MICROVISION INC
Form 10-K
March 10, 2010

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

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the fiscal year ended December 31, 2009

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________ to ________

Commission file number 0-21221

Microvision, Inc.

(Exact name of Registrant as Specified in its Charter)

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

6222 185th Ave NE
Redmond, Washington 98052

(Address of Principal Executive Offices including Zip Code)

(425) 936-6847

(Registrant's Telephone Number, Including Area Code)

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

Title of each class	Name of each exchange on which registered
Common Stock, $.001 par value	NASDAQ Global Market

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Act. Yes

o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes

o No x

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 o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files. Yes

o No o

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.

o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨	Accelerated filer x	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes

o No x

The aggregate market value of the common stock held by non-affiliates of the registrant as of June 30, 2009 was approximately $233.8 million (based on the closing price for the registrant's Common Stock on the NASDAQ Global Market of $3.07 per share).

The number of shares of the registrant's Common Stock outstanding as of March 5, 2010 was 88,697,000.

Documents Incorporated by Reference

Portions of the registrant's definitive Proxy Statement to be filed with the Commission pursuant to Regulation 14A in connection with the registrant's Annual Meeting of Shareholders to be held on June 17, 2010 are incorporated herein by reference into Part III of this report.

Microvision, Inc.
2009 ANNUAL REPORT ON FORM 10-K

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PART I

Preliminary Note Regarding Forward-Looking Statements

This report contains forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and is subject to the safe harbor created by those sections. Such statements may include, but are not limited to, projections of revenues, income or loss, capital expenditures, plans for product development and cooperative arrangements, future operations, financing needs or plans of Microvision, as well as assumptions relating to the foregoing. The words "anticipate," "could," "believe," "estimate," "expect," "goal," "may," "plan," "project," "will," and similar expressions identify forward-looking statements. Factors that could cause actual results to differ materially from those projected in our forward-looking statements include the following: our ability to obtain financing; market acceptance of our technologies and products; our financial and technical resources relative to those of our competitors; our ability to keep up with rapid technological change; government regulation of our technologies; our ability to enforce our intellectual property rights and protect our proprietary technologies; the ability to obtain additional contract awards and to develop partnership opportunities; the timing of commercial product launches; the ability to achieve key technical milestones in key products; and other risk factors identified below in Item 1A.

ITEM 1. BUSINESS

Overview

We are developing high-resolution miniature display and imaging engines based upon our proprietary PicoP® display engine platform. Our technology platform utilizes our expertise in two dimensional Micro- Electrical Mechanical Systems (MEMS), lasers, optics, and electronics to create a high quality video or still image from a small form factor device with lower power needs than conventional display technologies. Historically, we have entered into development agreements with commercial and U.S. government customers to develop advanced prototype and demonstration units based on our light scanning technologies.

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

We recently launched the sale of a small accessory projector that is the first commercial product based on the PicoP display engine. The accessory projector can display images from a variety of video sources including cell phones,

portable media players, PDAs, gaming consoles, laptop computers, digital cameras, and other consumer electronics products. We have been selling the accessory projector in limited quantity through our Asian and European based distributors. In March 2010, we announced the sales launch of the accessory projector to customers in the United States. We plan to add distribution channels as the production capacity for our manufacturing partner, green laser suppliers and other component suppliers increases.

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

We develop and procure intellectual property rights relating to our technologies as a key aspect of our business strategy. We generate intellectual property from our ongoing performance on development contracts and our internal research and development activities. We also have acquired exclusive rights to various technologies under licensing agreements.

Technology

Our bi-directional MEMS scanning mirror is a key component of our technology platform and is one of our core competencies. Our MEMS design is a silicon device at the center of which is a tiny mirror. This mirror is connected to small flexures which allow it to oscillate. The 2D MEMS scanner oscillates vertically and horizontally to capture (imaging) or reproduce (display) an image pixel-by-pixel. 2D MEMS scanners are used in our PicoP display engine that powers Pico Projector Displays, Vehicle Displays, and Wearable Displays.

Our PicoP display engine technology platform includes a MEMS scanner, laser light sources, electronics, and optics combined using our proprietary system control expertise, gained through years of internal research and development. Our projection engines use a single beam of laser light and a single small scanning mirror to create a brilliant, full color, high contrast, uniform display over the entire field of view, from a small and thin package.

We believe that our proprietary PicoP technology offers significant advantages over traditional display and imaging systems. Depending on the specific product application, these advantages may include:

- Small and thin package size
- Higher brightness and contrast
- Higher resolution
- Clear text readability
- Reduced power requirements
- Simpler optical design that does not require a focusing lens
- Lower price at volume

Business Strategy

Our business strategy is to promote our technology in the form of integrated and embedded components to leading OEMs for widespread use in display and imaging product applications, as well as leverage our technology expertise into our own end-user products. Presently we are focused on the following steps to implement our business strategy:

- Continue to market and sell our accessory projector through multiple sales channels including distributors, OEMs, and directly to end users.
- Target leading OEMs to integrate our PicoP display engines into their products. We have also worked with original design manufacturers (ODMs) and Tier 1 suppliers to produce advanced prototypes and demonstration units to be used to market to our partners' OEM customers directly by us or by our partners.
- Expand and solidify the supply chain architecture to support high volume manufacturing of the PicoP display engine, its subsystems and its components.

- Continue to promote awareness of our technology platform to all members of the value chain. We have been continually in contact with OEMs, ODMs and mobile content providers to understand the features our PicoP display engines must have in order to provide desired benefits to all members of the value chain. We have and will continue to consider this information as we design and develop our technology platform.
- Continue rapid advancement of our technology platform and roadmap.

Product and Marketing Focus:

Pico Projector Displays

In addition to our recently launched accessory pico projector, we are working with partners to develop small projector displays embedded into mobile products. The display industry is calling this new class of projectors "pico projectors." We believe our PicoP display engine can meet the size, power and performance requirements to be embedded into portable hand-held devices including mobile phones or function as a stand alone accessory device that connects to a mobile video source such as a personal media player, cell phone or laptop computer. We plan to enter into agreements with OEMs that will result in production and a distribution of the PicoP-based products.

In September 2009, we launched the first PicoP display engine-based accessory laser pico projector with three initial partners in Asia-Pacific and Europe. In March 2010, we expanded our distribution to the United States.

The SHOWWX is a battery operated plug-and-play projector that can project a full color, WVGA (848 X 480 pixels), DVD quality image with vivid colors and exceptional contrast that is always in focus. The SHOWWX has been certified "Made for iPod" and is a Class 2 laser product that is safe for use by consumers. The SHOWWX is manufactured by a high volume contract manufacturer who also builds the PicoP display engine.

Vehicle Displays

We believe an automotive head-up display (HUD) improves driver safety by eliminating the driver's need to look away from the road to read information such as GPS mapping images, audio controls and other automobile instrumentation. Working independently and with Tier 1 suppliers, we have produced prototypes that demonstrate our PicoP's ability to project high-resolution images onto the windshield of an automobile, providing the driver with a variety of information related to the car's operation. We believe that an automotive HUD based on our PicoP technology offers three distinct advantages over competing head-up displays:

- Size - Our prototype display is less than half the size of current competitive offerings. This smaller form factor can accommodate a wider variety of vehicle configurations.

- Contrast Ratio - Our prototype has a contrast ratio an order of magnitude higher than current competitive offerings. The high contrast ratio allows the driver to see the display clearly day or night, in any ambient lighting conditions.

- Installation Cost - Our prototype can be electronically customized to match the unique curvature of a particular automobile's windshield, thereby reducing installation time and cost. The current competitive offerings must be manually adjusted to match the curvature of a windshield.

We have worked with various Tier 1 automotive suppliers to develop PicoP enabled HUD prototypes and are working to market them to their OEM customers. We have also developed a portable full color head-up display demonstrator powered by the PicoP display engine to showcase the capabilities of the PicoP display engine for potential use in automobiles, specialty vehicles, trucks, buses and motor coaches. We expect that our PicoP display engine subsystem could be integrated by a Tier 1 supplier into their HUD product package for sale to automobile manufacturers or by a product integrator into an aftermarket product for direct sale to their customers.

Wearable Displays

We believe our PicoP technology can be integrated with a light-weight optical design to create a full color near-eye wearable display platform. This wearable display platform could be in the form of ruggedized helmet mounted display systems or lightweight fashionable eyewear. Wearable displays could be used to provide personal viewing of information from a mobile device through a wired or wireless connection. We believe that PicoP based wearable displays could provide the following advantages over competing wearable display technologies:

- See-through performance - See-through eyewear displays enable the wearer to interact with the real world and their personal mobile services at the same time. Unlike competing wearable displays, a see-through display does not obstruct the wearer's vision or reduce their awareness of what is happening around them.

- Daylight readability - The high-brightness capability of color eyewear based on the PicoP display engine enables images to be clearly visible in brightly lit ambient environments, including direct sunlight. Current LCD-based head worn displays are difficult to see in bright light environments.

- Fashion and ergonomics - We are developing thin and lightweight optics that can be integrated with the PicoP display engine so that our OEM partners can design wearable displays that match conventional eyewear frames in size and weight and provide significantly improved ergonomics compared to competing wearable displays.

We are working with the US military and commercial customers to further develop the optical design and integration of the PicoP display engine for military applications such as helmet mounted displays and full color see-through eyewear. We plan to work with OEMs and system integrators to incorporate the PicoP display engine into integrated solutions for potential military and commercial customers. We have developed high definition display demonstrators under contracts with commercial and government customers.

Bar Code Scanners

We currently market our line of ROV hand held bar code scanners and bar code scanner enabled enterprise solutions. The ROV Scanner incorporates our proprietary MEMS technology and is designed to accommodate mobile workers who need simple and affordable data collection solutions on the mobile platforms of their choosing. The ROV Scanner has lower power consumption and total operating cost than many competing laser bar code scanners. We distribute ROV Scanners directly to end users through value added resellers, original equipment manufacturers and phone and internet orders. In the second half of 2009, we reduced our sales and marketing efforts on the bar code product. We do not expect to increase our investment in the bar code product in the future and we are currently evaluating opportunities to sell our existing bar code inventory, sell or license our bar code production capability and technology.

Go-To-Market Strategy

We are evaluating opportunities to widely market our products using a variety of distribution channels such as establishing partnerships with OEMs and distributors and establishing infrastructure to support direct marketing through web-based, retail or other outlets. Our products may carry the Microvision brand or be branded and distributed by our OEM or distribution partners.

Certain potential applications using the PicoP display engines, such as an automotive HUD or pico projector for mobile phones, requires integration of our technology with other related technologies. In markets requiring high volume production of the PicoP display engine components or subsystems that are to be integrated with other components, we may provide designs for components, subsystems and systems to OEMs under licensing agreements.

We expect that some customers will require unique designs for their products. We expect that such relationships will generally involve a period of co-development during which engineering, manufacturing and marketing professionals from potential customers and OEMs would work with our technical staff to modify the PicoP display engine for their targeted market and application. We may charge fees to our customers or OEMs to fund the costs of the engineering effort incurred on such development projects. The nature of these relationships may vary from partner to partner

depending on the proposed specifications for the PicoP display engine, the product to be developed, and the customers' or OEMs' design, manufacturing and distribution capabilities. We believe that by limiting our own direct manufacturing investment for products, we will reduce our capital requirements and risks inherent in taking the PicoP display engine to the consumer market.

Human Factors, Ergonomics and Safety

We conduct ongoing research on safety factors that must be addressed by products incorporating our technology, including such issues as the maximum permissible laser exposure limits established by International Electrotechnical Commission (IEC) and others. Independent experts have concluded that laser exposure to the eye resulting from use of the light scanning displays under normal operating conditions would be below the calculated maximum permissible exposure level set by IEC.

In addition, we work with and commission outside independent experts in the field of laser safety to assist in meeting safety specifications as requested by our customers.

Competitive Conditions

The information display industry is highly competitive. Our potential display products will compete with established manufacturers of mature display technologies such as miniaturized cathode ray tube and flat panel display devices, as well as companies developing new display technologies. Our competitors include companies such as Texas Instruments Incorporated, 3M, and Light Blue Optics Ltd. in the pico projection display segment and Siemens VDO and Nippon Seiki in the vehicle displays segment, most of which have much greater financial, technical and other resources than we do. Many of our competitors are developing alternative miniature display technologies. Our competitors may succeed in developing information display technologies and products that could render our technology or our proposed products commercially infeasible or technologically obsolete.

Pico projectors are an emerging class of miniature projectors that are generally handheld, battery operated, mobile projectors. Most of the competing projectors currently on the market or planned for introduction in the next 6-12 months are primarily based on either liquid crystal on silicon (LCOS) panel solutions or Texas Instruments' DLP™ display technology. Each of these solutions can create images from a small form factor of varying resolution, brightness, image quality, battery life, and ease of use.

The information display industry has been characterized by rapid and significant technological advances. Our technology and potential products may not remain competitive with such advances, and we may not have sufficient funds to invest in new technologies, products or processes. Although we believe our technology platform and proposed display products could deliver images of a substantially better quality and resolution from a smaller form factor device 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 our proposed products.

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

Intellectual Property and Proprietary Rights

We generate intellectual property from our ongoing performance on development contracts and our internal research and development activities. The inventions covered by our patent applications generally relate to component miniaturization, specific implementation of various system components and design elements to facilitate mass

production. Protecting these key enabling technologies and components is a fundamental aspect of our strategy to penetrate diverse markets with unique products. As such, we intend to continue to develop our portfolio of proprietary and patented technologies at the system, component and process levels.

Since our inception in 1993, we have acquired under license agreements exclusive rights to various technologies, including, among others, rights related to the ability to superimpose images on the user's field of view and with a retinal display, and rights related to the design and fabrication of micro miniature devices using semiconductor fabrication techniques. In some cases, the licensors have retained limited, non-commercial rights with respect to the technology, including the right to use the technology for non-commercial research and for instructional purposes. Some licensors have the right to consent to our sublicensing arrangements and to the prosecution and settlement by us of our of infringement disputes.

Our ability to compete effectively in the display and image capture market will depend, in part, on our ability and the ability of the licensors to maintain the proprietary nature of these technologies.

We also rely on unpatented proprietary technology. To protect our rights in these areas, we require 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 our 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.

Among the marks we have registered are "PicoP," "MicroHud" and the "tri-curve" logo with the United States Patent and Trademark Office. We have filed for registration of various other marks including "ROV" with the United States Patent and Trademark Office.

Additional Information

We perform research and development to design and develop our technology platform and modifications to the PicoP display engine that will be required for specific applications. Research and development expense for the fiscal years ended December 31, 2009, 2008 and 2007 was $24.6 million, $22.6 million and $14.9 million, respectively. To date, most of our revenue has been generated from development contracts to develop our technology to meet customer specifications. Our customers have included both the U.S. government and commercial enterprises. In 2009, 43% of revenue was derived from performance on development contracts with the U.S. government, 31% from performance on development contracts with commercial customers and the remainder from sales of bar code scanner and SHOWWX units. Two government customers accounted for 24% and 17%, respectively, of total revenue in 2009. In 2008, 34% of revenue was derived from performance on development contracts with the U.S. government, 40% from performance on development contracts with commercial customers and the remainder from sales of bar code scanner units. Two commercial customers accounted for 15% and 11%, respectively, of total revenue in 2008. In 2007, 61% of revenue was derived from performance on development contracts with the U.S. government, 25% from performance on development contracts with commercial customers and the remainder from sales of bar code scanner and our discontinued Nomad product. One commercial customer accounted for approximately 15% of total revenue during 2007. Our contracts with the U.S. government can be terminated for convenience by the U.S. government at any time. See Management's Discussion and Analysis of Financial Condition and Results of Operations.

