up companies, both as an investor and as a director.

Robert A. Ratliffe has served as a director of the Company since July 1996. Mr. Ratliffe is currently Vice President, Portfolio Management of Kennedy Associates Real Estate Counsel, Inc., a full service institutional real estate investment advisor. From 1996 through April 2003, Mr. Ratliffe was Vice President and principal of Eagle River, Inc., an investment company specializing in the telecommunications and technology sectors, and held various management positions for the firm's portfolio companies. 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. Mr. Ratliffe serves as a director of Lumera Corporation.

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. 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. General Reimer serves on the boards of DRS Technologies, Inc., Plato Learning Inc., and Mutual of America Life Insurance Company

Executive officers are appointed by our Board of Directors and hold office until their successors are elected and duly qualified. Messrs. Rutkowski and Willey, also serve as directors of Microvision. The following persons serve as executive officers of Microvision:

Richard A. Raisig, age 57, has served as Chief Financial Officer of Microvision since August 1996 and Vice President, Operations from August 1996 to August 2002. Mr. Raisig served as Microvision's Secretary from April 1998 to May 2002 and as a director of Microvision from March 1996 to August 2002. 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. Mr. Raisig holds an MBA from the University of Southern California and a BS in Social Sciences from the University of California, Irvine.

Todd R. McIntyre, age 43, has served as Senior Vice President of Business Development since November 2003, and Vice President of Business Development of Microvision from January 1996 to November 2003. Mr. McIntyre's experience in emerging markets includes business development and marketing with development stage companies in a variety of technology segments including wireless telecommunications products and services, internet software products, and digital and print media. Mr. McIntyre holds an M.B.A. from Stanford University and a B.A. from Hendrix College.

Dr. V. G. Veeraraghavan, age 55, has served as Senior Vice President, Research & Product Development of Microvision since July 2001. Prior to joining Microvision, from 1998 to 2001, Dr. Veeraraghavan served in senior management with Standard MEMS, a MEMS semiconductor fabrication, end-product packaging and systems integration firm. During his service with Standard MEMS, Dr. Veeraraghavan was, first, Vice President of its operations wafer foundry responsible for engineering and production of MEMS wafers and, second, was Vice President Business Development. From 1991 to 1998, Dr. Veeraraghavan served in various management positions at Lexmark International, Inc., a developer and manufacturer of novel color laser and inkjet solutions. Dr. Veeraraghavan holds an M.S. and a Doctorate in Materials Engineering from Purdue University and an M.B.A. from the University of Kentucky. He also received a B.S. in Science from the University of Madras (India) and a B.S. in Metallurgy from the Indian Institute of Science.

Thomas M. Walker, age 40, joined Microvision in May 2002 and serves as Vice President, General Counsel and Secretary. Prior to joining Microvision, Mr. Walker served as Senior Vice President, General Counsel and Secretary of Advanced Radio Telecom Corp., a publicly held technology and services company where he managed domestic and international legal affairs from April 1996 to April 2002. Prior to that, Mr. Walker advised publicly and privately held businesses while practicing in the Los Angeles offices of the law firms of Pillsbury Winthrop and Buchalter, Nemer Fields and Younger. Mr. Walker holds a B.A. from Claremont McKenna College and a J.D. from the University of Oregon.

Andrew U. Lee, age 53, has served as Vice President, Sales of Microvision since 1997. Prior to joining Microvision, from 1992 to 1997, Mr. Lee was Senior Director, National Systems Sales for AEI Music Network, Inc., the largest audio- visual systems integrator in the United States. From 1988 to 1991, Mr. Lee was Vice President of Sales and Marketing for ADB Industries, Inc., a manufacturer of precision mechanical assemblies for the medical, defense and aerospace industries. Mr. Lee holds a B.S. in Political Science from the University of California at Berkeley.

Thomas E. Sanko, age 50, has served as Vice President of Marketing and Product Management at Microvision since February 2001. Prior to joining Microvision, from 1999 to 2001, Mr. Sanko was a consultant to Guidant Corp., a manufacturer of cardiovascular surgery products. From 1996 to 1999, Mr. Sanko was Business Manager at InControl, Inc., a manufacturer of electrophysiology products. Prior to 1996, Mr. Sanko served as Director of Marketing for Heart Technology, Inc., and earlier, for Davis and Geck. Both companies are medical device manufacturers. Mr. Sanko has a M.B.A. from the University of Michigan and a B.S. in Mechanical Engineering from the University of Pittsburgh.

Jeff T. Wilson, age 44, has served as Vice President, Accounting of Microvision since April 2002, and Principal Accounting Officer of Microvision since August 1999 and as Director of Accounting of Microvision from August 1999 to March 2002. Prior to joining Microvision, from 1991 to 1999 Mr. Wilson served in various accounting positions for Siemens Medical Systems, Inc., a developer and manufacturer of medical imaging equipment. Prior to 1991, Mr. Wilson served as a manager with the accounting firm Price Waterhouse (currently PricewaterhouseCoopers LLP). Mr. Wilson is a Certified Public Accountant. Mr. Wilson holds a B.S. in Accounting from Oklahoma State University.

The Audit Committee

The Board of Directors has an Audit Committee which assists the Board of Directors by monitoring and overseeing: (1) the accounting and financial reporting processes of the Company and the audits of the financial statements of the Company, (2) the integrity of the financial statements of the Company, (3) compliance by the Company with legal and regulatory requirements, and (4) the performance of the Company's internal finance and accounting personnel and its independent auditors. Messrs. Cowell, Lack and Reimer currently serve on the Audit Committee, with Mr. Cowell serving as Chairman.

Audit Committee Financial Expert

The "audit committee financial expert" designated by our Board is Col. Richard A. Cowell (Ret.), an Independent Director. Col. Cowell holds a degree in accounting and has served for six years as Chair of the Company's Audit Committee. During his twenty-five years of service in the United States Army, Col. Cowell oversaw and actively supervised various complex governmental projects that involved government accounting with a breadth and level of complexity comparable to accounting issues raised by the Company's financial statements, including issues relating to estimates, accruals, and reserves. Since retiring from the Army, Col. Cowell has served as a principal at Booz Allen Hamilton, where he provides consulting services relating to significant government projects and grants which involve significant and complex accounting issues.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires that our directors, executive officers, and greater-than 10% shareholders file reports with the SEC relating to their initial beneficial owners10:59 AM 4/27/2005hip of the Company's securities and any subsequent changes. They must also provide us with copies of the reports.

Based on copies of reports furnished to us, we believe that all of these reporting persons complied with their filing requirements during 2004, except that Messrs. Lee, McIntyre, Raisig and Willey, all executive officers of the Company, each belatedly filed one Statement of Changes in Beneficial Ownership of Securities on Form 4, reporting 5, 4, 6 and 4 transactions, respectively; Ms. Brandwynne, a director of the Company, belatedly filed one Annual Statement of Beneficial Ownership of Securities on Form 5 reporting 1 transaction; and Mr. Lack, a director of the Company, belatedly filed two Statements of Changes in Beneficial Ownership of Securities on Form 4 reporting 3 transactions.

Code of Ethics

The Company has adopted a code of ethics applicable to the Company's principal executive officer, principal financial officer, and principal accounting officer, known as the Code of Ethics for Microvision Executives. The Company has also adopted a code of conduct applicable to the Company's directors, officers, and employees, known as the Code of Conduct. The Code of Ethics for Microvision Executives and the Code of Conduct are available on the Company's website. In the event we amend or waive any of the provisions of the Code of Ethics for Microvision Executives applicable to our principal executive officer, principal financial officer, and principal accounting officer, we intend to disclose the same on the Company's website at www.microvision.com.

Item 11. Executive Compensation

The following table sets forth the compensation awarded or paid to or earned by our Chief Executive Officer and our next four most highly compensated executive officers (the "Named Executive Officers"):

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation			Long-term Compensation		All Other Compen- sation ($) (1)
		Salary ($)	Bonus ($)	Other Annual Compen-	Awards	Payouts	

				sation ($)	Restricted Stock Award (s) ($)	Securities Under-lying Options (#)	LTIP Payouts ($)	
Richard F. Rutkowski, Chief Executive Officer and Director	2004	364,000	(2)	-	-	80,000	-	95,632
	2003	353,000	100,000	-	-	361,751	-	96,052
	2002	336,000	139,400	-	-	-	-	94,441
Stephen R. Willey, President and Director	2004	315,000	(2)	-	-	130,000	-	37,865
	2003	284,000	85,000	-	-	305,002	-	35,865
	2002	270,000	108,800	-	-	-	-	36,442
Richard A. Raisig, Chief Financial Officer	2004	272,000	(2)	-	-	70,000	-	45,749
	2003	263,000	68,000	-	-	232,613	-	44,749
	2002	250,000	82,450	-	-	-	-	43,018
Vilakkudi Veeraraghavan, Senior Vice President, Research & Product Development	2004	235,000	(2)	-	-	-	-	8,000
	2003	220,000	50,000	-	-	111,000	-	6,974
	2002	205,000	44,625	-	-	-	-	87,922
	2004	200,000	(2)	-	-	30,000	-	6,021

Todd R. McIntyre, Senior Vice President, Business Development		2003	166,061	40,000	-	-	182,627	-	4,940
		2002	157,500	42,000	-	-	-	-	11,342

(1) All Other Compensation amounts for 2004 include contributions of $8,000, $8,000, $8,000 and $6,021 to the accounts of Messrs. Willey, Raisig, Veeraraghavan and McIntyre, respectively, under the Company's qualified 401(k) Retirement Plan. The amounts also include forgiveness of $95,632, $29,865 and $37,749 of interest for Messrs. Rutkowski, Willey, Raisig, respectively, under one or both of the Company's Executive Option Exercise Loan Plan and Executive Loan Plan. For a description of the two plans, see "Executive Loan Plans" below. No Restricted Stock Awards or Long-Term Incentive Plan payments were made as of December 31, 2004.

(2) Bonuses have been earned for 2004, but the amounts have not been determined at the time of this filing. Bonus amounts will be disclosed in a subsequent filing.

Stock Option Grants in the Last Fiscal Year

The following table provides information regarding stock option grants made to Named Executive Officers during the fiscal year ended December 31, 2004:

Option Grants in Last Fiscal Year

Name	Number of Securities Underlying Options Granted (#)	% of Total Options Granted to Employees in Fiscal Year	Exercise Price ($/Sh)(2)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term (1) 5% ($)	I0% ($)
Richard F. Rutkowski(3)(4)	80,000	12.0%	6.12	8/24/2014	307,907	780,296
Stephen R. Willey(3)(5)	130,000	19.6%	6.12	8/24/2014	500,349	1,267,982
Richard A. Raisig(3)(5)	70,000	10.5%	6.12	8/24/2014	269,418	682,759
Todd R. McIntyre (3)(5)	30,000	4.5%	6.12	8/24/2014	115,465	292,611

(1) In accordance with Securities and Exchange Commission rule, these columns show gains that could accrue for the respective options, assuming that the market price of Microvision's common stock appreciates from the date of grant over a period of 10 years at an annualized rate of 5% and 10%, respectively. If the stock price is not greater than the exercise price at the time of exercise, then actual realized value from these options will be zero.

(2) The exercise price of each grant was equal to the market price of the underlying security on the date of grant.

(3) This option vests 50% on the grant date of August 24, 2004, 25% on September 30, 2004, and 25% on December 31, 2004 and becomes immediately vested and exercisable, through its termination date, upon the occurrence of certain events following a change in control.

