in(the form of light)ation

light DISPLAYS CAPTURES TRANSMITS information.

light enables opportunity.

Light is a powerful tool — powerful in its ethereal nature, in its silent speed, and in its voluminous capacity to display, capture and transmit information.

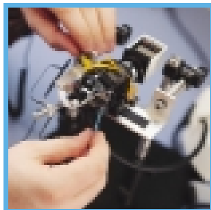
Today, most information is delivered to our eyes in the form of light emanating from electronic screens. Increasingly, information is entered into systems as light captured by scanners, electronic eyes, and digital cameras. Information networks proliferate, transmitting massive quantities of information as pulses of light through hair-thin strands of optical fiber.

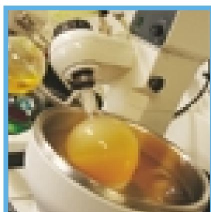
In the last half-century, powerful advances in electronics technology shaped a global economy that today is defined by information technology. Microvision is mastering innovative photonics technologies and setting the parameters for a second revolution in how information is created and delivered — information in the form of light.

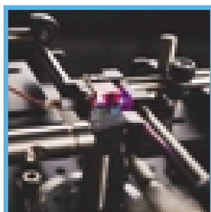
WHAT WE SEE...

INFORMATION IN THE FORM OF LIGHT

Dear fellow shareholder,







During the past year at Microvision, we made important strides toward the commercialization of our retinal scanning display technology, and took significant steps toward realizing our vision of an enterprise that can play a major role in the development of a new industry that will power the 21st century. This new industry of technology and products will display, capture and transmit information as light.

The year 2000 was a year of hard work, technical challenges and considerable achievement. Microvision continued to affirm its technological leadership with the world's most advanced microscanning systems for displays. We also applied our technology and expertise in scanning systems to the development of unique barcode products and began the development of powerful laser cameras with potential for applications in endoscopy and machine-vision systems.

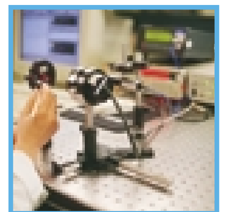
Early in the year we formed a subsidiary company, Lumera, to pursue the development of the world's most advanced electro-optic polymer materials in order to build devices that can transmit light-encoded information at speeds beyond today's standards.

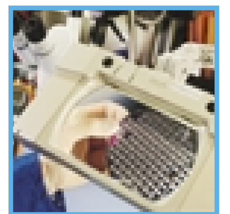
While leveraging our technology and position to create new business opportunities, we also continued to make important and measurable progress in our core display business. We announced the marketing launch of a powerful wearable display product called Nomad™, our first commercial product based on the retinal scanning display technology. We engaged in field tests and evaluations of a Nomad beta version in applications from surgical navigation to mobile maintenance to air traffic control to outdoor measurement. We began to put in place distribution and application partnerships in several market segments.

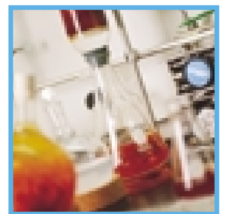
» Nomad, Microvision's first commercial personal display product, creates an image on the retina like a miniaturized video projector focused on the "projection screen" at the back of the viewer's eye. The world's brightest daylight readable display superimposes high contrast images on the user's natural field of vision, enabling a new and powerful man-machine visual interface.

Microvision's image capture products will enable a variety of automated data collection devices, establishing a new level of price/performance from the factory floor to the retail store to the enterprise and out to the home.

"We developed new technologies that use light to display, capture and transmit information more efficiently and more cost-effectively than ever before."







We won and delivered on contracts awarded by the U.S. Army to continue development of the Aircrew Integrated Helmet System and, in partnership with Boeing, the Virtual Cockpit System. We advanced the technology to deliver groundbreaking results and set the stage for significant opportunity in the military marketplace.

We worked to define compelling applications for our unique visualization tools in the field of computer-assisted surgery. We initiated clinical partnerships with world-renowned centers of excellence at the Mayo Clinic Rochester for medical applications in cardiology, cancer treatment and anesthesiology, and with the Cleveland Clinic with its leadership in minimally-invasive surgical procedures. We continued to work with commercial partners Carl Zeiss, Inc. and Stryker Leibinger to define new tools and techniques for enhanced surgical navigation.

We secured investment from strong strategic and financial partners like Cree and G.E. Pension Trust, and placed the company on a strong footing financially, ending the year with nearly $42 million in cash.

With the demonstration of the first retinal scanning display system based on light-emitting diode technology, we took important steps toward enabling low-cost miniature display products in high-volume consumer applications such as mobile data devices, camcorders and gaming systems.

We achieved rapid progress and met key milestones towards the goal of delivering barcode readers based on proprietary designs to enable a combination of low-power and low-cost that will meet needs in the existing market, and in an emerging high-volume market for print-to-web applications of mobile devices.

At Lumera, we continued to advance the world's most powerful electro-optic polymer technology toward commercial application, and negotiated a strategic investment with Cisco Systems, one of the world's most innovative networking technology companies.

RICHARD F. RUTKOWSKI

Together with our licensors we received 25 new patents. Also, in conjunction with our licensors, we filed 34 new patent applications and developed disclosures for 49 new inventions.

We developed new technologies that use light to display, capture and transmit information more efficiently and more cost-effectively than ever before. We believe the industrial age that lies before us will be as powerful as the one that began with the vacuum tube, gained momentum with the transistor and ultimately drove the world's economic engines with the integrated circuit and the microprocessor.

We believe that many themes will be repeated, that mankind will realize many gains, that many opportunities exist and that much value will be created. We believe that broadly enabling platform technologies like our silicon micromirror technology and our electro-optic polymer technology can form the basis of significant and lasting business franchises.

This new year promises to be memorable in Microvision's history. With the imagination and efforts of the 160 plus people who make up the Microvision team, we will introduce and deliver our first products to a world eager for a better way to display, capture and transmit information.

We thank you for your ongoing commitment and support of our endeavor.

Sincerely,

Richard F. Rutkowski
President and Chief Executive Officer

» Lumera, Microvision's new subsidiary, will develop and commercialize an advanced class of electro-optic materials that enable optical component devices to deliver unprecedented levels of bandwidth.

DISPLAY, CAPTURE, TRANSMIT

BUILDING OUR FOUNDATION FRANCHISE

LEVERAGE CORE TECHNOLOGIES AND EXPERTISE IN PHOTONICS

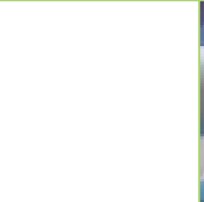
- High performance displays
- Compact wearable displays
- Direct view microdisplays
- Large format projection displays
- Image capture devices
- High-speed optical network components and materials

Our progress is driven on how creatively we use light to convey information – fast, efficient and effective. This is our core enabling technology that forms the foundation for our success.

DIVISION	2000	2001	2002 – 2004
DISPLAY: RETINAL SCANNING DISPLAY	Jan Signed medical sites as test and evaluation partners Mar Secured strategic investment in light sources for high-resolution rear projection displays and compact LEDs Mar Developed miniature displays for mobile internet products Mar Formed marketing alliances with wearable computer and software partners May Awarded contract for Aircrew Integrated Helmet System/ Virtual Cockpit May Tested Nomad prototypes in industrial, medical and aviation markets Oct Secured partners for aviation and medical displays Dec Expanded year-end patent portfolio to 34	» Deliver full color helmet display in flight simulator » Introduce Nomad » Introduce full color head worn display in medical and scientific markets	» Deliver full color helmet mounted display in flight test » Introduce consumer appliances
CAPTURE: IMAGING SOLUTIONS	Jan Formed Imaging Solutions Group Jun Developed scanning readers for Web-enabled mobile products Oct Demonstrated compact barcode scanner Nov Built micro-miniature ultra high resolution camera	» Introduce consumer oriented hand-held scanner	Deliver: » Integrated consumer scan engine » 2-D imager engine for barcode and machine vision » Confocal microprobe for scientific/medical imaging
TRANSMIT: LUMERA	Oct Formed Lumera	» Deliver first commercial prototype, 10 Gbps	» Deliver +40 Gbps solutions