We had a backlog of $3.9 million at December 31, 2009 compared to a backlog of $1.2 million at December 31, 2008. The backlog at December 31, 2009, is composed of $70,000 in government development contracts and $30,000 in commercial development contracts entered into through December 31, 2009 and $3.8 million in orders for ROV, SHOWWX, prototype units, and evaluation kits. Microvision plans to complete all of the backlog contracts by the end of 2010.

Employees

As of March 5, 2010, we had 161 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 6222 185th Avenue NE, Redmond WA 98052 and our telephone number is 425-936-6847.

Our Internet address is www.microvision.com. We make available free of charge our 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 we electronically file such material with, or furnish it to, the SEC. Investors can access this material by visiting our website, clicking on "Investors" and then on "SEC Filings."

ITEM 1A. RISK FACTORS

Risk Factors Relating to the Microvision Business

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

We have had substantial losses since our inception. We cannot assure you that we will ever become or remain profitable.

- As of December 31, 2009, we had an accumulated deficit of $331.6 million.
- We incurred consolidated net losses of $239.7 million from inception through 2006, $19.8 million in 2007, $32.6 million in 2008, and $39.5 in 2009.

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

We cannot be certain that we will succeed in obtaining additional development contracts or that we will be able to obtain substantial customer orders for our products. In light of these factors, we expect to continue to incur substantial losses and negative cash flow at least through 2010 and likely thereafter. We cannot be certain that we will achieve positive cash flow at any time in the future.

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

Based on our current operating plan, we anticipate that we have sufficient cash and cash equivalents to fund our operations through the first quarter of 2011. We will require additional cash to fund our operating plan past that time. We plan to obtain additional cash through the issuance of equity or debt securities.

Our capital requirements will depend on many factors, including, but not limited to, the rate at which we can, directly or through arrangements with original equipment manufacturers, introduce products incorporating the PicoP display engine and image capture technologies and the market acceptance and competitive position of such products. If revenues are less than we anticipate, if the mix of revenues vary from anticipated amounts or if expenses exceed the amounts budgeted, we may require additional capital earlier than expected to further the development of our technologies, for expenses associated with product development, and to respond to competitive pressures or to meet

unanticipated development difficulties. In addition, our operating plan provides for the development of strategic relationships with systems and equipment manufacturers that may require additional investments by us.

Additional capital may not be available to us, or if available, on terms acceptable to us or on a timely basis. Raising additional capital may involve issuing securities with rights and preferences that are senior to our common stock and may dilute the value of current shareholders' shares. If adequate funds are not available on a timely basis we may be required limit our operations substantially. This limitation of operations may include delaying development projects resulting in reductions in staff and operating costs as well as reductions in capital expenditures and investment in research and development

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

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

We cannot be certain that our technology platform or products incorporating our PicoP display engine will achieve market acceptance. If products incorporating the PicoP display engine do not achieve market acceptance, our revenues may not grow.

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

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

We rely on and will continue to rely on technologies, such as light sources, MEMS and optical components that are developed and produced by other companies. The commercial success of certain of our planned future products will depend in part on advances in these and other technologies by other companies. We may, from time to time, contract with and support companies developing key technologies in order to accelerate the development of them for our specific uses. There are no guarantees that such activities will result in useful technologies or components for us.

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

Our common stock is listed for quotation on The NASDAQ Global Market. To keep our listing on this market, we must meet NASDAQ's listing maintenance standards. If we are unable to continue to meet NASDAQ's listing maintenance standards, our common stock could be delisted from The NASDAQ Global Market. If our common stock were delisted, we likely would seek to list the common stock on the NASDAQ Capital Market, the American Stock Exchange or on a regional stock exchange. Listing on such other market or exchange could reduce the liquidity for our common stock. If our common stock were not listed on the Capital Market or an exchange, trading of our common stock would be conducted in the over-the-counter market on an electronic bulletin board established for unlisted securities or directly through market makers in our common stock. If our common stock were to trade in the over-the-counter market, an investor would find it more difficult to dispose of, or to obtain accurate quotations for the price of, the common stock. A delisting from The NASDAQ Global Market and failure to obtain listing on such other market or exchange would subject our securities to so-called penny stock rules that impose additional sales practice and market-making requirements on broker-dealers who sell or make a market in such securities. Consequently, removal from The NASDAQ Global Market and failure to obtain listing on another market or exchange could affect

the ability or willingness of broker-dealers to sell or make a market in our common stock and the ability of purchasers of our common stock to sell their securities in the secondary market. In addition, when the market price of our common stock is less than $5.00 per share, we become subject to penny stock rules even if our common stock is still listed on The NASDAQ Global Market. While the penny stock rules should not affect the quotation of our common stock on The NASDAQ Global Market, these rules may further limit the market liquidity of our common stock and the ability of investors to sell our common stock in the secondary market. The market price of our stock has mostly traded below $5.00 per share during 2009, 2008, and 2007. On March 5, 2010, the closing price of our stock was $2.69.

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

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

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

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

We may not succeed in these efforts because of:

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

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

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

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

partners or customers may seek indemnification from us for damages or expenses they incur.

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

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

Our dependence on sales to distributors increases the risks of managing our supply chain and may result in excess inventory or inventory shortages.

We expect the majority of our distributor relationships for the SHOWWX and its accessories to involve the distributor taking inventory positions and reselling to multiple customers. With these distributor relationships, we would not recognize revenue until the distributors sell the product through to their end user customers. Our distributor relationships may reduce our ability to forecast sales and increases risks to our business. Since our distributors would act as intermediaries between us and the end user customers, we would be required to rely on our distributors to accurately report inventory levels and production forecasts. This may require us to manage a more complex supply chain and monitor the financial condition and credit worthiness of our distributors and the end user customers. Our failure to manage one or more of these risks could result in excess inventory or shortages that could adversely impact our operating results and financial condition.

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

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

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

In the recent past, general worldwide economic conditions have experienced a downturn due to slower economic activity, concerns about inflation, increased energy costs, decreased consumer confidence, reduced corporate profits and capital spending, and adverse business conditions. Any continuation or

worsening of the current global economic and financial conditions could materially adversely affect (i) our ability to raise, or the cost of, needed capital, (ii) demand for our current and future products and (iii) our ability to commercialize products. We cannot predict the timing, strength, or duration of any economic slowdown or subsequent economic recovery, worldwide, or in the display industry.

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

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

- political and economic instability;

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

If we have to qualify a new contract manufacturer or foundry for our products, we may experience delays that result in lost revenues and damaged customer relationships.

We rely on single suppliers to manufacture our PicoP display engine, our SHOWWX product and our MEMS chips in wafer form. The lead time required to establish a relationship with a new contract manufacturer or foundry is long, and it takes time to adapt a product's design to a particular manufacturer's processes. Accordingly, there is no readily available alternative source of supply for these products and components in high volumes. This could cause significant delays in shipping products if we have to change our source of supply and manufacture quickly, which may result in lost revenues and damaged customer relationships.

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

We have begun sales of units incorporating the PicoP display engine. However, we must undertake additional research, development and testing before we are able to develop additional products for commercial sale. Product development delays by us or our potential product development partners, or the inability to enter into relationships with these partners, may delay or prevent us from introducing products for commercial sale. We intend to rely on third party developments or to contract with other companies to continue development of green laser devices we will need for our products.

Our success will depend, in part, on our ability to secure significant third party manufacturing resources.

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

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

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

obtain new patents, may enable other companies to develop products that compete with ours on the basis of the same or similar technology.

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

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

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

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

During the full years 2009, 2008 and 2007, 43%, 34% and 61% respectively, of our revenue was derived from performance on a limited number of development contracts with the U.S. government. Therefore, any significant disruption or deterioration of our relationship with the U.S. government would significantly reduce our revenues. Our government programs must compete with programs managed by other contractors for limited amounts and uncertain levels of funding. The total amount and levels of funding are susceptible to significant fluctuations on a year-to-year basis. Our competitors continuously engage in efforts to expand their business relationships with the government and are likely to continue these efforts in the future. Our contracts with the government are subject to immediate termination by the government for convenience at any time. The government may choose to use contractors with competing display technologies or it may decide to discontinue any of our programs altogether. In addition, those development contracts that we do obtain require ongoing compliance with applicable government regulations. Termination of our development contracts, a shift in government spending to other programs in which we are not involved, a reduction in government spending generally, or our failure to meet applicable government regulations could have severe consequences for our results of operations.

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

Our development agreements have lengthy sales cycles that involve numerous steps including determination of a product application, exploring the technical feasibility of a proposed product, evaluating the costs of manufacturing a product and manufacturing or contracting out the manufacturing of the product. Our long sales cycle, which can last several years, makes it difficult to predict the quarter in which contract signing and revenue recognition will occur. Delays in entering into development agreements could cause significant variability in our revenues and operating

results for any particular quarterly period.

Our development contracts may not lead to products that will be profitable.

Our development contracts, including without limitation those discussed in this document are exploratory in nature and are intended to develop new types of products for new applications. These efforts may prove unsuccessful and these relationships may not result in the development of products that will be profitable.

If we lose our rights under our third party technology licenses, our operations could be adversely affected.

Our business depends in part on technology rights licensed from third parties. We could lose our exclusivity or other rights to use the technology under our licenses if we fail to comply with the terms and performance requirements of the licenses. In addition, certain licensors may terminate a license upon our breach and have the right to consent to sublicense arrangements. If we were to lose our rights under any of these licenses, or if we were unable to obtain required consents to future sublicenses, we could lose a competitive advantage in the market, and may even lose the ability to commercialize certain products completely. Either of these results could substantially decrease our revenues.

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

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

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

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

We are dependent on a small number of customers for our revenue. Our quarterly performance may vary substantially and this variance, as well as general market conditions, may cause our stock price to fluctuate greatly and potentially expose us to litigation.

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

- reductions or delays in funding of development programs involving new information display technologies by the U.S. government or our current or prospective commercial partners;
- changes in evaluations and recommendations by any securities analysts following our stock or our industry generally;
- announcements by other companies in our industry;
- changes in business or regulatory conditions;
- announcements or implementation by our competitors of technological innovations or new products;

- the status of particular development programs and the timing of performance under specific development agreements;
- economic and stock market conditions; or
- other factors unrelated to our company or industry.

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

We currently lease approximately 67,000 square feet of combined use office, laboratory and manufacturing space at our headquarters facility in Redmond, Washington. The 90 month lease expires in 2013.

ITEM 3. LEGAL PROCEEDINGS

We are subject to various claims and pending or threatened lawsuits in the normal course of business. We are not currently party to any other legal proceedings that we believe would have a material adverse effect on our 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, 2009.

ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT

Executive officers are appointed by our Board of Directors and hold office until their successors are elected and duly qualified. Mr. Tokman also serves as a director of Microvision. The following persons serve as executive officers of Microvision:

Alexander Tokman, age 48, has served as President, Chief Executive Officer and a director of Microvision since January 2006. Mr. Tokman served as Microvision's President and Chief Operating Officer from July 2005 to January 2006. Mr. Tokman, a former GE executive, joined Microvision after a 10-year tenure at GE Healthcare, a subsidiary of General Electric, where he led several global businesses, most recently as General Manager of its Global Molecular Imaging and Radiopharmacy multi-technology business unit from 2003 to 2005. Prior to that, between 1995 and 2003, Mr. Tokman served in various cross-functional and cross-business leadership roles at GE where he led the definition and commercialization of several medical modalities product segments including PET/CT, which added over $500

million of revenue growth to the company within the first three years of its commercial introduction. Mr. Tokman is a certified Six Sigma and Design for Six Sigma (DFSS) Black Belt and Master Black Belt and as one of GE's Six Sigma pioneers, he drove the quality culture change across GE Healthcare in the late 1990s. From November 1989 to March 1995 Mr. Tokman served as new technologies programs lead and a head of I&RD office at Tracor Applied Sciences a subsidiary of then Tracor, Inc. Mr. Tokman has both an M.S. and B.S. in Electrical Engineering from the University of Massachusetts, Dartmouth.

Michael L. Fritts, age 46, joined Microvision in February 2010 as Vice President, Sales, Marketing and Business Development. Mr. Fritts previously worked for GE Healthcare from 1987 to 2010 where he held various management and other positions. For the past two years, Mr. Fritts served as General Manager of a newly created business segment within the $1.7B Magnetic Resonance Imaging (MRI) Division, leading GE Healthcare's growth in the emerging Interventional MRI market. Mr. Fritts had responsibility for a global team developing new products, establishing partnerships and collaborations, building market awareness, and working extensively with sales and marketing teams around the world to commercialize products. In previous management roles, Mr. Fritts led international and domestic teams that focused on new product development. Mr. Fritts has also led the integration of various acquired companies into GE Healthcare. Mr. Fritts is a certified Six Sigma and Design for Six Sigma (DFSS) Quality Leader, has completed the Executive M.B.A. program at the Kellogg Graduate School of Management at Northwestern University, and received a B.S. in Electrical Engineering from South Dakota School of Mines and Technology.

Sid Madhavan, age 43, joined Microvision in April 2006 as Vice President of Research and Product Development. Madhavan previously worked for GE Healthcare from 1998 to 2006 where he held various management positions and most recently served as a Global Engineering Subsystem Manager for a $2.1 billion Molecular Imaging and Computer Tomography business. He is a certified Six Sigma and Design for Six Sigma (DFSS) Black Belt and functional Master Black Belt and as an engineering leader, he led the definition and development of several key technology platform strategies that he translated into product launches. Madhavan brings over twenty years of cross-functional new product development experience, systems and software expertise, platform development and global management skills and received his B.S. degree in Electronics and Communications from Madurai Kamaraj University in India and his M.S. in Electrical Engineering from Texas A&M.

Thomas M. Walker, age 45, 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.

Jeff T. Wilson, age 49, has served as Chief Financial Officer since April 2006, Principal Financial Officer since January 2006 and Principal Accounting Officer of Microvision since August 1999. Mr. Wilson served as Vice President, Accounting of Microvision from April 2002 to April 2006 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 PricewaterhouseCoopers LLP. Mr. Wilson is a Certified Public Accountant. Mr. Wilson holds a B.S. in Accounting from Oklahoma State University.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock trades on The NASDAQ Global Market under the symbol "MVIS." As of March 5, 2010, there were approximately 365 holders of record of 88,697,000 shares of common stock outstanding. We have never declared or paid cash dividends on our common stock. We currently anticipate that we will retain all future earnings to fund the operations of our business and do not anticipate paying dividends on the common stock in the foreseeable future.

Our 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 Global Market are as follows:

	Common Stock	
Quarter Ended	**HIGH**	**LOW**
2008		
March 31, 2008	$ 4.65	$ 1.82
June 30, 2008	4.05	2.35
September 30, 2008	3.16	1.85
December 31, 2008	2.20	1.06
2009		
March 31, 2009	$ 2.20	$ 0.77
June 30, 2009	3.30	1.20
September 30, 2009	5.71	2.70
December 31, 2009	5.75	2.90
2010		
January 1, 2010 to March 5, 2010	$ 3.63	$ 1.92

ITEM 6. SELECTED FINANCIAL DATA

A summary of selected financial data as of and for the five years ended December 31, 2009 is set forth below. It should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this Form 10-K.