(4) Upon termination of Mr. Rutkowski, without cause, vested options granted thereto will be exercisable until one year following the last day of employment ("Employment Term"). Unvested options will continue to vest through his Employment Term and remain exercisable for a period of one year following the vesting date thereof. Remaining unvested options at the end of his Employment Term will be immediately cancelled.

(5) Upon termination of Messrs. Willey, Raisig or McIntyre, without cause, vested options granted thereto will be exercisable for one year following the last day of employment with the Company. Unvested options will be immediately cancelled.

Aggregated Option Values as of Year End 2004

The following table provides information regarding the aggregate number of options exercised during the fiscal year ended December 31, 2004, by each of the Named Executive Officers and the number of shares subject to both exercisable and unexercisable stock options as of December 31, 2004.

Aggregated Option Exercises in Last Fiscal

Year and FY-End Option Values

	Number of Securities Underlying Unexercised Options at December 31, 2004			Value of Unexercised In-the-Money Options at December 31, 2004 (1)	
Name	Exercisable	Unexercisable		Exercisable ($)	Unexercisable ($)
Richard F. Rutkowski	826,475	47,316		70,400	-
Stephen R. Willey	523,788	31,225		161,275	-
	412,015	32,808		61,600	-

Richard A. Raisig				
Vilakkudi Veeraraghavan	139,454	41,000	-	-
Todd R. McIntyre	179,928	59,502	26,400	-

(1) The value of unexercised in-the-money options is based on the difference between $7.00 (the fair market value of the Company's common stock as reflected by the closing price of the common stock on the Nasdaq National Market as of December 31, 2004) and the exercise price of such options multiplied by the number of shares issuable upon exercise thereof.

Executive Loan Plans

The Company previously adopted two loan plans under which Richard F. Rutkowski, Stephen Willey, and Richard Raisig were able to borrow funds from the Company. At the end of each year, the Company will forgive the interest that accrued under the loans if the executive remains employed by the Company. In 2004, the Company forgave $95,632, $29,865, and $37,749 of interest for Messrs. Rutkowski, Willey, and Raisig, respectively. No additional loans have been made under either the Executive Option Exercise Loan Plan or the Executive Loan Plan since July 2002, and the Company does not intend to make any additional loans under these plans. The Company also has no plans to forgive the principal balance outstanding of the lines of credit. On February 16, 2005, Stephen Willey transferred 28,844 shares of the Company's common stock in full repayment of an existing loan and accrued interest thereon, which had become due on December 31, 2004. For additional details regarding loan balances and terms, see Item 13.

Certain Tax Considerations Related to Executive Compensation

As a result of Section 162(m) of the Internal Revenue Code of 1986, as amended, in the event that compensation paid by the Company to the Named Executive Officers in a year were to exceed an aggregate of $1,000,000, the Company's deduction for such compensation could be limited to $1,000,000.

Director Compensation

Pursuant to the Independent Director Stock Option Plan (the "Director Plan"), each Independent Director is granted a nonstatutory option to purchase 15,000 shares of common stock on the date on which he or she is first elected or appointed to the Board of Directors. These options are fully vested and immediately exercisable upon the date of grant. Each Independent Director also receives, upon his or her initial appointment or election and upon each subsequent reelection to the Board of Directors, an option to purchase 15,000 shares that will vest in full on the earlier of (i) the day prior to the date of the Company's annual meeting of shareholders next following the date of grant, or (ii) one year from the date of grant, provided the Independent Director continues to serve as a director on the vesting date. If an Independent Director ceases to be a director for any reason other than death or disability before his or her term expires, then any outstanding unvested options issued under the Director Plan to such Independent Director will be forfeited. Options vested as of the date of termination for any reason other than death or disability are exercisable through the date of expiration. The exercise price for each option is equal to the closing price of the Company's common stock as reported on the Nasdaq National Market on the date of grant. The options generally expire on the tenth anniversary of the date of grant.

In addition, each Independent Director receives the following cash compensation for his or her service as a director:

A fee of $20,000 that accrues as of the date of appointment or election to the Board of Directors, and as of the date of each subsequent reelection;

A fee of $3,000 for the Board chair or $2,000 per director for each Board meeting attended by the director; and

A fee of $3,000 for the committee chair or $2,000 per committee member for each committee meeting attended by the director that is held on a day other than a day on which a Board meeting is held.

All directors are reimbursed for reasonable travel and other out-of-pocket expenses incurred in attending meetings of the Board of Directors.

Compensation Committee Interlocks And Insider Participation

The Compensation Committee is composed entirely of the following Independent Directors: Dennis Reimer, Jacqueline Brandwynne, Walter J. Lack, and Robert A. Ratliffe.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table shows as of April 15, 2005, the number of shares of common stock held by all persons we know to beneficially own at least 5% of the Company's common stock, the Company's directors, the Named Executive Officers, and all directors and executive officers as a group.

- Name and Address of Beneficial Owner	Number of Shares (1)	Percentage of Common Stock (2)
Richard F. Rutkowski (3)	953,032	4.3%
c/o Microvision, Inc.		
19910 North Creek Parkway		
Bothell, WA 98011-3008		
Stephen R. Willey (4)	695,404	3.2%

c/o Microvision, Inc. 19910 North Creek Parkway Bothell, WA 98011-3008		
Richard A. Raisig (5) c/o Microvision, Inc. 19910 North Creek Parkway Bothell, WA 98011-3008	494,640	2.3%
Walter Lack (6) c/o Microvision, Inc. 19910 North Creek Parkway Bothell, WA 98011-3008	387,104	1.8%
Todd R. McIntyre(7) c/o Microvision, Inc. 19910 North Creek Parkway Bothell, WA 98011-3008	220,490	1.0%
Jacqueline Brandwynne (8) c/o Microvision, Inc. 19910 North Creek Parkway Bothell, WA 98011-3008	201,230	*
Vilakkudi Veeraraghavan (9) c/o Microvision, Inc. 19910 North Creek Parkway Bothell, WA 98011-3008	180,454	*
Robert Ratliffe (6)	92,517	*

c/o Microvision, Inc. 19910 North Creek Parkway Bothell, WA 98011-3008		
Richard Cowell (6) c/o Microvision, Inc. 19910 North Creek Parkway Bothell, WA 98011-3008	85,067	*
Dennis Reimer (6) c/o Microvision, Inc. 19910 North Creek Parkway Bothell, WA 98011-3008	82,167	*
Slade Gorton (10) c/o Microvision, Inc. 19910 North Creek Parkway Bothell, WA 98011-3008	46,000	*
All executive officers and directors as a group (15 persons) (11)	3,984,995	16.1%

*

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. Subject to community property laws where applicable, the Company believes that each shareholder named in this table has sole voting and investment power with respect to the shares indicated as beneficially owned thereby.

(2) Percentage of common stock is based on 21,480,669 shares of common stock outstanding as of April 15, 2005.

(3) Includes 873,791 shares issuable upon exercise of options.

(4) Includes 555,013 shares issuable upon exercise of options.

(5) Includes 444,823 shares issuable upon exercise of options.

(6) Includes 78,867 shares issuable upon exercise of options.

(7) Includes 219,990 shares issuable upon exercise of options.

(8) Includes 169,030 shares issuable upon exercise of options and warrants.

(9) Includes 180,454 shares issuable upon exercise of options.

(10) Includes 45,000 shares issuable upon exercise of options.

(11) Includes 3,246,459 shares issuable upon exercise of options and 100,000 shares issuable upon exercise of warrants.

EQUITY COMPENSATION PLAN INFORMATION

The following table shows the number of shares of common stock that could be issued upon exercise of outstanding options and warrants, the weighted average exercise price of the outstanding options and warrants and the remaining shares available for future issuance as of December 31, 2004.

	(a)	(b)	(c)
Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by shareholders	4,763,000	$11.44	2,954,000
Equity compensation plans not approved by shareholders	686,000	23.20	-

Total	5,449,000	$12.92	2,954,000

As of December 31, 2004, there were non-plan options to purchase a total of 355,000 shares of Microvision common stock outstanding. 346,000 of these were options approved by the Board of Directors and issued in October 2001, with an exercise price in excess of the fair value of Microvision common stock on the date of grant. The October 2001 options have a $15.00 exercise price and vest 25% on the grant date and 25% at six-month intervals thereafter. The remaining 9,000 non-plan options were granted at fair value on the date of grant and vest 25% at each annual anniversary date of the grant.

All non-plan options are non-qualified options with 10 year terms granted to non-executive employees. The options are administered by the Compensation Committee of the Board of Directors or its authorized agents. Options surrendered, exchanged for another option, canceled or terminated without having been exercised in full will again be available for issuance by the Company. The options are not transferable other than by will or the laws of descent and distribution. Each option is exercisable during the lifetime of the optionee only by such optionee, upon its vest date and thereafter through the expiration date, subject to the termination of employment provisions. Following termination of employment by the Company other than for cause, resignation in lieu of dismissal, disability or death, an option holder may exercise options, vested as of the date of termination, within three months before the options will automatically expire, and any unvested options will automatically expire upon the termination date. The number and class of shares covered by the options and the exercise price per share shall be proportionately adjusted for any change in the number of issued shares of common stock of the Company resulting from a stock split, stock dividend or consolidation of shares or any like capital stock adjustment. In the event of a merger, consolidation or plan of exchange to which the Company is a party or a sale of all or substantially all of the Company's assets, the Board of Directors may elect to treat the options in one of the following ways: (i) outstanding options would remain in effect in accordance with their terms; (ii) outstanding options would be converted into options to purchase stock in the surviving or acquiring corporation in the transaction; or (iii) outstanding options would be exercised within a period determined by the Board of Directors prior to the consummation of the transaction, after which time the options automatically expire. The Board may accelerate the vesting of the options so they are exercisable in full.

In August 2000, the Company issued two non-plan warrants to purchase an aggregate of 200,000 shares of Microvision common stock to two consultants in connection with entering into certain consulting agreements with the Company. Subsequently, one of the consultants was elected to the Board of Directors by shareholders. The warrants were fully outstanding as of December 31, 2003. The warrants have an exercise price of $34.00 per share and are exercisable prior to their expiration in August 2010. As of the date of grant, all but 25,000 of the underlying shares of common stock issuable to each consultant upon exercise of the warrants were subject to lock-up restrictions that prevent the holder from transferring such shares. The number of shares subject to the lock-up restrictions is reduced by 25,000 for each consultant on each June 7 subsequent to the grant date. Rather than issue shares of common stock upon exercise of the warrants, the Company may elect to redeem the warrants if, in the opinion of the Board of Directors upon advice of counsel, it would be unlawful to issue the underlying securities. The warrants are transferable upon prior written approval of the Company. The Company cannot unreasonably withhold such approval with respect to transfers of warrants to purchase at least 10,000 shares that are not subject to the lock-up restrictions. If the Company terminates the consulting agreement due to the consultant's failure to provide consulting services during the first three years of the agreement, the consultant must return to the Company a pro-rata portion of the 75,000 warrants initially subject to the lock- up restrictions based on the number of calendar days remaining in the initial three year period. The number, class and price of securities for which the warrants may be exercised are subject to adjustment for certain changes in the Company's capital structure. The number of securities and exercise price per share will be proportionately adjusted if outstanding shares of the Company's common stock are divided into a greater number of shares or combined into a smaller number of shares, or a stock dividend is paid on the common stock. In the event of a change in the common stock from a merger, consolidation, reclassification, reorganization, partial or complete liquidation, or other change in the capital structure of the Company, the Company will, as a condition of the change in capital structure, make provision for the warrant holder to receive upon the exercise of the warrants the kind and amount of shares of stock, other securities or property to which the holder would have been entitled if, immediately prior to the change in capital structure, the warrant holder had held the number of shares of common stock obtainable upon the exercise of the warrants, and the exercise price will be proportionately adjusted.

