MICROVISION INC
Form 10-Q
August 07, 2008

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 June 30, 2008

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 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 July 31, 2008, 68,035,000 shares of the Company's common stock, $0.001 par value, were outstanding.

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

		June 30, 2008
Assets		
Current assets		
Cash and cash equivalents	$	10,039
Investment securities, available-for-sale		10,650
Accounts receivable, net of allowances of $73 and $123		303
Costs and estimated earnings in excess of billings on uncompleted contracts		166
Inventory		1,406
Other current assets		1,145
Total current assets		23,709
Property and equipment, net		3,759
Restricted investments		1,475
Other assets		49
Total assets	$	28,992
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable	$	1,848
Accrued liabilities		3,175
Billings in excess of costs and estimated earnings on uncompleted contracts		91
Liability associated with common stock warrants		1,122
Current portion of capital lease obligations		47
Current portion of long-term debt		68
Total current liabilities		6,351
Capital lease obligations, net of current portion		67
Long-term debt, net of current portion		358
Deferred rent, net of current portion		1,565
Total liabilities		8,341
Commitments and contingencies		
Shareholders' equity		
Common stock, par value $.001; 125,000 shares authorized; 56,850 and 56,730 shares issued and outstanding		57
Additional paid-in capital		294,307
Accumulated other comprehensive income		12
Accumulated deficit		(273,725)
Total shareholders' equity		20,651
Total liabilities and shareholders' equity	$	28,992

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 June 30,	
	2008	**2007**
Contract revenue	$ 1,006	$ 2,21
Product revenue	616	44
Total revenue	1,622	2,66
Cost of contract revenue	374	1,21
Cost of product revenue	529	44
Total cost of revenue	903	1,66
Gross margin	719	99
Research and development expense	5,881	3,20
Sales, marketing, general and administrative expense	4,103	4,08
Total operating expenses	9,984	7,29
Loss from operations	(9,265)	(6,29
Interest income	279	15
Interest expense	(12)	(1
Gain (loss) on derivative instruments, net	(254)	(1,94
Other expense	(14)	(1
Net loss before Lumera transactions	(9,266)	(8,11
Gain on sale of investment in Lumera	--	5,96
Net loss	$ (9,266)	$ (2,15
Net loss per share - basic and diluted	$ (0.16)	$ (0.0
Weighted-average shares outstanding - basic and diluted	56,782	43,57

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

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

	Three Months Ended June 30, 2008	2007
Net loss	$ (9,266)	$ (2,15
Other comprehensive gain (loss)		
Unrealized gain (loss) on investment securities, available-for-sale	(77)	4
Less: reclassification adjustment for gains realized in net income	--	(5,96
Net unrealized loss	(77)	(5,91
Comprehensive loss	$ (9,343)	$ (8,07

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

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

	Six M Ju
	2008
Cash flows from operating activities	
Net loss	$ (14,304
Adjustments to reconcile net loss to net cash used in operations:	
Depreciation	481
Non-cash stock-based compensation expense	1,604
Non-cash interest expense	--
Loss (gain) on derivative instruments	(1,419
Allowance for receivables from related parties	--
Gain on sale of investment in Lumera	--
Net accretion of discount on short-term investments	(92
Non-cash deferred rent	(137
Change in:	
Accounts receivable, net	1,582
Costs and estimated earnings in excess of billings on uncompleted contracts	277
Inventory	(645
Other current assets	(81
Other assets	(2
Accounts payable	(276
Accrued liabilities	(999
Billings in excess of costs and estimated earnings on uncompleted contracts	(879
Net cash used in operating activities	(14,890
Cash flows from investing activities	
Sales of investment securities	12,800
Purchases of investment securities	(986
Purchases of restricted investment securities	(350
Collections of receivables from related parties	--
Sale of long-term investment - Lumera	--
Purchases of property and equipment	(215
Net cash provided by investing activities	11,249
Cash flows from financing activities	
Principal payments under capital leases	(18
Principal payments under long-term debt	(32
Payments on notes payable	--
Net proceeds from issuance of common stock and warrants	331
Net cash provided by financing activities	281
Net increase (decrease) in cash and cash equivalents	(3,360
Cash and cash equivalents at beginning of period	13,399
Cash and cash equivalents at end of period	$ 10,039

Supplemental disclosure of cash flow information		
Cash paid for interest	$	25
Supplemental schedule of non-cash investing and financing activities		
Other non-cash additions to property and equipment	$	24
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.