	Years Ended D		
	2009	**2008**	**2007**
	(in thousands, exce		
Statement of Operations Data:			
Revenue	$ 3,833	$ 6,611	$ 10,48
Net loss available for common shareholders	(39,529)	(32,620)	(19,78
Basic and diluted net loss per share	(0.54)	(0.53)	(0.4
Weighted average shares outstanding basic and diluted	73,760	61,643	49,96
Balance Sheet Data:			
Cash and cash equivalents	$ 43,025	$ 25,533	$ 13,39
Investments available-for-sale	2,710	2,705	22,41
Working capital	38,221	24,347	30,04
Total assets	53,536	36,964	45,29
Long-term liabilities	1,471	1,776	2,20
Mandatorily redeemable preferred stock	--	--	-
Total shareholders' equity (deficit)	41,891	27,651	33,06

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

Overview

We are developing high-resolution miniature display and imaging engines based upon our proprietary PicoP® display engine platform. Our technology platform utilizes our expertise in two dimensional Micro-Electrical Mechanical Systems (MEMS), lasers, optics and electronics to create a high quality video or still image from a small form factor device with lower power needs than conventional display technologies.

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

We recently launched the sale of a small accessory projector that is the first commercial product based on the PicoP display engine. The accessory projector can display images from a variety of video sources including cell phones, portable media players, PDAs, gaming consoles, laptop computers, digital cameras, and other consumer electronics products. We have been selling the accessory projector in limited quantity through our Asian and European based distributors. In March 2010, we announced the sales launch of the accessory projector to customers in the United States. We plan to add distribution channels as the production capacity for our manufacturing partner, green laser suppliers and other component suppliers increases.

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

We have incurred substantial losses since inception and expect to incur a substantial loss during the fiscal year ending December 31, 2010.

Key Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our 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 us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent liabilities. We evaluate our estimates on an on-going basis. We base our estimates on historical experience, terms of existing contracts, our evaluation of trends in the display and image capture industries, information provided by our current and prospective customers and strategic partners, information available from other outside sources, and on various other assumptions we believe to be reasonable under the circumstances. The results 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.

We believe the following key accounting policies require more significant judgments and estimates used in the preparation of our consolidated financial statements:

Revenue Recognition.

We recognize contract revenue as work progresses on long-term, cost plus fixed fee, and fixed price contracts using the percentage-of-completion method, which relies on estimates of total expected contract revenue and costs. Our revenue contracts generally include a statement of the work we are to complete and the total fee we will earn from the contract. When we begin work on the contract and at the end of each accounting period, we estimate the labor, material and other cost required to complete the statement of work compared to cost incurred to date. We use information provided by our technical team, project mangers, vendors, outside consultants and others to develop our cost estimates. Since our contracts generally require some level of technology development to complete, the actual cost required to complete a statement of work can vary from our estimates. We have developed processes that allow us to make reasonable estimates of the cost to complete a contract. Historically, we have made only immaterial revisions in the estimates to complete the contract at each reporting period. Recognized revenues are subject to revisions as the contract progresses to completion and actual revenue and cost become certain. Revisions in revenue estimates are reflected in the period in which the facts that give rise to the revision become known. In the future, revisions in these estimates could significantly impact recognized revenue in any one reporting period. If the U.S. government cancels a contract, we would receive payment for work performed and costs committed to prior to the cancellation.

We recognize product revenue and contract revenue on the sale of prototype units and evaluation kits, upon acceptance of the deliverables by the customer or expiration of the contractual acceptance period, after which there are no rights of return. In the future, we expect to enter into distribution relationships which involve the distributor taking inventory positions and reselling to multiple customers. With these distributor relationships, we would not recognize revenue until the distributors sell the product through to their end user customers.

Cost of Revenue.

Cost of revenue includes both the direct and allocated indirect costs of performing on development contracts and producing prototype units, evaluation kits, and ROV units. Cost of revenue for the SHOWWX includes the direct costs of manufacturing products sold to customers. Because we are in the early phase of SHOWWX production and the design and manufacturing processes are not yet sufficiently mature to support commercial production, we classify overhead cost allocated to the SHOWWX as research and development expense. When the SHOWWX design and production processes reach a level to support commercial production, all manufacturing costs will be included in cost of revenue.

Direct costs include labor, materials and other costs incurred directly in performing on a contract or producing prototype units, evaluation kits, and ROV and SHOWWX units. Indirect costs include labor and other costs associated with operating our research and development department and building our manufacturing and technical capabilities and capacity. Our overhead, which includes the costs of procuring, inspecting and storing material, facility and depreciation costs, is allocated to inventory, cost of product revenue, cost of contract revenue, and research and development expense based on the proportion of direct material purchased for the respective activity.

Losses on Uncompleted Contracts

. We establish an allowance for estimated losses if the estimated cost to complete a contract exceeds the remaining contract value. The entire estimated loss is recorded in the period in which the loss is first determined. We determine the estimated cost to complete a contract through a detailed review of the work to be completed, the resources available to complete the work and the technical difficulty of the remaining work. If the revised estimated cost to complete the contract is higher than the total contract revenue, the entire contract 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 our development contracts are cost plus fixed fee type contracts. Under these types of contracts, we are not required to spend more than the contract value to complete the contracted work.

Allowance for uncollectible receivables

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

Inventory.

We value inventory at the lower of cost or market with cost determined on a weighted average cost basis. We review several factors in determining the market value of our 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, if market conditions for our components or products were to decline or if we do

not achieve our sales forecast, additional reductions in the carrying value of the inventory would be required.

Investments Available-For-Sale and Fair Value Measurements.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the authoritative guidance establishes a three level fair value hierarchy, with Level 1 being observable inputs such as quoted market prices in active markets spanning to Level 3 where inputs are unobservable by market participants outside of the Company and must be estimated using assumptions we develop. We use market data, assumptions and risks we believe market participants would use in measuring the fair value of the asset or liability, including the risks inherent in the inputs and the valuation techniques.

Estimating valuation inputs and selecting and applying valuation methods may require significant judgments by management. Changes in the estimated inputs and valuation methods could result in materially different values, credits and charges presented in the consolidated financial statements.

The investments are stated at fair value and classified as cash and cash equivalents or current investment securities available-for-sale on the consolidated balance sheets with unrealized gains and losses included in the consolidated statements of comprehensive loss. We classify investment securities available-for-sale purchased with 90 days or less remaining until contractual maturity as cash equivalents on the balance sheet in "Cash and cash equivalents." Interest income, realized gains and losses, and other-than-temporary impairments are recognized in the period earned or incurred, and presented separately in the consolidated statements of operations. Changes in the fair values of derivatives are realized in the period of remeasurement and recorded in "Gain (loss) on derivative instruments, net" in the consolidated statements of operations. The cost of securities sold is based on the specific identification method.

Employee Share-Based Compensation.

We issue share-based compensation to employees in the form of options exercisable into our common stock and restricted or unrestricted shares of our common stock. We account for equity instruments issued to employees using the straight-line attribution method of allocating the fair value of share-based compensation expense over the requisite service period of the related award. The value of restricted or unrestricted shares is determined using the fair value method, which is based on the number of shares granted and the closing price of our common stock on the NASDAQ Global Market on the date of grant. The value of options is determined using the Black-Scholes option pricing model with estimates of option lives, stock price volatilities and interest rates, then expensed over the periods of service allowing for pre-vest forfeitures. This widely accepted method results in reasonable option values and interperiod expense allocation, and comparability across companies. Changes in the estimated inputs or using other option valuation methods could result in materially different option values and share-based compensation expense.

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 us to apply judgment or make estimates. There are also areas in which our judgment in selecting any available alternative would not produce a materially different result to our consolidated financial statements. Additional information about our accounting policies, and other disclosures required by generally accepted accounting principles, are set forth in the notes to our consolidated financial statements.

Inflation has not had a material impact on our revenues, or income from continuing operations over the three most recent fiscal years.

Results of Operations

YEAR ENDED DECEMBER 31, 2009 COMPARED TO YEAR ENDED DECEMBER 31, 2008

Contract Revenue.

(in thousands)	2009	% of contract revenue	2008	% of contract revenue	$ ch
Government revenue	$ 1,649	58.5	$ 2,237	45.9	$
Commercial revenue	1,168	41.5	2,637	54.1	(1
Total contract revenue	$ 2,817		$ 4,874		$ (2

We earn contract revenue from performance on development contracts with the U.S. government and commercial customers and from the sale of prototype units and evaluation kits based on our PicoP display engine. Our contract revenue in a particular period is dependent upon when we enter into a contract, the value of the contracts we have entered into, and the availability of technical resources to perform work on the contracts. Our contract revenue from sales of prototype units and evaluation kits may vary substantially due to the timing of orders from customers and potential constraints on resources.

Contract revenue from government and commercial contracts was substantially lower during 2009 than in 2008 due to reduced contract activity and lower beginning backlog in 2009 compared to the previous year. We expect that we will have fewer opportunities to enter into new development contracts as we move closer to the commercialization of products based on our PicoP display engine.

As long as most of our revenue is earned from performance on development contracts, we believe there may be a high degree of variability in revenue from one period to another.

In July 2009, we entered into a 9 month $1.0 million subcontract with Lockheed Martin Corporation to supply two full-color, daylight readable, see-through display systems as part of the U.S. government's Urban Leader Tactical Response, Awareness & Visualization program. Lockheed Martin holds a prime contract with the U.S. government for development of the soldier worn display.

Our backlog of development contracts at December 31, 2009 was $70,000 in government contracts and $30,000 in commercial contracts compared to $714,000 in government contracts and $228,000 in commercial contracts at December 31, 2008. The decrease in backlog from 2008 is primarily attributed to completion of government and commercial development contracts in 2009 and reduced contract activity as we move closer to the commercialization of products based on our PicoP display engine. We plan to complete the entire contract backlog during 2010.

Product Revenue.

(in thousands)	2009	% of product revenue	2008	% of product revenue	$ ch
Bar code revenue	$ 686	67.5	$ 1,737	100.0	$ (1
Pico projector revenue	330	32.5	0	0.0	
Total product revenue	$ 1,016		$ 1,737		$

Bar code revenue includes the sales of ROV and our discontinued Flic bar code scanners. The decrease in bar code revenue for the year ended December 31, 2009 compared to the same period in 2008 was due to decreased purchasing volume of small and mid-sized businesses as a result of the global economic conditions. As a result of this downturn we have reduced our sales and marketing efforts on the bar code product. We do not expect to increase our investment

in the bar code product in the future and we are currently evaluating opportunities to sell our existing bar code inventory and sell or license our bar code production capability and technology.

Pico projector revenue includes the sales of SHOWWX which was launched in September 2009.

Our quarterly revenue may vary substantially due to the timing of product orders from customers, production constraints and availability of components and raw materials.

The backlog of product orders at December 31, 2009 was approximately $3.8 million, compared to $276,000 at December 31, 2008, all of which is scheduled for delivery during 2010.

Cost of Contract Revenue.

(in thousands)	2009	% of contract revenue	2008	% of contract revenue	$ ch
Cost of contract revenue	$ 1,531	54.3	$ 1,708	35.0	$

Cost of contract revenue includes both the direct and allocated indirect costs of performing on development contracts and producing prototype units and evaluation kits. Direct costs include labor, materials and other costs incurred directly in performing on a contract or producing prototype units and evaluation kits. Indirect costs include labor and other costs associated with operating our research and development department and building our technical capabilities and capacity. Cost of contract revenue is determined both by the level of direct costs incurred and by the level of indirect costs incurred in operating and building our technical capabilities and capacity. Both the direct and indirect costs can fluctuate substantially from period to period.

The cost of contract revenue as a percentage of revenue was higher in 2009 than in 2008 as a result of differences in the cost mix of the contracts during those periods.

The cost of revenue as a percentage of revenue can fluctuate significantly from period to period, depending on the contract cost mix and the levels of direct and indirect costs incurred. However, over longer periods of time we expect modest fluctuations in the cost of contract revenue, as a percentage of contract revenue.

Cost of Product Revenue.

(in thousands)	2009	% of product revenue	2008	% of product revenue	$ ch
Cost of product revenue	$ 2,363	232.6	$ 2,143	123.4	$

Cost of product revenue includes the direct costs of manufacturing products sold to customers, and for ROV it also includes the allocated indirect cost of manufacturing overhead. Direct costs include labor, materials and other costs incurred directly in the manufacture of these products. Indirect costs include labor and other costs associated with operating our manufacturing capabilities and capacity.

We are in the early phase of SHOWWX production and the design and manufacturing processes are not yet sufficiently mature to support commercial production. Our costs to produce SHOWWX units during 2009 were substantially higher than product revenue. We classified overhead cost allocated to the SHOWWX as research and development expense in 2009. When the SHOWWX design and production processes reach a level to support

commercial production, all manufacturing costs will be included in cost of revenue.

Our overhead, which includes the costs of procuring, inspecting and storing material, facility and depreciation costs, is allocated to inventory, cost of product revenue, cost of contract revenue, and research and development expense based on the proportion of direct material purchased for the respective activity. During 2009 and 2008, we expensed approximately $167,000 and $143,000, respectively, of manufacturing overhead associated with production capacity in excess of production requirements.

The increase in cost of product revenue for 2009, compared to 2008, was primarily attributed to increased inventory write downs compared to the prior year. The cost of product revenue as a percentage of product revenue can fluctuate significantly from period to period, depending on the product mix, the level of overhead expense and the volume of direct materials purchased. The increase in the cost of product revenue as a percentage of product revenue in 2009 compared to the same period in 2008 was due to a higher cost structure for the SHOWWX product and an increase in inventory write downs for the ROV product. In 2009, cost of product revenue included $1,257,000 of inventory write-downs compared to $475,000 for the same period in 2008.

Research and Development Expense.

(in thousands)	2009	2008	$ change	% change
Research and development	$ 24,577	$ 22,575	$ 2,002	8.9

Research and development expense consists of:

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

In addition, we allocate our research and development resources based on the business opportunity of the available projects, the skill mix of the resources available and the contractual commitments we have made to customers. In order to accelerate our time to market and because contract revenue was lower for the year ended December 31, 2009 compared to the same period in 2008, we directed more of our research and development work to internally funded projects compared to the same period last year. We have increased spending in research and development as part of our strategy to accelerate the time to market for products based on the PicoP. The increase in cost is primarily attributable to increases in payroll costs and contracted services.

We believe that a substantial level of continuing research and development expense will be required to develop additional commercial products using the light scanning technology. Accordingly, we anticipate our level of research and development spending will continue to be substantial.

Sales, Marketing, General and Administrative Expense.

(in thousands)	2009	2008	$ change	% change
Sales, marketing, general and administrative	$ 14,540	$ 15,730	$ (1,190)	(7.6)

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

The decrease in sales, marketing, general and administrative expense for 2009 from 2008 was primarily the result of decreased payroll costs due to reductions in staffing levels.

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

Interest Income and Expense.

(in thousands)	2009	2008	$ change	% change
Interest income	$ 212	$ 1,130	$ (918)	(81.2)

(in thousands)	2009	2008	$ change	% change
Interest expense	$ 68	$ 48	$ 20	41.7

The decrease in interest income in 2009 from 2008 results primarily from lower average cash, investments securities balances, and interest rates.

Impairment of investment securities, available-for-sale.