The Company has a warrant outstanding to purchase 50,000 shares of Microvision common stock that was issued in April 2000 in exchange for equity placement services by a non-employee. The warrant was issued fully vested, has an exercise price of $53.00 per share and is exercisable prior to its expiration in April 2005. Rather than issue shares of common stock upon exercise of the warrant, the Company may elect to redeem the warrant if, in the opinion of the Board of Directors upon advice of counsel, it would be unlawful to issue the underlying securities. The warrant is not transferable without prior written approval of the Company. The number, class and price of securities for which the warrant may be exercised are subject to adjustment for certain changes in the Company's capital structure. The number of securities and exercise price per share shall all be proportionately adjusted where outstanding shares of common stock are divided into a greater number of shares or combined into a smaller number of shares, or a stock dividend is paid on the common stock. In the event of a change in the common stock from a merger, consolidation, reclassification, reorganization, partial or complete liquidation, or other change in the capital structure of the Company, the Company will, as a condition of the change in capital structure, make provision for the warrant holder to receive upon the exercise of the warrants the kind and amount of shares of stock, other securities or property to which the holder would have been entitled if, immediately prior to the change in capital structure, the warrant holder had held the number of shares of common stock obtainable upon the exercise of the warrants, and the exercise price will be proportionately adjusted.

The Company has a warrant outstanding to purchase 6,250 shares of Microvision common stock issued in exchange for equity placement services by a non-employee. The warrant was issued fully vested in June 2000 for 6,250 shares with an exercise price of $19.20 per share and is exercisable prior to its expiration in June 2005. Rather than issue shares of common stock upon exercise of the warrant, the Company may elect to redeem the warrant if, in the opinion of the Board of Directors upon advice of counsel, it would be unlawful to issue the underlying securities. The warrant is not transferable without prior written approval of the Company. The number, class and price of securities for which the warrants may be exercised are subject to adjustment for certain changes in the Company's capital structure. The number of securities and exercise price per share shall be proportionately adjusted where outstanding shares of common stock are divided into a greater number of shares or combined into a smaller number of shares, or a stock dividend is paid on the common stock. In the event of a change in the common stock from a merger, consolidation, reclassification, reorganization, partial or complete liquidation, or other change in the capital structure of the Company, the Company will, as a condition of the change in capital structure, make provision for the warrant holder to receive upon the exercise of the warrant the kind and amount of shares of stock, other securities or property to which the holder would have been entitled if, immediately prior to the change in capital structure, the warrant holder had held the number of shares of common stock obtainable upon the exercise of the warrant, and the exercise price will be proportionately adjusted.

The Company has a warrant outstanding to purchase 4,907 shares of Microvision common stock that was issued in December 2000 in exchange for equity placement services by a non-employee. The warrant was issued fully vested, has an exercise price of $61.13 per share and is exercisable prior to its expiration in April 2005. Rather than issue shares of common stock upon exercise of the warrant, the Company may elect to redeem the warrant if, in the opinion of the Board of Directors upon advice of counsel, it would be unlawful to issue the underlying securities. The warrant is not transferable without prior written approval of the Company. The number, class and price of securities for which the warrant may be exercised are subject to adjustment for certain changes in the Company's capital structure. The number of securities and exercise price per share shall all be proportionately adjusted where outstanding shares of common stock are divided into a greater number of shares or combined into a smaller number of shares, or a stock dividend is paid on the common stock. In the event of a change in the common stock from a merger, consolidation, reclassification, reorganization, partial or complete liquidation, or other change in the capital structure of the Company, the Company will, as a condition of the change in capital structure, make provision for the warrant holder to receive upon the exercise of the warrants the kind and amount of securities or property to which the holder would have been entitled if, immediately prior to the change in capital structure, the warrant holder had held the number of shares of common stock obtainable upon the exercise of the warrants, and the exercise price will be proportionately adjusted.

The Company has two warrants outstanding to purchase an aggregate of 70,000 shares of Microvision common stock that were issued in September 2003 to a third party for services. The first warrant for 60,000 shares has an exercise price of $7.50 per share and vests in three equal tranches. The first tranche vests on the issue date, the second and third tranches vest three and six months following the issue date, respectively. The second warrant for 10,000 shares has an exercise price of $12.00 per share and vests six months after the issue date. The Company may cancel unvested tranches or the second warrant prior to their respective vest dates if it determines in good faith, and notifies the holder, that it is not satisfied with the holder's performance under the agreement. Vested warrants are exercisable prior to their expiration in September 2007. The warrant holder may transfer any portion or all of the warrant shares by delivering the original warrant certificate and a form of assignment to the Company. The number and price of securities for which the warrant may be exercised are subject to adjustment for certain changes in the Company's capital structure. Where the outstanding shares of common stock are divided into a greater number of shares, combined into a smaller number of shares, or a stock dividend is paid on the common stock, the exercise price per share shall be proportionately adjusted by the ratio of common shares outstanding immediately before and after the transaction. In the event of a change in the common stock from a merger, consolidation, reclassification, tender offer or exchange offer, or partial or complete liquidation, the holder will be entitled to receive, upon the exercise of the warrants, the same amount and kind of securities, cash or property to which the holder would have been entitled if, immediately prior to the change in capital structure, the warrant holder had held the number of shares of common stock obtainable upon the exercise of warrants

Item 13

. **CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

In August 2000, the Company entered into a five year consulting agreement with Jacqueline Brandwynne, a director of the Company. In consideration for entering into the agreement, the Company issued warrants to purchase an aggregate of 100,000 shares of common stock to Ms. Brandwynne. The warrants grant Ms. Brandwynne 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 the unvested portion of the warrants are subject to remeasurement at each balance sheet date during the vesting period. The Company estimated the original value of the warrants as of the issuance date at $2,738,000.

The Company has two existing executive loan plans under which Richard F. Rutkowski, Stephen R. Willey, and Richard A. Raisig have borrowed funds from the Company. No loans have been made under these executive loan plans since July 2002, and the Company does not intend to make any additional loans under these plans. On February 16, 2005, Stephen Willey transferred 28,844 shares of the Company's common stock in full repayment of an existing loan and accrued interest thereon, which became due on December 31, 2004. No amounts are currently outstanding under the Company's Executive Option Exercise Loan Plan. The following table lists certain information describing each executive's loans as of December 31, 2004.

				Option				
				Exercise Loan Plan		Loan Plan		Total

Mr. Rutkowski -				
	Balance outstanding	-	$1,708,000	$1,708,000
	Highest aggregate balance during year	-	$1,708,000	$1,708,000
Mr. Willey -				
	Balance outstanding	$165,600	$370,000	$535,600
	Highest aggregate balance during year	$165,600	$370,000	$535,600
Mr. Raisig -				
	Balance outstanding	-	$645,000	$645,000
	Highest aggregate balance during year	-	$645,000	$645,000
Other Information -				
	Interest Rate Range	4.64%	5.43%-6.22%	4.64%-6.22%

Under the Loan Plan, the advances must be repaid within one year of the executive's termination of employment or within 30 days of termination of the Loan Plan by the Board of Directors unless the executive elects to convert the outstanding balance to a one-year term note.

Item 14. Audit Fees

Our independent auditors, PricewaterhouseCoopers LLP, billed the following fees to the Company for audit and other services for the fiscal year 2004:

Audit Fees

The aggregate fees billed for professional services rendered by PricewaterhouseCoopers LLP for the audit of the Company's annual financial statements and the reviews of the financial statements included in the Company's Quarterly Reports on Form 10-Q were $501,702 for the year ended December 31, 2004 and were $272,471 for the year ended December 31, 2003.

Audit Related Fees

Fees for audit related services totaled $0 in each of 2004 and 2003.

Tax Fees

Fees for tax services, including tax compliance, tax advice, and tax planning, totaled $15,700 in 2004 and $20,620 in 2003.

All Other Fees

Fees for all other services not described above totaled $0 in each of 2004 and 2003.

The Company's Audit Committee has considered whether the provision of services under the heading "All Other Fees" is compatible with maintaining the accountants' independence and has determined that it is consistent with such independence.

The Board of Directors has selected PricewaterhouseCoopers LLP to serve as the Company's independent accountants for fiscal year 2005. Representatives of PricewaterhouseCoopers LLP are expected to be present at the Annual Meeting and will have an opportunity to make a statement and to respond to appropriate questions.

Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditor

The Audit Committee pre-approves all audit services and all permitted non- audit services by the independent auditors. The Audit Committee has delegated the authority to take such action between meetings to the Audit Committee chairman, who reports the decisions made to the full Audit Committee at its next scheduled meeting.

The Audit Committee evaluates whether the Company's use of the independent auditors for permitted non-audit services is compatible with maintaining the independence of the independent auditors. The Audit Committee's policies prohibit the Company from engaging the independent auditors to provide any services relating to bookkeeping or other services related to accounting records or financial statements, financial information systems design and implementation, appraisal or valuation services, fairness opinions or contribution-in-kind reports, actuarial services, or internal audit outsourcing services unless it is reasonable to conclude that the results of these services will not be subject to audit procedures. The Audit Committee's policies completely prohibit the Company from engaging the independent auditors to provide any services relating to any management function, expert services not related to the audit, legal services, broker-dealer, investment adviser, or investment banking services or human resource consulting.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) Documents filed as part of the report

(1) Microvision Financial Statements

Balance Sheets as of December 31, 2004 and 2003

Statements of Operations for the years ended December 31, 2004, 2003 and 2002

Statements of Shareholders' Equity for the years ended December 31, 2004, 2003 and 2002

Statements of Comprehensive Loss for the years ended December 31, 2004, 2003 and 2002

Statements of Cash Flows for the years ended December 31, 2004, 2003 and 2002

Valuation and Qualified Accounts and Reserves for the years ended December 31, 2004, 2003 and 2002

Lumera Financial Statements

Balance Sheets as of December 31, 2004 and 2003

Statements of Operations for the years ended December 31, 2004, 2003 and 2002

Statements of Shareholders' Equity for the years ended December 31, 2004, 2003 and 2002

Statements of Comprehensive Loss for the years ended December 31, 2004, 2003 and 2002

Statements of Cash Flows for the years ended December 31, 2004, 2003 and 2002

(2) None

(3) Exhibits

3.1	Certificate of Incorporation of Microvision, Inc., [2]
3.2	Bylaws of Microvision, Inc. [2]
3.3	Certificate of Designations, Preferences and Rights of the Series A Convertible Preferred Stock of Microvision, Inc.[24]
4.1	Form of Specimen Stock Certificate for Common Stock[2]
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.[6]
4.4	Form of Indenture[14]
4.5	Form of Warrant issued on October 9, 2001[15]
4.6	Form of Warrant issued on July 22, 2002[19]