MICROVISION, INC.
Notes to Consolidated Financial Statements
June 30, 2008
(Unaudited)

1. MANAGEMENT'S STATEMENT AND PRINCIPLES OF CONSOLIDATION

Management's Statement

The Consolidated Balance Sheet as of June 30, 2008, the Consolidated Statements of Operations, Comprehensive Loss and Cash Flows for the three and six months ended June 30, 2008 and 2007 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 June 30, 2008 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, 2007. The results of operations for the six months ended June 30, 2008 are not necessarily indicative of the operating results that may be attained for the entire fiscal year.

At June 30, 2008, Microvision had $20.7 million in cash, cash equivalents and investment securities, available-for-sale. In July 2008, the Company raised approximately $26.0 million, before issuance costs of approximately $1.8 million, from the sale of 11,172,000 shares of common stock and warrants to purchase 6,703,000 shares of its common stock. Based on its current operating plan and including the net proceeds from the Company's July financing, the Company believes that it has sufficient cash to fund operations until late 2009. Microvision will require additional cash to fund its operating plan past that time. There can be no assurance that additional cash will be available or that, if available, it will be available on terms acceptable to Microvision on a timely basis. If adequate funds are not available to satisfy either short-term or long-term capital requirements, Microvision will be required to limit its operations substantially. This limitation of operations may include reductions in staff, operating costs and capital expenditures.

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 and employee stock options. Diluted net loss per share for the three and six months ended June 30, 2008 and 2007 is equal to basic net loss per share because the effect of all potential common stock outstanding during the periods, including convertible debt, convertible preferred stock, options and warrants 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 June 30,	
	2008	2007
Numerator:		
Net loss available for common shareholders - basic and diluted	$ (9,266)	$ (2,1
Denominator:		
Weighted-average common shares outstanding - basic and diluted	56,782	43,5
Net loss per share - basic and diluted	$ (0.16)	$ (0.

On June 30, 2008 and 2007, 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 0 and 10,636,000 shares of common stock, options and private warrants convertible into a total of 10,992,000 and 10,089,000 shares of common stock and 125,000 and 0 shares of nonvested equity shares, respectively.

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

The Company accounts for investment securities in accordance with the provisions of Statement of Financial Accounting Standards 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's investment securities are comprised of commercial paper, U.S. government and commercial debt securities and auction-rate securities. The Company has classified its entire investment portfolio as available-for-sale. Available-for-sale securities are stated at fair value with unrealized gains and losses included in other comprehensive loss. Dividend and interest income are recognized when earned. Realized gains and losses are presented separately on the income statement. The cost of securities sold is based on the specific identification method.

At June 30, 2008, $3.0 million of the Company's marketable securities portfolio was invested in AAA rated investments in municipal student loan auction-rate debt securities. Auction-rate securities are long-term variable rate bonds tied to short-term interest rates. After the initial issuance of the securities, the interest rate on the securities is reset periodically, at intervals established at the time of issuance (generally every seven, twenty- eight, or thirty-five days), based on market demand at the time of the reset auction. Auction-rate securities are bought and sold in the marketplace through a competitive bidding process often referred to as a "Dutch Auction". If there are insufficient clearing bids for the auction-rate securities held by the Company at the time of an auction, the auction may not be completed and the rate is reset to a "maximum rate" according to the provisions of the security. Following such a failed auction, the Company would not be able to sell the auction-rate security through the auction process until a future successful auction.

Given the current negative liquidity conditions in the global credit markets, auctions of the Company's auction-rate securities have failed resulting in these securities being temporarily illiquid through the normal auction process. At the time of its initial investment and through the date of filing this report, all of the Company's auction-rate securities remain AAA rated, collateralized by the Federal Family Education Loan Program ("FFELP") and other federal and state student loan guarantee programs, and there have been no declines in the credit ratings of the issuers or material changes in loan collection rates. AMBAC is the insurer on 50% of the auction-rate securities that the Company holds. As of June 30, 2008, AMBAC continued to be rated AAA by Moody's and Standard and Poor's and AA by Fitch Ratings. In addition, all of the auction- rate securities that the Company has sold through June 30, 2008, totaling $5.8 million of which $1.3 million was sold during the quarter-ended June 30, 2008, have been sold at par value. Based on the Company's ability to access its cash and cash equivalents and its other liquid investments, it does not expect to be required to sell these securities at a loss. Based on this information, the Company concluded that the fair value of its auction-rate securities did not materially differ from par as of June 30, 2008.

In September 2006, the FASB issued Statement of Financial Accounting Standards 157, Fair Value Measurements ("FAS 157"). FAS 157 defines fair value, establishes a framework and gives guidance regarding the methods used for measuring fair value, and expands disclosures about fair value measurements. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods of those fiscal years. The Company adopted FAS 157 effective January 1, 2008. The adoption of FAS 157 for financial assets and liabilities did not have a material impact on the Company's consolidated financial position, consolidated results of operations or consolidated cash flows.

FAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FAS 157 also establishes a three level fair value inputs hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. It must also utilize market data and assumptions it believes market participants would use in measuring the fair value of the asset or liability, including assumptions about risks, the risks inherent in the inputs and the valuation techniques. The hierarchy is shown below:

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

Level 2 - Observable inputs, other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not sufficiently active to qualify as level 1, other observable inputs, or inputs that can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs in which there is little or no market data, which requires the company to develop its own assumptions which are significant to the measurement of the fair values of the assets or liabilities.

The Company utilizes valuations reported by outside valuation services for its debt securities. The valuations are reviewed for reasonableness before being accepted for financial reporting. The Company has reviewed the inputs and methodologies used by the services as a basis for its accounting and disclosures in accordance with FAS 157.

Prior to the quarter ended June 30, 2008, the market approach was used to measure fair values of debt and equity securities and the income approach for derivatives. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts to a single present amount. Due to continuing low liquidity and variability of valuations and inputs in the market for auction-rate securities during the quarter ended June 30, 2008, the Company decided the market did not have sufficient market participant activity to continue using the market approach to value its auction-rate securities. The Company, therefore, changed from the market approach to the income approach to estimate values for its auction-rate securities.

The principal markets for the debt securities are dealer markets which have a relatively high level of price transparency. The principal market for Lumera common stock is NASDAQ. The market participants for debt securities are typically large money center banks and regional banks, brokers, dealers, pension funds, and companies with debt investment portfolios.

Assets and liabilities measured at fair value on a recurring basis in accordance with FAS 157 are summarized below:

	Level 1	Level 2	Level 3	Total
Assets				
Corporate debt and equity securities	$ 36,000	$ 3,093,000	$ --	$ 3,129,
U.S. government and agency securities	4,521,000	--	--	4,521,
Auction-rate securities	--	3,000,000	--	3,000,
Warrants in Lumera	--	14,000	--	14,
	$ 4,557,000	$ 6,107,000	$ --	$ 10,664,
Liabilities				
Liability associated with common stock warrants		$ 1,122,000		$ 1,122,

The Company's investments and liability associated with common stock warrants are classified within level 1 or level 2 of the fair value hierarchy because they are valued using actual transactions, quoted market prices, broker or dealer quotations, alternative pricing sources, published forward yield curves or other inputs with sufficient levels of observability to market participants. The types of instruments valued based on quoted market prices in active markets include U.S. government and agency securities and equity investments. Such instruments are classified within level 1 of the fair value hierarchy. The types of instruments valued based on other observable inputs include investment-grade corporate bonds, auction-rate securities, Lumera warrants, and liability associated with common stock warrants. Such instruments are classified within level 2 of the fair value hierarchy. 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 Company's investments, warrants in Lumera, and liability associated with common stock warrants are summarized below as of June 30, 2008 and December 31, 2007:

					Clas
	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Inve Secu Avai For
As of June 30, 2008:					
Assets					
Corporate debt and equity securities	3,140,000	--	(11,000)	3,129,000	3,1
U.S. government and agency securities	4,498,000	23,000	--	4,521,000	4,5
Auction-rate securities	3,000,000	--	--	3,000,000	3,0
Warrants in Lumera	--	--	--	14,000	
	$10,638,000	$ 23,000	$ (11,000)	$10,664,000	$10,6
Liabilities					
Liability associated with common stock warrants				$ 1,122,000	

	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Clas Inve Secu Avai For
As of December 31, 2007:					
Assets					
Corporate debt and equity securities	9,074,000	54,000	(5,000)	9,123,000	9,1
U.S. government and agency securities	4,486,000	3,000	(1,000)	4,488,000	4,4
Auction-rate securities	8,800,000	--	--	8,800,000	8,8
Warrants in Lumera	--	--	--	130,000	
	$22,360,000	$ 57,000	$ (6,000)	$22,541,000	$22,4
Liabilities					
Liability associated with common stock warrants				$ 2,657,000	

Unrealized gains or losses on investments available-for sale are recorded in accumulated other comprehensive loss (income) at each measurement date. Changes in the fair values of the warrants in Lumera and the liability associated with common stock warrants are realized in the period of remeasurement and recorded in Gain (loss) on derivative instruments, net in the Consolidated Statement of Operations.

As of June 30, 2008, the unrealized losses on our investments in debt securities were due primarily to changes in interest rates and credit markets. The unrealized and realized gains and losses associated investments in Lumera were primarily due to its stock price changes.

