MICROVISION INC
Form 10-Q
November 02, 2007

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 September 30, 2007

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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

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 October 31, 2007, 56,725,000 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)

	September 30, 2007
Assets	
Current assets	
Cash and cash equivalents	$ 18,484
Investment securities, available-for-sale	21,940
Accounts receivable, net of allowances of $182 and $216	842
Costs and estimated earnings in excess of billings on uncompleted contracts	1,261
Inventory	1,024
Current restricted investments in Lumera	--
Other current assets	1,362
Total current assets	44,913
Property and equipment, net	4,124
Restricted investments	1,329
Other assets	49
Total assets	$ 50,415
Liabilities and Shareholders' Equity	
Current liabilities	
Accounts payable	$ 1,914
Accrued liabilities	3,063
Billings in excess of costs and estimated earnings on uncompleted contracts	309
Liability associated with common stock warrants	4,065
Liability associated with embedded derivative feature	--
Current portion of notes payable	--
Current portion of capital lease obligations	45
Current portion of long-term debt	63
Total current liabilities	9,459
Capital lease obligations, net of current portion	98
Long-term debt, net of current portion	409
Deferred rent, net of current portion	1,799
Total liabilities	11,765
Commitments and contingencies	
Shareholders' equity	
Common stock, par value $.001; 125,000 shares authorized; 56,725 and 42,921 shares issued and outstanding	57
Additional paid-in capital	291,713
Receivables from related parties, net	--
Accumulated other comprehensive income	279
Accumulated deficit	(253,399)

Total shareholders' equity		38,650
Total liabilities and shareholders' equity	$	50,415

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 September 30,	
	2007	2006
Contract revenue	$ 2,301	$ 54
Product revenue	298	28
Total revenue	2,599	82
Cost of contract revenue	1,349	34
Cost of product revenue	404	67
Total cost of revenue	1,753	1,01
Gross margin	846	(19
Research and development expense	3,694	2,85
Sales, marketing, general and administrative expense	3,691	3,65
Gain on disposal of fixed assets	--	-
Total operating expenses	7,385	6,50
Loss from operations	(6,539)	(6,70
Interest income	526	23
Interest expense	(14)	(1,34
Gain (loss) on derivative instruments, net	883	12
Other expense	(8)	(
Net loss before Lumera transactions	(5,152)	(7,69
Equity in losses of Lumera	--	-
Gain on sale of investment in Lumera	434	-
Net loss	(4,718)	(7,69
Stated dividend on mandatorily redeemable convertible preferred stock	--	-
Accretion to par value of preferred stock	--	-
Inducement for conversion of preferred stock	--	-
Net loss available for common shareholders	$ (4,718)	$ (7,69
Net loss per share - basic and diluted	$ (0.08)	$ (0.2
Weighted-average shares outstanding - basic and diluted	56,236	38,43

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 September 30,	
	2007	**2006**
Net loss	$ (4,718)	$ (7,69
Other comprehensive gain (loss)		
Unrealized gain (loss) on investment securities, available-for-sale	(65)	(2,36
Less: reclassification adjustment for gains realized in net income	(434)	-
Net unrealized gain (loss)	(499)	(2,36
Comprehensive loss	$ (5,217)	$ (10,05

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

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

	Nine M Sept
	2007
Cash flows from operating activities	
Net loss	$ (13,765
Adjustments to reconcile net loss to net cash used in operations:	
Depreciation	653
Gain on disposal of fixed assets	--
Non-cash stock-based compensation expense	1,327
Non-cash interest expense	371
Loss(gain) on derivative instruments	1,710
Allowance for receivables from related parties	23
Equity in losses of Lumera	--
Gain on sale of investment in Lumera	(6,397
Non-cash deferred rent	(207
Change in:	
Accounts receivable, net	324
Costs and estimated earnings in excess of billings on uncompleted contracts	(696
Inventory	19
Other current assets	391
Other assets	(8
Accounts payable	243
Accrued liabilities	(683
Billings in excess of costs and estimated earnings on uncompleted contracts	109
Net cash used in operating activities	(16,586
Cash flows from investing activities	
Purchases of investment securities	(21,590
Sales of restricted investment securities	1,000
Purchases of restricted investment securities	(1,061
Decrease in restricted cash	--
Collections of receivables from related parties	227
Sale of long-term investment - Lumera	8,348
Proceeds on sale of property and equipment	--
Purchases of property and equipment	(849
Net cash provided by (used in) investing activities	(13,925
Cash flows from financing activities	
Principal payments under capital leases	(34
Principal payments under long-term debt	(44
Increase in long-term debt	--
Payments on notes payable	(1,400
Increase in deferred rent	--
Payment of embedded derivative feature of preferred stock conversion	--
Payment of preferred dividend	--
Net proceeds from issuance of common stock and warrants	35,921