4.7	Form of Warrant issued on March 5, 2003[18]
4.8	Warrant to Purchase Common Stock of Microvision, Inc. issued September 10, 2004 to Satellite Strategic Finance Associates, LLC. [24]
4.9	Form of Note issued under the Securities Purchase Agreement dated as of March 11, 2005 by and among Microvision, Inc. and the investors listed on the Schedule of Buyers thereto.[25]
4.10	Form of Warrant issued under the Securities Purchase Agreement dated as of March 11, 2005 by and among Microvision, Inc. and the investors listed on the Schedule of Buyers thereto. [25]
4.11	Company Registration Rights Agreement executed in connection with the Securities Purchase Agreement dated as of March 11, 2005 by and among Microvision, Inc. and the investors listed on the Schedule of Buyers thereto. [25]
4.12	Lumera Registration Rights Agreement executed in connection with the Securities Purchase Agreement dated as of March 11, 2005 by and among Microvision, Inc. and the investors listed on the Schedule of Buyers thereto. [25]
4.13	Form of Pledge and Security Agreement executed in connection with the Securities Purchase Agreement dated as of March 11, 2005 by and among Microvision, Inc. and the investors listed on the Schedule of Buyers thereto. [25]
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[18]
10.5	1993 Stock Option Plan[1]*
10.6	1996 Stock Option Plan, as amended.[17]*
10.7	1996 Independent Director Stock Plan, as amended.[17]*
10.8	Form of Executive Option Exercise Loan Plan[3]*
10.9	

	Lease Agreement between S/I Northcreek II, LLC and Microvision, Inc., dated October 27, 1998[23]
10.9.1	Lease Amendment No 1 to Lease between S/I Northcreek II, LLC and Microvision, Inc., dated July 12, 1999[9]
10.9.2	Lease Amendment No 12 to Lease between S/I Northcreek II, LLC and Microvision, Inc., dated February 14, 2001[9]
10.10	Form of Consulting Agreement between Microvision, Inc. and Avram Miller and Jacqueline Brandwynne dated August 10, 2000[8]
10.11	Form of Common Stock Purchase Warrant issued to Avram Miller and Jacqueline Brandwynne dated August 10, 2000[8]
10.12	Exclusive Licensing Agreement between the University of Washington and Lumera Corporation dated October 20, 2000[11]. +
10.13	Sponsored Research Agreement between the University of Washington and Lumera Corporation dated October 20, 2000[11].
10.14	Independent Director Stock Option Plan, as amended[17]*
10.15	Investors' Rights Agreement, dated as of March 14, 2001 by and between Lumera Corporation and certain investors[12]
10.16	Executive Loan Plan and Related Form of Note[16]*
10.17	Microvision, Inc. Series 1 Stock Purchase Warrant, dated April 1, 1999, issued to Capital Ventures International [18]
10.18	Form of Stock Purchase Agreement dated March 22, 2002[20]
10.19	Form of Stock Purchase Agreement dated July 22, 2002[19]
10.20	Form of Securities Purchase Agreement dated as of March 3, 2003[18]
10.21	Form of the Option Agreement for options granted outside of the Plans[21]
10.22	Common Stock Purchase Warrant, dated as of January 14, 1999, issued to Stan Berk[22]
10.23	Common Stock Purchase Warrant, dated as of July 13, 1999, issued to Stan Berk[22]
10.24	Common Stock Purchase Warrant, dated as of April 13, 2000, issued to Burt S. Davis[22]
10.25	Common Stock Purchase Warrant, dated as of June 21, 2000, issued to Stan Berk[22]

10.26	Common Stock Purchase Warrant, dated as of October 15, 2001, issued to Ladenburg Thalmann & Co. Inc. (22)
10.27	Registration Rights Agreement dated as of September 9, 2004 by and between Microvision, Inc. and Satellite Strategic Finance Associates, LLC. (24)
10.28	Securities Purchase Agreement dated as of September 9, 2004 by and between Microvision, Inc. and Satellite Strategic Finance Associates, LLC. (24)
10.29	License and Development Agreement dated as of December 30, 2004 by and between Microvision, Inc. and Ethicon Endo-Surgery, Inc. + (26)
10.30	Securities Purchase Agreement dated as of March 11, 2005 by and among Microvision, Inc. and the investors listed on the Schedule of Buyers thereto. (25)
23.1	Consent of Independent Registered Public Accounting Firm
23.2	Consent of Independent Registered Public Accounting Firm

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(1) Incorporated by reference to the Company's Form SB-2 Registration Statement, Registration No. 333-05276-LA.

(2) Incorporated by reference to the Company's Post-Effective Amendment to Form S-3 Registration Statement, Registration No. 333-102244.

(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.

(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 Form 10-Q for the quarterly period ended June 30, 2000.

(8) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended September 30, 2000.

(9) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1999.

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

(11) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

(12) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended March 31, 2001.

(13) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended June 30, 2001.

(14) Incorporated by reference to the Registration Statement on Form S-3, Registration No. 333-69652.

(15) Incorporated by reference to the Company's Current Report on Form 8-K filed on October 9, 2001.

(16) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2001.

(17) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended June 30, 2002.

(18) Incorporated by reference to the Company's Current Report on Form 8-K filed on March 5, 2003.

(19) Incorporated by reference to the Company's Current Report on Form 8-K filed on July 23, 2002.

(20) Incorporated by reference to the Company's Current Report on Form 8-K filed on March 26, 2002.

(21) Incorporated by reference to the Company's Schedule TO file on November 1, 2002.

(22) Incorporated by reference to the Company's Annual Report on Form 10K for the year ended December 31, 2002.

(23) Incorporated by reference to the Company's Form 10-QSB for the quarterly period ended September 30, 1998.

(24) Incorporated by reference to the Company's Current Report on Form 8-K filed on September 10, 2004.

(25) Incorporated by reference to the Company's Current Report on Form 8-K filed on March 14, 2005.

(26) Incorporated by reference to the Company's Current Report on Form 10-K filed on March 17, 2005.

+ Subject to confidential treatment.

* Management contracts and compensatory plans and arrangements required to be filed as exhibits pursuant to Item 15(c) of this Report.

(c)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors

and Shareholders of

Lumera Corporation.

In our opinion, the accompanying balance sheets and the related statements of operations, of changes in mandatorily redeemable convertible preferred stock and shareholders' equity (deficit) and of cash flows present fairly, in all material respects, the financial position of Lumera Corporation at December 31, 2004 and 2003, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2004 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 standards of the Public Company Accounting Oversight Board (United States). Those standards 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.

Prior to July 28, 2004, the Company was a subsidiary of Microvision, Inc.. As discussed in Note 3, the Company had extensive transactions and relationships with that entity for each of the three years ended December 31, 2004.

/s/ PRICEWATERHOUSECOOPERS LLP

Seattle, Washington

March 29, 2005

LUMERA CORPORATION

BALANCE SHEETS

	December 31, 2004	December 31, 2003
Assets		
Current Assets		
Cash and cash equivalents	$ 3,505,000	$ 560,000
Investment securities, available-for-sale, current	15,460,000	
Accounts receivable	32,000	151,000
Costs and estimated earnings in excess of billings on uncompleted contracts	3,000	166,000
Prepaid stock-based research costs		159,000
Other current assets	623,000	55,000
Total current assets	19,623,000	1,091,000
Investment securities, available-for-sale, long-term	11,216,000	
Property and equipment, net	2,047,000	2,867,000
Other assets		100,000
TOTAL ASSETS	$ 32,886,000	$ 4,058,000
LIABILITIES, MANDATORILY REDEEMABLE CONVERTIBLE PREFERRED STOCK AND SHAREHOLDERS EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable	$ 416,000	$ 159,000
Payable to related party		42,000
Current portion of research liability	101,000	
Accrued liabilities	976,000	576,000
Total current liabilities	1,493,000	777,000
Research liability		1,948,000
Other long-term liabilities		16,000
Total liabilities	1,493,000	2,741,000
COMMITMENTS AND CONTINGENCIES (Note 10)		
MANDATORILY REDEEMABLE CONVERTIBLE PREFERRED STOCK		
Mandatorily redeemable convertible preferred stock, no par value, 5,500,000 shares authorized; 3,735,025 issued and outstanding at December 31, 2003; aggregate liquidation preference of $26,670,000 at December 31, 2003		27,206,000
SHAREHOLDERS EQUITY (DEFICIT)		
Common stock, $0.001 par value, 120,000,000 shares authorized; 16,546,430 shares issued and outstanding at December 31, 2004	16,000	
Class A Common stock, no par value, 20,000,000 shares authorized; 802,414 shares issued and outstanding at December 31, 2003		3,361,000
Class B Common stock, no par value, 10,000,000 shares authorized; 5,370,000 issued and outstanding at December 31, 2003		105,000
Additional Paid-in Capital	70,435,000	
Deferred stock-based compensation	(666,000)	(31,000)
Accumulated other comprehensive gain (loss)	(145,000)	
Accumulated deficit	(38,247,000)	(29,324,000)

Total shareholders equity (deficit)	31,393,000	(25,889,000)
TOTAL LIABILITIES, MANDATORILY REDEEMABLE CONVERTIBLE PREFERRED STOCK AND SHAREHOLDERS EQUITY (DEFICIT)	$ 32,886,000	$ 4,058,000

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

LUMERA CORPORATION

STATEMENTS OF OPERATIONS

	Year ended December 31,		
	2004	**2003**	**2002**
Revenue	$ 989,000	$ 1,725,000	$ 946,000
Cost of revenue	651,000	1,014,000	330,000
GROSS PROFIT	338,000	711,000	616,000
Research and development expense	4,561,000	7,602,000	8,300,000
Marketing, general and administrative expense	4,588,000	1,270,000	1,221,000
Total operating expenses	9,149,000	8,872,000	9,521,000
Loss from operations	(8,811,000)	(8,161,000)	(8,905,000)
Interest income	237,000	39,000	199,000
Interest expense	(349,000)		
Realized gain on sale of investment securities		39,000	8,000
Net loss	(8,923,000)	(8,083,000)	(8,698,000)
Deemed dividend upon issuance of mandatorily redeemable convertible preferred stock	(500,000)		
NET LOSS AVAILABLE TO COMMON SHAREHOLDERS	$ (9,423,000)	$ (8,083,000)	$ (8,698,000)
NET LOSS PER SHARE-BASIC AND DILUTED	$ (0.89)	$ (1.31)	$ (1.41)
WEIGHTED-AVERAGE SHARES OUTSTANDING BASIC AND DILUTED	10,613,606	6,172,400	6,172,400

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

LUMERA CORPORATION

STATEMENTS OF CHANGES IN MANDATORILY REDEEMABLE CONVERTIBLE PREFERRED STOCK AND

SHAREHOLDERS EQUITY (DEFICIT)

FOR THE PERIOD FROM DECEMBER 31, 2001 TO DECEMBER 31, 2004

	Mandatorily Redeemable Convertible Preferred Stock		Common Stock		Paid- in Capital	Common Stock A		Common Stock B		Deferred Stock Compensation	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Sharehold Equity (Deficit
	Shares	$	Shares	$	$	Shares	$	Shares	$	$	$	$	$
ance at ember 31, 1	**2,400,000**	**$ 24,603,000**				**802,414**	**$ 3,210,000**	**5,370,000**	**$ 105,000**	**$ (33,000)**	**$ 66,000**	**$ (12,543,000)**	**$ (9,195,(**
ance of ons for ices							133,000						133,(
ersal of rred comp ense for arted loyees							(18,000)			18,000			
ortization of rred pensation										7,000			7,(
er prehensive me											(7,000)		(7,(
Loss												(8,698,000)	(8,698,(
ance at ember 31, 2	**2,400,000**	**24,603,000**				**802,414**	**3,325,000**	**5,370,000**	**105,000**	**(8,000)**	**59,000**	**(21,241,000)**	**(17,760,(**
ance of datorily emable vertible erred stock ash, net of ance costs 57,000	1,335,000	2,603,000											
ance of ons for ices							36,000			(36,000)			
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er prehensive me											(59,000)		(59,(
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ance at ember 31, 3	**3,735,000**	**27,206,000**				**802,414**	**3,361,000**	**5,370,000**	**105,000**	**(31,000)**		**(29,324,000)**	**(25,889,(**