(in thousands)	2009	2008	$ change	% change
Impairment of investments, available-for-sale	$ 0	$ (300)	$ 300	(100.0)

At December 31, 2009, our marketable securities portfolio included $3.0 million par value AAA rated student loan auction-rate securities (SLARS). During the period ended December 31, 2008, based on the length of the historical duration of failed SLARS auctions, the significant uncertainty of the prospective duration of inactivity, and lack of liquidity in the SLARS market, we determined that the estimated fair values of the SLARS were less than par value and the impairments were other-than-temporary. We used a discounted cash flow model, with rates adjusted for liquidity, to determine the estimated fair values of the SLARS as of December 31, 2008. We recorded an "impairment of investment securities, available-for-sale" of $300,000 for the period ended December 31, 2008. There were no adjustments to the fair value of the SLARS during 2009.

Gain (Loss) on Derivative Instruments, Net.

(in thousands)	2009	2008	$ change	% change
Gain (loss) on derivative instruments, net	$ (506)	$ 2,196	$ (2,702)	(123.0)

In 2005 we issued warrants to purchase 2,302,000 shares of common stock in connection with certain notes. The warrants meet the definition of derivative instruments that must be accounted for as liabilities because we cannot engage in certain corporate transactions affecting the common stock unless we make a cash payment to the holders of the warrants. In July 2008, warrants to purchase 750,000 shares of common stock expired unexercised. We record changes in the fair values of the warrants in the statement of operations each period. We valued the remaining warrants to purchase 1,552,000 shares of common stock at December 31, 2009 using the Black-Scholes option pricing model with the following assumptions: expected volatility of 80%; expected dividend yield of 0%; risk free interest rates ranging from 0.06% to 0.43%; and contractual lives ranging from 0.2 years to 0.9 years. The change in value of the warrants of $509,000 in 2009 was recorded as a non-operating loss and is included in "Gain (loss) on derivative instruments, net" in the consolidated statement of operations.

Income Taxes.

No provision for income taxes has been recorded because we have experienced net losses from inception through December 31, 2009. At December 31, 2009, we had net operating loss carry-forwards of approximately $237.3 million for federal income tax reporting purposes. In addition, we have research and development tax credits of $4.9 million. 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 2009 to 2029 if not previously utilized. In certain circumstances, as specified in the Internal Revenue Code, a 50% or more ownership change by certain combinations of our shareholders during any three-year period would result in a limitation on our ability to utilize a portion of our net operating loss carry-forwards. We have 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 annual limitation for losses generated in 1996 is approximately $1.6 million.

We did not have any unrecognized tax benefits at December 31, 2009 or at December 31, 2008.

We recognize interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2009 and 2008, we recognized no interest and penalties.

YEAR ENDED DECEMBER 31, 2008 COMPARED TO YEAR ENDED DECEMBER 31, 2007

Contract Revenue.

(in thousands)	2008	% of contract revenue	2007	% of contract revenue	$ ch
Government revenue	$ 2,237	45.9	$ 6,430	71.4	$ (4
Commercial revenue	2,637	54.1	2,580	28.6	
Total contract revenue	$ 4,874		$ 9,010		$ (4

Contract revenue was substantially lower during 2008 than in 2007, due to lower beginning government contract backlog and a decreased level of activity on government contracts compared to the prior year.

In December 2007, we entered into a $1 million contract with a commercial customer to develop prototype units based on our PicoP technology, for evaluation of future consumer electronics product applications. The development work under this contract was initiated and fully completed in 2008.

In May 2007, we entered into a $3.2 million contract with the U.S. Air Force to provide a lightweight, see-through, full-color eyewear display prototype to the government. The contract, which continued a development activity with the Air Force, specified the development, design, verification, testing, and delivery of a lightweight, see-through full-color wearable display for evaluation by several DOD project offices.

Our backlog of development contracts at December 31, 2008 was $714,000 in government contracts and $228,000 in commercial contracts compared to $2.0 million in government contracts and $1.8 million in commercial contracts at December 31, 2007. The decrease in backlog from 2007 was primarily attributed to completion of government and commercial contracts in 2007 and early 2008.

Product Revenue.

(in thousands)	2008	% of product revenue	2007	% of product revenue	$ ch
Bar code revenue	$ 1,737	100.0	$ 1,393	94.5	$
Nomad revenue	0	0.0	81	5.5	
Total product revenue	$ 1,737		$ 1,474		$

Bar code revenue for 2007 and 2008 includes the sales of ROV and our discontinued Flic bar code scanners. The increase in bar code revenue for the year ended December 31, 2008 compared to the same period in 2007 was due to the increased sales of our ROV product line.

The decrease in Nomad revenue was the result of our decision in June 2006 to no longer promote the Nomad product. The Nomad had not gained the commercial acceptance we had planned when it was introduced.

The backlog of product orders at December 31, 2008 was approximately $276,000, compared to $245,000 at December 31, 2007.

Cost of Contract Revenue.

(in thousands)	2008	% of contract revenue	2007	% of contract revenue	$ ch
Cost of contract revenue	$ 1,708	35.0	$ 4,916	54.6	$ (3

The cost of contract revenue as a percentage of revenue was lower in 2008 than in 2007 as a result of negotiating better terms on contracts and from the sale of prototype units that had been previously expensed to internally funded programs.

Cost of Product Revenue.

(in thousands)	2008	% of product revenue	2007	% of product revenue	$ ch
Cost of product revenue	$ 2,143	123.4	$ 1,690	114.7	$

During 2008 and 2007, we expensed approximately $143,000 and $289,000, respectively, of manufacturing overhead associated with production capacity in excess of production requirements.

The increase in cost of product revenue for 2008 compared to 2007 was a result of increased revenue from the sales of ROV and the increase in inventory write-downs during the respective periods. In 2008, cost of product revenue included $475,000 of inventory write-downs compared to $84,000 for the same period in 2007.

Research and Development Expense.

(in thousands)	2008	2007	$ change	% change
Research and development	$ 22,575	$ 14,944	$ 7,631	51.1

The increase in research and development expense in 2008 compared to 2007 was the result of our increased spending as part of our strategy to accelerate the time to market for products based on the PicoP and lower contract revenue for the year resulting in more of our research and development work being directed to internally funded projects compared to the same period in 2007. The increase in cost was primarily attributable to increases in payroll costs and contracted services.

Sales, Marketing, General and Administrative Expense.

(in thousands)	2008	2007	$ change	% change
Sales, marketing, general and administrative	$ 15,730	$ 15,779	$ (49)	(0.3)

(in thousands)	2008	2007	$ change	% change
Interest income	$ 1,130	$ 1,358	$ (228)	(16.8)

(in thousands)	2008	2007	$ change	% change
Interest expense	$ 48	$ 513	$ (465)	(90.6)

Interest Income and Expense.

The decrease in interest income in 2008 from 2007 results primarily from lower interest rates on our investment securities compared to 2007.

In 2005, we issued convertible notes with an aggregate principal amount of $20 million. The last payment on the notes was made in March 2007, resulting in a decrease in interest expense for the year ended December 31, 2008 compared to the same period in 2007.

Impairment of investment securities, available-for-sale.

(in thousands)	2008	2007	$ change	% change
Impairment of investments, available-for-sale	$ (300)	$ 0	$ (300)	n/a

At December 31, 2008, our marketable securities portfolio included $3.0 million par value AAA rated student loan auction-rate securities (SLARS). Based on the length of the historical duration of failed SLARS auctions and significant uncertainty of the prospective duration of inactivity and lack of liquidity in the SLARS market, we determined that the estimated fair values of the SLARS were less than par value and the impairments were other-than-temporary. We used a discounted cash flow model, with rates adjusted for liquidity, to determine the estimated fair values of the SLARS as of December 31, 2008. We recorded an "impairment of investment securities, available-for-sale" of $300,000 for the period ended December 31, 2008.

Gain (Loss) on Derivative Instruments, Net.

The following table shows the gain on derivative instruments, net:

(in thousands)	2008	2007	$ change	% change
Gain (loss) on derivative instruments, net	$ 2,196	$ (483)	$ 2,679	(554.7)

In 2005 we issued warrants to purchase 2,302,000 shares of common stock in connection with certain notes. The warrants met the definition of derivative instruments that must be accounted for as liabilities, because we cannot engage in certain corporate transactions affecting the common stock unless we made a cash payment to the holders of the warrants. We record changes in the fair values of the warrants in the statement of operations each period. We valued the warrants at December 31, 2008 using the Black-Scholes option pricing model with the following assumptions: expected volatility of 72%, expected dividend yield of 0%, risk free interest rates ranging from 0.6% to 0.8%, and contractual lives ranging from 1.2 years to 1.9 years. The change in value of the warrants of $2.3 million in 2008 was recorded as a non-operating gain and is included in "Gain (loss) on derivative instruments, net" in the consolidated statement of operations.

Prior to December 9, 2008 we held warrants to purchase 170,500 shares of Lumera common stock. On December 9, 2008, Lumera merged with GigOptix, LLC and the combined company will conduct business as GigOptix, Inc. Our Lumera warrants were exchanged for warrants to purchase shares of the new company's common stock, after applying a 0.125 exchange ratio and exercise price escalation. As of December 31, 2008, the fair value of the warrants was determined to be zero and the change in value of $130,000 in 2008 was recorded as a loss to "Gain (loss) on derivative instruments, net."

Gain on sale of investment in Lumera.

Gain on sale of securities of equity investment:

(in thousands)	2008	2007	$ change	% change
Gain on sale of investment in Lumera	$ 0	$ 6,606	$ (6,606)	(100.0)

During 2007, we sold 1,714,000 shares of Lumera common stock for gross proceeds of $8.7 million and we recorded a gain of $6.6 million.

As result of the merger discussed above, the 36,000 shares of Lumera common stock we held were exchanged for 5,000 shares of GigOptix common stock.

Income Taxes.

At December 31, 2008, we had net operating loss carry-forwards of approximately $217.6 million for federal income tax reporting purposes. In addition, we had research and development tax credits of $4.3 million.

Liquidity and Capital Resources

We have incurred significant losses since inception. We have funded operations to date primarily through the sale of common stock, convertible preferred stock, warrants, the issuance of convertible debt and, to a lesser extent, from development contract revenues and product sales. In June 2009, we received $15.0 million, before issuance costs, from the sale of 8,076,239 shares of our common stock and warrants exercisable for 2,019,060 shares of our common stock. In November and December 2009, we received an aggregate of $33.1 million, before issuance costs, from the sale of 11,038,333 shares of our common stock. At December 31, 2009, we had $45.7 million in cash, cash equivalents, and investment securities, available-for-sale, which included $2.7 million in auction rate securities (ARS). There is currently no established primary orderly market for these ARS. If we were required to sell them in a short period of time we may receive less than their current estimated fair values. However, based on our current operating plan and ability to access our $43.0 million held in cash and cash equivalents as of December 31, 2009, we do not expect to be required to sell these securities materially below their current estimated fair value.

Based on our current operating plan, we anticipate that we have sufficient cash and cash equivalents to fund our operations through the first quarter of 2011. We will require additional cash to fund our operating plan past that time. We plan to obtain additional cash through the issuance of equity or debt securities. There can be no assurance that additional cash will be available or that, if available, it will be available on terms acceptable to us on a timely basis. If adequate funds are not available on a timely basis we may be required to limit our operations substantially. This limitation of operations could include delaying development projects resulting in reductions in staff, operating costs, capital expenditures and investment in research and development.

Cash used in operating activities totaled $31.7 million during 2009, compared to $31.2 million during 2008. During 2009, the increased cash outlay was primarily driven by the acceleration of research and development activities on our PicoP and related technologies for planned PicoP and other product applications. The balance of the change was largely due to lower contract revenue in 2009 than in 2008.

We had the following material gains and charges, and changes in assets and liabilities during the year ended December 31, 2009.

- "*Loss (gain) on derivative instruments*" In 2005 we issued warrants to purchase 2,302,000 shares of our common stock, which are accounted for as derivative security liabilities. The value of the warrants fluctuates with our common stock price and the decreasing lives of the warrants as they approach expiration. The net increase in our stock price during 2009 combined with decreasing terms to expiration resulted in a $509,000 non-cash non-operating loss recorded in "Loss (gain) on derivative instruments, net" on the consolidated statements of operations and a non-cash adjustment in operating cash flows recorded to "Loss (gain) on derivative instruments" on the consolidated statements of cash flows. We record the fair values of the warrants in "Liability associated with common stock warrants" on the consolidated balance sheets. The valuation assumptions and method are detailed in the Results of Operations section above.

- *"Accounts payable, net"*

Accounts payable increased by approximately $1.5 million due to invoices received at the end of 2009 for research and development expenses, inventory, and general operating expenses that were paid in 2010.

- *"Costs and estimated earnings in excess of billings on uncompleted contracts"*

Our costs and estimated earnings in excess of billings on uncompleted contracts decreased by $625,000 in 2009 due to increased activity surrounding the launch of the SHOWWX and lower contract activity.

- *"Inventory"*

Ending inventory decreased by $599,000 over 2008. The change in inventory includes inventory write-downs of $1.3 million offset by an increase in inventory of approximately $696,000 related to our pico projector product. We value 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, 2009 and 2008:

	December 31, 2009	December 31, 2008
Raw materials	$ 626,000	$ 45,000
Finished goods	300,000	1,480,000
	$ 926,000	$ 1,525,000

Investing Activities

Cash used in investing activities totaled $1.2 million in 2009 compared to cash provided by investing activities of $19.0 million in 2008. We invested the proceeds from our June, November and December 2009 issuances of common stock and warrants into money market accounts and short term investments. As a result, the purchases and sales of

these investments appear in cash and cash equivalents changes instead of in investing activities on the consolidated statements of cash flows. Cash provided by investing activities in 2008 was generated from the net sales of investment securities to fund continuing operations which were purchased in 2007. The 2007 net purchases in investing activities of $22.3 million were made with proceeds from the call of our publicly traded warrants and sale of Lumera common stock.

Financing Activities

Cash provided by financing activities totaled $50.4 million in 2009, compared to $24.3 million in 2008, largely as a result of the relative sizes of our financing transactions completed in 2009 and 2008. The following is a list of our financing activities during 2009, 2008 and 2007.

- In November and December 2009, we raised an aggregate of $33.1 million, before issuance costs of approximately $2.3 million, from the sale of 11.0 million shares of our common stock through underwritten public offerings.

- During 2009, we raised $3.9 million from the exercise of warrants to purchase 1.1 million shares of common stock and $1.3 million from the exercise of 335,000 stock options.

- In June 2009, we raised approximately $15.0 million, before issuance costs of approximately $218,000, from the sale of 8.1 million shares of common stock and warrants to purchase approximately 2.0 million shares of our common stock to a strategic investor. The warrants have an exercise price of $2.185 per share, a three year term, and are exercisable on the date of issuance. We can call the warrants if the average closing bid price of our stock is over $8.74 for any 20 consecutive trading days.

- In July 2008, we raised an aggregate of $26.0 million before issuance costs of approximately $2.0 million through a registered direct public offering of 11.2 million shares of our common stock and warrants to purchase 6.7 million shares of our common stock. The warrants have an exercise price of $3.60 per share, a five year term, and are exercisable one year from the date of issuance. The warrants are callable after one year from the date of issuance if the average closing bid price of our stock is over $7.20 for any 20 consecutive trading days. The warrants are listed on the NASDAQ Global Market under the ticker "MVISW."