Net cash provided by financing activities	34,443
Net increase in cash and cash equivalents	3,932
Cash and cash equivalents at beginning of period	14,552
Cash and cash equivalents at end of period	$ 18,484
Supplemental disclosure of cash flow information	
Cash paid for interest	$ 77
Supplemental schedule of non-cash investing and financing activities	
Property and equipment acquired under capital leases	$ --
Other non-cash additions to property and equipment	$ 32
Issuance of common stock for payment of principal and interest on senior secured exchangeable convertible notes	$ 1,388
Conversion of preferred stock and convertible debt into common stock	$ --
Inducement for conversion of preferred stock	$ --

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

MICROVISION, INC.
Notes to Consolidated Financial Statements
September 30, 2007
(Unaudited)

1. MANAGEMENT'S STATEMENT AND PRINCIPLES OF CONSOLIDATION

Management's Statement

The Consolidated Balance Sheet as of September 30, 2007, the Consolidated Statements of Operations and Comprehensive Loss for the three and nine months ended September 30, 2007 and 2006 and the Consolidated Statements of Cash Flows for the nine months ended September 30, 2007 and 2006 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 September 30, 2007 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, 2006. The results of operations for the nine months ended September 30, 2007 are not necessarily indicative of the operating results that may be attained for the entire fiscal year.

At September 30, 2007, Microvision had $40,424,000 in cash, cash equivalents and investment securities, available-for-sale. Based on its current operating plan, the Company believes that it has sufficient cash to fund operations through at least 2008. Microvision may 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.

Principles of Consolidation

Until July 2004, the consolidated financial statements included the accounts of Microvision, a Delaware corporation, and its majority-owned subsidiary Lumera Corporation ("Lumera"), a Delaware corporation. In July 2004, Microvision's ownership interest in Lumera was reduced to 33% as a result of Lumera completing an initial public offering of its common stock. As a result of the reduction in ownership, Microvision changed to the equity method of accounting for its investment in Lumera until January 2006. In January 2006, Microvision sold 2,550,000 shares of its Lumera common stock. As a result of the reduction in ownership, Microvision changed to the cost basis of accounting for available-for-sale securities for its investment in Lumera in accordance with Financial Accounting Standards Board No. 115 "Accounting for Certain Investments in Debt and Equity Securities" ("FAS 115").

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 convertible debt, convertible preferred stock, warrants and employee stock options. Diluted net loss per share for the three and nine months ended September 30, 2007 and 2006 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 September 30,	
	2007	2006
Numerator:		
Net loss available for common shareholders - basic and diluted	$ (4,718)	$ (7,6
Denominator:		
Weighted-average common shares outstanding - basic and diluted	56,236	38,4
Net loss per share - basic and diluted	$ (0.08)	$ (0.

As of September 30, 2007 and 2006, the Company excluded the following convertible securities from diluted net loss per share as the effect of including them would have been anti-dilutive:

	September 30,	
	2007	2006
Publicly traded warrants	--	12,363,000
Options and private warrants	9,442,000	10,907,000
Notes payable	--	1,272,000
	9,442,000	24,542,000

3. INVESTMENT SECURITIES, AVAILABLE-FOR-SALE

The Company accounts for investment securities, available-for-sale 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 all investments in debt securities. The Company's investment securities, available-for sale are comprised of commercial paper, 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 income (loss). Dividend and interest income are recognized when earned. Realized gains and losses are presented separately on the income statement. The cost of securities sold is based on the specific identification method.