DISPLAY

RETINAL SCANNING DISPLAY



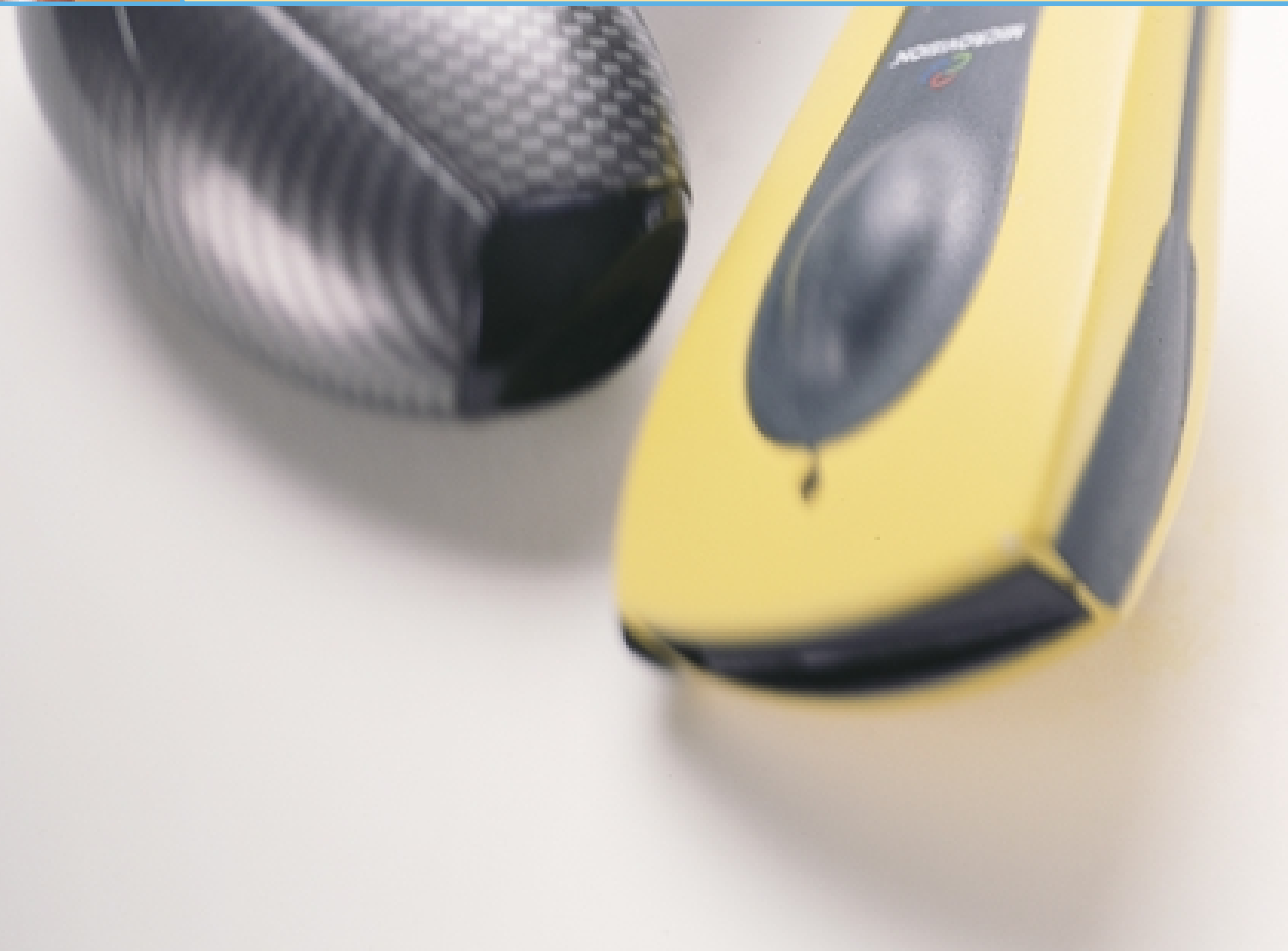
The market opportunity for Microvision's retinal scanning display continues to be stimulated by the explosive growth in mobile computing and portable communication device sales, coupled by the increasing desire for larger viewing screens, increased display resolution, and "see-through" display capabilities.

Designed into headsets, helmets, goggles, eyeglasses and hand-held mobile Internet access devices, Microvision's retinal scanning display technology will provide new and compelling means of connecting people with the rapidly growing world of digital information.

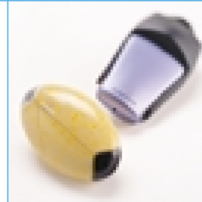
This year, Microvision placed over 20 retinal scanning display device prototypes into the aviation, medical and industrial markets for testing and evaluation – advancing us closer to the launch of Nomad.

Microvision will underscore its market leadership through the manufacture and sale of personal display products, technology licensing to OEMs, and by providing engineering services associated with cooperative development arrangements and research contracts.

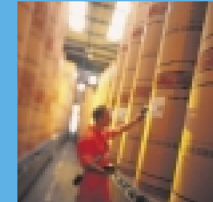
Microvision's enabling technologies for displays will be adapted into innovative image capture devices at unprecedented levels of price and performance.



CAPTURE



IMAGING SOLUTIONS



Microvision will connect the real world of business — people, packages, paper and shipping pallets — to information systems and the Internet. Our Imaging Solutions team will apply our core technologies — photonics, optics, and high speed scanning — to such imaging applications as barcode scanning, 2-D machine vision, and advanced 3-D medical and scientific imaging.

Today, the estimated $2.2 billion market for barcode scanners alone is expected to grow as high as $3 billion by 2004. Conventional worldwide market opportunities range from retailing to transportation and distribution logistics, manufacturing, parcel and postal delivery, government, healthcare and education. Emerging consumer applications ranging from automated shopping to print-to-web linking could potentially dwarf these conventional market segments.

TRANSMIT

LUMERA

The explosive growth of the Internet, coupled with the increasing volume of data and video traffic across corporate and public intranets is spurring the rapidly growing demand for more network capacity. Telecommunications and cable television networks, enterprise data communications and storage networks are all urgently seeking solutions to break the bandwidth bottleneck.

Lumera, our subsidiary, is uniquely positioned to deliver superior optical components that will greatly enhance the performance and manageability of optical networks. Lumera's unique materials allow integration of many waveguides onto a single substrate to achieve multiple signal processing functions. The advantages of this integration? Greater functionality and an overall lower cost per component, and the capacity to download even the largest of files in scant seconds.

Market analysts expect the overall market for fiber optic components to grow between 40 and 60 percent next year. This market could see revenues of $12 to $14 billion by 2003, and between $17 and $19 billion by 2004.

By 2004, more people will access the Internet via hand-held mobile terminals than wireline connections. Of the projected one billion Internet users, 750 million will use mobile terminals. A concern most frequently cited by industry analysts is the small size of the display screens for these portable products. Microvision's retinal scanning display creates the effect of viewing a full-sized high-resolution computer monitor. We envision mobile terminals that can be configured as hand-held devices, scanning the beam through a small lens positioned about three or four inches from the eye, or as a lightweight display worn like eyeglasses and connected to a wireless device.

2000

FINANCIAL REPORT

FORWARD-LOOKING STATEMENT

Included in this report are photographic depictions of potential applications and products. Final designs may vary prior to commercialization.

The statements in this annual report that relate to future plans, events or performance and potential applications of our technology are forward-looking statements within the meaning of section 21E of the Securities Exchange Act of 1934, as amended, and are subject to the safe harbor created by that section. Actual results might differ materially due to a variety of important factors. These factors involve risks and uncertainties relating to, among other things, market acceptance of and the current developmental stage of the Company's technology; the Company's history of negative cash flows and current expectation of additional losses; technological change; the Company's lack of manufacturing experience and ongoing capital requirements; and the Company's dependence on key personnel discussed in the Annual Report. The Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission contains additional information about these and other risk and uncertainties.