- In June 2007, we called our publicly traded warrants issued as part of a 2006 mid-year financing transaction. The warrant holders had until July 6, 2007 to exercise their warrants or the warrants would expire. We received $34.1 million from the exercise of 12.9 million warrants.

During 2007, we made cash payments of $1.4 million in principal and $28,000 in interest, and issued 459,000 shares of our common stock in payment of $1.4 million in principal and $21,000 in interest for our outstanding notes. The final payment on the notes was made in March 2007.

Our cash 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 our technology and the market acceptance and competitive position of such products.

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
- our ability to establish cooperative development, joint venture and licensing arrangements.

In order to maintain our exclusive rights under our license agreement with the University of Washington, we are obligated to make royalty payments to the University of Washington with respect to the Virtual Retinal Display technology. If we are successful in establishing original equipment manufacturer co-development and joint venture arrangements, we expect our partners to fund certain non-recurring engineering costs for technology development and/or for product development. Nevertheless, we expect our cash requirements to remain high as we expand our activities and operations with the objective of commercializing our light scanning technology.

The following table lists our contractual obligations (in thousands):

	Payments Due By Period		
	Less than 1 year	1-3 years	3-5 years
Contractual Obligations:			
Open purchase obligations *	$ 11,225	$ 78	$ 16
Minimum payments under capital leases	102	133	83
Minimum payments under operating leases	870	1,842	564
Minimum payments under long-term debt	103	206	69
Minimum payments under research, royalty and licensing agreements	720	1,656	1,440
Total	$ 13,020	$ 3,915	$ 2,172

* Open purchase obligations represent commitments to purchase inventory, materials, capital equipment, maintenance agreements and other goods used in the normal operation of our business.

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

New accounting pronouncements

In May 2009, the Financial Accounting Standards Board (FASB) issued guidance establishing general standards for accounting and disclosure of events that occur after the balance sheet date but before financial statements are available to be issued. This standard sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, identifies the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that should be made about events or transactions that occurred after the balance sheet date. The standard is effective for fiscal years and interim periods ended after June 15, 2009. We adopted this standard during the quarter ended June 30, 2009 and have evaluated any subsequent events through the date of this filing. The adoption of the guidance did not have a material impact on our consolidated financial statements.

In October 2009, the FASB issued guidance which provides amendments to establish a selling price hierarchy for determining the selling price of a deliverable and expands the disclosures required for multiple-deliverable revenue arrangements. The guidance is effective for revenue arrangements that are entered into or are materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. We are currently evaluating the impact that implementation of this guidance will have on our financial statements.

In October 2009, the FASB issued guidance which allows exclusion of software from the scope of the software revenue recognition guidance if the software is included with tangible products and is essential to the tangible product's functionality. The guidance becomes effective for revenue arrangements that are entered into or are materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. We are currently evaluating the impact that implementation of this guidance will have on our financial statements.

In January 2010, the FASB issued guidance which improves disclosures about the measurement of the fair value of financial instruments including (1) the different classes of assets and liabilities measured at fair value, (2) the valuation techniques and inputs used, (3) the activity in Level 3 fair value measurements, and (4) the transfers between Levels 1, 2, and 3 of the fair value inputs hierarchy. The guidance is effective for fiscal years and interim

periods ended after December 15, 2009. The adoption of the guidance did not have a material impact on our consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate and Market Liquidity Risks

As of the end of 2009, approximately 94% of our total cash, cash equivalents and investment securities available-for-sale have variable interest rates or are very short-term discount notes traded in active markets. Therefore, we believe our exposure to market and interest rate risks is not material. The remainder is composed of $3.0 million par student loan auction-rate securities (SLARS) fair valued at approximately $2.7 million. Our SLARS are investment grade long-term bonds, structured with variable interest rate resets, with purchases and sales to be determined via a Dutch Auction process every 28 days. They were issued to fund U.S. government guaranteed student loans. Beginning in February 2008, the rapid declines in global credit markets and liquidity, and resultant economic recession, led to insufficient investor bids to clear the SLARS auctions and fund the secondary SLARS market. The issuers then began and continue to pay interest at "maximum rates", instead of "auction rates", in accordance with the bond terms.

Given the adverse credit market conditions and SLARS short-term illiquidity, the fair value of the principal became more sensitive to changes in interest rates and the spread between short and long rates than it was in the pre-2008 ARS credit marketplace. As a result, we estimated that the fair value of the SLARS to be approximately $2.7 million at December 31, 2008. There were no adjustments to the fair value of the SLARS during 2009. If market conditions worsen, we may have to further adjust the estimated fair value and record additional charges to earnings if we believe the adjustment is other-than-temporary. In the event we need immediate access to the funds invested in the SLARS, we could be required to sell them at an amount below our current carrying value. Any of these events could affect our consolidated financial condition, results of operations and cash flows. However, based on market stabilization and strengthening during 2009, we do not expect to be required to sell these securities materially below their current estimated fair values.

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

The values of cash equivalents and investment securities, available-for-sale by maturity date as of December 31, 2009, are as follows:

	Amount	Percent
Cash and cash equivalents	$ 43,025,000	94.1 %
Less than one year	10,000	0.0
One to two years	--	--
Greater than five years	2,700,000	5.9
	$ 45,735,000	100.0 %

Foreign Exchange Rate Risk

All of our development contract payments are made in U.S. dollars. However, in the future we may enter into development contracts in foreign currencies that may subject us to foreign exchange rate risk. We intend to enter into

foreign currency hedges to offset material exposure to currency fluctuations when we can adequately determine the timing and amounts of the exposure.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Consolidated Statements of Shareholders' Equity for the years ended December 31, 2009, 2008, and 2007	**
Consolidated Statements of Comprehensive Loss for the years ended December 31, 2009, 2008, and 2007	**
Consolidated Statements of Cash Flows for the years ended December 31, 2009, 2008, and 2007	**
Notes to Consolidated Financial Statements	**
Valuation and Qualifying Accounts and Reserves Schedule	**

Report of Independent Registered Public Accounting Firm

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, and shareholders' equity, comprehensive loss and cash flows present fairly, in all material respects, the financial position of Microvision, Inc. at December 31, 2009 and December 31, 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009 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. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009 based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and the financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements, financial statement schedule and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included 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. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide 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.

/s/ PricewaterhouseCoopers LLP

Seattle, Washington
March 10, 2010

Microvision, Inc.

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

	Decem
	2009
Assets	
Current assets	
Cash and cash equivalents	$ 43,025
Investment securities, available-for-sale	2,710
Accounts receivable, net of allowances of $67 and $57	913
Costs and estimated earnings in excess of billings on uncompleted contracts	70
Inventory	926
Other current assets	751
Total current assets	48,395
Property and equipment, net	3,904
Restricted investments	1,189
Other assets	48
Total assets	$ 53,536
Liabilities and Shareholders' Equity	
Current liabilities	
Accounts payable	$ 4,949
Accrued liabilities	4,190
Billings in excess of costs and estimated earnings on uncompleted contracts	55
Liability associated with common stock warrants	840
Current portion of capital lease obligations	62
Current portion of long-term debt	78
Total current liabilities	10,174
Capital lease obligations, net of current portion	157
Long-term debt, net of current portion	244
Deferred rent, net of current portion	1,070
Total liabilities	11,645
Commitments and contingencies	
Shareholders' Equity	
Preferred stock, par value $.001; 25,000 shares authorized; 0 and 0 shares issued and outstanding	--
Common stock, par value $.001; 200,000 shares authorized; 88,686 and 68,080 shares issued and outstanding	89
Additonal paid-in capital	373,405
Accumulated other comprehensive loss	(33)

Accumulated deficit	(331,570)
Total shareholders' equity	41,891
Total liabilities and shareholders' equity	$ 53,536

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

Microvision, Inc.

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

	Ye
	2009
Contract revenue	$ 2,81
Product revenue	1,01
Total revenue	3,83
Cost of contract revenue	1,53
Cost of product revenue	2,36
Total cost of revenue	3,89
Gross margin	(6
Research and development expense	24,57
Sales, marketing, general and administrative expense	14,54
Gain on disposal of fixed assets	-
Total operating expenses	39,11
Loss from operations	(39,17
Interest income	21
Interest expense	(6
Impairment of investment securities, available-for-sale	-
Gain (loss) on derivative instruments, net	(50
Other income (expense)	1
Net loss before Lumera transactions	(39,52
Gain on sale of investment in Lumera	-
Net loss	$ (39,52
Net loss per share basic and diluted	$ (0.5
Weighted-average shares outstanding basic and diluted	73,76

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

Microvision, Inc.

Consolidated Statements of Shareholders' Equity
(in thousands, except share amounts)

	Shareholders' Equity (D				
	Common Stock		Additional paid-in capital	Receivables from related parties	Accumula other comprehen income
	Shares	Par Value			
Balance at December 31, 2006	42,921	$ 43	$ 253,086	$ (250)	$ 8,
Amortization of share-based compensation			1,886		
Exercise of warrants and options	13,350	13	35,883		
Sales of common stock and warrants			130		
Issuance of common stock for payment on senior secured exchangeable convertible notes	452	1	1,367		
Issuance of common stock for payment of interest on senior secured exchangeable convertible notes	7		22		
Sale of Lumera stock held as collateral on receivables from related parties				227	
Allowance for doubtful accounts on receivables from related parties				23	
Other comprehensive income					(8
Net loss					
Balance at December 31, 2007	56,730	57	292,374	--	
Amortization of share-based compensation	35		2,857		
Exercise of warrants and options	143	--	388		
Sales of common stock and warrants	11,172	11	24,043		
Other comprehensive income					
Net loss					
Balance at December 31, 2008	68,080	68	319,662	--	
Amortization of share-based compensation	22		3,335		
Exercise of warrants and options	1,470	2	4,792		
Sales of common stock and warrants	19,114	19	45,616		
Other comprehensive income					
Net loss					
Balance at December 31, 2009	88,686	$ 89	$ 373,405	$ --	$ (

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

Microvision, Inc.

Consolidated Statements of Comprehensive Loss
(in thousands)

	Ye
	2009
Net loss	$ (39,52
Other comprehensive gain (loss)	
Unrealized gain (loss) on investment securities, available-for-sale:	
Unrealized holding gain (loss) arising during period	
Less: reclassification adjustment for gains realized in net loss	-
Net unrealized gain (loss)	
Comprehensive loss	$ (39,52

See accompanying notes to consolidated financial statements.

Microvision, Inc.

Consolidated Statements of Cash Flows
(in thousands)

	Year
	2009
Cash flows from operating activities	
Net loss	$ (39,529
Adjustments to reconcile net loss to net cash used in operations:	
Depreciation	1,138
Gain on disposal of fixed assets	--
Non-cash expenses related to issuance of stock, warrants, and options, and amortization of deferred compensation	3,373
Non-cash interest expense, net	--
Loss (gain) on derivative instruments	506
Impairment of short-term investment securities	--
Inventory write-downs	1,257
Allowance for receivables from related parties	--
Gain on sale of investment in Lumera	--
Net accretion of discount on short-term investments	--
Non-cash deferred rent	(276
Change in:	
Accounts receivable	(376
Costs and estimated earnings in excess of billings on uncompleted contracts	625
Inventory	(658
Other current assets	115
Other assets	(1
Accounts payable	1,477
Accrued liabilities	646
Billings in excess of costs and estimated earnings on uncompleted contracts	(7
Net cash used in operating activities	(31,710
Cash flows from investing activities	
Sales of investment securities	--
Purchases of investment securities	--
Sales of restricted investment securities	--
Purchases of restricted investment securities	--
Decrease in restricted investment	143
Collections of receivables from related parties	--
Sale of long-term investment - Lumera	--
Proceeds on sale of property and equipment	--
Purchases of property and equipment	(1,360
Net cash provided by (used in) investing activities	(1,217
Cash flows from financing activities	
Principal payments under capital leases	(60
Principal payments under long-term debt	(71
Payments on notes payable	--
Net proceeds from issuance of common stock and warrants	50,550

Net cash provided by financing activities	50,419
Net increase (decrease) in cash and cash equivalents	17,492
Cash and cash equivalents at beginning of period	25,533
Cash and cash equivalents at end of period	$ 43,025
Supplemental disclosure of cash flow information	
Cash paid for interest	$ 68
Supplemental schedule of non-cash investing and financing activities	
Property and equipment acquired under capital leases	$ 95
Other non-cash additions to property and equipment	$ 85
Issuance of common stock for payment of principal and interest on senior secured exchangeable convertible notes	$ --

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

1. The Company

We are developing high-resolution miniature display and imaging engines based upon our proprietary PicoP® display engine platform. Our technology platform utilizes our expertise in two dimensional Micro-Electrical Mechanical Systems (MEMS), lasers, optics and electronics to create a high quality video or still image from a small form factor device with lower power needs than conventional display technologies.

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

We recently launched the sale of a small accessory projector that is the first commercial product based on the PicoP display engine. The accessory projector can display images from a variety of video sources including cell phones, portable media players, PDAs, gaming consoles, laptop computers, digital cameras, and other consumer electronics products. We have been selling the accessory projector in limited quantity through our Asian and European based distributors. In March 2010, we announced the sales launch of the accessory projector to customers in the United States. We plan to add distribution channels as the production capacity for our manufacturing partner, green laser suppliers and other component suppliers increases.

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

Based on our current operating plan, we anticipate that we have sufficient cash and cash equivalents to fund our operations through the first quarter of 2011. We will require additional cash to fund our operating plan past that time. We plan to obtain additional cash through the issuance of equity or debt securities.

Our capital requirements will depend on many factors, including, but not limited to, the rate at which we can, directly or through arrangements with OEMs, introduce products incorporating the PicoP display engine and image capture technologies and the market acceptance and competitive position of such products. If revenues are less than anticipated, if the mix of revenues vary from anticipated amounts or if expenses exceed the amounts budgeted, we may require additional capital earlier than expected to further the development of our technologies, for expenses associated with product development, and to respond to competitive pressures or to meet unanticipated development difficulties. In addition, our operating plan provides for the development of strategic relationships with systems and equipment manufacturers that may require additional investments by us.

Additional capital may not be available to us or, if available, on terms acceptable to us or on a timely basis. Raising capital may involve issuing securities with rights and preferences that are senior to our common stock and may dilute the value of the current shareholders' shares. If adequate funds are not available on a timely basis, or planned revenues are not generated, we may be required to limit our operations substantially. This limitation of operations may include delaying development projects resulting in reductions in staff and operating costs as well as reductions in capital expenditures and investment in research and development.

2

. **Summary of significant accounting policies**

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles of the United States requires us 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. We have identified the following areas where significant estimates and assumptions have been made in preparing the financial statements: revenue recognition, valuation of auction-rate securities, allowance for uncollectible receivables, inventory valuation and valuation of derivative financial instruments.

Principles of consolidation

The consolidated financial statements include Microvision and equity investments in which Microvision has the ability to exercise significant influence but does not have voting control.

Cash and cash equivalents; investment securities, available-for-sale; and fair value of financial instruments

Our financial instruments include cash and cash equivalents, investments available-for-sale including auction rate securities (ARS), accounts receivable, accounts payable, accrued liabilities and long-term debt. Excluding the ARS and long term debt, the carrying value of our financial instruments approximates fair value due to their short maturities. For the ARS, the carrying value approximates fair value due to an other-than-temporary impairment adjustment. The carrying amount of long-term debt at December 31, 2009 and 2008 was not materially different from the fair value based on rates available for similar types of arrangements.