4. INVENTORY

Inventory at September 30, 2007 and December 31, 2006 consisted of the following:

	September 30, 2007	December 2006
Raw materials	$ 398,000	$ 146,0
Work-in-process	17,000	
Finished goods	609,000	897,0
	$ 1,024,000	$ 1,043,0

The inventory at September 30, 2007 and December 31, 2006 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 September 30,	
	2007	2006
Cost of contract revenue	$ 38,000	$ 9,0
Cost of product revenue	10,000	15,0
Research and development expense	96,000	73,0
Sales, marketing, general and administrative expense	407,000	374,0
Share-based employee compensation cost charged against income	$ 551,000	$ 471,0

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 September 30, 2007:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding as of September 30, 2007	5,378,000	$ 4.50	7.0	$6,239,000
Exercisable as of September 30, 2007	2,253,000	$ 5.77	5.2	$2,845,000

As of September 30, 2007, the Company's unamortized share-based compensation was $5,100,000. The Company plans to amortize this share-based compensation cost over the next 2.7 years.

6. LONG-TERM NOTES

Convertible Notes

The following table summarizes the activity related to the Company's convertible notes during the nine months ended September 30, 2007 (in thousands):

	Notes	Warrants	Embe deriv feat
Balances at December 31, 2006	$ 2,418	$ 2,572	$
Principal payments on notes	(2,767)	--	
Discount accretion for the nine months ended September 30, 2007	349	--	
Changes in market value for the nine months ended September 30, 2007	--	1,493	
Balance of notes at September 30, 2007	$ --	$ 4,065	$

In March 2007, the Company made the final scheduled payments in connection with its convertible notes as follows:

- cash payments of $1,400,000 in principal and $28,000 in interest, and
- issued 459,000 shares of its common stock in payment of $1,367,000 in principal and $21,000 in interest.

The Company issued warrants to purchase 2,302,000 shares of common stock in connection with the issuance of the convertible 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 the Company cannot engage in certain corporate transactions affecting the common stock unless the Company makes a cash payment to the holders of the warrants. The Company records changes in the fair values of the warrants in the statement of operations each period. The Company valued the warrants at September 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 ranging from 3.9% to 4.1%; and contractual lives ranging from 0.8 years to 3.2 years. The changes in value of the warrants of $927,000 and $1,493,000 for the three and nine months ended September 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.

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 $473,000 at September 30, 2007.

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 then 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 2001 and 2002, 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 2002 and 2003, the Company recorded allowances for doubtful accounts for receivables from senior officers totaling $900,000.

In January 2006, two of the senior officers with outstanding loans left the Company. Because the lines of credit were not fully secured and collection was uncertain, the Company recorded an additional allowance of $1,031,000 in December 2005. 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. 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 $542,000 during the year ended December 31, 2006 and $23,000 during the nine months ended September 30, 2007.

As of September 30, 2007 and December 31, 2006, the total amount outstanding under the lines of credit was $2,496,000 and $2,723,000, respectively. As of September 30, 2007 and December 31, 2006, the allowance for receivables from related parties was $2,496,000 and $2,473,000, respectively.

8. ACCOUNTING FOR LUMERA

Investment Securities, Available-for-sale

In January 2006, Microvision sold 2,550,000 shares of its Lumera common stock for $10.3 million. Microvision recorded a "Gain on sale of investment in Lumera" of approximately $7.3 million.

As a result of the reduction in ownership, Microvision changed to the cost basis of accounting for its investment in Lumera in accordance with FAS 115.

During the three and nine months ended September 30, 2007, the Company sold 133,000 and 1,646,000 shares, respectively, of Lumera common stock for gross proceeds of $597,000 and $8.4 million, respectively. Microvision recorded gains of $434,000 and $6.4 million in "Realized gain on sale of investment in Lumera" for the three and nine months ended September 30, 2007,respectively, as a result of these sales.

As of September 30, 2007, the Company owned 104,000 shares of Lumera common stock that were valued at $442,000 and were classified as "Investment securities, available-for-sale." The cost, net unrealized gain and estimated fair market value of the shares of Lumera common stock as of September 30, 2007, are shown below (in thousands):

	Cost	Net Unrealized Gain	Estimated Fair Value
Lumera common stock	$ 123	$ 319	$ 442

Warrant

In connection with the change in accounting method in January 2006, the Company recorded $476,000 in "Other current assets" for the fair value of a warrant previously received to purchase 170,500 shares of Lumera common stock. On the 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.

At September 30, 2007, the warrant was revalued 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 4.1%; and contractual life of 3.5 years. The fair value of the warrant decreased to $310,000 at September 30, 2007 from $595,000 at December 31, 2006, and the changes in value for the three and nine months ended September 30, 2007 of $44,000 and $284,000, respectively, were recorded as non-operating losses and are included in "Gain (loss) on derivative instruments, net" in the consolidated statement of operations.