The realized gains and losses associated with the liability associated with common stock warrants were primarily due to changes in the Microvision stock price and decreasing terms to expiration.

4. INVENTORY

Inventory at June 30, 2008 and December 31, 2007 consisted of the following:

	June 30, 2008	December 2007
Raw materials	$ 426,000	$ 122,0
Work-in-process	--	10,0
Finished goods	980,000	629,0
	$ 1,406,000	$ 761,0

The inventory at June 30, 2008 and December 31, 2007 consisted of raw materials, work-in-process, and finished goods for ROV and Flic, the Company's hand-held bar code scanners. 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 Statement of Financial Accounting Standards No. 123, as revised December 2004 ("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 Statement of Operations:

	Three Months Ended June 30,	
	2008	2007
Cost of contract revenue	$ 14,000	$ 39,0
Cost of product revenue	1,000	
Research and development expense	165,000	67,0
Sales, marketing, general and administrative expense	356,000	300,0
Share-based employee compensation cost charged against income	$ 536,000	$ 406,0

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 June 30, 2008:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding as of June 30, 2008	7,310,000	$ 3.95	7.4	$1,156,000
Exercisable as of June 30, 2008	3,429,000	$ 4.93	5.9	$ 359,000

As of June 30, 2008, the Company's unamortized share-based compensation was $5,755,000. The Company plans to amortize this share-based compensation cost over the next 2.8 years.

As of June 30, 2008, the Company's unamortized nonvested equity share-based compensation was $217,000. The Company plans to amortize this nonvested equity share-based compensation cost over the next 2.7 years.

6. LONG-TERM NOTES

Tenant Improvement Loan Agreement

In February 2006, the Company entered into a loan agreement with the lessor of the Company's corporate headquarters 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, including interest added to principal, was $426,000 at June 30, 2008.

7. RECEIVABLES FROM RELATED PARTIES

In 2000, the Board of Directors authorized the Company to provide unsecured lines of credit to each of the Company's three senior officers. The limit of the line of credit was three times the executives' base salary less any amounts outstanding under the Executive Option Exercise Note Plan. In 2002 and 2001, the Board of Directors authorized additions totaling $700,000, to the limit for one senior officer. The lines of credit carry interest rates of 5.4% to 6.2%. The lines of credit must be repaid within one year of the senior officer's termination or within thirty days of demand by the Company in the event of a plan termination, provided that in the event of such a demand the senior officer may elect to deliver a promissory note with a one-year term in lieu of payment.

In 2002, the Company determined that certain of its senior officers may have insufficient net worth and short-term earnings potential to repay loans outstanding under the Company's lines of credit. In 2003 and 2002, the Company recorded allowances for doubtful accounts for receivables from senior officers totaling $900,000.

In January 2006, two senior officers with outstanding loans from the Company left the Company. Because the lines of credit were not fully secured and collection was uncertain, the Company increased the allowance by $1,031,000 in December 2005. In 2006, the Company increased the allowance by $542,000. In accordance with the terms, the loans were due in January 2007. Neither of the officers has repaid their loans. One of the officers pledged 50,000 shares of Lumera common stock as collateral for the loans. In May 2007, the Company foreclosed on the collateral and sold the shares for net proceeds of $227,000. The Company is pursuing collection of the remaining outstanding balances. A third executive with outstanding loans from the Company left the Company in August 2007 and his loans will be due in August 2008. As a result of a review of the financial position of the former executives and the potential difficulty in collecting loans from former employees, the Company recorded additional allowances for doubtful accounts for the receivables from senior officers of $23,000 during 2007. As of June 30, 2008 and December 31, 2007, the total amount outstanding under the lines of credit was $2,496,000 and was fully reserved.

8. ACCOUNTING FOR LUMERA WARRANTS

The Company owns a warrant to purchase 170,500 shares of Lumera common stock and records the warrant at fair value in "Other current assets". On the original transaction date, the warrant was valued using the Black-Scholes option-pricing model with the following assumptions: expected volatility of 83%; expected dividend yield of 0%; risk free interest rate of 4.6%; and contractual life of 5.1 years.

Changes in the fair value of the warrants are recorded in the statement of operations each period. At June 30, 2008, the warrant was revalued using the Black-Scholes option-pricing model with the following assumptions; expected volatility of 107%; expected dividend yield of 0%; risk free interest rate of 2.8%; and contractual life of 2.7 years. The fair value of the warrant decreased to $14,000 from $130,000 at December 31, 2007 and the changes in value for the three and six months ended June 30, 2008 of $52,000 and $116,000, respectively, were recorded as non-operating losses and are included in "Gain (loss) on derivative instruments, net" in the consolidated statement of operations.