The fair value of financial instruments is defined as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the authoritative guidance establishes a three level fair value inputs hierarchy, with Level 1 being observable inputs such as quoted market prices in active markets spanning to Level 3 where inputs are unobservable by market participants outside of the Company and must be estimated using assumptions we develop. We use market data, assumptions and risks we believe market participants would use in measuring the fair value of the asset or liability, including the risks inherent in the inputs and the valuation techniques. We disclose the lowest level input significant to each category of asset or liability. We use inputs which are as observable as possible and the methods most applicable to the specific situation of each company or valued item.

We consider fair valued assets impaired when the fair value is less than cost. When the impairment is significant, we judge whether the impairment is temporary or other-than-temporary. An impairment is generally considered to be other-than-temporary and recorded as such in the period when there is deemed sufficient reason to conclude that the fair value of the asset is not expected to recover to the recorded fair value prior to the expected time of sale or maturity. We classify other-than-temporary fair value impairments into one of two categories: "credit" or "other factors". Other-than-temporary impairments are charged to current earnings if they are of the "credit" type or recorded to other comprehensive loss if they are due to "other factors".

Our cash equivalents and investment securities available-for-sale are comprised of U.S. government and agency securities, corporate debt and ARS. We classify investment securities available-for-sale purchased with 90 days or less remaining until contractual maturities as cash equivalents. Investment securities purchased with more than 90 days until contractual maturities are classified as current investment securities available-for-sale on the consolidated

balance sheet with unrealized gains and losses included in the consolidated statement of comprehensive loss. Interest income, realized gains and losses, and other-than-temporary credit type impairments are recognized in the period earned or incurred and presented separately in the consolidated statement of operations. Changes in the fair values of derivatives are realized in the period of remeasurement and recorded in Gain (loss) on derivative instruments, net in the consolidated statement of operations. 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 our SHOWWX and ROV products. Inventory is recorded at the lower of cost or market with cost determined using the weighted-average method. We periodically assess the need to provide for obsolescence of inventory and adjust the carrying value of inventory to its net realizable value when required. In addition, we reduce the value of our inventory to its estimated scrap value when we determine that it is not probable that the inventory will be consumed through normal production during the next twelve months.

Property and equipment

Property and equipment is stated at cost and depreciated 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 lease term.

Restricted investments

As of December 31, 2009, restricted investments were in money market funds and serve as collateral for $1.2 million in irrevocable letters of credit. Two letters of credit totaling $839,000 are outstanding in connection with a lease agreement for our corporate headquarters building in Redmond, WA. The required balance decreases over the term of the lease, which expires in 2013. In addition, a $350,000 letter of credit is outstanding under the terms of a supplier agreement.

Revenue recognition

Revenue has primarily been generated from contracts to develop the light scanning technology and to produce demonstration units for commercial enterprises and the U.S. government. We recognize contract revenue as work progresses on long-term cost plus fixed fee and fixed price contracts using the percentage-of-completion method, which relies on estimates of total expected contract revenue and costs. Our revenue contracts generally include a statement of the work we are to complete and the total fee we will earn from the contract. When we begin work on the contract and at the end of each accounting period, we estimate the labor, material, and other cost required to complete the statement of work compared to cost incurred to date. We use information provided by our technical team, project managers, vendors, outside consultants and others to develop our cost estimates. Since our contracts generally require some level of technology development to complete, the actual cost required to complete a statement of work can vary from our estimates. We have developed processes that allow us to reasonably estimate the cost to complete a contract. Historically, we have made only immaterial revisions in the estimates to complete the contract at each reporting period. Recognized revenues are subject to revisions as the contract progresses to completion and actual revenue and cost become certain. Revisions in revenue estimates are reflected in the period in which the facts that give rise to the revision become known. In the future, revisions in these estimates could significantly impact recognized revenue in any one reporting period. The U.S. government can terminate a contract with the Company at any time for convenience. If the U.S. government cancels a contract, we would receive payment for work performed and costs committed to prior to the cancellation.

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.

We recognize contract revenue for prototype units and evaluation kits for development work and product revenue when the product is shipped, there is sufficient evidence of an arrangement, the selling price is fixed or determinable and collection is reasonably assured. Revenue for prototype units, evaluation kits, and product shipments with acceptance provisions 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. Provisions are made for warranties at the time revenue is recorded. Warranty expense was not material for any periods presented.

Cost of revenue

Cost of revenue includes both the direct and allocated indirect costs of performing on development contracts and producing prototype units, evaluation kits, and ROV units. Cost of revenue for the SHOWWX includes the direct costs of manufacturing products sold to customers. Because we are in the early phase of SHOWWX production and the design and manufacturing processes are not yet sufficiently mature to support commercial production, we classify overhead cost allocated to the SHOWWX as research and development expense. When the SHOWWX design and production processes reach a level to support commercial production, all manufacturing costs will be included in cost of revenue.

Direct costs include labor, materials and other costs incurred directly in performing on a contract or producing prototype units, evaluation kits, and ROV and SHOWWX units. Indirect costs include labor and other costs associated with operating our research and development department and building our manufacturing and technical capabilities and capacity. Our overhead, which includes the costs of procuring, inspecting and storing material, facility and depreciation costs, is allocated to inventory, cost of product revenue, cost of contract revenue, and research and development expense based on the proportion of direct material purchased for the respective activity.

Concentration of credit risk and sales to major customers

Concentration of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk are primarily cash equivalents, investment securities available-for-sale and accounts receivable. We typically do not require collateral from our customers. Our investment policy generally directs investment managers to select investments to achieve the following goals: preservation of principal, adequate liquidity and return. As of December 31, 2009, the Company's cash and cash equivalents and investments securities portfolio are comprised of short-term highly rated money market funds and commercial paper, and guaranteed student loan ARS (SLARS).

As of December 31, 2009 and 2008, we held $3.0 million par value SLARS, fair valued at approximately $2.7 million. As of December 31, 2009, approximately 94% of our total cash and cash equivalents and investment securities available-for-sale had variable interest rates or were very short-term discount notes traded in active markets. Therefore, we believe our exposure to credit market and interest rate risks is not material. The remainder is composed of the $3.0 million par value SLARS. The SLARS are investment grade long-term bonds, structured with variable interest rate resets, with purchases and sales to be determined via a Dutch Auction process every 28 days. They were issued to fund U.S. government guaranteed student loans. Beginning in February 2008, the rapid declines in global credit markets and liquidity, and resultant economic recession, led to insufficient investor bids to clear the SLARS auctions and fund the secondary SLARS market. The issuers then began and continue to pay interest at "maximum rates", instead of "auction rates", in accordance with the bond terms. Given the adverse credit market conditions and SLARS short-term illiquidity, the fair value of the principal became more sensitive to changes in interest rates and the spread between short and long rates than it was in the pre-2008 ARS credit marketplace. As a result, we estimated the fair value of the SLARS to be approximately $2.7 million at December 31, 2008. There were no adjustments to the fair value of the SLARS during 2009. If market conditions worsen, we may have to further adjust the estimated fair

value and record additional charges to earnings, if we believe the adjustment is other-than-temporary. In the event we need immediate access to the funds invested in the SLARS, we could be required to sell them below our current carrying value. Any of these events could affect our consolidated financial condition, results of operations and cash flows. However, based on market stabilization and strengthening during 2009, we do not expect to be required to sell the securities materially below their current estimated fair values.

Concentration of Sales to Major Customers

The U.S. government accounted for approximately 43%, 34% and 61% of total revenue during 2009, 2008, and 2007, respectively. Two government customers accounted for approximately 24% and 17%, respectively of total revenue in 2009, two commercial customers accounted for approximately 15% and 11%, respectively, of total revenue during 2008, and one commercial customer accounted for approximately 15% of total revenue during 2007. Contracts with three commercial customers represented 17%, 35%, and 22% of total revenues during 2009, 2008, and 2007, respectively. The U.S. government accounted for approximately 37% and 19% of the accounts receivable balance at December 31, 2009 and 2008, respectively.

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 using the weighted-average number of common shares outstanding during the periods. Net loss per share assuming dilution is calculated using 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 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.

As of December 31, 2009, 2008, and 2007, we excluded the following convertible securities from diluted net loss per share as the effect of including them would have been anti-dilutive. The shares shown represent the number of shares of common stock which would be issued upon conversion as of December 31, 2009, 2008, and 2007.

	December 31,		
	2009	2008	2
Publicly traded warrants	6,025,000	6,703,000	
Options and private warrants	12,683,000	9,804,000	9,51
	18,708,000	16,507,000	9,51

Research and development

Research and development costs are expensed as incurred.

Long-lived assets

We evaluate the recoverability of our long-lived assets when an impairment is indicated based on expected undiscounted cash flows. We recognize impairment of the carrying value of long-lived assets, if any, based on the fair value of such assets.

Share-based compensation

We have one share-based incentive compensation plan and a separate board of director share-based compensation plan. In June 2008, we determined that we would not issue additional options from the director plan. Both plans are more fully described in Note 11.

We use the straight-line attribution method to allocate the fair value of share-based compensation awards over the requisite service period for each award. The following table shows the amount of share-based compensation expense included in the statements of operations for each period shown:

	Year Ended December 31,		
	2009	2008	2
Cost of contract revenue	$ 101,000	$ 85,000	$ 13
Cost of product revenue	18,000	25,000	2
Research and development expense	1,213,000	824,000	36
Sales, marketing, general and administrative expense	1,956,000	1,873,000	1,27
	$ 3,288,000	$ 2,807,000	$1,79

New accounting pronouncements

In May 2009, the Financial Accounting Standards Board (FASB) issued guidance establishing general standards for accounting and disclosure of events that occur after the balance sheet date but before financial statements are available to be issued. This standard sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, identifies the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that should be made about events or transactions that occurred after the balance sheet date. The standard is effective for fiscal years and interim periods ended after June 15, 2009. We adopted this standard during the quarter ended June 30, 2009 and have evaluated any subsequent events through the date of this filing. The adoption of the guidance did not have a material impact on our consolidated financial statements.

In October 2009, the FASB issued guidance which provides amendments to establish a selling price hierarchy for determining the selling price of a deliverable and expands the disclosures required for multiple-deliverable revenue arrangements. The guidance is effective for revenue arrangements that are entered into or are materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. We are currently evaluating the impact that implementation of this guidance will have on our financial statements.

In October 2009, the FASB issued guidance which allows exclusion of software from the scope of the software revenue recognition guidance if the software is included with tangible products and is essential to the tangible product's functionality. The guidance becomes effective for revenue arrangements that are entered into or are materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. We are

currently evaluating the impact that implementation of this guidance will have on our financial statements.

In January 2010, the FASB issued guidance which improves disclosures about the measurement of the fair value of financial instruments including (1) the different classes of assets and liabilities measured at fair value, (2) the valuation techniques and inputs used, (3) the activity in Level 3 fair value measurements, and (4) the transfers between Levels 1, 2, and 3 of the fair value inputs hierarchy. The guidance is effective for fiscal years and interim periods ended after December 15, 2009. The adoption of the guidance did not have a material impact on our consolidated financial statements..

3. Long-term contracts

Cost and estimated earnings in excess of billings on uncompleted contracts comprises amounts of revenue recognized on contracts that we have not yet billed to customers because the amounts were not contractually billable at December 31, 2009 and 2008. The following table summarizes when we will be contractually able to bill the balance as of December 31, 2009 and 2008.

	Year Ended December 31,	
	2009	2008
Billable within 30 days	$ 63,000	$ 688,000
Billable between 31 and 90 days	--	--
Billable after 90 days	7,000	7,000
	$ 70,000	$ 695,000

Our 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 us for negotiated actual direct and indirect cost incurred in performing the contracted services. We are not obligated to spend more than the contract value to complete the contracted services. The period of performance is generally one year. Each of our contracts with the U.S. government can be terminated for convenience by the government at any time. To date, the U.S. government has not terminated a contract with us.

In July 2009, we entered into a 9 month $1.0 million subcontract with Lockheed Martin Corporation to supply two full-color, daylight readable, see-through display systems as part of the U.S. government's Urban Leader Tactical Response, Awareness & Visualization program. Lockheed Martin holds a prime contract with the U.S. government for development of the soldier worn display.

In December 2007, we entered into a $1.0 million contract with a commercial customer to develop prototype units based on our PicoP technology, for evaluation of future consumer electronics product applications. The development work under this contract was initiated and fully completed in 2008.

In May 2007, we entered into a $3.2 million contract with the U.S. Air Force to provide a lightweight, see-through, full-color eyewear display prototype to the government. The contract, which continues a development effort with the Air Force, specifies the development, design, verification, testing, and delivery of a lightweight, see-through full-color wearable display for evaluation by several DOD project offices. This contract was completed during 2008.

The following table summarizes the costs incurred on our revenue contracts:

	December 31, 2009	December 31, 2008
Costs and estimated earnings incurred on uncompleted contracts	$ 4,951,000	$ 14,166,000
Billings on uncompleted contracts	(4,936,000)	(13,533,000)
	$ 15,000	$ 633,000
Included in accompanying balance sheets under the following captions:		
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 70,000	$ 695,000
Billings in excess of costs and estimated earnings on uncompleted contracts	(55,000)	(62,000)
	$ 15,000	$ 633,000

4. Cash equivalents, investment securities, available-for-sale, and fair value measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the authoritative guidance establishes a three level fair value inputs hierarchy, and requires an entity to maximize the use of observable valuation inputs and minimize the use of unobservable inputs. We use market data, assumptions and risks we believe market participants would use in measuring the fair value of the asset or liability, including the risks inherent in the inputs and the valuation techniques. The hierarchy is summarized below.

Level 1 - Observable inputs such as quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs such as quoted prices for similar assets or liabilities in markets that are not sufficiently active to qualify as Level 1 or, other observable inputs.

Level 3 - Unobservable inputs for which there is little or no market data, which requires us to develop our own assumptions, which are significant to the measurement of the fair values.

Our investment securities are comprised of debt securities. Generally, they are issued by the U.S. government, its agencies, corporations, and student loan financial aid organizations. Accounting for these investments is discussed in Note 2.

The principal markets for the debt securities are dealer markets which have a high level of price transparency. The market participants for debt securities are typically large money center banks and regional banks, brokers, dealers, pension funds, and other entities with debt investment portfolios.

As of December 31, 2009, approximately 94% of our total cash, cash equivalents and investment securities, available-for-sale have variable interest rates or are very short-term discount notes traded in active markets. The remainder is composed of $3.0 million par student loan auction-rate securities (SLARS) fair valued at approximately $2.7 million. The SLARS are investment grade long-term bonds, structured with variable interest rate resets, with purchases and sales to be determined via a Dutch Auction process every 28 days. They were issued to fund U.S. government guaranteed student loans. Beginning in February 2008, the rapid declines in global credit markets and liquidity, and resultant economic recession, led to insufficient investor bids to clear the SLARS auctions and fund the secondary SLARS market. The issuers then began and continue to pay interest at "maximum rates", instead of

"auction rates", in accordance with the bond terms.

The valuation inputs hierarchy classification for assets and liabilities measured at fair value on a recurring basis are summarized below as of December 31, 2009:

	Level 1	Level 2	Level 3	Total
Assets				
Corporate equity securities	$ --	$ 10,000	$ --	$ 10,000
Auction rate securities	--	--	2,700,000	2,700,000
	$ --	$ 10,000	$2,700,000	$ 2,710,000
Liabilities				
Liability associated with common stock warrants		$ 840,000		$ 840,000

The corporate debt securities and liability associated with common stock warrants are classified within Level 2 of the fair value hierarchy because they are valued using inputs and common methods with sufficient levels of transparency and observability. The SLARS are classified in Level 3 of the fair value hierarchy because of the significance of sufficiently unobservable assumptions and inputs developed by us and used in the valuations.

