MICROVISION INC
Form 10-Q
May 07, 2009

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

FORM 10-Q

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

For the quarterly period ended March 31, 2009

OR

[ ] 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 Avenue NE
Redmond, Washington 98052

(Address of Principal Executive Offices including Zip Code)

(425) 936-6847

(Registrant's Telephone Number, Including Area Code)

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 reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO ¨

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 ¨ NO ¨

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 Securities Exchange Act of 1934). YES ¨ NO x

As of April 27, 2009, 68,080,000 shares of the Company's common stock, $0.001 par value, were outstanding.

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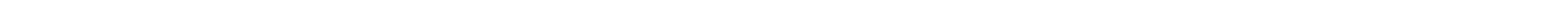

Microvision, Inc.
Consolidated Balance Sheet
(In thousands, except per share data)
(Unaudited)

		March 31, 2009
Assets		
Current assets		
Cash and cash equivalents	$	16,397
Investment securities, available-for-sale		2,706
Accounts receivable, net of allowances of $57 and $57		502
Costs and estimated earnings in excess of billings on uncompleted contracts		325
Inventory		1,439
Other current assets		748
Total current assets		22,117
Property and equipment, net		3,671
Restricted investments		1,332
Other assets		54
Total assets	$	27,174
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable	$	2,299
Accrued liabilities		3,574
Billings in excess of costs and estimated earnings on uncompleted contracts		55
Liability associated with common stock warrants		151
Current portion of capital lease obligations		42
Current portion of long-term debt		72
Total current liabilities		6,193
Capital lease obligations, net of current portion		34
Long-term debt, net of current portion		303
Deferred rent, net of current portion		1,332
Total liabilities		7,862
Commitments and contingencies		--
Shareholders' equity		
Common stock, par value $.001; 125,000 shares authorized; 68,080 and 68,080 shares issued and outstanding		68
Additional paid-in capital		320,187
Accumulated other comprehensive loss		(37)
Accumulated deficit		(300,906)
Total shareholders' equity		19,312
Total liabilities and shareholders' equity	$	27,174

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

Microvision, Inc.
Consolidated Statement of Operations
(In thousands, except per share data)
(Unaudited)

	Three Months Ended March 31,	
	2009	2008
Contract revenue	$ 712	$ 2,28
Product revenue	239	28
Total revenue	951	2,57
Cost of contract revenue	383	76
Cost of product revenue	241	33
Total cost of revenue	624	1,10
Gross margin	327	1,46
Research and development expense	5,610	4,42
Sales, marketing, general and administrative expense	3,814	4,13
Total operating expenses	9,424	8,56
Loss from operations	(9,097)	(7,09
Interest income	64	41
Interest expense	(11)	(1
Gain on derivative instruments, net	180	1,67
Other expense	(1)	(1
Net loss	$ (8,865)	$ (5,03
Net loss per share - basic and diluted	$ (0.13)	$ (0.0
Weighted-average shares outstanding - basic and diluted	68,080	56,73

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

Microvision, Inc.
Consolidated Statement of Comprehensive Income (Loss)
(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2009	2008
Net loss	$ (8,865)	$ (5,03
Other comprehensive gain (loss)		
Unrealized gain on investment securities, available-for-sale	1	3
Comprehensive loss	$ (8,864)	$ (5,00

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

Microvision, Inc.
Consolidated Statement of Cash Flows
(In thousands)
(Unaudited)

	Three M Mar
	2009
Cash flows from operating activities	
Net loss	$ (8,865
Adjustments to reconcile net loss to net cash used in operations:	
Depreciation	245
Non-cash stock-based compensation expense	548
Gain on derivative instruments, net	(180
Net accretion of discount on short-term investments	--
Non-cash deferred rent	(69
Change in:	
Accounts receivable, net	35
Costs and estimated earnings in excess of billings on uncompleted contracts	370
Inventory	86
Other current assets	118
Other assets	(7
Accounts payable	(1,049
Accrued liabilities	21
Billings in excess of costs and estimated earnings on uncompleted contracts	(7
Net cash used in operating activities	(8,754
Cash flows from investing activities	
Sales of investment securities	--
Purchases of investment securities	--
Purchases of restricted investment securities	--
Purchases of property and equipment	(354
Net cash provided by (used in) investing activities	(354
Cash flows from financing activities	
Principal payments under capital leases	(10
Principal payments under long-term debt	(18
Net cash used in financing activities	(28
Net increase (decrease) in cash and cash equivalents	(9,136
Cash and cash equivalents at beginning of period	25,533
Cash and cash equivalents at end of period	$ 16,397
Supplemental disclosure of cash flow information	
Cash paid for interest	$ 11
Supplemental schedule of non-cash investing and financing activities	
Other non-cash additions to property and equipment	$ 60