9. COMMITMENTS AND CONTINGENCIES

Litigation

The Company has sued its former CEO and President Richard Rutkowski and his spouse to collect $1,733,000 in outstanding loans from the Company that were due in January 2007 and 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 its financial condition.

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

10. NEW ACCOUNTING PRONOUNCEMENTS

In February 2008, the FASB released a FASB Staff Position, FSP FAS 157-2- Effective Date of FASB Statement No. 157, which delays the effective date of FAS 157 for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008. The Company is currently assessing the financial impact of FSP FAS 157-2 on its financial statements.

In June 2007, the Emerging Issues Task Force (EITF) reached a final consensus on EITF Issue No. 07-1, Accounting for Collaborative Arrangements (EITF 07-1). EITF 07-1 discusses how to determine whether an arrangement constitutes a collaborative arrangement, how costs incurred and revenue generated on sales to third parties should be reported by the participants, how an entity should characterize payments made between participants and what participants should disclose in the notes to the financial statements about a collaborative arrangement. EITF 07-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. The Company is currently assessing the financial impact of EITF 07-1 on its financial statements.

11. SUBSEQUENT EVENT

In July 2008, the Company raised approximately $26.0 million, before issuance costs of approximately $1.8 million, from the sale of 11,172,000 shares of common stock and warrants to purchase 6,703,000 shares of its common stock. The warrants have an exercise price of $3.60 per share, a five year term, and are not exercisable for one year from the date of issuance. The Company can call the warrants after one year from the date of issuance if the average closing bid price of its stock is over $7.20 (200% of exercise price) for any 20 consecutive trading days.

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 compact, low power, high-resolution displays and imaging systems based on silicon micro-mirror technology. Our technology has potential applications for a broad range of consumer, automotive, medical, industrial, and military products. Our proprietary technology platform combines bi-axial Micro- Electrical Mechanical system ("MEMS") light scanning technologies, lasers, optics, electronics, with our system controls expertise to produce compact display or imaging solutions that we anticipate will lead to introduction of new applications and products in the consumer and automotive markets. 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.

In 2006, we announced our new strategy to design, develop and supply a proprietary display engine called PicoP™ and we changed the company's business model and go-to-market strategy and principally rely on original equipment manufacturers (OEMs) to commercialize products based on the PicoP engine. The PicoP display engine is an ultra-miniature video projector capable of producing large, color rich, high resolution images, but it is also small and low power enough to be embedded directly into mobile devices, such as cell phones. PicoP-based miniature projection engines are being marketed to OEMs to be embedded into a variety of consumer products. The primary goal for consumer display applications is to provide mobile device users with a large screen, high resolution viewing experience from their mobile devices.

We are currently developing a small accessory projector that would be the first commercial product based on our PicoP display engine. The accessory projector is expected to display images from a variety of video sources including cell phones, portable media players (PMPs), PDAs, gaming consoles, laptop computers, digital cameras, and other consumer electronics products. It would allow users to watch movies, play videos, and display photos and other data onto a variety of flat or curved surfaces. We expect that the accessory product will be commercially available during the first half of 2009.

The PicoP display engine, with some modification, could be embedded into a vehicle to create a heads up display (HUD) that could project point-by-point navigation, critical operational, safety and other information important to the vehicle operator. In working with Tier 1 suppliers, we have produced prototypes that demonstrate the PicoP's ability to project onto the windscreen of an automobile a high-resolution image readable during day or night.

We believe that the PicoP display engine could also be modified to be embedded into a pair of glasses to provide a mobile user with a see-through or occluded personal display to view movies, play games or access other content. We are working with the US Air Force 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.

<u>Results of Operations</u>

Contract revenue.

(in thousands)	2008	% of contract revenue	2007	% of contract revenue	$ change	% chan

Three months ended June 30							
Government revenue	$ 661	65.7	$ 1,370	61.7	$ (709)	(51	
Commercial revenue	345	34.3	849	38.3	(504)	(59	
Total contract revenue	$ 1,006		$ 2,219		$ (1,213)	(54	
Six months ended June 30							
Government revenue	$ 1,569	47.7	$ 2,979	72.3	$ (1,410)	(47	
Commercial revenue	1,718	52.3	1,142	27.7	576	50	
Total contract revenue	$ 3,287		$ 4,121		$ (834)	(20	

We earn contract revenue from performance on development contracts with the United States government and commercial customers.

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.

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. Contract revenue was lower during the three and six months ended June 30, 2008 than the same periods in 2007, due to the lower beginning contract backlog.