SELECTED FINANCIAL DATA (In thousands, except per share data)

A summary of selected financial data as of and for the five years ended December 31, 2000 is set forth below:

YEAR ENDED DECEMBER 31,	2000	1999	1998	1997	1996
Statement of operations data					
Revenue	$ 8,121	$ 6,903	$ 7,074	$ 1,713	$ 102
Net loss available for common shareholders	(26,601)	(16,700)	(7,328)	(4,945)	(3,457)
Basic and diluted net loss per share	(2.33)	(2.04)	(1.22)	(.85)	(.90)
Weighted average shares outstanding – basic and diluted	11,421	8,169	5,994	5,806	3,832
Balance sheet data					
Cash, cash equivalents and investments available-for-sale	$ 40,717	$ 32,167	$ 2,269	$ 8,841	$ 14,266
Working capital	40,551	32,802	1,358	8,441	13,321
Total assets	56,171	41,619	6,362	10,741	14,565
Long-term obligations	714	836	282	92	—
Total shareholders' equity	50,042	35,359	2,589	9,164	13,509

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF MICROVISION, INC.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, of shareholders' equity, of comprehensive loss and of cash flows present fairly, in all material respects, the financial position of Microvision, Inc. and its subsidiary at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
Seattle, Washington
February 15, 2001, except as to the second
paragraph of Note 16 which is as of March 14, 2001

CONSOLIDATED BALANCE SHEET

YEAR ENDED DECEMBER 31,	2000	1999
ASSETS		
Current assets		
Cash and cash equivalents	$ 7,307,400	$ 2,798,000
Investment securities, available-for-sale	33,410,000	29,369,400
Accounts receivable, net of allowances of $93,000 and $60,000	1,032,500	1,024,500
Costs and estimated earnings in excess of billings on uncompleted contracts	2,116,400	2,000,400
Current restricted investments	1,125,000	650,000
Other current assets	975,600	847,700
Total current assets	45,966,900	36,690,000
Long-term investment, at cost	623,600	623,600
Property and equipment, net	7,515,900	3,054,700
Restricted investments	951,000	1,100,000
Receivables from related parties	999,900	—
Other assets	113,900	150,700
Total assets	$ 56,171,200	$ 41,619,000
LIABILITIES, MANDATORILY REDEEMABLE CONVERTIBLE PREFERRED STOCK AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 1,974,500	$ 1,453,100
Accrued liabilities	2,359,000	2,000,100
Allowance for estimated contract losses	295,000	—
Billings in excess of costs and estimated earnings on uncompleted contracts	418,600	167,000
Current portion of capital lease obligations	316,500	220,800
Current portion of long-term debt	51,900	46,900
Total current liabilities	5,415,500	3,887,900
Capital lease obligations, net of current portion	182,300	279,400
Long-term debt, net of current portion	289,600	341,500
Deferred rent, net of current portion	242,100	214,800
Total liabilities	6,129,500	4,723,600
Commitments and contingencies (Note 11)	—	—
Mandatorily redeemable convertible preferred stock, no par value, 1,600 shares authorized; 0 and 1,600 shares issued and outstanding	—	1,536,000
Shareholders' equity		
Common stock, no par value, 31,250,000 shares authorized; 11,883,540 and 10,140,733 shares issued and outstanding	120,506,100	75,518,300
Deferred compensation	(4,378,200)	(213,100)
Subscriptions receivable from related parties	(403,200)	(349,100)
Accumulated other comprehensive income (loss)	454,200	(60,600)
Accumulated deficit	(66,137,200)	(39,536,100)
Total shareholders' equity	50,041,700	35,359,400
Total liabilities, mandatorily redeemable convertible preferred stock and shareholders' equity	$ 56,171,200	$ 41,619,000

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

CONSOLIDATED STATEMENT OF OPERATIONS

YEAR ENDED DECEMBER 31,	2000	1999	1998
Revenue	$ 8,120,600	$ 6,902,700	$ 7,074,100
Cost of revenue	6,075,800	4,943,500	6,416,900
Gross margin	2,044,800	1,959,200	657,200
Research and development expense (exclusive of non-cash compensation expense of $7,400, $33,700 and $20,200 for 2000, 1999 and 1998, respectively)	19,520,400	10,199,000	3,285,400
Marketing, general and administrative expense (exclusive of non-cash compensation expense of $1,584,400, $230,300 and $430,300 for 2000, 1999 and 1998, respectively)	10,475,400	7,205,200	4,474,300
Non-cash compensation expense	1,591,800	264,000	450,500
Total operating expenses	31,587,600	17,668,200	8,210,200
Loss from operations	(29,542,800)	(15,709,000)	(7,553,000)
Interest income	3,105,300	1,163,200	307,100
Interest expense	(163,600)	(172,200)	(81,600)
Net loss	(26,601,100)	(14,718,000)	(7,327,500)
Less: Preferred dividend	—	(227,800)	—
Non-cash beneficial conversion feature of Series B Preferred Stock	—	(1,754,300)	—
Net loss available for common shareholders	$ (26,601,100)	$ (16,700,100)	$ (7,327,500)
Net loss per share – basic and diluted	$ (2.33)	$ (2.04)	$ (1.22)
Weighted-average shares outstanding – basic and diluted	11,420,600	8,168,600	5,993,500

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

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

	COMMON STOCK						
	Shares	Amount	Deferred Compensation	Subscriptions Receivable From Related Parties	Accumulated Other Comprehensive (Loss) Income	Accumulated Deficit	Shareholders' Equity
Balance at December 31, 1997	5,920,264	$ 25,375,300	$ (701,200)	$ —	$ (1,200)	$(15,508,500)	$ 9,164,400
Issuance of stock to board members for services	24,000	120,000	(120,000)				—
Exercise of warrants and options	116,862	344,600		(78,900)			265,700
Issuance of stock and options for services	3,500	34,700					34,700
Deferred compensation on stock options		5,300	(5,300)				—
Forfeitures of unvested stock options		(137,300)	137,300				—
Amortization of deferred compensation			450,500				450,500
Other comprehensive income					1,200		1,200
Net loss						(7,327,500)	(7,327,500)
Balance at December 31, 1998	6,064,626	25,742,600	(238,700)	(78,900)	—	(22,836,000)	2,589,000
Issuance of stock to board members for services	5,400	149,400	(149,400)				—
Exercise of warrants and options	2,961,214	33,556,500		(270,200)			33,286,300
Sales of common stock	709,493	9,738,100					9,738,100
Beneficial conversion feature of mandatorily redeemable preferred stock, net of costs		1,754,300				(1,754,300)	—
Conversion of preferred stock	400,000	4,334,000					4,334,000
Deferred compensation on stock options		197,000	(197,000)				—
Forfeitures of unvested stock options		(108,000)	108,000				—
Amortization of deferred compensation			264,000				264,000
Dividend on preferred stock		154,400				(227,800)	(73,400)
Other comprehensive loss					(60,600)		(60,600)
Net loss						(14,718,000)	(14,718,000)
Balance at December 31, 1999	10,140,733	75,518,300	(213,100)	(349,100)	(60,600)	(39,536,100)	35,359,400
Issuance of stock and options to board members for services	3,400	622,500	(622,500)				—
Exercise of warrants and options	1,108,157	13,341,800		(284,600)			13,057,200
Sales of common stock	500,000	23,976,900					23,976,900
Issuance of stock for acquisition of license	31,250	376,200					376,200
Conversion of mandatorily redeemable preferred stock	100,000	1,536,000					1,536,000
Deferred compensation on warrants and options		6,870,500	(6,870,500)				—
Revaluations of warrants		(1,736,100)	1,736,100				—
Collection of subscriptions receivable				230,500			230,500
Amortization of deferred compensation			1,591,800				1,591,800
Other comprehensive income					514,800		514,800
Net loss						(26,601,100)	(26,601,100)
Balance at December 31, 2000	11,883,540	$120,506,100	$(4,378,200)	$(403,200)	$454,200	$(66,137,200)	$50,041,700

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

YEAR ENDED DECEMBER 31,	2000	1999	1998
Net loss	$ (26,601,100)	$ (14,718,000)	$ (7,327,500)
Other comprehensive income (loss) – unrealized gain (loss) on investment securities, available-for-sale	514,800	(60,600)	1,200
Comprehensive loss	$(26,086,300)	$(14,778,600)	$(7,326,300)