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

MICROVISION, INC.
Notes to Consolidated Financial Statements
March 31, 2009
(Unaudited)

1. MANAGEMENT'S STATEMENT AND PRINCIPLES OF CONSOLIDATION

Management's Statement

The Consolidated Balance Sheet as of March 31, 2009, the Consolidated Statements of Operations, Comprehensive Loss and Cash Flows for the three months ended March 31, 2009 and 2008 have been prepared by Microvision, Inc. (the "Company" or "Microvision") and have not been audited. In the opinion of management, all adjustments necessary to state fairly the financial position at March 31, 2009 and the results of operations, comprehensive loss and cash flows for all periods presented have been made and consist of normal recurring adjustments. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules of the SEC. You should read these condensed financial statements in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008. The results of operations for the three months ended March 31, 2009 are not necessarily indicative of the operating results that may be attained for the entire fiscal year.

At March 31, 2009, Microvision had $19.1 million in cash, cash equivalents and investment securities, available-for-sale. Microvision's operating plan for 2009 includes the launch of the first accessory product, further development of its PicoP display engine for embedded applications and further development of automotive HUD and eyewear applications. In order to fully fund its product launch and its other development efforts, the Company will require additional capital in 2009. Microvision plans 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 the Company on a timely basis. If adequate funds are not available in the next couple of months to fully implement its plan the Company will begin to reduce the scope of its business to extend its operations as it pursues other financing opportunities and business relationships. This reduction in scope could include delaying product launch and development projects resulting in reductions in staff, operating costs, capital expenditures and investment in research and development. With these adjustments to its operating plan, the Company believes it currently has sufficient cash, cash equivalents, and investment securities to fund operations through at least February 28, 2010.

2. NET LOSS PER SHARE

Basic net loss per share is calculated on the basis of the weighted-average number of common shares outstanding during the reporting periods. Diluted net loss per share is calculated on the basis of the weighted-average number of common shares outstanding and taking into account the dilutive effect of all potential common stock equivalents outstanding. Potentially dilutive common stock equivalents primarily consist of warrants, employee stock options, and nonvested equity shares. Diluted net loss per share for the three months ended March 31, 2009 and 2008 is equal to basic net loss per share because the effect of all potential common stock outstanding during the periods, including options, warrants and nonvested equity shares is anti-dilutive. The components of basic and diluted net loss per share were as follows (in thousands, except loss per share data):

	Three Months Ended March 31,	
	2009	2008

Numerator:		
Net loss - basic and diluted	$ (8,865)	$ (5,0
Denominator:		
Weighted-average common shares outstanding - basic and diluted	68,080	56,7
Net loss per share - basic and diluted	$ (0.13)	$ (0.

On March 31, 2009 and 2008, the Company excluded the following convertible securities from diluted net loss per share as the effect of including them would have been anti-dilutive: publicly traded warrants convertible into 6,703,000 and 0 shares of common stock, respectively, options and private warrants convertible into a total of 9,686,000 and 10,940,000 shares of common stock, respectively, and 125,000 shares of nonvested equity shares for both periods.

3. CASH EQUIVALENTS, INVESTMENT SECURITIES AVAILABLE-FOR-SALE AND FAIR VALUE MEASUREMENTS

The Company accounts for cash equivalents and investment securities in accordance with the provisions of Statement of Financial Accounting Standards (FAS) No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (FAS 115). FAS 115 addresses the accounting and reporting for investments in equity securities that have readily determinable fair values and for investments in debt securities.

The Company applies guidance in FAS No. 157, *Fair Value Measurements* (FAS 157) when estimating fair values of its cash equivalents, investment securities and liability associated with common stock warrants. The Company adopted FAS 157 on January 1, 2008 for financial assets and liabilities and for nonfinancial assets and liabilities measured at fair value on a recurring basis. It elected to defer the adoption of FAS 157 for nonfinancial assets and liabilities accounted for on a nonrecurring basis until January 1, 2009 as permitted by FAS Board Staff Position No. FAS 157-2, *Effective Date of FAS 157*. Neither of the two stages of adopting FAS 157 resulted in a material impact on the Company's consolidated financial position, results of operations or cash flows.