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ance at ember 31, 4		**$**	**16,546,430**	**$ 16,000**	**$ 70,435,000**		**$**		**$**	**$ (666,000)**	**$ (145,000)**	**$ (38,247,000)**	**$ 31,393,0**

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

LUMERA CORPORATION

STATEMENTS OF COMPREHENSIVE LOSS

	Year ended December 31,		
	2004	**2003**	**2002**
Net loss	$ (8,923,000)	$ (8,083,000)	$ (8,698,000)
Other comprehensive income (loss) Unrealized gain (loss) on investment securities, available-for-sale:			
Unrealized holding gains (losses) arising during period	(145,000)	(20,000)	1,000
Less: Reclassification adjustment for gains realized in net loss		(39,000)	(8,000)
Net unrealized gain (loss)	(145,000)	(59,000)	(7,000)
Comprehensive loss	$ (9,068,000)	$ (8,142,000)	$ (8,705,000)

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

LUMERA CORPORATION

STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2004	**2003**	**2002**
Cash flows from operating activities			
Net loss	$ (8,923,000)	$ (8,083,000)	$ (8,698,000)
Adjustments to reconcile net loss to net cash used in operations			
Depreciation	1,198,000	1,185,000	1,049,000
Noncash expenses related to issuance of stock, options and amortization of deferred compensation	1,985,000	1,041,000	1,143,000
Minority interest common stock			
Realized gain on sale of investment securities		(39,000)	(8,000)
Interest on notes payable	301,000		
Change in			
Accounts receivable	119,000	(68,000)	85,000
Costs and estimated earnings in excess of billings on uncompleted contracts	163,000	(18,000)	155,000
Other current assets	(568,000)	57,000	283,000
Other assets	100,000	100,000	(200,000)
Accounts payable	29,000	51,000	(26,000)
Payable to related party	(42,000)	31,000	(73,000)
Accrued liabilities	142,000	136,000	66,000
Research liability	(1,847,000)	923,000	1,025,000
Net cash used in operating activities	(7,343,000)	(4,684,000)	(5,199,000)
Cash flows from investing activities			
Sales of investment securities		2,409,000	2,311,000
Purchases of investment securities	(29,821,000)		
Maturities of investment securities	3,000,000		
Purchases of property and equipment	(378,000)	(455,000)	(562,000)
Net cash provided by (used in) investing activities	(27,199,000)	1,954,000	1,749,000
Cash flows from financing activities:			
Proceeds from issuance of convertible notes	2,300,000		
Principal payments on convertible notes	(2,300,000)		
Net proceeds from issuance of common stock	36,964,000		
Net proceeds from the exercise of stock options	23,000		
Net proceeds from issuance of mandatorily redeemable convertible preferred stock	500,000	2,603,000	
Net cash provided by financing activities	37,487,000	2,603,000	
Net (decrease) increase in cash and cash equivalents	2,945,000	(127,000)	(3,450,000)
Cash and cash equivalents at beginning of period	560,000	687,000	4,137,000
Cash and cash equivalents at end of period	$ 3,505,000	$ 560,000	$ 687,000
Value assigned to warrants issued in connection with convertible note	$ 301,000	$	$

Unrealized loss in investment securities, available-for-sale	$	(145,000)	$		$	
Accrued offering costs included in accounts payable	$	228,000	$		$	
Accrued liability for non-cash stock compensation	$	266,000	$		$	
Noncash additions to property and equipment	$		$		$	173,000
Interest Paid	$	44,000	$		$	
Deemed dividend upon issuance of options to Microvision Employee	$	272,000	$		$	

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

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LUMERA CORPORATION

NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Lumera Corporation (the Company or Lumera) was incorporated in Washington State in 1999 and reincorporated in Delaware in 2004, and was established to develop, manufacture and market devices using proprietary polymer materials. Until December 31, 2003, the Company was considered to be in the development stage. In early 2004, the Company commercialized the devices for potential wireless networking and optical networking applications and had largely completed financial planning, establishing sources of supply, acquiring plant and equipment and recruiting personnel. Therefore, the Company was considered to have exited the development stage in 2004. On July 26, 2004, Lumera completed its initial public offering (IPO) of 6.0 million shares of common stock at an offering price of $6.95 per share, raising proceeds of $38.7 million before expenses. The Company was a majority owned subsidiary of Microvision, Inc. (Microvision) until its IPO (see Note 3).

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America.

Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. The Company s management has identified revenue recognition and accounting for research payments under the University of Washington agreements as areas where significant estimates and assumptions have been made in preparing the financial statements. The Company also evaluates the requirement for allowances for uncollectible receivables, and valuation allowances for deferred income tax assets.

Cash and Cash Equivalents The Company considers all highly liquid investment securities with remaining maturities, at the date of purchase, of three months or less to be cash equivalents. Management determines the appropriate classification of investment securities at the time of purchase and evaluates such designation as of each balance sheet date. 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 shareholders equity (deficit) as a component of other comprehensive income (loss), unless the loss is deemed to be other-than-temporary, in which case it is recognized immediately as an expense. Dividend and interest income are recognized when earned. Realized gains and losses are included in interest income or expense. The cost of securities is based on the specific identification method.

Concentration of Credit Risk Financial instruments that potentially subject the Company to concentrations of credit risk are primarily cash and cash equivalents and investments. The Company has a cash investment policy that generally restricts investments to ensure preservation of principal and maintenance of liquidity. The Company typically does not require collateral from its customers. The Company makes provision for doubtful accounts when required. To date, the Company has not experienced any bad debts.

Revenue Recognition Revenue has primarily been generated from research and development cost reimbursement contracts for the United States government. Revenue on such contracts is recorded using the percentage-of-completion method measured on a cost-incurred basis. 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.

LUMERA CORPORATION

NOTES TO FINANCIAL STATEMENTS (Continued)

Losses, if any, are recognized in full as soon as identified. Losses occur when the estimated direct and indirect costs to complete the contract exceed the unrecognized revenue on the contract. The Company evaluates the reserve for contract losses on a contract-by-contract basis. No losses have been incurred on any contracts to date.

In August 2001, the Company entered into a $1,623,000 contract with a government agency to develop new electro-optic polymer materials appropriate for the fabrication of a wideband optical modulator demonstration system.

In October 2002, the Company entered a $1,030,000 contract modification with a government agency to continue to develop new electro-optic polymer materials appropriate for the fabrication of a wideband optical modulator demonstration system.

In December 2002, the Company entered into a feasibility study to assess prospects of developing an electro-optic organic polymer with a government subcontractor for $149,000 that was extended into a Phase II in 2003 for an additional $400,000.

In August 2003, the Company entered into a $497,000 contract with a government agency to develop ultra- linear optical waveguide modulator technology.

In November 2003, the Company entered into a $950,000 contract extension with a government agency to continue development of electro-optical polymer materials and devices for wideband optical modulators.

In December 2004, the Company entered into a $210,000 contract extension with a government agency to develop ultra-linear optical waveguide modulator technology.

In December 2004, the company entered into a $1,120,000 contract extension with a government agency to continue development of electro-optical polymer materials and devices for wideband optical modulators.

All of the Company s current and prior contracts with the government have been or are cost plus fixed fee type contracts. Under the terms of a cost plus fixed fee contract, the United States government reimburses the Company for actual direct and indirect costs incurred in performing the contracted services. The Company is under no obligation to spend more than the contract value to complete the contracted services. In addition, completion of the contracted services is generally on a best efforts basis. If the services are not completed, the government has the option to negotiate a follow-on contract to complete the services or to not pursue the services further with the Company. Contract deliveries consist of monthly financial reports, periodic technical reports and any devices if they have been successfully fabricated. There are no contractual provisions for repayments of any amounts disbursed to date under these contracts. The United States government accounted for 99% of revenues in 2004 and 2003 all of the Company s revenues in 2002.

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 the balance sheet date. The Company was contractually able to bill 100% and 95% of the balance at December 31, 2004 and 2003, respectively, within 30 days of the respective year end.

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

LUMERA CORPORATION

NOTES TO FINANCIAL STATEMENTS (Continued)

A summary of property and equipment at December 31 follows:

	2004	2003
Computer equipment	$ 491,000	$ 297,000
Furniture and office equipment	20,000	20,000
Lab equipment	3,244,000	3,125,000
Leasehold improvements	2,727,000	2,662,000
	$ 6,482,000	$ 6,104,000
Less: Accumulated depreciation	(4,435,000)	(3,237,000)
	$ 2,047,000	$ 2,867,000

Depreciation expense was $1,198,000, $1,185,000 and $1,049,000 for December 31, 2004, 2003 and 2002, respectively.

Valuation of Long-Lived Assets The Company reviews the carrying value of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Measurement of the impairment loss is based on the fair value of the asset, or group of assets. Generally, fair value will be determined using valuation techniques such as present value of expected future cash flows.

Research and Development Research and development costs are expensed as incurred. As described in Note 10, the Company issued shares of common stock in connection with a research agreement. The value of these shares is amortized over the period of the research agreement.

Fair Value of Financial Instruments The Company s financial instruments include cash and cash equivalents, investment securities, accounts receivable, accounts payable, and accrued liabilities. The carrying amounts of financial instruments approximate fair value due to their short maturities.

Income Taxes The Company has filed a separate tax return since inception. The Company follows the liability method of accounting for income taxes. This liability method requires recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

Stock Based Compensation The Company has a stock-based employee compensation plan, which is described further in Note 7. The Company accounts for stock- based employee compensation arrangements on the intrinsic value method in accordance with the provisions of Accounting

Principles Board Opinion (APB) No. 25, *Accounting for Stock Issued to Employees* and related amendments and interpretations. The Company complies with the disclosure provisions of Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*, which requires fair value recognition for employee 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 (EITF) Issue No. 96-18.

LUMERA CORPORATION

NOTES TO FINANCIAL STATEMENTS (Continued)

Total non-cash stock option expense related to employee and director awards was $1,285,000, $6,000, and $7,000 for the years ended December 31, 2004, 2003 and 2002, respectively. Had compensation cost for employee options been determined using the fair values at the grant dates, consistent with the methodology prescribed under SFAS No. 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:

	For the year ended December 31,		
	2004	**2003**	**2002**
Net loss available to common shareholders, as reported	$ (9,423,000)	$ (8,083,000)	$ (8,698,000)
Deduct: Stock-based employee compensation expense included in net loss available to common shareholders, as reported	$ 1,285,000	$ 6,000	$ 7,000
Add: Total stock-based employee compensation expense determined under fair value-based method for all awards	$ (2,009,000)	$ (245,000)	$ (634,000)
Net loss available to common shareholders, pro forma	$ (10,147,000)	$ (8,322,000)	$ (9,325,000)
Net loss per share, as reported (basic and diluted)	$ (0.89)	$ (1.31)	$ (1.41)
Net loss per share, pro forma (basic and diluted)	$ (0.96)	$ (1.35)	$ (1.51)

See Note 7 for the assumptions used in calculating the fair values of employee options.

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 potentially dilutive securities, including common stock equivalents and convertible securities.