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

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31,	2000	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	$(26,601,100)	$ (14,718,000)	$ (7,327,500)
Adjustments to reconcile net loss to net cash used in operations			
Depreciation	1,247,000	675,600	468,900
Non-cash expenses related to issuance of stock, warrants and options, and amortization of deferred compensation	1,591,800	264,000	485,200
Non-cash deferred rent	27,300	49,200	—
Allowance for estimated contract losses	295,000	(228,000)	228,000
Change in			
Accounts receivable	(8,000)	514,300	(1,388,800)
Costs and estimated earnings in excess of billings on uncompleted contracts	(116,000)	(1,241,900)	85,300
Other current assets	(127,900)	(564,900)	(169,700)
Receivables from related parties	(999,900)	—	—
Other assets	36,800	(31,700)	(99,000)
Accounts payable	521,400	125,400	559,500
Accrued liabilities	735,900	972,000	312,200
Billings in excess of costs and estimated earnings on uncompleted contracts	251,600	(604,500)	771,500
Net cash used in operating activities	(23,146,100)	(14,788,500)	(6,074,400)
CASH FLOWS FROM INVESTING ACTIVITIES			
Sales of investment securities	29,685,700	26,146,600	7,695,100
Purchases of investment securities	(33,211,500)	(55,576,600)	(3,901,900)
Sales of restricted investment securities	4,174,000	1,950,000	—
Purchases of restricted investment securities	(4,500,000)	(3,700,000)	—
Purchase of long-term investment	—	(623,600)	—
Purchases of property and equipment	(5,429,300)	(2,090,500)	(696,300)
Net cash (used in) provided by investing activities	$ (9,281,100)	$(33,894,100)	$ 3,096,900

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

YEAR ENDED DECEMBER 31,	2000	1999	1998
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal payments under capital leases	$ (280,300)	$ (163,400)	$ (68,400)
Principal payments under long-term debt	(46,900)	(31,600)	—
Increase in deferred rent	—	165,600	—
Increase in long-term debt	—	420,000	—
Payment of preferred dividend	—	(73,400)	—
Payments received on subscriptions receivable	230,500	—	—
Net proceeds from issuance of common stock	37,033,300	42,730,500	265,700
Net proceeds from issuance of preferred stock	—	6,163,900	—
Net cash provided by financing activities	36,936,600	49,211,600	197,300
Net increase (decrease) in cash and cash equivalents	4,509,400	529,000	(2,780,200)
Cash and cash equivalents at beginning of year	2,798,000	2,269,000	5,049,200
Cash and cash equivalents at end of year	$ 7,307,400	$ 2,798,000	$ 2,269,000
Supplemental disclosure of cash flow information			
Cash paid for interest	$ 163,600	$ 172,200	$ 81,600
Supplemental schedule of non-cash investing and financing activities			
Property and equipment acquired under capital leases	$ 278,900	$ 245,700	$ 394,000
Beneficial conversion feature of Series B Preferred Stock	$ —	$ 1,754,300	$ —
Non-cash dividend on Series B Preferred Stock	$ —	$ 154,400	$ —
Conversion of preferred stock to common stock	$ 1,536,000	$ 4,334,000	$ —
Payment for exclusive license agreement by issuance of common stock	$ 377,000	$ —	$ —
Exercise of stock options for subscriptions receivable	$ 284,600	$ 270,200	$ 78,900
Deferred compensation – warrants, options and stock grants	$ 5,756,900	$ 238,400	$ 125,300
Unrealized gain (loss) in investment securities, available-for-sale	$ 514,800	$ (60,600)	$ 1,200

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

Note 1. THE COMPANY

Microvision, Inc. ("the Company"), a Washington corporation, was established to acquire, develop, manufacture and market retinal scanning display ("RSD") technology, which projects images onto the retina of the eye. The Company has entered into contracts with commercial and U.S. government customers to develop applications using the RSD technology. As part of these contracts, the Company has produced and delivered several demonstrator units. The Company is working to commercialize the RSD technology for potential defense, healthcare, industrial and consumer applications.

Lumera Corporation ("Lumera"), a majority owned subsidiary of Microvision, is a development stage company. Lumera was established to develop, manufacture and market optical devices using organic non-linear chromophore materials. Lumera is working to commercialize the devices for potential optical networking applications.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Principles of consolidation

The consolidated financial statements include the accounts of the Company and Lumera. Lumera is engaged in the research and development of new materials and devices that utilize organic non-linear Optical Materials. As of December 31, 2000 the Company owned 76% of Lumera. The balance of Lumera is owned by its directors, Microvision employees and the University of Washington ("UW"). As of December 31, 2000, Lumera had an accumulated deficit and Microvision had provided the financing for Lumera. As a result, Microvision has included all of the Lumera loss in its consolidated statements and no minority interest is presented. All material intercompany accounts and transactions have been eliminated in consolidation.

Cash, cash equivalents and investment securities

The Company considers all investments that mature within 90 days of the date of purchase to be cash equivalents.

Short-term investment securities are primarily debt securities. The Company has classified its entire investment portfolio as available-for-sale. Available-for-sale securities are stated at fair value with unrealized gains and losses included in other comprehensive income (loss). Dividend and interest income are recognized when earned. Realized gains and losses are included in other income. The cost of securities sold is based on the specific identification method.

Restricted cash

The current portion of restricted cash represents a certificate of deposit held as collateral for a letter of credit issued to secure payment on a development contract.

The long-term portion of restricted cash represents a certificate of deposit held as collateral for letters of credit issued in connection with a lease agreement for the corporate headquarters building. Most of the balance is required to be maintained for the term of the lease.

Long-term investment

In December 1999, the Company purchased 389,766 shares in Gemfire Corporation ("Gemfire"), a privately held corporation. Gemfire is a developer of components for display applications using diode lasers. The Company accounts for the investment in Gemfire using the cost method.

Property and equipment

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

Revenue recognition

Revenue has primarily been generated from contracts for further development of the RSD technology and to produce prototypes for commercial enterprises and the United States government. Revenue on such contracts is recorded using the percentage-of-completion method measured on a cost incurred basis. Losses, if any, are recognized in full as soon as identified. Changes in contract performance, contract conditions, and estimated profitability, including those arising from contract penalty provisions, and final contract settlements, may result in revisions to costs and revenues and are recognized in the period in which the revisions are determined. Profit incentives are included in revenue when realization is assured.

Cost and estimated earnings in excess of billings on uncompleted contracts comprises amounts of revenue recognized on contracts that the Company has not yet billed to a customer because the amounts were not contractually billable at December 31, 2000 and 1999.

Revenue for product shipments is recognized upon acceptance of the product by the customer.

Concentration of credit risk and sales to major customers

Financial instruments that potentially subject the Company to concentrations of credit risk are primarily cash equivalents, investments and accounts receivable. The Company typically does not require collateral from its customers. The Company has a cash investment policy that generally restricts investments to ensure preservation of principal and maintenance of liquidity.

The United States government accounted for approximately 91%, 82% and 83% of total revenue during 2000, 1999 and 1998, respectively. Three commercial enterprises represented 5%, 16% and 17% of total revenues during 2000, 1999, and 1998, respectively.

Income taxes

The Company provides for income taxes under the principles of Statement of Financial Accounting Standards ("SFAS") No. 109, which requires that provisions be made for taxes currently due and for the expected future tax effects of temporary differences between book and tax bases of assets and liabilities and for loss and credit carry forwards.

Net loss per share

Basic net loss per share is calculated on the basis of the weighted-average number of common shares outstanding during the periods. Net loss per share assuming dilution is calculated on the basis of the weighted-average number of common shares outstanding and the dilutive effect of all potential common stock equivalents and convertible securities. Net loss per share assuming dilution for 2000, 1999 and 1998 is equal to basic net loss per share since the effect of potential common stock equivalents outstanding during the periods, including convertible preferred stock, options and warrants computed using the treasury stock method, is anti-dilutive. The common stock equivalents and convertible securities that were not included in the earnings per share were 3,517,000, 3,365,300 and 4,971,300 at December 31, 2000, 1999 and 1998 respectively.

Research and development

Research and development costs are expensed as incurred.

Fair value of financial instruments

The Company's financial instruments include cash and cash equivalents, investment securities, accounts receivable, accounts payable, accrued liabilities, long-term debt and capital lease obligations. Except for capital leases and long-term debt, the carrying amounts of financial instruments approximate fair value due to their short maturities. The carrying amount of capital leases and long-term debt at December 31, 2000 and 1999 was not materially different from the fair value based on rates available for similar types of arrangements.