9. INCOME TAXES

On January 1, 2007, the Company adopted Financial Accounting Standards Board Interpretation No. 48 "Accounting for Uncertainty in Income Taxes" (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The new FASB standard also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

Historically, the Company's tax provision for financial statement purposes and the actual tax returns have been prepared using consistent methodologies. There were no material unrecognized tax benefits as of December 31, 2006. Due to the Company's Net Operating Loss Carryforwards and research and development credits, any future adjustments to the unrecognized tax benefit will have no impact on the Company's effective tax rate due to the valuation allowance which fully offsets all tax benefits. For the quarter ended September 30, 2007, the unrecognized tax benefit did not change significantly. The Company does not expect the unrecognized tax benefit to change significantly during the next twelve months. Any interest and penalties incurred on the settlement of outstanding tax positions would be recorded as a component of interest expense.

The Company files its tax returns as prescribed by the tax laws of the jurisdictions in which it operates. The Company's Federal and state taxes for the years 2000 through 2006 are subject to examination. As of September 30, 2007, the Company believes assessments that may possibly arise will likely be immaterial to 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 miniature display and imaging engines based upon our PicoP architecture. The PicoP utilizes our expertise in two dimensional Micro-Electrical Mechanical system ("MEMS") light scanning technologies, 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.

In 2006, we announced our strategy to develop and supply PicoP-based miniature display engines 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 surfaces. The same display engines with some modification could be embedded into the dashboard of an automobile or an airplane to create a heads up display (HUD) that could project point-by-point navigation, critical operational, safety and other information important to the driver or pilot. The PicoP-based engine 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)	2007	% of contract revenue	2006	% of contract revenue	$ change	% chan
Three months ended September 30						
Government revenue	$ 1,773	77.1	$ 271	50.1	$ 1,502	554
Commercial revenue	528	22.9	270	49.9	258	95
Total contract revenue	$ 2,301		$ 541		$ 1,760	325
Nine months ended September 30						
Government revenue	$ 4,752	74.0	$ 2,281	62.4	$ 2,471	108
Commercial revenue	1,670	26.0	1,376	37.6	294	21
Total contract revenue	$ 6,422		$ 3,657		$ 2,765	75

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

Our contract revenue in a particular period is dependent upon the timing of entering 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 higher during the three and nine months ended September 30, 2007 than the same periods in 2006, due to higher contract backlog at the beginning of the respective periods.

In March 2007, we announced a contract with a leading Tier 1 automotive supplier to develop projection-based display solutions based on our PicoP(TM).

In May 2007, we announced a $3.2 million one year contract with the U. S. Air Force to provide a prototype lightweight see-through full-color eyewear display.

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 September 30, 2007 was $5.3 million compared to $6.8 million at September 30, 2006, all of which is expected to be completed during the next twelve months.

Product revenue

.

(in thousands)	**2007**	**% of product revenue**	**2006**	**% of product revenue**	**$ change**	**% chan**
Three months ended September 30						
Flic revenue	$ 272	91.3	$ 190	67.4	$ 82	43
Nomad revenue	26	8.7	92	32.6	(66)	(71
Total product revenue	$ 298		$ 282		$ 16	5
Nine months ended September 30						
Flic revenue	$ 998	92.9	$ 1,374	89.0	$ (376)	(27
Nomad revenue	76	7.1	170	11.0	(94)	(55
Total product revenue	$ 1,074		$ 1,544		$ (470)	(30

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

In May 2007, we announced the launch of ROV, our new bar code scanner product. The ROV is based on our proprietary MEMS technology. We plan for ROV to be manufactured by our contract manufacturing partner in Malaysia.

Flic revenue for nine months ended September 30, 2007 was lower than the same period in 2006. We believe that many of our customers are waiting for the availability of ROV before placing orders. We had planned to begin commercial shipments of ROV during the third quarter 2007. During our Beta evaluation, we determined that ROV did not meet our quality standards. We have delayed the launch of ROV production until we can correct the deficiencies. We expect to begin commercial shipments during the fourth quarter of 2007.

The backlog of product orders at September 30, 2007 was approximately $391,000, compared to $98,000 at September 30, 2006, all of which is scheduled for delivery during the next twelve months.