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 at June 30, 2008 was $526,000 compared to $7.4 million at June 30, 2007, all of which is scheduled for completion during the next twelve months. The decrease in backlog from 2007 is primarily attributed to completion of government and commercial development contracts in 2007 and early 2008.

Product revenue

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(in thousands)	**2008**	**% of product revenue**	**2007**	**% of product revenue**	**$ change**	**% chan**

Three months ended June 30							
Bar code revenue	$ 616	100.0	$ 443	100.0	$ 173	39
Nomad revenue	--	--	--	--	--	
Total product revenue	$ 616		$ 443		$ 173	39
Six months ended June 30						
Bar code revenue	$ 905	100.0	$ 726	93.6	$ 179	24
Nomad revenue	--	--	50	6.4	(50)	(100
Total product revenue	$ 905		$ 776		$ 129	16

Our quarterly product revenue may vary substantially due to the timing of product orders from customers, production constraints and raw material availability. The increase in bar code revenue for the three and six months ended June 30, 2008 compared to the same periods in 2007 was due to the increased sales activity surrounding the ROV product line.

The backlog of product orders at June 30, 2008 was approximately $153,000, compared to $292,000 at June 30, 2007, all of which is scheduled for delivery during the next twelve months.

Cost of contract revenue

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(in thousands)	2008	% of contract revenue	2007	% of contract revenue	$ change	% chan
Three months ended June 30	$ 374	37.2	$ 1,217	54.8	$ (843)	(69
Six months ended June 30	1,136	34.6	2,227	54.0	(1,091)	(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.

The cost of contract revenue as a percentage of revenue was lower during the three and six months ended June 30, 2008 than June 30, 2007 as a result of negotiating better terms on contracts entered into in late 2007. We target a gross margin for each contract of at least 40%; however, the gross margin can vary based on the technical challenges encountered in completing the contract.

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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	2008	% of product revenue	2007	% of product revenue	$ change	% chan

(in thousands)						
Three months ended June 30	$ 529	85.9	$ 446	100.7	$ 83	18
Six months ended June 30	868	95.9	730	94.1	138	18

Cost of product revenue includes both the direct and allocated indirect costs of manufacturing products sold to customers. 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.

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 June 30, 2008 and 2007, we expensed approximately $72,000 and $57,000, respectively, of manufacturing overhead associated with production capacity in excess of production requirements.

We expect that cost of product revenue on an absolute dollar basis will increase in the future. This increase will likely result from expected sales of commercial products. 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)	2008	2007	$ change	% change
Three months ended June 30	$ 5,881	$ 3,208	$ 2,673	83.3
Six months ended June 30	10,307	6,553	3,754	57.3

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.

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. Because contract revenue was lower for the three and six months ended June 30, 2008 compared to the same periods in 2007, we directed more of our research and development work to internally funded projects compared to the same period last year.

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)	2008	2007	$ change	% change
Three months ended June 30	$ 4,103	$ 4,087	$ 16	0.4
Six months ended June 30	8,238	7,637	601	7.9

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 increase in sales, marketing, general and administrative expense for the three and six months ended June 30, 2008 compared to the same period in 2007 was the result of increased payroll costs and marketing costs associated with our commercial products.

Interest income.

(in thousands)	2008	2007	$ change	% change
Three months ended June 30	$ 279	$ 152	$ 127	83.6
Six months ended June 30	691	334	357	106.9

The increase in interest income for the three and six months ended June 30, 2008 compared to the same period in 2007 resulted primarily from higher average cash and investment securities balances.

Interest expense.

(in thousands)	2008	2007	$ change	% change
Three months ended June 30	$ 12	$ 17	$ (5)	(29.4)
Six months ended June 30	25	485	(460)	(94.8)

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, resulting in a decrease in interest expense for the six months ended June 30, 2008 compared to the same period in 2007.

Gain (loss) on derivative instruments, net.

(in thousands)	2008	2007	$ change	% change
Three months ended June 30	$ (254)	$ (1,940)	$ 1,686	(86.9)
Six months ended June 30	1,419	(2,592)	4,011	(154.7)

We issued warrants to purchase 2,302,000 shares of common stock in connection with the issuance of the Notes. 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. We valued the warrants at June 30, 2008 using the Black-Scholes option-pricing model with the following assumptions: expected volatilities ranging from 65% to 68%; expected dividend yields of 0%; risk free interest rates ranging from 1.3% to 2.8%; and contractual lives ranging from 0.1 years to 2.4 years. The change in value of the warrants of $202,000 for the three months ended June 30, 2008 was recorded as a non-operating loss and is included in "Gain (loss) on derivative instruments, net" in the consolidated statement of operations. The change in value of the warrants of $1,535,000 for the six months ended June 30, 2008 was recorded as a non-operating gain and is included in "Gain (loss) on derivative instruments, net" in the consolidated statement of operations. We valued the warrants at June 30, 2007 using the Black- Scholes option-pricing model with the following assumptions: expected volatilities of 68%; expected dividend yields of 0%;

risk free interest rates of 4.9%; and contractual lives ranging from 1.1 years to 3.4 years. The changes in value of the warrants of $1,860,000 and $2,420,000 for the three and six months ended June 30, 2007, respectively, were recorded as non-operating losses and are included in "Gain (loss) on derivative instruments, net" in the consolidated statement of operations.