Long-lived assets

The Company periodically evaluates the recoverability of its long-lived assets based on expected undiscounted cash flows and recognizes impairment of the carrying value of long-lived assets, if any, based on the fair value of such assets.

Stock-based compensation

The Company accounts for stock-based employee compensation arrangements in accordance with the provisions of Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees" and related amendments and interpretations, including FASB Interpretation Number ("FIN") 44, "Accounting for Certain Transactions Involving Stock Compensation," and complies with the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." The Company accounts for equity instruments issued to non-employees in accordance with the provisions of SFAS No. 123 and Emerging Issues Task Force Issue No. 96-18.

New accounting pronouncements

In June 2000, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The statement requires the recognition of all derivatives as either assets or liabilities in the balance sheet and the measurement of those instruments at fair value. The accounting for changes in the fair value of a derivative depends on the planned use of the derivative and the resulting designation. Because the Company does not currently hold any derivative instruments and does not engage in hedging activities, the impact of the adoption of SFAS No. 133 is not currently expected to have a material impact on financial position, results of operations or cash flows. The Company will be required to implement SFAS No. 133 in the first quarter of fiscal 2001.

In September 2000, the FASB issued SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS 140 replaces SFAS 125, revising the standards governing the accounting for securitizations and other transfers of financial assets and collateral. Adoption of FAS 140 is required for transfers and servicing of financial assets and extinguishment of liabilities occurring after March 31, 2001. The Company is currently evaluating the impact of FAS 140, if any, on current accounting policies regarding the service of assets and extinguishment of liabilities.

Note 3. INVESTMENTS AVAILABLE-FOR-SALE

The following table summarizes the composition of the Company's available-for-sale investment securities at December 31, 2000 and 1999. The available-for-sale investment securities at December 31, 1999 includes current restricted investments and restricted investments of $650,000 and $1,100,000, respectively:

	Amortized Cost Basis	Aggregate Fair Value
December 31, 2000		
U.S. corporate debt securities	$ 18,278,000	$ 18,532,400
U.S. government agency debt securities	14,677,800	14,877,600
	$32,955,800	$ 33,410,000
December 31, 1999		
U.S. corporate debt securities	$ 8,588,400	$ 8,592,500
U.S. government agency debt securities	22,591,600	22,526,900
	$31,180,000	$ 31,119,400

Note 4. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

DECEMBER 31,	2000	1999
Payroll and payroll taxes	$ 564,000	$ 435,000
License fees	—	452,000
Professional fees	79,600	425,500
Bonuses	657,000	185,200
Subcontractors	469,600	178,100
Compensated absences	225,000	158,200
Other	363,800	166,100
	$2,359,000	$2,000,100

Note 5. PROPERTY AND EQUIPMENT, NET

Property and equipment consist of the following:

DECEMBER 31,	2000	1999
Office furniture and equipment	$ 787,300	$ 654,100
Computer hardware and software	2,214,300	1,151,000
Lab equipment	3,278,100	1,273,900
Leasehold improvements	3,799,600	1,292,100
	10,079,300	4,371,100
Less: Accumulated depreciation	(2,563,400)	(1,316,400)
	$ 7,515,900	$ 3,054,700

Note 6. 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 executive directors. The limit of the lines of credit is three times the executives' base salary less any amounts outstanding under the Executive Option Exercise Loan Plan. The lines of credit earn interest at a rate of 5.8% to 6.22%. The lines of credit must be repaid within one year of the executive's termination. At December 31, 2000, a total of $999,900 was outstanding under the lines of credit.

In 2000 and 1999, three executive officers of the Company exercised a total of 128,284 and 57,750 stock options, respectively, in exchange for full recourse notes totaling $284,600 and $270,200, respectively. These notes bear interest at 4.64% to 6.56% per annum. Each note is payable in full upon the earliest of (1) a fixed date ranging from January 31, 2001 to December 31, 2004 depending on the expiration of the options exercised; (2) the sale of all of the shares acquired with the note; (3) on a pro rata basis upon the partial sale of shares acquired with the note, or (4) within 90 days of the officer's termination of employment. The notes are included as subscriptions receivable from related parties in shareholders' equity on the consolidated balance sheet.

The interest on both the lines of credit and the full recourse notes is forgiven if the executive is an employee of the Company at December 31 of the respective year. Compensation expense of $43,900 and $13,200 was recognized in 2000 and 1999, respectively, for interest forgiven.

Note 7. PREFERRED STOCK

In January 1999, the Company raised $5.0 million (before issuance costs) from the sale of 5,000 shares of Series B-1 Convertible Preferred Stock to a private investor, who is also a director, in a private placement. The preferred stock was immediately convertible into common stock at a rate of $12.50 in preferred stock per common share and carried a cumulative dividend of 4% per annum, payable in cash or additional convertible preferred stock at the election of the Company. The investor also acquired an option to purchase an additional 1,600 shares of Series B-2 Convertible Preferred Stock with an exercise price of $16.00 per share with a six month maturity and an option to purchase an additional 1,920 shares of Series B-3 Convertible Preferred Stock with an exercise price of $19.20 per share with a nine month maturity from the closing date of the transaction.

In May 1999, the Company redeemed the Series B-1 Convertible Preferred Stock and issued 400,000 shares of common stock. In addition, the Company paid a cash dividend of $73,400 to the investor at the time of the redemption.

In July 1999, the investor exercised the option to purchase 1,600 shares of Series B-2 Convertible Preferred Stock for $1.6 million (before issuance costs). The preferred stock was immediately convertible at a rate of $16.00 of preferred stock per common share. Unless converted sooner at the election of the investor, the convertible preferred stock would have automatically converted into 100,000 shares of common stock at the end of its five year term. The Series B-2 Convertible Preferred Stock was subject to mandatory redemption at the election of the preferred shareholder upon certain liquidation events (as defined). The convertible preferred stock carried a cumulative dividend of 4% per annum, payable in cash or additional convertible preferred stock at the election of the Company. Due to the mandatory redemption feature noted above, the carrying value of the Series B-2 Convertible Preferred Stock was classified as temporary equity.

The conversion prices of the Series B-1 and Series B-2 Convertible Preferred Stock were less than the closing prices of the Company's common stock on the dates of commitment to purchase the preferred stock. This beneficial conversion feature was valued at $1.8 million. This "discount" is treated as a preferred stock dividend and recorded to accumulated deficit over the period between the date of sale and the date on which the preferred stock first becomes convertible. Because the preferred stock was immediately convertible, the entire value of the beneficial conversion feature was recorded as a dividend in 1999.

In October 1999, the Company amended the option to purchase 1,920 shares of the Series B-3 Convertible Preferred Stock to extend the expiration date of the option to June 30, 2000. In consideration of the extension, the holder waived the right to receive dividends on the outstanding Series B-2 Convertible Preferred Stock. The terms of the option were also amended to an option to purchase 100,000 shares of common stock at a conversion price of $19.20. The amendment was accounted for as a preferred stock dividend with a fair market value of $154,400.

In March 2000, the Company redeemed 1,600 shares of Series B-2 Mandatorily Redeemable Convertible Preferred Stock and issued 100,000 shares of common stock.

Note 8. COMMON STOCK

In April 1999, the Company raised $6.0 million (before issuance costs) from the sale of 440,893 shares of common stock to a private investor in a private placement. The investor also acquired two warrants to purchase additional common stock, one with a five year term and the other with a one year term.

In May 1999, the Company raised $4.5 million (before issuance costs) from the sale of 268,600 shares of common stock to Cree Inc. ("Cree") in a private placement. Concurrently with the sale of the stock, the Company entered into a one year $2.6 million development contract with Cree to accelerate development of semi-conductor light-emitting diodes and laser diodes for application with the Company's proposed display and imaging products. The agreement called for payment of the $2.6 million cost of the project in four equal quarterly payments, the first of which was made concurrently with the signing of the agreement.

In April 2000, the Company raised $25.0 million (before issuance costs) from the issuance of 500,000 shares of common stock to Cree and General Electric Pension Trust. Concurrently, the Company entered into a two year, $10.0 million extension of the development agreement with Cree. The Company must pay $4.5 million during the first year of the extension in four equal quarterly payments. The first payment was made concurrently with the signing of the extension. The Company has deposited $1.1 million in a certificate of deposit in a financial institution to secure a letter of credit, which will be used to fund the remaining payment under the first year of the extension. During the second year of the extension, the Company is required to pay the remaining $5.5 million in four equal quarterly payments.