Cost of contract revenue

.

(in thousands)	2007	% of contract revenue	2006	% of contract revenue	$ change	% chan
Three months ended September 30	$ 1,349	58.6	$ 343	63.4	$ 1,006	293
Nine months ended September 30	3,576	55.7	2,493	68.2	1,083	43

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 for both the three and nine month ended September 30, 2007 than the same periods in 2006. This improvement is a result of negotiating better terms on contracts entered into in late 2006 and early 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

.

(in thousands)	2007	% of product revenue	2006	% of product revenue	$ change	% chan
Three months ended September 30	$ 404	135.6	$ 675	239.4	$ (271)	(40
Nine months ended September 30	1,134	105.6	3,650	236.4	(2,516)	(68

Cost of product revenue includes both the direct and allocated indirect costs of manufacturing Flics sold to customers. Direct costs include labor, materials and other costs incurred directly in the manufacture of Flic. 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 September 30, 2007 and 2006, we expensed approximately $71,000 and $276,000, respectively, of manufacturing overhead associated with production capacity in excess of production requirements.

The decline in cost of product revenue as a percentage of product revenue for the three and nine months ended September 30, 2007 compared to the previous year is attributable to the following factors:

- The decision in June 2006 to no longer support the Nomad product line. During the six months ended June 30, 2006 we recorded expenses of $1.2 million associated with the Nomad product line that were not repeated in 2007.

- Reduced direct cost and overhead on the Flic product line resulting in a savings of approximately 205% and 64% for the three and nine months ended September 30, 2007 compared to the same period in 2006.

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)	2007	2006	$ change	% change
Three months ended September 30	$ 3,694	$ 2,855	$ 839	29.4
Nine months ended September 30	10,247	7,316	2,931	40.1

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)	2007	2006	$ change	% change
Three months ended September 30	$ 3,691	$ 3,652	$ 39	1.1
Nine months ended September 30	11,328	13,066	(1,738)	(13.3)

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.

In early 2006, we announced our plan to reduce spending in sales, marketing, general and administrative expenses. We continue to aggressively manage these costs as part of our strategy of accelerating the development of products based on the PicoP while controlling the cash burn. The decrease in sales, marketing, general and administrative expense for the nine months ended September 30, 2007 is the result of cost reduction efforts.

Interest income.

(in thousands)	2007	2006	$ change	% change
Three months ended September 30	$ 526	$ 236	$ 290	122.9
Nine months ended September 30	860	484	376	77.7

The increase in interest income for the three and nine months ended September 30, 2007 compared to the same periods in 2006 resulted primarily from higher average cash and investment securities balances.

Interest expense.

(in thousands)	2007	2006	$ change	% change
Three months ended September 30	$ 14	$ 1,346	$ (1,332)	(99.0)
Nine months ended September 30	499	4,804	(4,305)	(89.6)

In March 2005, we raised $10 million before issuance costs of $423,000 from the issuance of convertible notes ("March Notes") and warrants to purchase an aggregate of 462,000 shares of Microvision common stock. In December 2005, we raised $10 million before issuance costs of $134,000 from the issuance of convertible notes ("December Notes"), 838,000 shares of Microvision common stock and warrants to purchase an aggregate of 1,089,000 shares of Microvision common stock. The decrease in interest expense from the prior year relates to the lower outstanding balance of our March and December Notes in 2007 than in 2006.

Gain (loss) on derivative instruments, net.

(in thousands)	2007	2006	$ change	% change
Three months ended September 30	$ 883	$ 125	$ 758	606.4
Nine months ended September 30	(1,709)	3,179	(4,888)	(153.8)

In connection with the issuance of our Notes, we concluded that the note holders' right to convert all or a portion of the Notes into our common stock is an embedded derivative instrument as defined by FAS 133, *Accounting for Derivative Instruments and Hedging Activities*. We determine the value of the derivative features at each balance sheet date using the Black-Scholes option-pricing model. Due to the retirement of our Notes in March 2007, the value of the derivative feature decreased to zero. The changes in value of $0 and $68,000 for the three and nine months ended September 30, 2007, respectively, were recorded as non-operating gains and are included in "Gain (loss) on derivative instruments, net" in the consolidated statement of operations.