In January 2006, we acquired warrants to purchase 170,500 shares of Lumera common stock. The warrants were valued using the Black-Scholes option-pricing model with the following assumptions: expected volatility of 83%; expected dividend yield of 0%; risk free interest rate of 4.55%; and contractual life of 5.1 years. Changes in the fair value of the warrants are recorded in the statement of operations each period. As of June 30, 2008, the warrants were valued using the Black-Scholes option-pricing model with the following assumptions: expected volatilities of 107%; expected dividend yields of 0%; risk free interest rates of 2.83%; and contractual lives of 2.7 years. As of June 30, 2008, the fair value of the warrants decreased to $14,000 from $130,000 at December 31, 2007 and the changes in value of $52,000 and $116,000 for the three and six months ended June 30, 2008, respectively, were recorded as non-operating losses and are included in "Gain (loss) on derivative instruments, net" in the consolidated statement of operations. As of June 30, 2007, 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 4.9%; and contractual lives of 3.7 years. The changes in value of $80,000 and $240,000 for the three and six months ended June 30, 2007, respectively, were recorded as non-operating losses and are included in "Gain (loss) 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 June 30, 2008, we had $20.7 million in cash, cash equivalents and investment securities, available-for-sale. In July 2008, we raised approximately $26.0 million, before issuance costs of approximately $1.8 million, from the sale of 11.2 million shares of 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 not exercisable for 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. Based on our

current operating plan and including the net proceeds from our July financing, we believe we have sufficient cash to fund operations until late 2009. We will require additional cash to fund our operating plan past that time. There can be no assurance that additional financing will be available to us or that, if available, it will be available on terms acceptable to us on a timely basis. If adequate funds are not available to satisfy either short-term or long-term capital requirements, we will be required to limit our operations substantially. This limitation of operations may include reductions in staff, operating costs and capital expenditures.

Cash used in operating activities totaled $14.9 million during the six months ended June 30, 2008, compared to $11.5 million during the same period in 2007. In both periods, cash used in operating activities for both periods resulted primarily from the loss from operations.

We had the following material gains and charges, and changes in assets during the six months ended June 30, 2008:

- *"Non-cash stock-based compensation expense"*
  We granted fully vested options to purchase 339,000 shares of common stock under the 2006 Incentive Plan, which resulted in $431,000 of non-cash compensation expense during six months ended June 30, 2008.
- *"Loss (gain) on derivative instruments"*
  In connection with the issuance of the Notes, we issued warrants to purchase 2,302,000 shares of common stock. Due to changes in the stock price and remaining life of the warrants, we recognized a $1.5 million non-operating gain during the six months ended June 30, 2008.
- *"Accounts receivable"*
  During the six months ended June 30, 2008, we received payments totaling $1.0 million from two commercial customers for work that was performed in 2007.
- *"Accruals"*

During the six months ended June 30, 2008, we made payments totaling $1.0 million for employee bonuses earned in 2007.

Cash provided by investing activities totaled $11.2 million during the six months ended June 30, 2008, compared to $7.5 million during the same period of 2007. During the six months ended June, 2008, we had net sales of investment securities totaling $11.8 million. In addition, we used cash of $215,000 for capital expenditures during the six months ended June 30, 2008, compared to $520,000 during the same period in 2007.

Cash provided by financing activities totaled $281,000 during the six months ended June 30, 2008, compared to $5.7 million during the same period in 2007. The last scheduled payment on our December Notes of $1.4 million was made in March of 2007. In addition, in June 2007, we exercised our right to call our publicly traded warrants. Our June 30, 2007 cash balance included $6.0 million in gross proceeds from the exercise of 2,264,000 warrants.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Of our total cash equivalents and investment securities available-for-sale balance, 40% have variable interest rates and, as such, the fair values of the principal of these instruments are not affected by changes in market interest rates. The remaining 60% of our cash equivalents and investment securities available-for-sale balance are at fixed interest rates and, as such, the fair values of these instruments are affected by changes in market interest rates. Due to the generally short-term maturities of these investment securities, we believe that the market risk arising from our holdings of these financial instruments is not material.