Basic and diluted net loss per share is the same because all potentially dilutive securities outstanding are anti-dilutive. Potentially dilutive securities not included in the calculation of diluted earnings per share include options and warrants to purchase common stock for all periods presented, and Series A and Series B convertible preferred stock for 2003 and 2002 and periods prior to the IPO in 2004. Total common stock options and common stock warrants not included in the calculation of diluted earnings per share were 1,893,630, 1,069,180 and 797,430 for December 31, 2004, 2003 and 2002, respectively.

Recent Accounting Pronouncements On December 16, 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123(R), Share-Based Payment , which is a revision of SFAS No. 123 and supersedes APB Opinion No. 25. SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be valued at fair value on the date of grant, and to be expensed over the applicable vesting period. Pro forma disclosure of the income statement effects of share-based payments is no longer an alternative. SFAS No. 123(R) is effective for all share-based awards granted on or after July 1, 2005. In addition, companies must also recognize compensation expense related to any awards that are not fully vested as of the effective date. Compensation expense for the unvested awards will be measured based on the fair value of the awards previously calculated in developing the pro forma disclosures in accordance with the provisions of SFAS No. 123. We are evaluating the alternative methods for implementing SFAS No. 123(R). If we elect to implement SFAS No. 123(R) on July 1, 2005 using the modified prospective method, we expect that the impact on 2005 earnings will be in the range of $1.5 to $2.6 million.

LUMERA CORPORATION

NOTES TO FINANCIAL STATEMENTS (Continued)

2. INVESTMENT SECURITIES- AVAILABLE-FOR-SALE

The Company had available-for-sale investment securities at December 31, 2004, the estimated fair value of which totaled $15,460,000 for securities with maturities of one year or less and $11,216,000 for securities with maturities greater than one year. The Company had no available-for-sale investment securities at December 31, 2003. All investment securities have been classified as available-for-sale and are carried at estimated fair value with unrealized gains and losses included as a component of accumulated other comprehensive income in stockholders equity. The Company had unrealized losses on investment securities of $145,000 and $20,000 for the years ending December 31, 2004 and 2003, respectively. At December 31, 2004, management has concluded that these unrealized losses are temporary due to the Company s ability to hold these investments to maturity.

The Company had no net realized gains (losses) on investment securities for the year ending December 31, 2004. Realized losses were $39,000 and $8,000 for the years ended December 31, 2003 and 2002, respectively.

3. RELATED PARTY TRANSACTIONS

Since inception until July 2004 the Company was a majority owned subsidiary of Microvision, Inc. At December 31, 2003, Microvision had the following ownership interests in the Company:

	2003
Class B common stock	87.5%
Series A convertible preferred stock	11.0%
Series B convertible preferred stock	32.5%

In July 2004, all outstanding shares of the Company s Series A convertible preferred stock, Series B convertible preferred stock and Class B common stock were automatically converted to common stock upon completion of the Company s IPO in July 2004. Prior to the IPO, Microvision owned approximately 52% of the Company s outstanding common stock on an as if converted basis. Following completion of the IPO, Microvision s ownership percentage is approximately 33%. Additionally, the Chief Executive Officer of Microvision, Richard F. Rutkowski, is a member of the board of directors of both Microvision and the Company. Microvision and the Company also share one other common director.

In February 2004, the Company agreed to pay Mr. Rutkowski a $5,000 monthly retainer to supplement our management team during our public offering. During this retainer period, which ended in July 2004, Mr. Rutkowski also performed his role as chief executive officer of Microvision. We also paid Mr. Rutkowski a one-time fee of $100,000 upon the successful completion of our convertible note financing in April 2004. The company recognized $130,000 of administrative expense during this period. In addition, we paid Mr. Rutkowski a one-time fee of $100,000 upon the participation in and successful completion of our initial public offering, which was treated as a cost of raising capital. The boards of both Microvision and Lumera approved paying Mr. Rutkowski these fees.

During 2002, 2003 and 2004, the Company was allocated lease and utilities costs from Microvision under a month-to-month lease. In addition, the Company was charged a $5,000 per month fee to reimburse Microvision for certain other charges not directly incurred by the Company.

In 2004, the Company entered into a sublease agreement with Microvision for its corporate facilities at a base rate of approximately $21,000 per month, plus common area charges, which is effective through April 6, 2006.

LUMERA CORPORATION

NOTES TO FINANCIAL STATEMENTS (Continued)

The following are a summary of charges from Microvision to the Company for each year ended December 31:

	2004	2003	2002
Rent	$ 320,000	$ 317,000	$ 292,000
Allocated Services	57,000	54,000	48,000
Fees	60,000	60,000	60,000
Total	$ 437,000	$ 431,000	$ 400,000

4. ACCRUED LIABILITIES

Accrued liabilities consist of the following at December 31:

	2004	2003
Employee and benefit-related liabilities	$ 363,000	$ 325,000
Compensated absences	$ 81,000	$ 64,000
Professional fees	493,000	67,000
Payables to University of Washington	19,000	69,000
Other	20,000	51,000
	$ 976,000	$ 576,000

5. INCOME TAXES

No provision for income taxes has been recorded for any periods presented since the Company has incurred net losses from the date of inception.

At December 31, 2004, the Company had $34.3 million of federal net operating loss carry forwards, which may be used to offset future taxable income. These carry forwards expire beginning in 2018 through 2024. The Internal Revenue Code places certain limitations on the annual amount of net operating loss carry forwards that can be utilized if certain changes in the Company s ownership occur.

At December 31, 2004 the Company had $868,000 of research and experimentation credits carry forwards which will expire beginning in 2019 through 2024.

Deferred taxes consist of the following at December 31:

	2004	2003
Deferred income tax assets		
Net operating loss carryforwards	$ 11,673,000	$ 9,262,000
R&D credit carryforwards	$ 868,000	$ 692,000
Other	$ 1,194,000	$ 642,000
Gross deferred tax assets	13,735,000	10,596,000
Less: valuation allowance	(13,735,000)	(10,596,000)
Net deferred tax asset	$	$

The Company has recorded a valuation allowance for the full amount of its deferred tax assets at December 31, 2004 and 2003, as the Company believes it is more likely than not that the deferred tax assets will not be realized.

The valuation allowance and the research and experimentation credits account for substantially all of the difference between the Company s effective income tax rate and the Federal statutory rate of 34%.

LUMERA CORPORATION

NOTES TO FINANCIAL STATEMENTS (Continued)

6. SHAREHOLDERS EQUITY (DEFICIT)

At December 31, 2004, the authorized capital of the Company consisted of 120 million shares of Common Stock, of which 1,521,080 shares are reserved for options granted under the Company s 2000 Stock Option Plan and 2,500,000 shares are reserved for outstanding and future option grants under the Company s 2004 Equity Incentive Plan. The Company also has 30,000,000 shares of authorized undesignated preferred stock, none of which have been issued.

In July 2004 the Company completed its initial public offering (IPO), issuing 6 million shares of common stock at $6.95 per share. Upon completion of the IPO all outstanding shares of the company s Common A and B and Preferred A and B shares were automatically converted to common shares. At December 31, 2004 there were 16,546,430 shares of common stock outstanding.

Common Stock In March 2000, the Company issued 4,700,000 shares of its Class B common stock to Microvision, Inc. and 670,000 shares of its Class B common stock to certain Microvision directors, executives, and other individuals (individuals). The shares issued to Microvision were valued at $94,000 and the proceeds were offset against the outstanding loan balance due. The shares issued to the individuals were valued at $12,000 and were issued subject to subscription loans, for which cash was received in November 2000.

In January 2001, the Company issued 802,414 shares of Class A common stock valued at $3,009,000 in connection with the research agreement described in Note 10.

Upon the Company s initial public offering in July 2004 all shares of common A and B were automatically converted to Common Stock on a one-for-one basis.

Convertible Preferred Stock In August through October 2003, the Company raised $2,670,000 (before issuance costs of $67,000) from the sale of 1,335,025 shares of Series B convertible preferred stock to private investors. In March 2004, the Company raised $500,000 from the sale of 250,000 shares of Series B convertible preferred stock to private investors issued in March 2004. The $2 per share conversion price of the Series B convertible preferred stock issued was less than the fair value of the Class A common stock on the issuance date. As a result, the Company recorded a $500,000 beneficial conversion feature upon issuance of the preferred stock. This amount was immediately recorded as a deemed dividend to preferred shareholders because the Series B convertible preferred stock had no stated term and was immediately convertible into Class A common stock.

Upon the Company s initial public offering in July 2004 all shares of convertible preferred stock were automatically converted to Common Stock. Each Series A Preferred share was converted into 1.14 shares of common stock in accordance with anti-dilution provisions enacted upon the sale of the Preferred B shares resulting in 2,727,291 shares of common stock issued in exchange for 2,400,000 Series A Preferred shares. Each share of Series B Preferred was exchanged for common shares on a one-for-one basis, resulting in the issuance of 1,585,025 shares of common stock issued in exchange for the Series B Preferred shares.

Dividends No dividends on convertible preferred stock or common stock have been declared from inception through December 31, 2004.

Arizona Microsystems, L.L.C. warrants exercised In October 2002, the Company issued a warrant to purchase 164,000 shares of Class A common stock at an exercise price of $3.65 per share to Arizona Microsystems, L.L.C. for use of certain technology. These warrants were exercised in a cashless transaction for 38,935 shares of common stock in July 2004.

LUMERA CORPORATION

NOTES TO FINANCIAL STATEMENTS (Continued)

7. STOCK OPTIONS

Stock Option Plans In 2000, the Company adopted the 2000 Stock Option Plan (the 2000 Plan). The 2000 Plan provided for the granting of stock options to employees, consultants and non-employee directors of the Company. The Company reserved 3,000,000 shares of Class A Common Stock for issuance pursuant to the 2000 Plan. Following the adoption of the 2004 Equity Incentive Plan in July 2004, no more options will be issued under the 2000 Stock Option Plan. Grants, net of shares exercised and forfeited, under the Company s 2000 Stock Option Plan totaled 1,521,080 shares at December 31, 2004.

In July 2004, the Company adopted the 2004 Equity Incentive Plan (the 2004 Plan). Awards under the Plan, can be a combination of stock options, stock appreciation rights, restricted stock, unrestricted stock, stock units (including restricted stock units), performance awards, cash awards and other awards not described that are convertible into or otherwise based on the Company s stock.

The 2004 Plan established an initial option pool of 2,000,000 shares plus an annual increase beginning in 2005, equal to the least of (i) 2,000,000 shares, (ii) 13.4% of the number of shares of Stock outstanding as of the Company s immediately preceding fiscal year, or (iii) such lesser amount, if any, as the Board may determine. For the 2005 Plan year, Lumera s Board has elected to increase the option share pool by 500,000 shares.

Options under both the 2000 plan and the 2004 Plan may be granted for periods up to 10 years. Options granted under either plan may be either Incentive Stock Options (ISO s) or non-qualified stock options. The exercise price of an ISO cannot be less than 100% of the estimated fair value of the common stock at the date of grant. To date, options granted generally vest over four years.