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 September 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 ranging from 3.9% to 4.1%; and contractual lives ranging from 0.8 years to 3.2 years. The changes in value of the warrants of $927,000 and $1,493,000 for the three and nine months ended September 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 sold 2.6 million shares of our Lumera common stock for $10.3 million. As a result of the reduction in ownership, we changed to the cost basis of accounting for our investment in Lumera in accordance with FAS 115. In connection with the change in accounting method, we recorded $476,000 in "Other current assets" for the fair value of warrants previously received to purchase 170,500 shares of Lumera common stock. On the transaction date, 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

September 30, 2007, the warrants were valued using the Black-Scholes option-pricing model with the following assumptions: expected volatilities of 83%; expected dividend yields of 0%; risk free interest rates of 4.1%; and contractual lives of 3.5 years. As of September 30, 2007, the fair value of the warrants decreased to $310,000 at September 30, 2007 from $595,000 at December 31, 2006, and the changes in value of $44,000 and $284,000 for the three and nine months ended September 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.

Equity in losses of Lumera and

Gain on sale of investment in Lumera.

Equity in losses of Lumera:

(in thousands)	2007	2006	$ change	% change
Three months ended September 30	$ --	$ --	$ --	n/a
Nine months ended September 30	--	(290)	290	(100.0)

Gain on sale of investment in Lumera:

(in thousands)	2007	2006	$ change	% change
Three months ended September 30	$ 434	$ --	$ 434	n/a
Nine months ended September 30	6,397	7,270	(873)	(12.0)

As discussed above, in January 2006, we sold 2.6 million shares of our Lumera common stock for $10.3 million. We recorded a "Gain on sale of investment in Lumera" of approximately $7.3 million. We recorded a charge of $290,000 for our proportion of Lumera net loss for the period preceding the sale and change in accounting method.

During the three and nine months ended September 30, 2007, we sold 133,000 and 1,646,000 shares of Lumera common stock for gross proceeds of $597,000 and $8.4 million, respectively.

Liquidity and Capital Resources

We have funded our operations to date primarily through the sale of common stock, convertible preferred stock, convertible debt, warrants and, to a lesser extent, from development contract revenues and product sales. At September 30, 2007, we had $40.4 million in cash, cash equivalents and investment securities, available-for-sale. On June 21, 2007, we exercised our right to call our publicly traded warrants. Under the terms of the publicly traded warrants, the warrant holders had until July 6, 2007 to exercise their warrants or the warrants would expire. We received $34,092,000 from the exercise of 12,855,000 publicly traded warrants after we exercised our right to call these warrants. In addition, during the nine months ended September 30, 2007, we sold approximately 1,646,000 shares of Lumera common stock for gross proceeds of $8,426,000. Based on our current operating plan, we believe we have sufficient cash to fund operations through at least 2008. We may require additional cash to fund our 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 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 $16.6 million during the nine months ended September 30, 2007, compared to $21.3 million during the same period in 2006. Cash used in operating activities for both periods resulted primarily from the loss from operations.

Cash used in investing activities totaled $13.9 million during the nine months ended September 30, 2007, compared to cash provided by investing activities of $10.1 million during the same period of 2006. Cash used in investing activities for the nine months ended September 30, 2007 includes purchases of $21.6 million of investment securities with a portion of the proceeds from the call of our public warrants. In January 2006, we sold 2.6 million shares of our Lumera common stock for $10.3 million. During the nine months ended September 30, 2007, we sold 1.6 million shares of Lumera common stock for $8.4 million. In addition, we used cash of $849,000 for capital expenditures during the nine months ended September 30, 2007, compared to $2.0 million during the same period in 2006. Capital expenditures include leasehold improvements to leased office space and computer hardware and software, laboratory equipment and furniture and fixtures to support operations. The decrease is due to the absence of expenditures for leasehold improvements to our new facility that we incurred in 2006.

Cash provided by financing activities totaled $34.4 million during the nine months ended September 30, 2007, compared to cash provided by financing activities of $18.4 million during the same period in 2006. The change in cash provided by financing activities was due to the timing of these activities in the respective periods.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Of our total cash equivalents and investment securities available-for-sale balance, 60% 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 40% 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. Auction rate securities are securities that generally have maturities of twenty to thirty years. After the initial issuance, however, the interest rate is periodically reset, usually every seven, fourteen or twenty-eight days, through a Dutch auction process. If an auction is unsuccessful, the holder of the security must hold their position until the next auction date at an interest rate specified in the issuer's statement. To date, the auction rate securities held by the Company have not had a failed auction.