As of March 31, 2009, the Company held $3.0 million par value student loan auction rate securities (SLARS), fair valued at approximately $2.7 million. The SLARS owned by the Company are investment grade long-term bonds, structured with variable interest rate resets, 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 as global credit markets significantly deteriorated, insufficient clearing bids have been submitted for the SLARS. The auctions have thus failed, the interest rates have been reset to "maximum rates" instead of "auction rates" and the SLARS have been and continue to be illiquid through the auction process and secondary ARS markets.

At the time of the Company's initial investment, and through March 31, 2009, the SLARS held by the Company have maintained the following positive credit factors:

- guaranteed by the Federal Family Education Loan Program (FFELP) and other federal and state student loan guarantee programs,
- paying interest in accordance with agreements,
- collateralized by the student loans funded with the SLARS proceeds and collections thereon,
- no declines in the credit ratings of the issuers; and,

- no material changes in loan collection rates.

At the time of the Company's initial investment, the SLARS and AMBAC, the insurer of half of the SLARS, held AAA ratings. As of March 31, 2009, one major service rated both SLARS AAA, while two other services rated the SLARS in the lower A range. AMBAC is rated A and Baa1. The Company considers the breadth of the services' ratings opinions among other contextual factors when evaluating the impacts of ratings changes.

The valuation inputs hierarchy classification for assets and liabilities measured at fair value on a recurring basis in accordance with FAS 157 are summarized below as of March 31, 2009:

	Level 1	Level 2	Level 3	Total
Assets				
Corporate debt and equity securities	$ --	$ 1,006,000	$ --	$ 1,006,
Auction rate securities	--	--	2,700,000	2,700,
	$ --	$ 1,006,000	$ 2,700,000	$ 3,706,
Liabilities				
Liability associated with common stock warrants		$ 151,000		$ 151,

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 valuation 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 the Company and used in the valuations. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

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 to (from) Level 3, March 31, 2009	--
Recognized loss included in earnings	--
Balance, March 31, 2009	$ 2,700,000

The Company's investments and liability associated with common stock warrants are summarized below as of March 31, 2009 and December 31, 2008:

	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	C Equi
As of March 31, 2009:					

Assets					
Corporate debt and equity securities	$ 1,043,000	$ --	$ (37,000)	$ 1,006,000	$ 1,0
Auction rate securities	2,700,000	--	--	2,700,000	
	$ 3,743,000	$ --	$ (37,000)	$ 3,706,000	$ 1,0
Liabilities					
Liability associated with common stock warrants				$ 151,000	

	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	C Equi
As of December 31, 2008:					
Assets					
Corporate debt and equity securities	$ 5,022,000	$ --	$ (38,000)	$ 4,984,000	$ 4,9
Auction rate securities	2,700,000	--	--	2,700,000	
	$ 7,722,000	$ --	$ (38,000)	$ 7,684,000	$ 4,9
Liabilities					
Liability associated with common stock warrants				$ 331,000	

As of March 31, 2009, the unrealized losses on the Company's investments in debt securities were due primarily to changes in interest rates and credit market conditions. The realized gains and losses resulting from the liability associated with common stock warrants were primarily due to changes in the Microvision stock price and decreasing terms to expiration.

The Company's 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 includes property and equipment, long-term debt and deferred rent. Under FAS 157, the fair value of an asset or liability determined on a nonrecurring basis should be based on a hypothetical transaction at the measurement date, with a valuation premise of either "in-use" or "in-exchange" based on the highest and best use of the asset from the perspective of market participants other than the Company itself. The highest and best use of an asset is in-use if the asset would provide maximum value to market participants principally through its use with other assets as a group, and in-exchange if maximum value is derived principally on a stand-alone basis. When valuing liabilities, instead of using a valuation premise concept, one assumes the liability is transferred to a market participant as a single unit of account, in a transaction that replicates the credit conditions of the obligor. The company applies guidance contained in FAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (FAS 144) when evaluating the recoverability of its property and equipment. FAS 144 requires a long-lived asset be tested for recoverability upon the occurrence of an indicating event, and absent such potential indications, periodically. If an impairment is indicated, the Company applies the guidance in FAS 157 to determine fair value and records the adjustment in the period of impairment determination.