A summary of stock compensation expense for each period is as follows:

	For the twelve months ended December 31,		
	2004	**2003**	**2002**
Employees	$ 644,000	$ 6,000	$ 7,000
Directors	641,000		
Third Party	608,000	32,000	
	$ 1,893,000	$ 38,000	$ 7,000
Component of:			
Research and development	$ 573,000	$ 35,000	$ 2,000
Marketing, general and administrative	1,320,000	3,000	5,000

	$ 1,893,000	$ 38,000	$ 7,000

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LUMERA CORPORATION

NOTES TO FINANCIAL STATEMENTS (Continued)

The following table presents activity under the Plans:

	Shares	Weighted-Average Exercise Price	Weighted-Average Grant Date Fair Value
Outstanding at December 31, 2000	167,250	$ 1.01	
Granted			
Exercise price greater than fair value	411,580	$ 10.00	$ 5.11
Exercise price less than fair value	98,500	$ 4.23	$ 3.74
Forfeited	(42,500)	$ 0.76	
Outstanding at December 31, 2001	634,830	$ 7.36	
Granted			
Exercise price greater than fair value	96,600	$ 10.00	$ 0.44
Forfeited	(98,000)	$ 4.63	
Outstanding at December 31, 2002	633,430	$ 8.18	
Granted			
Exercise price greater than fair value	308,450	$ 3.38	$ 0.65
Forfeited	(36,700)	$ 10.00	
Outstanding at December 31, 2003	905,180	$ 6.74	
Granted			
Exercise price greater than fair value	5,000	$ 2.00	$ 0.65
Exercise price at fair value	257,550	$ 6.12	$ 4.16
Exercise price less than fair value	709,900	$ 2.19	$ 3.99
Forfeited	(76,250)	$ 4.01	
Exercised	(22,750)	$ 1.01	
Outstanding at December 31, 2004	1,778,630	$ 4.88	

The following table presents the Company s outstanding and exercisable stock options at December 31, 2004:

	Options Outstanding			Options Exercisable	
Exercise Price	Shares	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price

$ 0.50	$1.00	75,000	5.4	$ 0.80	75,000	$ 0.80
$ 2.00	$2.50	786,900	9.0	$ 2.01	440,530	$ 2.02
$ 3.65	$4.00	180,750	9.0	$ 3.70	61,500	$ 3.65
$ 5.80		230,000	9.6	$ 5.80	110,000	$ 5.80
$ 8.75		27,550	9.8	$ 8.75	2,500	$ 8.75
$10.00		478,430	6.8	$ 10.00	415,503	$ 10.00
Total		1,778,630	8.3		1,105,033	

LUMERA CORPORATION

NOTES TO FINANCIAL STATEMENTS (Continued)

Non-Employee Options Included in the option disclosures above are options granted to certain non-employees under the Company s plan, as follows:

In August 2003, the Company issued options to purchase an aggregate of 164,000 shares of its Class A common stock to two consultants in connection with entering into certain consulting agreements. In April 2004, 61,500 of these shares were forfeited upon termination of one of the consulting agreements. The options have an exercise price of $3.65 per share and a 10-year life. In aggregate, 41,000 of the options were vested on the grant date. The remaining 61,500 shares vest one-third on each subsequent annual anniversary of the grant date and are subject to re-measurement at each balance sheet date during the vesting period. The aggregate value of both options was estimated at $136,000 at the grant date and December 31, 2003 and $415,000 at December 31, 2004. The fair value of these options, net of forfeited options, is being recognized as compensation expense over the two-year period of service under the agreements. Total non-cash compensation expense related to these options was $287,000 and $32,000 for the year ended December 31, 2004 and 2003. The fair values of the options were estimated at the grant date and December 31, 2003 and 2004, using the Black-Scholes option pricing model with the following weighted-average assumptions: dividend yield of 0%; expected volatility of 83% for all measurement dates, respectively; risk-free interest rates of 4.4%, 4.3% and 4.1% for each of the measurement dates, respectively; and expected lives of 10 years, 9.7 years and 8.6 years for each of the measurement dates, respectively.

In March 2004, the Company granted options under the 2000 Plan to purchase 65,000 shares of Class A common stock to a Microvision employee. These options have been accounted for as a dividend to Microvision and recorded at their fair value of $272,000, in accordance with the guidance in EITF Issue No. 00-23 Issue 21, Options Granted to Employees of Entities under Common Control.

In April 2004, a member of the Company s Board of Directors resigned, and accepted a position on the Company s Business Advisory Board. Upon the director s resignation, 30,000 unvested options, which vest 5,000 at the end of each subsequent quarter, were re-measured as non-employee options, the aggregate value of which was estimated to be $137,000 at the grant date and $215,000 at December 31, 2004. The fair value of these options is being recognized as compensation expense over the vesting period. Total non-cash compensation expense related to these options was $149,000 for the year ended December 31, 2004. The fair values of the options were estimated at the grant date and December 31, 2004 using the Black-Scholes option pricing model with the following weighted-average assumptions: dividend yield of 0%; expected volatility of 83%; risk-free interest rates of 4.62% and 4.24%; and expected lives of 10 years and 9.5 years.

Options issued at below market price In March 2004 the Company granted options under the 2000 Plan to its CEO and non-employee directors to purchase an aggregate of 415,000 shares of common stock with a weighted average exercise price of $2.00 per share which was below the then current market value. The aggregate value of these options was estimated at $1,230,000 and is being recognized as compensation expense over the vesting period. In April 2004, a member of the Company s Board of Directors resigned, and accepted a position on the Company s Business Advisory Board. Upon the director s resignation, 30,000 unvested options were re-measured as non-employee options, reducing the aggregate value to be amortized to compensation expense by $82,000. During 2004, the Company recognized compensation expense associated with these option grants of $922,000. As of December 31, 2004, $218,000 of deferred compensation remained to be amortized.

In April 2004 the Company granted options under the 2000 Plan to its employees to purchase an aggregate of 156,650 shares of common stock at a price below the then current market value. The options have an exercise price of $2.00 per share and a 10-year life. One quarter of the options vested on July 1, 2004 with the remaining options vesting annually over the subsequent three years fully vested. In July 2004, the Company issued options under the 2000 Plan to its employees to purchase an aggregate of 78,250 shares of common stock at a price below the then current market value. The options have a weighted average exercise price of $3.76 per share and a 10-year life. The aggregate value of these option grants was estimated at $802,000 and is being recognized as compensation expense over the vesting period. During 2004, the Company recognized compensation expense associated with these option grants of $360,000. As of December 31, 2004, $413,000 of deferred compensation remained to be amortized.

LUMERA CORPORATION

NOTES TO FINANCIAL STATEMENTS (Continued)

Fair Value Disclosure The fair values of the options granted by Lumera to employees were estimated on the date of each grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 2004, 2003 and 2002, respectively:

	December 31,		
	2004	**2003**	**2002**
Risk Free Interest Rate	3.2%	3.8%	4.6%
Expected Life (in years)	5.5	7.0	7.0
Dividend Yield	0.0%	0.0%	0.0%
Volatility	83.0%	83.0%	83.0%

8. WARRANTS

In October 2002, the Company issued a warrant to purchase 164,000 shares of Class A common stock at an exercise price of $3.65 per share to Arizona Microsystems, L.L.C. for use of certain technology. These warrants were exercised in a cashless transaction for 38,935 common shares in July 2004.

In April 2004 the company issued warrants to purchasers of its convertible promissory notes for an aggregate of 115,000 shares of Common Stock at and exercise price of $7.20 per share. The value of the warrants granted, which are exercisable through April 21, 2009, was estimated to be approximately $344,000 using the Black Scholes option pricing model. The relative fair value of the warrants of $301,000 was be treated as a debt issuance cost and was amortized to interest expense over the one- year term of the debt.

In July 2004 the Company issued warrants to its Underwriters in connection with the Company s initial public offering to purchase a total of 600,000 shares of Lumera common stock at a purchase price of $8.34, or 120% of the price of the Company s shares upon completion of its IPO. The warrants are exercisable through July 28, 2009. These warrants were treated as a cost of raising capital.

Microvision holds a warrant to purchase a total of 170,546 shares of Common Stock at an exercise price of $8.80 per share. The warrant is exercisable through March 2011. The Microvision warrant, originally issued for 150,000 Series A Preferred shares at $10.00 per share, carried anti-dilution rights which, upon completion of the Company s IPO, triggered an automatic adjustment to the number of shares and exercise price.

9. CONVERTIBLE NOTES PAYABLE

In April 2004, the Company received cash proceeds from the issuance of convertible promissory notes in the aggregate principal amount of $2.3 million. The notes accrued interest at a rate of 6.5% per annum and were payable on demand at the earlier of March 31, 2005 or upon the closing of an underwritten public offering of the Company s common stock. The principal amount and any accrued but unpaid interest in respect of each note was convertible, at the option of the holder, into shares of the Company s Class A common stock. The conversion price of the Notes was stated as the lesser of $6.00 per share of common stock or the price per share offered to the public in any underwritten IPO of the Company s common stock.

In connection with the sale of these convertible notes, the Company also issued warrants to purchase an aggregate of 115,000 shares of common stock at a price of $7.20 per share. The warrants expire in April 2009. The value of the warrants granted was estimated to be approximately $344,000 at the date of grant using the Black Scholes option pricing model. The Company allocated the proceeds to the convertible note and warrant based on their relative fair value. The relative fair value of the warrants of $301,000 was treated as a debt issuance cost and was amortized to interest expense over the one-year term of the debt.

LUMERA CORPORATION

NOTES TO FINANCIAL STATEMENTS (Continued)

Upon completion of the Company s IPO in July 2004 the notes became due and payable. All of the note holders elected to receive cash payments, which resulted in principal and interest payments totaling $2,344,000 in August 2004. The unamortized debt issuance costs were recognized immediately as interest expense at that time. During 2004, the Company recognized a total of $345,000 of interest expense associated with the Notes.

10. COMMITMENTS AND CONTINGENCIES

Agreements with the University of Washington In October 2000, the Company entered into a license agreement (License Agreement) and a research agreement (Sponsored Research Agreement) with the University of Washington (UW). The License Agreement grants the Company rights to certain intellectual property including technology being developed under the sponsored Research Agreement whereby the Company has a royalty-bearing license to make, sell or sublicense the licensed technology. Under the terms of the License Agreement, the Company issued 802,414 shares of the Company s Class A common stock to the UW. The shares, although initially subject to a vesting schedule tied to performance under the Sponsored Research Agreement, were vested in full by mutual agreement between the UW and the Company on January 8, 2001. The shares issued were valued by management at $3,009,000, based on a value of $3.75 per share on the date of issuance. Management considered a number of factors, including an independent valuation, projected cash flows from the Company s technology and expected future products, general market conditions and the risks inherent in achieving the Company s business plan in determining the fair value of the common shares issued. The value of the shares issued was recorded as prepaid stock-based research expense and was fully amortized to expense as of March 31, 2004.

Under the terms of the License Agreement, the Company is also required to pay certain costs related to filing and processing of patents and copyrights related to the agreements. Additionally, the Company is required to pay certain ongoing royalty payments at a minimum of $75,000 per annum. The Company has not made any royalty payments to date in excess of these minimums. These payments have been expensed as incurred.

As part of the Sponsored Research Agreement, the Company agreed to pay an aggregate of $9,000,000 in quarterly payments over three years for research services. The first payment was made on February 26, 2001. The Company expensed the total expected payments on a straight-line basis because there was no more readily determinable pattern of the performance of the research services under the agreement.