In June 2000, the Company raised $1.9 million (before issuance costs) from the exercise, by the investor, of an option to purchase 100,000 shares of common stock at a price of $19.20 per share.

Note 9. WARRANTS

On April 11, 2000, the Company received $7.5 million (before issuance cost) upon exercise of a warrant to purchase 418,848 shares of common stock at a price of $17.91 per share. In December 2000, the Company issued fully vested warrants to purchase 4,907 shares of common stock, for $61.13 per share, to a consultant in payment of fees arising from this transaction.

On August 10, 2000, the Company issued warrants to purchase an aggregate of 200,000 shares of common stock to two consultants in connection with entering into certain consulting agreements with the Company. One of the consultants subsequently became a director. The warrants grant each of the holders the right to purchase up to 100,000 shares of common stock at a price of $34.00 per share. The warrants vest over three years and are subject to remeasurement at each balance sheet date during the vesting period. The original value of the warrants was estimated at $5,476,000. Due to a decrease in the Company stock price, the value at December 31, 2000 was estimated at $3,739,900. Total non-cash amortization expense during the year was $345,400. The fair value of the warrants was estimated at the issue date and December 31, 2000 using the Black-Scholes option-pricing model with the following weighted-average assumptions: dividend yield of zero percent; expected volatility of 83%; risk-free interest rates of 6.0%; and expected lives of 10 years.

The following summarizes activity with respect to warrants during the three years ended December 31, 2000:

	Shares	Exercise Price
Outstanding at December 31, 1997	2,689,738	$ 4.80 – 12.00
Granted	17,676	12.00
Exercised	(31,684)	8.00 – 9.60
Canceled/expired	(69,566)	8.00 – 9.60
Outstanding at December 31, 1998	2,606,164	4.80 – 12.00
Granted	652,688	8.00 – 20.32
Exercised	(2,533,428)	4.80 – 12.00
Canceled/expired	(21,734)	8.00 – 12.00
Outstanding at December 31, 1999	703,690	4.80 – 20.32
Granted	261,157	19.20 – 61.13
Exercised	(484,962)	4.80 – 20.32
Canceled/expired	(16,933)	6.40 – 18.00
Outstanding at December 31, 2000	**462,952**	**8.00 – 61.13**
Exercisable at December 31, 2000	**462,952**	**$ 8.00 – 61.13**

Note 10. OPTIONS

During 1993, the Company adopted the 1993 Stock Option Plan ("the 1993 Plan"), which provides for granting incentive stock options ("ISOs") and nonqualified stock options ("NSOs") to employees, directors, officers and certain non-employees of the Company as determined by the Board of Directors, or its designated committee ("Plan Administrator"), for the purchase of up to a total of 228,938 shares of the Company's authorized but unissued common stock. The date of grant, option price, vesting period and other terms specific to options granted under such plan were determined by the Plan Administrator. In September 1995, an additional 625,000 shares were reserved for issuance under the 1993 Plan. The Company expects to terminate the 1993 Plan effective immediately following the issuance of the shares of common stock subject to the outstanding grants thereunder.

During 1994, the Company adopted the 1994 Combined Incentive and Nonqualified Stock Option Plan ("the 1994 Plan"), which provides for the granting of ISOs and NSOs to employees, directors, officers and certain non-employees of the Company as determined by the Plan Administrator for the purchase of common shares not to exceed a total of 435,000 of the Company's authorized but unissued shares of common stock. The date of grant, option price, vesting terms and other terms specific to options granted under such plan were determined by the Plan Administrator. The 1994 Plan was terminated in 1999 following the final issuance of the shares of common stock for outstanding grants.

During 1996, the Company adopted the 1996 Stock Option Plan ("the 1996 Plan") and the 1996 Independent Director Stock Plan ("the Directors Stock Plan"). The 1996 Plan, as amended, provides for granting ISOs and NSOs to employees, officers and agents of the Company as determined by the Plan Administrator, for the purchase of up to 5,500,000 shares of the Company's authorized but unissued common stock. Effective in June 2000, the shareholders authorized the Company to reserve an additional 2,500,000 shares under the 1996 Plan. The terms and conditions of any options granted, including date of grant, the exercise price and vesting period are to be determined by the Plan Administrator. The Independent Directors Stock Plan provides for granting up to a total of 75,000 shares of common stock to non-employee directors of the Company.

During 2000, the Company adopted the Independent Director Stock Option Plan ("the Director Option Plan"). The Director Option Plan provides for an annual NSO grant to each director to purchase 5,000 shares of the Company's authorized but unissued common stock. The total number of authorized shares is 150,000. Options are granted to continuing directors each year on the date of their appointment and granted to new directors on the effective appointment dates. Exercise prices are set at the average closing price of the Company's stock during the ten day period immediately preceding the grant date.

During 2000, the Company issued 90,809 NSO options to employees, who are not executive officers of the Company, outside of its stock option plans. The Company issued such options during the period from March until June 2000 when shareholders authorized 2,500,000 additional shares under the 1996 Plan. The terms and conditions of the options issued are the same as those issued under the 1996 Plan.

Stock options issued under the 1993 Plan vest over three years and expire five years after the date of vesting. Stock options issued under the 1996 Plan and the options issued outside of any other plan vest over three to four years and typically expire after ten years. Stock options issued under the Director Option Plan vest one day prior to the first regular Annual Shareholder Meeting following the grant date.

The following table summarizes activity with respect to options for the three years ended December 31, 2000:

	Shares	Weighted-Average Exercise Price
Outstanding at December 31, 1997	1,983,467	$11.07
Granted:		
Exercise price greater than fair value	474,043	18.88
Exercise price equal to fair value	96,575	11.91
Exercise price less than fair value	5,000	7.88
Exercised	(85,178)	4.05
Forfeited	(108,756)	14.65
Outstanding at December 31, 1998	2,365,151	12.75
Granted:		
Exercise price greater than fair value	326,444	25.90
Exercise price equal to fair value	380,123	21.33
Exercised	(431,274)	7.45
Forfeited	(178,755)	17.90
Outstanding at December 31, 1999	2,461,689	16.38
Granted:		
Exercise price greater than fair value	5,000	39.74
Exercise price equal to fair value	1,234,578	33.94
Exercise price less than fair value	85,000	35.58
Exercised	(518,995)	7.49
Forfeited	(213,138)	29.38
Outstanding at December 31, 2000	3,054,134	24.65

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

YEAR ENDED DECEMBER 31,	2000	1999	1998
Exercise price greater than fair value	$16.09	$ 9.31	$ 4.71
Exercise price equal to fair value	23.70	14.88	6.70
Exercise price less than fair value	25.81	—	5.28

The following table summarizes information about stock options outstanding and exercisable at December 31, 2000:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
Range of Exercise Prices	Number Outstanding at December 31, 2000	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at December 31, 2000	Weighted-Average Exercise Price
$ 6.00 – $ 8.80	365,865	3.34	$ 7.10	365,865	$ 7.10
$ 9.06 – $14.00	257,761	6.85	$ 12.92	229,095	$13.10
$14.06 – $23.50	917,810	7.67	$ 20.64	456,353	$19.42
$23.69 – $37.50	1,321,568	8.84	$ 31.87	99,928	$30.29
$37.56 – $57.75	186,731	9.52	$ 43.02	—	—
$60.75 – $61.13	4,399	9.17	$ 60.83	—	—
$ 6.00 – $61.13	3,054,134			1,151,241	

Deferred compensation of $1,840,000, $137,000 and $125,300 was recorded during 2000, 1999 and 1998, respectively, for stock options granted to employees and directors at exercise prices below fair market value.

Had compensation cost for options issued been determined using the fair values at the grant dates consistent with the methodology prescribed under SFAS 123, the Company's net loss available to common shareholders and associated net loss per share would have increased to the pro forma amounts indicated below:

YEAR ENDED DECEMBER 31,	2000	1999	1998
Net loss available for common shareholders			
As reported	$ (26,601,100)	$ (16,700,100)	$ (7,327,500)
Pro forma	$(39,448,500)	$(20,236,000)	$(10,689,200)
Net loss per share			
As reported	$ (2.33)	$ (2.04)	$ (1.22)
Pro forma	$ (3.45)	$ (2.48)	$ (1.78)

The fair value of the options granted was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 2000, 1999, and 1998, respectively: dividend yield of zero percent for all years; expected volatility of 83%, 83%, and 60%; risk-free interest rates of 6.13%, 5.50%, and 5.11%; and expected lives of 5 years for all years. Actual forfeitures were used beginning in 2000 and assumed forfeiture rates of 5% were used for 1999 and 1998.