Our investment policy restricts investments to ensure principal preservation and liquidity. The investment securities portfolio is comprised of short-term highly rated commercial paper, U.S. government agency notes and auction-rate securities.

At June 30, 2008, $3.0 million of our marketable securities portfolio was invested in AAA rated investments in municipal student loan auction-rate debt securities. Auction-rate securities are long-term variable rate bonds tied to short-term interest rates. After the initial issuance of the securities, the interest rate on the securities is reset periodically, at intervals established at the time of issuance (generally every seven, twenty-eight or thirty-five days), based on market demand at the time of the reset auction. Auction-rate securities are bought and sold in the marketplace through a competitive bidding process often referred to as a "Dutch Auction". If there are insufficient clearing bids for the auction-rate securities held by us at the time of an auction, the auction may not be completed and the rate is reset to a "maximum rate" according to the provisions of the security. Following such a failed auction, we would not be able to sell the auction-rate security through the auction process until a future successful auction.

At the time of our initial investment and through the date of the filing of this report, all of our auction-rate securities remain AAA rated, collateralized by the Federal Family Education Loan Program ("FFELP") and other federal and state student loan guarantee programs, and there have been no declines in the credit ratings of the issuers or material changes in loan collection rates. Our $3.0 million of auction-rate securities have been subject to failed auctions in 2008 as a result of the current negative liquidity conditions in the global credit markets. The failed auctions have rendered these securities temporarily illiquid through the normal auction process. AMBAC is the insurer on 50% of the auction-rate securities that we hold. As of June 30, 2008, AMBAC continued to be rated AAA by Moody's and Standard and Poor's and AA by Fitch Ratings. In addition, all of the auction-rate securities that we have sold through June 30, 2008, totaling $5.8 million of which $1.3 million was sold during the quarter ended June 30, 2008, have been sold at par value. Based on our ability to access our cash and cash equivalents and our other liquid investments, we do not expect to be required to sell these securities at a loss.

The values of cash equivalents and investment securities, available-for-sale, by maturity date as of June 30, 2008, are as follows (in thousands):

	Amount	Percent
Cash	$674	3.26%
Less than one year	$13,508	65.29%
One to two years	$3,507	16.95%
Greater than five years	3,000	14.50%
	20,689	100.00%

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

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 June 30, 2008, we had an accumulated deficit of $273.7 million.
- We incurred consolidated net losses of $215.6 million from inception through 2005, $24.0 million in 2006, $19.8 million in 2007, and consolidated net loss of $14.3 million in the six months ended June 30, 2008.

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 at least through 2008 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 and including the net proceeds of our July financing, we believe we have sufficient cash to fund operations until late 2009. 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. 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 to satisfy long-term capital requirements, we may be required to limit our operations substantially. This limitation of operations may include reductions in staff and operating costs as well as reductions in capital expenditures and investment in research and development.

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 defense, industrial, medical and consumer markets. If our technology fails to achieve market acceptance, we may not be able to continue to develop our technology platform.

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. At some point during all four quarters of 2006 and 2007 and the first two quarters of 2008, the market price of our stock traded below $5.00 per share. On July 31, 2008, the closing price of our stock was $2.51.

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 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.

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.

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

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

Our 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.

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 six months of 2008 and the full year of 2007, 37% 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.

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 4.

SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company's Annual Shareholder's Meeting was held on June 25, 2008. The following proposals were introduced and voted on:

Proposal No. 1 - Election of Directors

Name	Votes For	Votes Withheld
Alexander Tokman	49,456,462	971,500
Richard A. Cowell	49,037,301	1,390,661
Slade Gorton	49,029,574	1,398,388
Mark Onetto	49,362,129	1,065,833
Jeanette Horan	49,297,320	1,130,642
Brian Turner	49,382,433	1,045,529

Proposal No. 2 - Amendment to the 2006 Microvision, Inc. Incentive Plan

For	Against	Abstain
11,845,465	5,922,672	268,105

Proposal No. 3 - Ratification of the Selection of Independent Registered Public Accounting Firm

For	Against	Abstain
49,036,580	986,569	404,812

ITEM 6.

Exhibits

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: August 7, 2008	BY:	/s/ Alexander Y. Tokman
		Alexander Y. Tokman
		Chief Executive Officer
		(Principal Executive Officer)
Date: August 7, 2008	BY:	/s/ Jeff Wilson
		Jeff Wilson
		Chief Financial Officer
		(Principal Financial Officer)

EXHIBIT INDEX

The following documents are filed.

Exhibit
Number

Description

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

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