The following table summarizes the activity for those financial assets where fair value measurements are estimated utilizing Level 3 inputs:

Balance, December 31, 2008	$ 2,700,000
Transfer into Level 3, 2009	--
Recognized loss included in earnings	--
Balance, December 31, 2009	$ 2,700,000

Our investments and liability associated with common stock warrants are summarized below as of December 31, 2009 and December 31, 2008.

	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Ca Equiv
As of December 31, 2009:					
Assets					
Corporate equity securities	$ 43,000	$ --	$ (33,000)	$ 10,000	$
Auction-rate securities	2,700,000	--	--	2,700,000	
	$ 2,743,000	$ --	$ (33,000)	$ 2,710,000	$
Liabilities					
Liability associated with					

common stock warrants	$ 840,000

	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Ca Equiv
As of December 31, 2008:					
Assets					
Corporate debt and equity securities	$ 5,022,000	$ --	$ (38,000)	$ 4,984,000	$ 4,97
Auction-rate securities	2,700,000	--	--	2,700,000	
	$ 7,722,000	$ --	$ (38,000)	$ 7,684,000	$ 4,97
Liabilities					
Liability associated with common stock warrants				$ 331,000	

As of December 31, 2009, the unrealized losses on our investments in debt securities were due primarily to declines in the pricing of the debt securities. The realized gains and losses resulting from the liability associated with common stock warrants were primarily due to changes in our own stock price and decreasing terms to expiration. The maturities of the auction rate securities available-for-sale as of December 31, 2009 are greater than 5 years.

We classify other-than-temporary fair value impairments into one of two categoriesa "credit" or "other factors". As of September 30, 2008, based on continuing low market liquidity and auction failures with significant uncertainty as to when such conditions would improve, we determined that the estimated fair value of the SLARS no longer approximated par value, and the impairments were other-than-temporary. An "impairment of investment securities, available-for-sale" of $300,000 ws recorded on the consolidated statements of operations. We used a discounted cash flow model, with rates adjusted for liquidity, to determine that the present value of estimated cash collections was less than the adjusted cost. The other-than-temporary impairment recorded during the period ended September 30, 2008 was categorized as "credit" type.

Our significant nonfinancial assets and liabilities that are subject to consideration for recognition and disclosure at fair value in the financial statements on a nonrecurring basis primarily include property and equipment, capital lease obligations, a tenant improvement loan agreement and deferred rent. If we conclude there has been an event indicating the potential impairment of a nonfinancial asset or liability, or periodically if no such indicating event is deemed to have occurred, we determine the fair value, test for impairments, and record significant impairments, in the period of determination.

The maturities of the investment securities available-for-sale as of December 31, 2009 are shown below:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Maturity date:				
Less than one year	$ 43,000	--	(33,000)	$ 10,000
Due in 1-3 years	--			--
Greater than five years	2,700,000			2,700,000

	$ 2,743,000	$ 2,710,000

5. Inventory

Inventory consists of the following:

	December 31, 2009	December 31, 2008
Raw materials	$ 626,000	$ 45,000
Finished goods	300,000	1,480,000
	$ 926,000	$ 1,525,000

The inventory at December 31, 2009 consisted of raw materials primarily for our accessory projector SHOWWX, and finished goods primarily comprised of ROV, our hand-held barcode scanner. The inventory at December 31, 2008 consisted of raw materials and finished goods for ROV and the discontinued Flic bar code product. Inventory is stated at the lower of cost or market, with cost determined on a weighted average basis. Management periodically assesses the need to provide for obsolescence of inventory and adjusts the carrying value of inventory to its net realizable value when required. In addition, Microvision reduces the value of its inventory to its estimated scrap value when management determines that it is not probable that the inventory will be consumed through the normal course of business during the next twelve months. In 2009, 2008, and 2007, Microvision recorded inventory write-downs of $1,257,000, $475,000, and $84,000, respectively.

6. Accrued liabilities

Accrued liabilities consist of the following:

	December 31,	
	2009	2008
Bonuses	$ 1,300,000	$ 500,000
Payroll and payroll taxes	773,000	809,000
Compensated absences	682,000	623,000
Deferred rent credit	339,000	311,000
Adverse purchase commitments	173,000	119,000
Professional fees	247,000	343,000
Other	676,000	840,000
	$ 4,190,000	$ 3,545,000

7. Property and equipment, net

Property and equipment consists of the following:

	December 31,	
	2009	2008
Production equipment	$ 3,610,000	$ 3,124,000
Leasehold improvements	3,317,000	3,310,000
Computer hardware and software/lab equipment	7,945,000	7,192,000
Office furniture and equipment	1,591,000	1,496,000
	16,463,000	15,122,000
Less: Accumulated depreciation	(12,559,000)	(11,421,000)
	$ 3,904,000	$ 3,701,000

Depreciation expense was $1,138,000, $989,000 and $953,000 in 2009, 2008 and 2007, respectively.

8. Receivables from related parties

In 2000, 2001 and 2002, the Board of Directors authorized the Company to provide unsecured lines of credit to each of the Company's three officers. The lines of credit carry interest rates of 5.4% to 6.2% and were due within one year of the officer's termination.

In January 2006, one officer left the Company and his outstanding loans became due in January 2007. In May 2007, we foreclosed on 50,000 shares of Lumera common stock pledged as collateral for the loans. In October 2009, we entered into a settlement agreement with the former officer. We have received total proceeds of $237,000 to date, and the officer has committed to make additional payments of $30,000 over the next two years. Pursuant to the settlement agreement, all claims and counterclaims filed in the collection lawsuit, including the previously disclosed claim by the former officer against us for $15 million have been dismissed.

Another officer with outstanding loans left the Company in August 2007 and his loans became due in August 2008. We are pursuing collection of the remaining outstanding balance from the former officer.

As of December 31, 2009 and December 31, 2008, the total amount outstanding under the lines of credit was $400,000 and $1,851,000, respectively, and the balances were fully reserved.

9. Common stock

In November and December 2009, we raised an aggregate of $33.1 million, before issuance costs of $2.3 million, through underwritten public offerings of 11.0 million shares of our common stock.

In June 2009, we raised approximately $15.0 million, before issuance costs of approximately $218,000, from the sale of 8.1 million shares of common stock and warrants to purchase approximately 2.0 million shares of our common stock to Max Display Enterprises Limited, a subsidiary of Walsin Lihwa. Walsin Lihwa is the parent company of Touch Micro-system Technology Corp. (TMT). We have worked for a number of years with both Walsin Lihwa and TMT, as manufacturers of our Micro-Electrical Mechanical systems (MEMS) chips. Based on filings by Max Display Enterprises Limited with the Securities Exchange Commission, as of December 31, 2009, Max Display Enterprises Limited beneficially owned 11.1% of our common stock, as determined in accordance with the rules of the Securities

Exchange Commission.

In July 2008, we raised approximately $26.0 million, before issuance costs of approximately $2.0 million, through a registered direct public offering of 11.2 million shares of common stock and warrants to purchase 6.7 million shares of our common stock. Details of the warrants are described below in Note 10.

On June 21, 2007, we exercised our right to call our publicly traded warrants issued in 2006. We received $34.1 million from the exercise of 12.9 million publicly traded warrants.

10. Warrants

In June 2009, we raised approximately $15.0 million, before issuance costs of approximately $218,000, from the sale of 8.1 million shares of common stock and warrants to purchase approximately 2.0 million shares of our common stock to Max Display Enterprises Limited, a subsidiary of Walsin Lihwa. The warrants have an exercise price of $2.1850 per share, a three year term, and are exercisable on the date of issuance. We can call the warrants if the average closing bid price of our stock is over $8.74 for any 20 consecutive trading days.

In July 2008, we raised approximately $26.0 million, before issuance costs of approximately $2.0 million, through a registered direct public offering of 11.2 million shares of our common stock and warrants to purchase 6.7 million shares of our common stock. The warrants have an exercise price of $3.60 per share, a five year term, and are exercisable one year from the date of issuance. We can call the warrants after one year from the date of issuance if the average closing bid price of our stock is over $7.20 (200% of exercise price) for any 20 consecutive trading days. The 6.7 million warrants were listed on the NASDAQ Global Market under the ticker "MVISW".

On June 21, 2007, we exercised our right to call our publicly traded warrants issued in our June and July 2006 financing transactions. We received $34.1 million from the exercise of 12.9 million publicly traded warrants.

A total of 45,000 warrants expired unexercised.

The following summarizes activity with respect to Microvision common stock warrants during the three years ended December 31, 2009:

	Warrants to purchase common Shares	Weighted-average excercise price
Outstanding at December 31, 2006	17,557,000	$ 3.50
Granted:		
Exercise price greater than intrinsic value	537,000	2.65
Exercise price equal to intrinsic value	25,000	3.42
Exercised	(13,803,000)	2.59
Canceled/expired	(252,000)	6.30
Outstanding at December 31, 2007	4,064,000	6.19
Granted:		
Exercise price greater than intrinsic value	6,703,000	3.60
Exercise price equal to intrinsic value	--	--
Exercised	--	--
Canceled/expired	(1,257,000)	6.11
Outstanding at December 31, 2008	9,510,000	4.32
Granted:		
Exercise price greater than intrinsic value	2,019,000	2.19

Exercise price equal to intrinsic value	--	--
Exercised	(1,135,000)	3.46
Canceled/expired	--	--
Outstanding at December 31, 2009	10,394,000	$ 3.96
Exercisable at December 31, 2009	10,394,000	$ 3.96

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

	Year Ended December 31,		
	2009	2008	2007
Exercise price greater than fair value	$ --	$ 1.59	$ --
Exercise price equal to fair value	--	--	2.08
Exercise price less than fair value	1.27	--	0.47

We estimated the fair value of our common stock warrants on the respective grant dates using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 2009, 2008 and 2007, respectively: dividend yield of zero percent for all years; expected volatility of 75%, 65%, and 47%; risk-free interest rates of 1.5%, 3.2% and 4.9% and expected lives of 3, 5 and 0.3 years, respectively.

The following table summarizes information about our common stock warrants outstanding and exercisable at December 31, 2009:

	Warrants outstanding			Warrants exercisable	
Range of exercise prices	Number outstanding December 31, 2009	Weighted average aremaining contractual life (years	Weighted average excercise price	Number exercisable at December 31, 2009	Weighted average excercise price
$2.185	2,019,000	2.47	$ 2.19	2,019,000	$ 2.19
$2.7625-$3.42	592,000	1.05	3.04	592,000	3.04
$3.60	6,025,000	3.56	3.60	6,025,000	3.60
$3.94	1,089,000	0.92	3.94	1,089,000	3.94
$4.55-$5.32	469,000	0.19	4.56	469,000	4.56
$34.00	200,000	0.61	34.00	200,000	34.00
$2.185-$34.00	10,394,000			10,394,000	

11. Share-Based Compensation

We use the straight-line attribution method to allocate the fair value of share-based compensation awards over the requisite service period for each award. The valuation of and accounting for share-based awards includes a number of

complex and subjective estimates. These estimates include, but are not limited to, the future volatility of our stock price, future stock option exercise behaviors, estimated employee turnover and award forfeiture rates.

Description of Incentive Plans

The Company currently has two share-based incentive plans. The 2006 Incentive Plan described below is administered by the Board of Directors, or its designated committee ("Plan Administrator"), and provides for various awards as determined by the Plan Administrator. We terminated using a second share-based incentive plan, the Independent Director Stock Option Plan described below, in June 2008.

The 2006 Incentive Plan has 11.4 million shares authorized, of which 2.1 million shares were available for awards as of December 31, 2009. The 2006 Incentive Plan permits granting non-qualified stock options (NSOs), incentive stock options (ISOs), stock appreciation rights, restricted or unrestricted stock, deferred stock, other share-based awards, or cash awards to employees, officers, directors and certain non-employees of the Company. Any award may be a performance-based award. Awards granted under the 2006 Incentive Plan have generally been to employees under non-qualified stock option agreements with the following provisions: exercise prices greater than or equal to the Company's closing stock price on the date of grant; vesting periods ranging from three years to four years; expiration 10 years from the date of grant; and optionees who terminate their service after vesting have a limited time to exercise their options (typically three to twelve months). In June 2008, the Company shareholders approved an amendment to the 2006 Incentive Plan to increase the common stock reserved for issuance under the plan to 11.4 million shares and allow non-employee directors to participate in the plan.

The Independent Director Stock Option Plan (IDSOP) has 900,000 shares authorized, of which 875,000 are issued and outstanding as of December 31, 2009. The IDSOP permits granting NSOs to independent directors of the Company. Grants awarded under the IDSOP generally have the following terms: exercise price equal to the Company's closing stock price on the date of grant, expiration 10 years from the date of grant, and vested grants remain exercisable until their expiration dates if a director leaves the Board. In June 2008, the Company shareholders approved an amendment to the 2006 Incentive Plan described above to allow non-employee directors to participate in the plan. The Company does not intend to issue additional options from the IDSOP.

Options Valuation Methodology and Assumptions

We use the Black-Scholes option valuation model to determine the fair value of options granted and use the closing price of our common stock as the fair market value of our stock on that date.

We consider historical stock price volatilities, volatilities of similar companies and other factors in determining estimates of future volatilities.

We use historical lives, including post-termination exercise behavior, publications, comparable company estimates, and other factors as the basis for estimating expected lives.

Risk free rates are based on the U.S. Treasury Yield Curve as published by the U.S. Treasury.

The following table summarizes the weighted-average valuation assumptions and weighted-average grant date fair value of options granted during the periods shown below:

	Year Ended December 31,		
	2009	2008	2
Assumptions (weighted average)			

Volatility	75%	65%	
Expected term (in years)	5.1	5.1	
Risk-free rate	2.0%	3.0%	
Expected dividends	--	--	
Pre-vest forfeiture rate	5.0%	5.0%	
Grant date fair value of options granted	$ 1.20	$ 1.32	$

<u>Options Activity and Positions</u>

The following table summarizes activity and positions with respect to options for the year ended December 31, 2009:

Options	**Shares**	**Weighted Average Exercise Price**	**Wei Ave Rema Cont T (ye**
Outstanding as of December 31, 2006	5,711,000	$ 6.04	
Granted	1,617,000	4.08	
Exercised	(84,000)	2.78	
Forfeited or expired	(1,790,000)	9.05	
Outstanding as of December 31, 2007	5,454,000	4.52	
Granted	2,276,000	2.33	
Exercised	(143,000)	2.72	
Forfeited or expired	(590,000)	2.93	
Outstanding as of December 31, 2008	6,997,000	3.98	
Granted	1,996,000	1.97	
Exercised	(335,000)	2.58	
Forfeited or expired	(344,000)	3.01	
Outstanding as of December 31, 2009	8,314,000	$ 3.59	
Vested and expected to vest as of December 31, 2009	8,132,000	$ 3.62	
Exercisable as of December 31, 2009	4,845,000	$ 4.30	

The total intrinsic value of options exercised during the years ended December 31, 2009, 2008 and 2007 were $455,000, $87,000 and $163,000, respectively.