4. INVENTORY

Inventory at March 31, 2009 and December 31, 2008 consisted of the following:

	March 31, 2009	December 2008
Raw materials	$ 47,000	$ 45,0
Finished goods	1,392,000	1,480,0
	$ 1,439,000	$ 1,525,0

The inventory at March 31, 2009 and December 31, 2008 consisted of raw materials and finished goods for ROV, the Company's hand-held bar code scanner. 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 normal production during the next twelve months.

5. SHARE-BASED COMPENSATION

The Company accounts for stock-based employee compensation arrangements in accordance with the provisions of FAS 123(R). The Company accounts for equity instruments issued to non-employees in accordance with the provisions of Emerging Issues Task Force Issue No. 96-18 and FAS No. 123. The following table shows the amount of stock-based employee compensation expense included in the Consolidated Statements of Operations:

	Three Months Ended March 31,	
	2009	2008
Cost of contract revenue	10,000	50,0
Cost of product revenue	6,000	11,0
Research and development expense	194,000	281,0
Sales, marketing, general and administrative expense	365,000	724,0
Share-based employee compensation cost charged against income	$ 575,000	$ 1,066,0

Options Activity and Positions

The following table summarizes shares, weighted average exercise price, weighted average remaining contractual term and aggregate intrinsic value of options outstanding and options exercisable as of March 31, 2009:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding as of March 31, 2009	6,879,000	$ 3.99	7.1	$ 1,000
Exercisable as of March 31, 2009	3,649,000	$ 4.79	6.2	$ 1,000

As of March 31, 2009, the Company's unamortized share-based compensation was $4.0 million. The Company plans to amortize this share-based compensation cost over the next 2.1 years.

As of March 31, 2009, the Company's unamortized nonvested equity share-based compensation was $158,000. The Company plans to amortize this nonvested equity share-based compensation cost over the next 2.0 years.

6. LONG-TERM NOTES

Tenant Improvement Loan Agreement

During 2006, the Company entered into a loan agreement with the lessor of the Company's 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 $375,000 at March 31, 2009.

7. 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, two officers with outstanding loans left the Company and their loans became due in January 2007. In May 2007, the Company foreclosed on 50,000 shares of Lumera common stock pledged as collateral for one of the officer's loans and sold the shares for net proceeds of $227,000. Under the terms of a settlement agreement with one of the former officers who left in January 2006, the Company received payments of $241,000 in 2008.

The Company has sued its former CEO and President Richard Rutkowski and his spouse to collect $1,733,000 in outstanding loans that remain unpaid. Counterclaims were filed by Mr. Rutkowski and his spouse, seeking to recover damages in an amount in excess of $15,000,000. The Company believes these claims are without merit and intends to defend them vigorously. However, an adverse outcome could have a material adverse affect on the Company's financial condition.

A third officer with outstanding loans left the Company in August 2007 and his loans became due in August 2008. The Company is pursuing collection of the remaining outstanding balance from the former officer.

As of March 31, 2009 and December 31, 2008, the total amount outstanding under the lines of credit was $1,851,000. As of March 31, 2009 and December 31, 2008, the allowance for receivables from related parties was $1,851,000.

8. COMMITMENTS AND CONTINGENCIES

Litigation

The Company is subject to various claims and pending or threatened lawsuits in the normal course of business. Other than that described above in Note 7, the Company is not currently party to any such legal proceedings that management believes would have a material adverse effect on the Company's financial position, results of operations or cash flows.

9. NEW ACCOUNTING PRONOUNCEMENTS

In April 2009, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (FSP FAS 115-2 and FAS 124-2).

FSP FAS 115-2 and FAS 124-2 amend the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. FSP FAS 115-2 and FAS 124-2 do not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. FSP FAS 115-2 and FAS 124-2 is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009; however, early adoption is only permitted in conjunction with the early adoptions of FSP FAS 157-4 and FSP FAS 107-1 and APB 28-1. The Company is currently evaluating the impact that FSP FAS 115-2 and FAS 124-2 will have on its financial statements.

In April 2009, the FASB released a FASB Staff Position - *Determining Whether a Market Is Not Active and a Transaction Is Not Distressed* (FSP FAS 157-4*)*, to provide additional guidance for estimating fair value when there has been a significant decrease in market activity for a financial asset or liability. FSP FAS 157-4 is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009; however, early adoption is only permitted in conjunction with the early adoptions of FSP FAS 115-2 and FAS 124-2 and FSP FAS 107-1 and APB 28-1. The Company is currently assessing the financial impact of FSP FAS 157-4 on its financial statements.