The weighted average maturities of cash equivalents and investment securities available-for-sale as of September 30, 2007, are as follows (dollar amounts in thousands):

	Amount	**Percent**
Cash and cash equivalents	$18,484	45.72%
Less than one year	$8,720	21.57%
One to two years	$3,520	8.71%
Greater than five years	9,700	24.00%
	40,424	100.00%

Presently, all of our development contract payments are denominated in U.S. dollars and, consequently, we believe we have no material foreign currency exchange rate risk. However, in the future we may enter into development contracts or product sales in foreign currencies that may subject us to foreign exchange rate risk.

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 September 30, 2007, we had an accumulated deficit of $253.4 million.
- We incurred consolidated net losses of $187.4 million from inception through 2004, $28.2 million in 2005, $24.0 million in 2006, and consolidated net loss of $13.8 million in the nine months ended September 30, 2007.

The likelihood of our success must be considered in light of the expenses, difficulties and delays frequently encountered by companies formed to develop and market new technologies. In particular, our operations to date have focused primarily on research and development of our PicoP 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 2007 and likely thereafter. We cannot be certain that we will achieve positive cash flow at any time in the future.

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

Based on our current operating plan, we believe we have sufficient cash to fund operations through at least 2008. We may require additional cash to fund our operating plan past that time. We may require additional capital in the future to fund our operations, including to:

- Further develop the PicoP technology,
- 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 light scanning 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 the PicoP technology or products incorporating this technology will achieve market acceptance. If the PicoP technology does not achieve market acceptance, our revenues may not grow.

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

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. During all four quarters of 2006, and the first three quarters of 2007, the market price of our stock traded below $5.00 per share. On October 31, 2007, the closing price of our stock was $4.63.

Our lack of 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 the PicoP technology and to cost effectively introduce new products and features in a timely manner to meet evolving customer requirements and compete with competitors' product advances.

We may not succeed in these efforts because of:

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

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

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

We are aware of several patents held by third parties that relate to certain aspects of PicoP displays and image capture products. These patents could be used as a basis to challenge the validity, limit the scope or limit our ability to obtain additional or broader patent rights of our patents or patents we have licensed. A successful challenge to the validity of our patents or patents we have licensed could limit our ability to commercialize the PicoP technology and other technologies and, consequently, materially reduce our revenues. Moreover, we cannot be certain that patent holders or other third parties will not claim infringement by us with respect to current and future technology. Because U.S. patent applications are held and examined in secrecy, it is also possible that presently pending U.S. applications will eventually be issued with claims that will be infringed by our products or the PicoP 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 PicoP technology, to cease licensing PicoP 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 PicoP display technology could become subject to new health and safety regulations that would reduce our ability to commercialize the PicoP display technology. Compliance with any such new regulations would likely increase our cost to develop and produce products using the PicoP display technology 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 Flic products and demonstration units for research, development and demonstration purposes. The cost per unit for these units currently exceeds the level at which we could expect to profitably sell these products. If we cannot lower our cost of production, we may face increased demands on our financial resources, possibly requiring additional equity and/or debt financing to sustain our business operations.

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

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. In addition, our efforts to improve the quality and utility of our existing Flic products may not result in improved sales. 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 Flic product and plan to use a contract manufacturer for our new ROV product, and we plan to continue using foreign manufacturers to manufacture some of our other 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 experience delays or failures in developing commercially viable products, we may have lower revenues.

We have developed demonstration units incorporating the light scanning technology. However, we must undertake additional research, development and testing before we are able to develop additional products for commercial sale. Product development delays by us or our potential product development partners, or the inability to enter into relationships with these partners, may delay or prevent us from introducing products for commercial sale. 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 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 nine months of 2007 and the full year of 2006, 63% and 51%, 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 developmental 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 the PicoP display technology. We believe that development programs and sales of potential products in this market will represent a significant portion of our future revenues. Developments that adversely affect the defense sector, including delays in government funding and a general economic downturn, could cause our revenues to decline substantially.

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

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

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

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

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
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: November 2, 2007	BY: /s/ Alexander Y. Tokman

Alexander Y. Tokman

Chief Executive Officer
(Principal Executive Officer)

Date: November 2, 2007	BY: /s/ Jeff T. Wilson

Jeff T. 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
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