The total grant date fair value of options vested during the years ended December 31, 2009, 2008, and 2007 was $1.6 million, $2.0 million and $2.1 million, respectively. As of December 31, 2009, our unamortized share-based compensation was $3.6 million which we plan to amortize over the next 2.3 years.

In April 2009, our Board of Directors approved the issuance of 291,000 nonvested equity shares of the Company's common stock to the executive employees under the 2006 Incentive Plan. Included was a grant of 165,000 shares to one executive which vests conditionally upon completion of certain service and performance objectives the later of three years from the date of grant or the first day thereafter that the executive is not in a closed window, and 14,000 shares to the same executive in lieu of a cash salary increase which vested in four equal installments through

December 31, 2009. The remaining shares vest over a three year period from the date of grant. The nonvested equity shares were valued at fair value on the date of grant and the share-based compensation expense will be amortized over the service period.

In October 2008, our Board of Directors approved the payment of one half of each independent director's annual retainer fee to be paid in the Company's common stock. The common stock was valued at fair value and fully expensed on the grant date. Each independent director received 7,092 shares of common stock.

In March 2008, our Board of Directors approved the issuance of 125,000 nonvested equity shares of the Company's common stock to the executive employees under the 2006 Incentive Plan. The shares vest over a three year period from the date of grant. The nonvested equity shares were valued at fair value on the date of grant and the share-based compensation expense will be amortized over the three year service period.

As of December 31, 2009, our unamortized nonvested equity share-based compensation was $390,000 which we plan to amortize over the next 2.0 years.

12. Commitments and contingencies

Agreements with the University of Washington ("UW")

In October 1993, we entered into a Research Agreement and an exclusive license agreement ("License Agreement") with the UW. The License Agreement grants us the rights to certain intellectual property, including the technology being subsequently developed under the Microvision research agreement ("Research Agreement"), whereby we have an exclusive, royalty-bearing license to make, use and sell or sublicense the licensed technology. We are required to pay the UW a nonrefundable license maintenance fee of $10,000 per quarter, to be credited against royalties due.

Litigation

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

Lease commitments

We lease our office space and certain equipment under noncancelable capital and operating leases with initial or remaining terms in excess of one year.

We entered into a 90 month facility lease that commenced in February 2006. The lease includes extension and rent escalation provisions over the 90 month term of the lease. Rent expense will be recognized on a straight-line basis over the lease term.

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

	Capital leases	Operating leases
2010	$ 102,000	$ 870,000
2011	71,000	904,000
2012	62,000	938,000
2013	62,000	564,000
2014	21,000	--
Thereafter	--	--

Total minimum lease payments	318,000	$ 3,276,000
Less: Amount representing interest	(99,000)	
Present value of capital lease obligations	219,000	
Less: Current portion	(62,000)	
Long-term obligation at December 31, 2009	$ 157,000	

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 $1,106,000 and $1,024,000, respectively, at December 31, 2009 and $1,017,000 and $932,000, respectively, at December 31, 2008.

Net rent expense was $862,000, $861,000, and $830,000 for 2009, 2008, and 2007, respectively.

Long-term debt

During 2006, we entered into a loan agreement with the lessor of our corporate headquarters in Redmond to finance $536,000 in tenant improvements. The loan carries a fixed interest rate of 9% per annum, is repayable over the initial term of the lease, which expires in 2013, and is secured by a letter of credit. The balance of the loan was $322,000 at December 31, 2009.

Adverse purchase commitments

We have periodically entered into noncancelable purchase contracts in order to ensure the availability of materials to support bar code scanner production. We periodically assess the need to provide for impairment on these purchase contracts and records a loss on purchase commitments when required. During 2009, we recorded a loss of $55,000 to cost of product revenue as a result of commitments to purchase materials for the ROV scanner that were in excess of our estimated future proceeds from sale of the ROV scanners. In December 2008, the Company recorded a loss of $119,000 to cost of product revenue as a result of commitments to purchase materials for the ROV scanner that were in excess of its estimated future proceeds from the sale of the ROV scanners.

13. Income taxes

A provision for income taxes has not been recorded for 2009, 2008, and 2007 due to the 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 our history of losses since inception, the available objective evidence creates sufficient uncertainty regarding the realizability of the deferred tax assets.

At December 31, 2009, we have net operating loss carry forwards of approximately $237.3 million, for federal income tax reporting purposes. In addition, we have research and development tax credits of $4.9 million. 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 2009 to 2029 if not previously utilized. In certain circumstances, as specified in the Internal Revenue Code, a 50% or more ownership change by certain combinations of our stockholders during any three- year period would result in limitations on our ability to utilize its net operating loss carry-forwards. We have 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,	
	2009	2008
Deferred tax assets, current		
Reserves	$ 1,421,000	$ 1,990,000
Other	1,244,000	996,000
Total gross deferred tax assets, current	2,665,000	2,986,000
Deferred tax assets, noncurrent		
Net operating loss carryforwards	81,199,000	74,605,000
R&D credit carryforwards	4,905,000	4,258,000
Depreciation/amortization deferred	20,926,000	15,665,000
Other	4,484,000	3,520,000
Total gross deferred tax assets, noncurrent	111,514,000	98,048,000
Deferred tax liabilities, noncurrent		
Convertible debt	(873,000)	(1,828,000)
Total gross deferred tax liabilities, noncurrent	(873,000)	(1,828,000)
Net deferred taxes before valuation allowance	113,306,000	99,206,000
Less: Valuation allowance	(113,306,000)	(99,206,000)
Deferred tax assets	$ --	$ --

The valuation allowance and the research and development credit carry forwards account for substantially all of the difference between our 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.

We did not have any unrecognized tax benefits at December 31, 2009 and at December 31, 2008.

We recognize interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2009, 2008 and 2007, we recognized no interest or penalties.

We file income tax returns in the U.S. federal jurisdiction and various states. The tax years 2006-2008 generally remain open to examination by major taxing jurisdictions to which we are subject.

14. Retirement savings plan

We have a retirement savings 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.

Under the plan, we match 50% of employee contributions to the plan up to 6% of the employee's per pay period compensation. During 2009, 2008 and 2007 we contributed $369,000, $365,000, and $295,000, respectively, to the plan under the matching program.

15. Quarterly Financial Information (Unaudited)

The following table presents the Company's unaudited quarterly financial information for the years ending December 31, 2009 and 2008:

	Year Ended December 31, 2009			
	December 31,	September 30,	June 30,	March 31,
Revenue	$ 971,000	$ 924,000	$ 987,000	$ 951,000
Gross margin (loss)	(130,000)	(175,000)	(83,000)	327,000
Net loss	(8,745,000)	(11,525,000)	(10,394,000)	(8,865,000
Net loss per share basic and diluted	(0.11)	(0.15)	(0.15)	(0.13

	Year Ended December 31, 2008			
	December 31,	September 30,	June 30,	March 31,
Revenue	$ 1,525,000	$ 894,000	$ 1,622,000	$ 2,570,000
Gross margin	287,000	285,000	719,000	1,469,000
Net loss	(9,873,000)	(8,443,000)	(9,266,000)	(5,038,000
Net loss per share basic and diluted	(0.15)	(0.13)	(0.16)	(0.09

MICROVISION, INC.
VALUATION AND QUALIFYING ACCOUNTS AND RESERVES SCHEDULE
(in thousands)

Description	Balance at beginning of fiscal period	Additions: Charges to costs and expenses	Additions: Charges to other accounts
Year Ended December 31, 2007			
Allowance for receivables from related parties	$ 2,473	$ 23	$ --
Tax valuation allowance	76,565	--	11,086
Year Ended December 31, 2008			
Allowance for receivables from related parties	2,496	--	--
Tax valuation allowance	87,651	--	11,555
Year Ended December 31, 2009			
Allowance for receivables from related parties	1,851	--	--
Tax valuation allowance	99,206	--	14,100

$

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, 2009 and 2008.

ITEM 9A. CONTROLS AND PROCEDURES

(a) *Evaluation of disclosure controls and procedures.* Our Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") evaluated our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), prior to the filing of this Form 10-K. Based on that evaluation, our CEO and CFO concluded that, as of December 31, 2009, our disclosure controls and procedures were 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 Rules 13a-15(f) and 15d-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, 2009.

The effectiveness of our internal control over financial reporting as of December 31, 2009 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their attestation report, which is included in Item 8 of this Annual Report on Form 10-K under the heading "Report of Independent Registered Public Accounting Firm."

(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, 2009 which have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

Information regarding executive officers is included in Part I of this Annual Report on Form 10-K in Item 4A. The information required by this Item and not provided in Item 4A will appear under the caption "Discussion of Proposals Recommended by the Board" in the Proxy Statement, which section is incorporated in this Item by reference. The Proxy Statement will be filed prior to the Company's annual shareholders' meeting scheduled to be held on June 17, 2010.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this Item will appear under the captions "Executive Compensation," "Compensation Committee Interlocks and Insider Participation" and "Director Compensation for 2009" in the Proxy Statement, which sections are incorporated in this Item by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

Information as of December 31, 2009 regarding equity compensation plans approved and not approved by stockholders is summarized in the following table:

	Equity Compensation P	
Plan Category	**Number of securities to be issued upon excercise of outstanding options, warrants and rights (a)**	**Weighted- average excercise price of outstanding options, warrants and rights (b)**
Equity compensation plans approved by shareholders	8,313,000	$ 3.5
Equity compensation plans not approved by shareholders	233,000	29.7
Total	8,546,000	$ 4.3

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. The warrants were fully exercisable as of December 31, 2007, have an exercise price of $34.00 per share and expire in August 2010. 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. 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.

In February 2007, Microvision issued a warrant to purchase 25,000 shares of common stock to a third party for services. The warrant was immediately exercisable, has an exercise price of $3.42 per share, and expires in February 2012. In July 2005, Microvision issued a warrant to purchase 6,925 shares of common stock to a third party for services. The warrant was immediately exercisable, has an exercise price of $5.32 per share, and expires in July 2010. The number and price of securities for which the warrants may be exercised are subject to adjustment for certain changes in the Company's capital structure. Where the Company's 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 Company's common stock from a reorganization, reclassification, consolidation, or merger, the holders will be entitled to receive, upon the exercise of the warrants, the same amount and kind of securities, cash or property to which the holders would have been entitled if, immediately prior to the change in capital structure, the warrant holders had held the number of shares of common stock obtainable upon the exercise of the warrants.

The other information required by this Item will appear under the caption "Information About Microvision Common Stock Ownership" in the Proxy Statement, which section is incorporated in this Item by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The information required by this Item will appear under the captions "Certain Relationships and Related Transactions" and "Board Meetings and Committees" in the Proxy Statement, which sections are incorporated in this Item by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The information required by this Item will appear under the caption "Independent Registered Public Accounting Firm" in the Proxy Statement, which section is incorporated in this Item by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of the report:

Financial Statements

Report of Independent Registered Public Accounting Firm

Balance Sheets as of December 31, 2009 and 2008

Statements of Operations for the years ended December 31, 2009, 2008 and 2007

Consolidated Statements of Shareholders' Equity for the years ended December 31, 2009, 2008 and 2007

Statements of Comprehensive Loss for the years ended December 31, 2009, 2008 and 2007

Statements of Cash Flows for the years ended December 31, 2009, 2008 and 2007

Notes to Consolidated Financial Statements

Valuation and Qualified Accounts and Reserves for the years ended December 31, 2009, 2008 and 2007

(b) Exhibits

The following exhibits are referenced or included in this report.

3.1	Amended and Restated Certificate of Incorporation of Microvision, Inc., as amended (14)
3.2	Bylaws of Microvision, Inc. (2)
4.1	Form of Specimen Stock Certificate for Common Stock.(2)
4.3	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. (5)
4.5	Warrant No. 1 to Purchase Common Stock of Microvision, Inc. issued August 9, 2005 to Satellite Strategic Finance Partners, Ltd. (7)
4.6	Warrant No. 2 to Purchase Common Stock of Microvision, Inc. issued August 9, 2005 to Satellite Strategic Finance Associates, LLC. (7)
4.7	Warrant No. 88 to Purchase Common Stock of Microvision, Inc. issued August 31, 2005 to Omicron Master Trust (8)
4.8	Form of Warrant issued under the Securities Purchase Agreement dated as of November 30, 2005 by and among Microvision, Inc. and the investors listed on the Schedule of Buyers thereto. (9)
4.9	Registration Rights Agreement dated as of May 3, 2006 by and between Microvision, Inc. and Satellite Strategic Finance Associates, LLC.(10)
4.10	Form of Underwriter's Warrant Agreement dated June 5, 2006 by and between Microvision, Inc. and MDB Capital Group, LLC.(11)
4.11	Form of Warrant issued under the Placement Agency Agreement dated as of July 18, 2008 by and between Microvision, Inc. and FTN Securities Corp., as representative of the several placement agents named therein. (13)
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.(4)
10.5	Microvision, Inc. 2006 Incentive Plan, as amended. (12)*
10.6	Independent Director Stock Option Plan, as amended.(3)*
10.8	Employment Agreement between Microvision, Inc. and Alexander Y. Tokman dated April 7, 2009.(16)
10.9	Lease Agreement between CarrAmerica Reality Operating Partnership, L.P. and Microvision, Inc., dated July 15, 2005.(6)
10.10	Securities Purchase Agreement dated June 22, 2009 by and between the Company and Max Display Enterprises Limited (15)
10.11	Registration Rights Agreement dated June 22, 2009 by and between the Company and Max Display Enterprises Limited(15)
10.12	Warrant No. 120 to Purchase Common Stock of Microvision, Inc. issued June 22, 2009 to Max Display Enterprises Limited(15)
23.1	Consent of Independent Registered Public Accounting Firm.
31.1	Principal Executive Officer certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Principal Financial Officer certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Principal Executive Officer certification pursuant to Rule 13a-14(b) or Rule 15d-14(b) and Section 1350, Chapter 63 of Title 18 United States Code (18 U.S.C. 1350), as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002.
32.2	Principal Financial Officer certification pursuant to Rule 13a-14(b) or Rule 15d-14(b) and Section 1350, Chapter 63 of Title 18 United States Code (18 U.S.C. 1350), as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002.

(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-Q for the quarterly period ended June 30, 2002.

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

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

(6) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended June 30, 2005.

(7) Incorporated by reference to the Company's Current Report on Form 8-K filed on August 10, 2005.

(8) Incorporated by reference to the Company's Current Report on Form 8-K filed on September 2, 2005.

(9) Incorporated by reference to the Company's Current Report on Form 8-K filed on December 1, 2005.

(10) Incorporated by reference to the Company's Current Report on Form 8-K filed on May 5, 2006.

(11) Incorporated by reference to the Company's Current Report on Form 8-K filed on May 31, 2006.

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(14) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended September 30, 2009

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+ Subject to confidential treatment.

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

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: March 10, 2010 By Alexander Tokman

Alexander Tokman
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the following capacities on March 10, 2010.

Signature
Title

/s/ Alexander Tokman

Alexander Tokman

Chief Executive Officer and Director
(Principal Executive Officer)

/s/ Jeff Wilson

Jeff Wilson

Chief Financial Officer

/s/ Richard A. Cowell

Richard A. Cowell

Director

/s/ Slade Gorton

Slade Gorton

Director

/s/ Jeanette Horan

Jeanette Horan

Director

/s/ Perry Mulligan

Perry Mulligan

Director

/s/ Brian Turner

Brian Turner

Director

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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.

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