In April 2009, the FASB issued FASB Staff Position No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (FSP FAS 107-1 and APB 28-1). FSP FAS 107-1 and APB 28-1 requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. FSP FAS 107-1 and APB 28-1 are effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009; however, early adoption is only permitted in conjunction with the early adoptions of FSP FAS 115-2 and FAS 124-2 and FSP FAS 157-4. The Company is currently evaluating the impact that FSP FAS 107-1 and APB 28-1 will have on its financial statements.

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

Forward-Looking Statements

The information set forth in this report in Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Item 3, "Quantitative and Qualitative Disclosure about Market Risk," includes "forward-looking statements" within the meaning of Section 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 that section. Such statements may include, but are not limited to, projections of revenues, income or loss, capital expenditures, plans for product development and cooperative arrangements, future operations, financing needs or plans of Microvision, as well as assumptions relating to the foregoing. The words "anticipate," "believe," "estimate," "expect," "goal," "may," "plan," "project," "will," and similar expressions identify forward-looking statements, which speak only as of the date the statement was made. 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 in this report under the caption "Item 1A - Risk Factors."

Overview

We are developing high-resolution miniature display and imaging engines based upon our technology 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, PDA's, 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 are currently developing a small accessory projector that would be the first commercial product based on the PicoP display engine. The accessory projector is expected to 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 expect that the accessory product will be commercially available during 2009.

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.

Results of Operations

Contract revenue.

(in thousands)	2009	% of contract revenue	2008	% of contract revenue	$ change	% chan
Three months ended March 31						
Government revenue	$ 420	59.0	$ 908	39.8	$ (488)	(53
Commercial revenue	292	41.0	1,373	60.2	(1,081)	(78
Total contract revenue	$ 712		$ 2,281		$ (1,569)	(68

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 from development contracts 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.

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 work with the members of our technical team to estimate the labor and material and other cost required to complete the statement of work compared to cost incurred to date. We use information provided by project mangers, vendors, outside consultants and others as we deem necessary 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 estimated cost to complete. 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.

During the three months ended March 31, 2009, we began selling prototype units and evaluation kits based on our PicoP display engine. We recognize contract revenue on the sales of prototype units and evaluation kits upon acceptance of the deliverables by the customer or expiration of the contractual acceptance period. While we anticipate future sales of these units, revenue may vary substantially due to the timing of orders from customers and potential constraints on resources.

Contract revenue was substantially lower during the three months ended March 31, 2009 than the same period in 2008, due to reduced contract activity and lower beginning backlog in 2009 compared to the prior 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 quarter to quarter.

Our backlog of development contracts, including orders for prototype units, at March 31, 2009 was $479,000 compared to $1.5 million at March 31, 2008, all of which is scheduled for completion during the next twelve months.

Product revenue

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(in thousands)	2009	% of product revenue	2008	% of product revenue	$ change	% chan
Three months ended March 31						
Bar code revenue	$ 239	100.0	$ 289	100.0	$ (50)	(17

Our bar code sales generally include acceptance provisions. We recognize revenue for bar code shipments upon acceptance of the product by the customer or expiration of the contractual acceptance period. Our quarterly bar code revenue may vary substantially due to the timing of product orders from customers.

Bar code revenue was lower during the three months ended March 31, 2009 than the same period in 2008, due to decreased purchasing volume of small and mid-sized businesses as a result of the global economic conditions.

The backlog of bar code orders at March 31, 2009 was approximately $138,000, compared to $338,000 at March 31, 2008, all of which is scheduled for delivery during the next twelve months.

Cost of contract revenue

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		% of		% of

(in thousands)	2009	contract revenue	2008	contract revenue	$ change	% chan
Three months ended March 31	$ 383	53.8	$ 762	33.4	$ (379)	(49

Cost of contract revenue includes both the direct and allocated indirect costs of performing on development contracts. Direct costs include labor, materials and other costs incurred directly in performing on a contract. 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 on development contracts 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.

Cost of contract revenue was lower during the three months ended March 31, 2009 than March 31, 2008 as a result of the decreased activity on development contracts. The increase in cost of contract revenue as a percentage of contract revenue was the result of differences in the cost mix of the contracts during those periods. During the three months ended March 31, 2008, cost of contract revenue included contracts with more favorable cost structures and higher gross margins.