In February 2002, the Company and the UW amended the Sponsored Research Agreement to extend quarterly payments and performance through 2005. In March 2003, the Company and the UW entered into a second amendment to the Sponsored Research Agreement, which deferred certain 2003 payments until 2004. In November 2003, the Company and the UW entered into a third amendment to the Sponsored Research Agreement. Under the terms of the third amendment, the Company s payment obligation to the UW was reduced to $125,000 per quarter from October 1, 2003 to September 30, 2004, and $300,000 for the quarter ending December 31, 2004. The amendment required the Company to make its unpaid payments of $2,000,000 by May 2005. In April 2004, the Company and the University of Washington entered into a fourth amendment to the Sponsored Research Agreement that required payments of $125,000 for the quarters ending March 31, 2004 and September 30, 2004 and eliminated a contingent payment of $2,000,000 that had been due in April 2004. For each of the quarters ending September 30, 2004 and December 31, 2004, the Company was required to pay $250,000. The agreement will terminate in 2005 after payments of $375,000 are made at the beginning of each of the first two quarters. Total payments under the Amended Sponsored Research Agreement will be $5,750,000 instead of the $9,000,000 under the terms of the original agreement.

Subsequent to each amendment noted above, the Company prospectively adjusted the amortization of the research payments to account for the extended period over which the payments would be made and services

LUMERA CORPORATION

NOTES TO FINANCIAL STATEMENTS (Continued)

provided. As a result of these adjustments, the Company had cumulatively recognized expenses in excess of payments made of $1,948,000 at December 31, 2003. As a result of the fourth amendment and the elimination of the contingent $2 million payment in 2005, the company recognized a credit to research and development expense of $2.4 million in 2004.

In April 2004, the Company and the University of Washington entered into a fourth amendment to the Sponsored Research Agreement that required payments of $125,000 for the quarters ending March 31, 2004 and September 30, 2004 and eliminated a contingent payment of $2,000,000 that had been due in April 2004. For each of the quarters ending September 30, 2004 and December 31, 2004, the Company was required to pay $250,000. The agreement will terminate in 2005 after payments of $375,000 are made at the beginning of each of the first two quarters. Total payments under the Amended Sponsored Research Agreement will be $5,750,000 instead of the $9,000,000 under the terms of the original agreement.

The following table summarizes payments made and expense recorded during the years ending December 31:

	2004	2003	2002
		(in thousands)	
Payments made	$ 800	$ 1,300	$ 1,556
Sponsored research	$ (1,223)	$ 1,924	$ 2,400
Optical materials	50	300	300
Minimum royalty	75	75	75
Expenses recorded on payments	$ (1,098)	$ 2,299	$ 2,775
Amortization of stock	159	1,003	1,003
Total expense recorded	$ (939)	$ 3,302	$ 3,778

The following table outlines future required payments and royalties related to the Sponsored Research Agreement and optical materials arrangement for the years ending December 31:

	2005	Minimum annually thereafter
	(in thousands)	
Research plan payments	$ 750	$
Optical materials payments		
Royalties payments	75	75

Total	$ 825	$ 75

Lease Commitments The Company has a sublease agreement with Microvision for its corporate facilities at a base rate of approximately $21,000 per month, plus common area charges, which is effective through April 6, 2006. The Company had no other significant operating or capital leases at December 31, 2004.

Claims and Litigation In the opinion of management, litigation, contingent liabilities and claims against the Company in the normal course of business are not expected to involve any judgments or settlements that would be material to the Company s financial condition, results of operations or cash flows.

11. RETIREMENT SAVINGS PLAN

On August 31, 2004, the Company established its retirement savings plan (the Plan), which qualifies under the Internal Revenue Code Section 401(k) and covers all qualified employees. The Plan allows the

LUMERA CORPORATION

NOTES TO FINANCIAL STATEMENTS (Continued)

Company to match 50% of an employee s contribution to the Plan up to a maximum 6% of the employee s base salary. During the period from September through December 31, 2004, the Company contributed $19,000 to the Plan under the matching program. Prior to August 31, 2004 the Company s employees participated in the Microvision retirement savings plan. The Company contributed $33,000, $43,000 and $40,000 in matching payments under the Microvision Plan in the first eight months of 2004, and 2003 and 2002, respectively.

12. QUARTERLY FINANICAL DATA (UNAUDITED)

The following table represents certain unaudited quarterly financial information for the eight quarters ended December 31, 2004. In management s opinion, this information has been prepared on the same basis as the audited financial statements and includes all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the unaudited quarterly results of operations set forth herein.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
		(in thousands, except per share data)			
Total Revenue					
2004	$ 316	$ 288	$ 292	$ 93	$ 989
2003	369	395	676	285	1,725
Gross Profit (Loss)					
2004	122	100	128	(12)	338
2003	171	211	303	26	711
Net Loss Available to Common Shareholders					
2004	(2,592)	(732)	(3,176)	(2,923)	(9,423)
2003	(2,124)	(2,082)	(1,848)	(2,029)	(8,083)
Basic and diluted net loss per share attributable to common stockholders					
2004	$ (0.43)	$ (0.08)	$ (0.24)	$ (0.14)	$ (0.89)
2003	(0.34)	(0.34)	(0.30)	(0.33)	(1.31)

Quarterly and annual earnings per share are calculated independently, based on the weighted average number of shares outstanding during the periods.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MICROVISION, INC.

Date: April 27, 2005	By	/s/ Jeff T. Wilson
		Jeff T. Wilson Chief Accounting Officer (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.

3.1	Certificate of Incorporation of Microvision, Inc., (2)
3.2	Bylaws of Microvision, Inc. (2)
3.3	Certificate of Designations, Preferences and Rights of the Series A Convertible Preferred Stock of Microvision, Inc.(24)
4.1	Form of Specimen Stock Certificate for Common Stock(2)
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.(6)
4.4	Form of Indenture(14)
4.5	Form of Warrant issued on October 9, 2001(15)
4.6	Form of Warrant issued on July 22, 2002(19)
4.7	Form of Warrant issued on March 5, 2003(18)
4.8	Warrant to Purchase Common Stock of Microvision, Inc. issued September 10, 2004 to Satellite Strategic Finance Associates, LLC. (24)

4.9	Form of Note issued under the Securities Purchase Agreement dated as of March 11, 2005 by and among Microvision, Inc. and the investors listed on the Schedule of Buyers thereto.[25]
4.10	Form of Warrant issued under the Securities Purchase Agreement dated as of March 11, 2005 by and among Microvision, Inc. and the investors listed on the Schedule of Buyers thereto. [25]
4.11	Company Registration Rights Agreement executed in connection with the Securities Purchase Agreement dated as of March 11, 2005 by and among Microvision, Inc. and the investors listed on the Schedule of Buyers thereto. [25]
4.12	Lumera Registration Rights Agreement executed in connection with the Securities Purchase Agreement dated as of March 11, 2005 by and among Microvision, Inc. and the investors listed on the Schedule of Buyers thereto. [25]
4.13	Form of Pledge and Security Agreement executed in connection with the Securities Purchase Agreement dated as of March 11, 2005 by and among Microvision, Inc. and the investors listed on the Schedule of Buyers thereto. [25]
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[18]
10.5	1993 Stock Option Plan[1]*
10.6	1996 Stock Option Plan, as amended.[17]*
10.7	1996 Independent Director Stock Plan, as amended.[17]*
10.8	Form of Executive Option Exercise Loan Plan[3]*
10.9	Lease Agreement between S/I Northcreek II, LLC and Microvision, Inc., dated October 27, 1998[23]
10.9.1	Lease Amendment No 1 to Lease between S/I Northcreek II, LLC and Microvision, Inc., dated July 12, 1999[9]

10.9.2	Lease Amendment No 12 to Lease between S/I Northcreek II, LLC and Microvision, Inc., dated February 14, 2001[9]
10.10	Form of Consulting Agreement between Microvision, Inc. and Avram Miller and Jacqueline Brandwynne dated August 10, 2000[8]
10.11	Form of Common Stock Purchase Warrant issued to Avram Miller and Jacqueline Brandwynne dated August 10, 2000[8]
10.12	Exclusive Licensing Agreement between the University of Washington and Lumera Corporation dated October 20, 2000[11], +
10.13	Sponsored Research Agreement between the University of Washington and Lumera Corporation dated October 20, 2000[11].
10.14	Independent Director Stock Option Plan, as amended[17]*
10.15	Investors' Rights Agreement, dated as of March 14, 2001 by and between Lumera Corporation and certain investors[12]
10.16	Executive Loan Plan and Related Form of Note[16]*
10.17	Microvision, Inc. Series 1 Stock Purchase Warrant, dated April 1, 1999, issued to Capital Ventures International [18]
10.18	Form of Stock Purchase Agreement dated March 22, 2002[20]
10.19	Form of Stock Purchase Agreement dated July 22, 2002[19]
10.20	Form of Securities Purchase Agreement dated as of March 3, 2003[18]
10.21	Form of the Option Agreement for options granted outside of the Plans[21]
10.22	Common Stock Purchase Warrant, dated as of January 14, 1999, issued to Stan Berk[22]
10.23	Common Stock Purchase Warrant, dated as of July 13, 1999, issued to Stan Berk[22]
10.24	Common Stock Purchase Warrant, dated as of April 13, 2000, issued to Burt S. Davis[22]
10.25	Common Stock Purchase Warrant, dated as of June 21, 2000, issued to Stan Berk[22]
10.26	Common Stock Purchase Warrant, dated as of October 15, 2001, issued to Ladenburg Thalmann & Co. Inc. [22]
10.27	Registration Rights Agreement dated as of September 9, 2004 by and between Microvision, Inc. and Satellite Strategic Finance Associates,

	LLC. (24)
10.28	Securities Purchase Agreement dated as of September 9, 2004 by and between Microvision, Inc. and Satellite Strategic Finance Associates, LLC. (24)
10.29	License and Development Agreement dated as of December 30, 2004 by and between Microvision, Inc. and Ethicon Endo-Surgery, Inc. + (26)
10.30	Securities Purchase Agreement dated as of March 11, 2005 by and among Microvision, Inc. and the investors listed on the Schedule of Buyers thereto. (25)
23.1	Consent of Independent Registered Public Accounting Firm
23.2	Consent of Independent Registered Public Accounting Firm

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(1) Incorporated by reference to the Company's Form SB-2 Registration Statement, Registration No. 333-05276-LA.

(2) Incorporated by reference to the Company's Post-Effective Amendment to Form S-3 Registration Statement, Registration No. 333-102244.

(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.

(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 Form 10-Q for the quarterly period ended June 30, 2000.

(8) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended September 30, 2000.

(9) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1999.

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

(11) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

(12) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended March 31, 2001.

(13) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended June 30, 2001.

(14) Incorporated by reference to the Registration Statement on Form S-3, Registration No. 333-69652.

(15) Incorporated by reference to the Company's Current Report on Form 8-K filed on October 9, 2001.

(16) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2001.

(17) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended June 30, 2002.

(18) Incorporated by reference to the Company's Current Report on Form 8-K filed on March 5, 2003.

(19) Incorporated by reference to the Company's Current Report on Form 8-K filed on July 23, 2002.

(20) Incorporated by reference to the Company's Current Report on Form 8-K filed on March 26, 2002.

(21) Incorporated by reference to the Company's Schedule TO file on November 1, 2002.

(22) Incorporated by reference to the Company's Annual Report on Form 10K for the year ended December 31, 2002.

(23) Incorporated by reference to the Company's Form 10-QSB for the quarterly period ended September 30, 1998.

(24) Incorporated by reference to the Company's Current Report on Form 8-K filed on September 10, 2004.

(25) Incorporated by reference to the Company's Current Report on Form 8-K filed on March 14, 2005.

(26) Incorporated by reference to the Company's Current Report on Form 10-K filed on March 17, 2005.

+ Subject to confidential treatment.

* Management contracts and compensatory plans and arrangements required to be filed as exhibits pursuant to Item 15(c) of this Report.