Note 11. COMMITMENTS AND CONTINGENCIES

Agreements with the University of Washington

In October 1993, the Company entered into a Research Agreement and an Exclusive License Agreement ("License Agreement") with the University of Washington ("UW"). The License Agreement grants the Company the rights to certain intellectual property, including the technology being developed under the Research Agreement, whereby the Company has an exclusive, royalty-bearing license to make, use and sell or sublicense the licensed technology. In consideration for the license, the Company agreed to pay a one-time nonrefundable license issue fee of $5,133,500. Payments under the Research Agreement were credited to the license fee. In addition to the nonrefundable fee, which has been paid in full, the Company is required to pay certain on going royalties. In 2000, 1999 and 1998 these royalties were not material.

Beginning in 2001, the Company is required to pay the UW a nonrefundable license maintenance fee of $10,000 per quarter, to be credited against royalties due.

In March 1994, the Company entered into an Exclusive License Agreement ("HALO Agreement") with the UW. The HALO Agreement grants the Company the right to receive certain technical information relating to HALO Display technology and an exclusive right to market the technical information for the purpose of commercial exploitation to unaffiliated entities. Under the agreement, the Company is obligated to pay to the UW $75,000 and issue 31,250 common shares upon filing of the first patent application and $100,000 and issue 62,500 common shares upon issuance of the first patent awarded. In 1999, the UW filed a patent application under the HALO Agreement and the Company recorded $452,000, based on the value of the common stock, as an expense. A patent has not yet been issued.

In October 2000, Lumera entered into an exclusive license agreement ("Lumera License Agreement") and a Research Agreement with the UW. The Lumera License Agreement grants Lumera exclusive rights to certain intellectual property including technology being developed under the Research Agreement whereby Lumera has an exclusive royalty-bearing license to make, use, sell or sublicense the licensed technology. In consideration for the Lumera License Agreement, Lumera agreed to pay a one-time nonrefundable license issue fee of $200,000 to the UW. Under terms of the Research Agreement, Lumera is required to issue 802,414 shares of Lumera common stock and to pay $9,000,000 in quarterly payments over three years. The first license and research payments are due upon Lumera's acceptance of the UW research plan.

Litigation

The Company is subject to various claims and pending or threatened lawsuits in the normal course of business. Management believes that the outcome of any such lawsuits would not have a materially adverse effect on the Company's financial position, results of operations or cash flows.

Lease commitments

The Company leases its office space and certain equipment under noncancelable capital and operating leases with initial or remaining terms in excess of one year. The Company entered into a new facility lease that commenced in April 1999, which includes an extension provision and rent escalation provisions over the seven year term of the lease. Rent expense is recognized on a straight-line basis over the lease term.

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

	Capital Leases	Operating Leases
2001	$ 361,700	$1,644,400
2002	171,600	1,945,200
2003	27,500	2,087,400
2004	7,500	1,736,900
2005	—	1,719,400
Thereafter	—	428,400
Total minimum lease payments	568,300	$ 9,561,700
Less: Amount representing interest	(69,500)	
Present value of capital lease obligations	498,800	
Less: Current portion	(316,500)	
Long-term obligation at December 31, 2000	**$ 182,300**	

The capital leases are collateralized by the related assets financed and by security deposits held by the lessors under the lease agreements. The cost and accumulated depreciation of equipment under capital leases was $1,083,400 and $396,100, respectively, at December 31, 2000; and $752,400 and $208,300, respectively, at December 31, 1999.

Rent expense was $1,255,000, $1,007,700, and $294,000 for 2000, 1999 and 1998, respectively.

Long-term debt

During 1999, the Company entered into a loan agreement with the lessor of the Company's corporate headquarters to finance $420,000 in tenant improvements. The loan carries a fixed interest rate of 10%, is repayable over the term of the lease and is secured by a letter of credit.

Note 12. INCOME TAXES

A provision for income taxes has not been recorded for 2000, 1999 or 1998 due to taxable losses incurred during such periods. A valuation allowance has been recorded for deferred tax assets because realization is primarily dependent on generating sufficient taxable income prior to expiration of net operating loss carry-forwards.

At December 31, 2000, the Company has net operating loss carry-forwards of approximately $65,567,900 for federal income tax reporting purposes. The net operating losses will expire beginning in 2005 if not previously utilized. In certain circumstances, as specified in the Internal Revenue Code, a 50% or more ownership change by certain combinations of the Company's stockholders during any three year period would result in limitations on the Company's ability to utilize its net operating loss carry-forwards. The Company has determined that such a change occurred during 1995 and the annual utilization of loss carry-forwards generated through the period of that change will be limited to approximately $761,000. An additional change occurred in 1996; however, the amount of the annual limitation is not material.

Deferred tax assets are summarized as follows:

DECEMBER 31,	**2000**	1999
Net operating loss carry-forward	$ 22,293,100	$ 11,637,000
Capitalized research and development	1,060,300	1,173,800
Expenses related to issuance of equity instruments	—	341,700
Other	501,300	231,500
	23,854,700	13,384,000
Less: Valuation allowance	(23,854,700)	(13,384,000)
Deferred tax assets	$ —	$ —

The difference between the zero provisions for income taxes in 2000, 1999 and 1998 and the expected amounts determined by applying the federal statutory rate to losses before income taxes results primarily from increases in the valuation allowance.

Certain net operating losses arise from the deductibility for tax purposes of compensation under nonqualified stock options equal to the difference between the fair value of the stock on the date of exercise and the exercise price of the options. For financial reporting purposes, the tax effect of this deduction when recognized will be accounted for as a credit to shareholders' equity.

Note 13. RETIREMENT SAVINGS PLAN

On January 1, 1998 the Company established a retirement savings plan ("the Plan") that qualifies under Internal Revenue Code Section 401(k). The plan covers all qualified employees. Contributions to this plan by the Company are made at the discretion of the Board of Directors. The Company did not contribute to the Plan in 1999.

In February 2000, the Board of Directors approved a plan amendment to match 50% of employee contributions to the Plan up to 6% of the employee's per pay period compensation, starting on April 1, 2000. During 2000, the Company contributed $134,000 to the Plan under the matching program.

Note 14. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following table presents the Company's unaudited quarterly financial information for the years ending December 31, 2000 and 1999.

	December 31	September 30	June 30	March 31
Year ended December 31, 2000				
Revenue	$ 2,864,600	$ 1,970,500	$ 1,176,000	$ 2,109,500
Gross margin	857,100	253,600	292,100	642,000
Net loss available for common shareholders	(6,912,600)	(7,682,900)	(6,932,400)	(5,073,200)
Net loss per share – basic and diluted	(.58)	(.65)	(.60)	(.48)
Year ended December 31, 1999				
Revenue	1,742,500	1,465,700	1,392,900	2,301,600
Gross margin	540,100	973,700	(146,600)	592,000
Net loss available for common shareholders	(4,428,700)	(3,869,300)	(5,252,100)	(3,150,000)
Net loss per share – basic and diluted	(.45)	(.41)	(.74)	(.51)

Note 15. SEGMENT INFORMATION

The Company is organized into two major groups — Microvision, which is engaged in retinal scanning displays and related technologies, and, Lumera which is engaged in optical systems components technology. The segments were determined based on how management views and evaluates the Company's operations.

The accounting policies used to derive reportable segment results are generally the same as those described in Note 2, "Summary of Significant Accounting Policies."

A significant portion of the segments' expenses arise from shared services and infrastructure that Microvision has provided to the segments in order to realize economies of scale and to efficiently use resources. These efficiencies include costs of centralized legal, accounting, human resources, real estate, information technology services, treasury and other Microvision corporate and infrastructure costs. These expenses are allocated to the segments and the allocation has been determined on a basis that the Company considered to be a reasonable reflection of the utilization of services provided to or benefits received by the segments.