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

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(in thousands)	2009	% of product revenue	2008	% of product revenue	$ change	% chan
Three months ended March 31	$ 241	100.8	$ 339	117.3	$ (98)	(28

Cost of product revenue includes both the direct and allocated indirect costs of manufacturing bar code scanners sold to customers. Direct costs include labor, materials and other costs incurred directly in the manufacture of bar code scanners. Indirect costs include labor and other costs associated with operating our manufacturing 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. During the three months ending March 31, 2009 and 2008, we expensed approximately $73,000 and $47,000, respectively, of manufacturing overhead associated with production capacity in excess of production requirements.

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.

Research and development expense.

(in thousands)	2009	2008	$ change	% change
Three months ended March 31	$ 5,610	$ 4,426	$ 1,184	26.8

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.

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 scanned beam display 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**
Three months ended March 31	$ 3,814	$ 4,135	$ (321)	(7.8)

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 the three months ended March 31, 2009 compared to the same period in 2008 was primarily the result of decreased payroll due to reduction 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.

(in thousands)	**2009**	**2008**	**$ change**	**% change**
Three months ended March 31	$ 64	$ 412	$ (348)	(84.5)

The decrease in interest income for the three months ended March 31, 2009 compared to the same period in 2008 resulted primarily from lower average cash, investment securities balances, and interest rates.

Interest expense.

(in thousands)	**2009**	**2008**	**$ change**	**% change**
Three months ended March 31	$ 11	$ 13	$ (2)	(15.4)

Gain on derivative instruments, net.

(in thousands)	2009	2008	$ change	% change
Three months ended March 31	$ 180	$ 1,673	$ (1,493)	(89.2)

In March and December 2005, we issued convertible notes (the "Notes") with an aggregate principal amount of $20 million. The last payment on the Notes was made in March 2007. In connection with the issuance of the Notes we issued warrants to purchase 2,302,000 shares of common stock. The warrants met the definition of derivative instruments that must be accounted for as liabilities under the provisions of Emerging Issues Task Force Issue No. 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock,* because we cannot engage in certain corporate transactions affecting the common stock unless we make 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. In July 2008, warrants to purchase 750,000 shares of common stock expired unexercised. We valued the remaining warrants to purchase 1,552,000 shares of common stock at March 31, 2009 using the Black-Scholes option-pricing model with the following assumptions: expected volatilities of 75%; expected dividend yields of 0%; risk free interest rates of from 0.6% to 0.7%; and contractual lives ranging from 1.0 year to 1.7 years. The change in value of the warrants of $180,000 for the three months ended March 31, 2009 was recorded as a non-operating gain and is included in "Gain on derivative instruments, net" in the consolidated statement of operations. We valued the warrants at March 31, 2008 using the Black-Scholes option-pricing model with the following assumptions: expected volatilities ranging from 65% to 67%; expected dividend yields of 0%; risk free interest rates ranging from 1.4% to 1.7%; and contractual lives ranging from 0.3 years to 2.7 years. The change in value of the warrants of $1,736,000 for the three months ended March 31, 2008 was recorded as a non-operating gain and is included in "Gain 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 now conducts 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. As of March 31, 2008, the warrants were valued using the Black-Scholes option-pricing model with the following assumptions: expected volatility of 83%; expected dividend yields of 0%; risk free interest rates of 1.78%; and contractual lives of 3.0 years. The change in value of $64,000 for the three months ended March 31, 2008 was recorded as a non-operating loss and is included in "Gain on derivative instruments, net" in the consolidated statement of operations.

Liquidity and Capital Resources

We have funded our operations to date primarily through the sale of equity and debt securities and, to a lesser extent, from development contract revenues and product sales. At March 31, 2009, we had $19.1 million in cash, cash equivalents and investment securities, available-for-sale. Our operating plan for 2009 includes the launch of the first accessory product, further development of our PicoP display engine for embedded applications and further development of automotive HUD and eyewear applications. In order to fully fund our product launch and our other development efforts, we will require additional capital in 2009. 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 in the next couple of months to fully implement our plan we will begin to reduce the scope of the business to extend our operations as we pursue other financing opportunities and business relationships. This reduction in scope could include delaying product launch and development projects resulting in reductions in staff, operating costs, capital expenditures and investment in research and development. With these adjustments to our operating plan, we believe we currently have sufficient cash, cash equivalents, and investment securities to fund operations through at least February 28, 2010.

Cash used in operating activities totaled $8.8 million during the three months ended March 31, 2009, compared to $5.3 million during the same period in 2008. During the three months ended March 31, 2009, the increase in cash used in operating activities was primarily driven by lower contract activity and higher research and development costs as we move closer to the commercialization of PicoP based products.

We had the following material gains and charges, and changes in assets during the three months ended March 31, 2009:

- *"Gain on derivative instruments, net"*
  In connection with the issuance of the Notes, we issued warrants to purchase 2,302,000 shares of common stock, of which 1,552,000 remain outstanding as of March 31, 2009. Due to changes in our stock price and declining terms to expiry on the warrants, we recognized a $180,000 non-operating gain during the three months ended March 31, 2009.
- *"Accounts payable"*

During the three months ended March 31, 2009, accounts payable decreased by $1,049,000 due to payments made for inventory, research and development expenses, and general operating expenses that were billed to us in 2008.

Cash used in investing activities totaled $354,000 for the three months ended March 31, 2009 compared to cash provided by investing activities of $6.5 million during the three months ended March 31, 2008. During the three months ended March 31, 2009, we used cash of $354,000 for capital expenditures, compared to $137,000 during the same period in 2008. During the three months ended March 31, 2008, we had net sales of investment securities totaling $7.0 million.

Cash generated and used in financing activities during the three months ended March 31, 2009 and 2008 was not significant.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate and Market Liquidity Risks

As of March 31, 2009, 86% 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 the market and interest rate risk is not material. The remaining 14% is composed of $3.0 million par student loan auction-rate securities (SLARS). The SLARS owned by the Company are investment grade long-term bonds, structured with variable interest rate resets, 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 as global credit markets significantly deteriorated, insufficient clearing bids have been submitted for the SLARS. The auctions have thus failed and the interest rates have been reset to "maximum rates" instead of "auction rates". The SLARS have been illiquid through the auction process in addition to through inactive secondary ARS markets.

Given the adverse credit market conditions, the fair value of the principal of these bonds has become affected by changes in interest rates, the spread between short and long rates, and credit market liquidity. As a result, at December 31, 2008, we estimated that the fair value of our SLARS to be approximately $2.7 million. If market conditions worsen, we may have to further adjust the estimated fair value of the SLARS, including additional charges to earnings, if we believe the adjustment is other than temporary. In the event we need access to the funds invested in the SLARS, we could be required to sell these securities at an amount below our original purchase value. Any of these events could affect our consolidated financial condition, results of operations and cash flows. However, based on our current operating plan and ability to access our $16.4 million held in cash and cash equivalents and other investment securities available for sale held as of March 31, 2009, we do not expect to be required to sell these securities materially below their current estimated 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 March 31, 2009, our cash and cash equivalents and investments available-for-sale securities portfolio are comprised of short-term highly rated money market funds, corporate bonds and the SLARS.

	Amount	**Percent**
Cash	$14,506	75.94%
Less than one year	$1,897	9.93%
One to two years	--	--
Greater than five years	$2,700	14.13%
	19,103	100.00%

Foreign Exchange Rate Risk

All of our development contract payments are made in U.S. dollars. However, in the future we may enter into additional 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 foreign currency exposure.

ITEM 4.

CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report and, based on this evaluation, our principal executive officer and principal financial officer have concluded that these disclosure controls and procedures are effective. There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f)) that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

OTHER INFORMATION

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 March 31, 2009, we had an accumulated deficit of $300.9 million.
- We incurred consolidated net losses of $239.6 million from inception through 2006, $19.8 million in 2007, $32.6 million in 2008, and consolidated net loss of $8.9 million in the three months ended March 31, 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 the scanned beam technology 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 through 2009 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.

Our operating plan for 2009 includes the launch of our first accessory product, further development of the PicoP display engine for embedded applications and further development of automotive HUD and eyewear applications. In order to fully fund our product launch and our other development efforts, we will require additional capital in the next couple of months. We plan to obtain additional cash through the issuance of equity or debt securities. We will require additional capital in the future to fund our operations, including to:

- Further develop the technology platform and PicoP display engine,
- Develop and protect our intellectual property rights, and
- Fund long-term marketing and business development opportunities.

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 level and mix of revenues vary from anticipated amounts and allocations 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 in the next couple of months to fully implement our plan we will begin to reduce the scope of our business to extend our operations as we pursue other financing opportunities and business relationships. This reduction in scope could include delaying product launch and projects resulting in reductions in staff and operating costs as well as reductions in capital expenditures and investment in research and development. With these adjustments to our operating plan, we believe we currently have sufficient cash, cash equivalents, and investment securities to fund operations through at least February 28, 2010.

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 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 2008 and 2007. On April 27, 2009, the closing price of our stock was $1.81.

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.

Currently, the majority of our distributor relationships for the ROV Scanner and its accessories involve the distributor taking inventory positions and reselling to multiple customers. With these distributor relationships, we do not recognize revenue until the distributors sell the product through to their end user customers. Our distributor relationships do reduce our ability to forecast sales and increases risks to our business. Since our distributors act as intermediaries between us and the end user customers, we must rely on our distributors to accurately report inventory levels and production forecasts. This requires 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.

We do not have long-term commitments from our ROV customers, and plan purchases based upon our estimates of customer demand, which may require us to contract for the manufacture of our products based on inaccurate estimates.

Our ROV sales are made on the basis of purchase orders rather than long-term commitments. Our customers may cancel or defer purchases at any time. This requires us to forecast demand based upon assumptions that may not be correct. If our customers or we overestimate demand, we may create inventory that we may not be able to sell or use, resulting in excess inventory, which could become obsolete or negatively affect our operating results. Conversely, if our customers or we underestimate demand, or if sufficient manufacturing capacity is not available, we may lose revenue opportunities, damage customer relationships, and we may not achieve expected revenues.

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 based acceptance for our products will require marketing efforts and the expenditure of financial and other resources to create product awareness and demand by potential customers. We may be unable to offer products consistently or at all that compete effectively with products of others on the basis of price or performance. Failure to achieve broad acceptance of our products by potential customers and to effectively compete would have a material adverse effect on our operating results.

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 our ability to raise, or the cost of, needed capital and could materially adversely affect 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 ROV 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 ROV Scanner 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 developed demonstration 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 the University of Washington and our other 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 the University of Washington and other licensors involve complex legal and factual questions. The standards that the United States Patent and Trademark Office and its foreign counterparts use to grant patents are not always applied predictably or uniformly and can change. Additionally, the scope of patents are subject to interpretation by courts and their validity can be subject to challenges and defenses, including challenges and defenses based on the existence of prior art. Consequently, we cannot be certain as to the extent to which we will be able to obtain patents for our new products and technology or the extent to which the patents that we already own or license from others protect our products and technology. Reduction in scope of protection or invalidation of our licensed or owned patents, or our inability to obtain new patents, may enable other companies to develop products that compete with ours on the basis of the same or similar technology.

We also rely on the law of trade secrets to protect unpatented know-how and technology to maintain our competitive position. We try to protect this know-how and technology by limiting access to the trade secrets to those of our employees, contractors and partners with a need to know such information and by entering into confidentiality agreements with parties that have access to it, such as our employees, consultants and business partners. Any of these parties could breach the agreements and disclose our trade secrets or confidential information, or our competitors

might learn of the information in some other way. If any trade secret not protected by a patent were to be disclosed to or independently developed by a competitor, our competitive position could be materially harmed.

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

We may be subject to product liability claims if any of our product applications are alleged to be defective or cause harmful effects. For example, because 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 first quarter of 2009 and the full year of 2008, 44% and 34%, 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.

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

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

If we lose our rights under our third party technology licenses, our operations will 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 would lose a competitive advantage in the market, and may even lose the ability to commercialize our products completely. Either of these results could substantially decrease our revenues.

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

Our strategy for commercializing 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 6.

Exhibits

10.1	Employment Agreement effective as of April 7, 2009 between Microvision, Inc. and Alexander Y. Tokman
31.1	Chief Executive Officer Certification Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Chief Financial Officer Certification Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Chief Executive Officer Certification pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Chief Financial Officer Certification pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

Pursuant to the requirements 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: May 7, 2009	BY:	/s/ Alexander Y. Tokman

Alexander Y. Tokman

Chief Executive Officer

(Principal Executive Officer)

Date: May 7, 2009 BY: /s/ Jeff Wilson

Jeff Wilson

Chief Financial Officer

(Principal Financial Officer)

EXHIBIT INDEX

The following documents are filed.

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