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

	Microvision	Lumera	Elimination	Total
Year ended December 31, 2000				
Revenues from external sources	$ 8,059,500	$ 61,100	$ —	$ 8,120,600
Interest revenue	3,504,600	900	(400,200)	3,105,300
Interest expense	163,600	400,200	(400,200)	163,600
Depreciation	1,093,100	153,900	—	1,247,000
Segment loss	23,696,200	2,904,900	—	26,601,100
Segment assets	53,023,000	3,148,200	—	56,171,200
Expenditures for capital assets	2,495,600	3,212,600	—	5,708,200

Note 16. SUBSEQUENT EVENT

In February 2001, the Company acquired a fully paid-up royalty-free exclusive license to the HALO technology in exchange for 37,000 shares of Microvision common stock and $100,000.

In March 2001, Lumera raised $21,360,000 from the sale of 2,136,000 shares of Lumera Convertible Preferred Stock to a group of private investors. In addition, Lumera issued 264,000 shares of convertible preferred stock to Microvision to retire $2,640,000 in intercompany debt. The convertible preferred shares are convertible to an equal number of shares of common stock at the option of the holder.

OVERVIEW

The Company commenced operations in May 1993 to develop and commercialize technology for displaying images and information onto the retina of the eye. In 1993, the Company acquired an exclusive license to the Virtual Retinal Display technology from the University of Washington and entered into a research agreement with the University of Washington to further develop the Virtual Retinal Display technology. The Company has continued to develop the Virtual Retinal Display technology as part of its broader research and development efforts relating to the retinal scanning display technology.

Since the completion of its initial public offering in August 1996, the Company has established and equipped its own in-house laboratory for the continuing development of the retinal scanning display technology and has transferred the research and development work on the Virtual Retinal Display technology from the University of Washington to the Company.

The Company currently has several prototype versions of the retinal scanning display including monochromatic and color portable units and a full color tabletop model. The Company expects to continue funding prototype and demonstration versions of products incorporating the retinal scanning display technology at least through 2001. Future revenues, profits and cash flow and the Company's ability to achieve its strategic objectives as described herein will depend on a number of factors, including acceptance of the retinal scanning display technology by various industries and OEMs, market acceptance of products incorporating the retinal scanning display technology and the technical performance of such products.

In 2000, the Company formed a subsidiary, Lumera Corporation ("Lumera"), to develop and commercialize a new class of nonlinear optical chromophores ("Optical Materials") and devices that utilize the optical properties of these Optical Materials.

Lumera has established and built in-house laboratories to develop and characterize new materials, create new device designs and perform small-scale production of new devices and systems based on the Optical Materials. Lumera also entered into a three year sponsored research agreement with the University of Washington to fund continued development work on the Optical Materials. As of December 31, 2000, Microvision had funded all Lumera operations and incurred losses of $2.9 million and invested $3.2 million in capital assets.

The Company has incurred substantial losses since its inception and expects to continue to incur significant operating losses over the next several years.

RESULTS OF OPERATIONS Year ended December 31, 2000 compared to year ended December 31, 1999

Revenue

Revenue increased by approximately $1.2 million, or 18%, to $8.1 million in 2000 from $6.9 million in 1999. The increase resulted from a higher level of development contract business in 2000 than performed in 1999 on contracts entered into in both 2000 and 1999.

To date, substantially all of the Company's revenue has been generated from development contracts. The Company's customers have included both the United States government and commercial enterprises. The United States government accounted for approximately 91% and 82% of revenue during 2000 and 1999, respectively. The Company expects its sources of revenue to fluctuate from year to year.

During 2000, the Company entered into several development contracts with both commercial and government entities for further development of the retinal scanning display technology to meet specific customer applications.

In the defense business area, the Company entered into a $5.0 million contract with the U.S. Army's Aviation Applied Technology Directorate to continue work on an advanced helmet-mounted display and imaging system to be used in the Virtual Cockpit Optimization Program. In addition, the Company was awarded a $2.8 million contract with the U.S. Army's Aircrew Integrated Systems Program office to further advance the form and functional development of a helmet-mounted display.

Nomad, a monochrome head worn display, is planned to be the Company's first commercial product which is planned for shipment in 2001. During 2000, the Company entered into a $600,000 contract to provide a prototype Nomad and a full color prototype display to the Cleveland Clinic. The Company has sold four additional Nomad prototypes to customers in the medical and industrial markets during 2000. One of these customers, Telesensory, placed the first order for ten production Nomad units.

The Company ended the year with a $4.5 million backlog. The Company expects to complete all of the backlog contracts during 2001.

Cost of revenue

Cost of revenue includes both the direct and indirect costs of performing on development contracts and delivering products. Direct costs include labor, materials and other costs incurred directly in the performance of specific projects. Indirect costs include labor and other costs associated with operating the Research and Product Development department and building the technical capabilities of the Company. The cost of revenue is determined both by the level of direct costs incurred on development contracts and by the level of indirect costs incurred in managing and building the technical capabilities and capacity of the Company. The cost of revenue can fluctuate substantially from period to period depending on the level of both the direct costs incurred in the performance of projects and the level of indirect costs incurred.

Cost of revenue increased by approximately $1.2 million, or 23%, to $6.1 million in 2000, from $4.9 million in 1999. The increase resulted from an increase in the direct costs associated with the Company's performance on development contracts in 2000 from that in 1999. The higher level of expense in 2000 as compared to 1999 also resulted from a higher level of investment made by the Company in developing its technologies through work performed on its own internal research and development projects, which resulted in greater overhead absorption by these research and development projects.

Cost of revenue in 2000 includes a provision for estimated losses on uncompleted contracts. The Company recognizes any estimated losses on contracts in full as soon as identified. The losses are a result of the Company's decision to invest in strategic projects with our partners to advance the retinal scanning display technology.

The Company expects that cost of revenue on an absolute dollar basis will increase in the future. This increase will likely result from additional development contract work that the Company expects to perform and commensurate growth in the Company's personnel and technical capacity required for performance on such contracts. As a percentage of contract revenue, the Company expects the cost of revenue to decline over time as the Company realizes economies of scale associated with an anticipated higher level of development contract business and as the Company's expenditures incurred to increase its technical capabilities and capacity become less as a percentage of a higher level of revenues.

Research and development expense

Research and development expense consists of:

» Compensation related costs of employees and contractors engaged in internal research and product development activities,
» Laboratory operations, outsourced development and processing work,
» Fees and expenses related to patent applications, prosecution and protection, and
» Related operating expenses.

Included in research and development expenses are costs incurred in acquiring and maintaining licenses of technology from other companies. The Company has charged all research and development costs to cost of revenue or research and development expense.

Research and development expense increased by $9.3 million, or 91%, to $19.5 million from $10.2 million in 1999. The increase reflects continued implementation of the Company's operating plan, which calls for building technical staff and supporting activities, establishing and equipping in-house laboratories, and developing and maintaining intellectual property.

In April 2000, the Company entered into a $10.0 million extension of an agreement with Cree, Inc. to continue development of semiconductor light emitting diodes and laser diodes. The Company must pay $4.5 million during the first year of the extension in four equal quarterly payments. As of December 31, 2000, the Company had made three payments under this agreement. The Company has pledged investments of $1.1 million as security for a letter of credit, which will be used to fund the remaining payment under the first year of the extension. During the second year of the extension, the Company is required to pay the remaining $5.5 million in four equal quarterly payments.

The Company believes that a substantial level of continuing research and development expense will be required to develop commercial products using the retinal scanning display technology and the Optical Materials technology. Accordingly, the Company anticipates that a high level of research and development spending will continue. These expenses will be incurred as a result of:

» Hiring additional technical and support personnel,
» Expanding and equipping in-house laboratories,
» Acquiring rights to additional technologies,
» Subcontracting work to development partners, and
» Incurring related operating expenses.

The Company expects that the rate of spending on research and product development will continue to grow in future quarters as we:

» Continue development of the Company's retinal scanning display technology,
» Develop and commercialize the Optical Materials technology,
» Prepare for the planned introduction of the Company's first commercial product in 2001,
» Accelerate development of microdisplays to meet emerging market opportunities,
» Expand the Company's investment in bar code reader development, and
» Pursue other potential business opportunities.

Marketing, general and administrative expense

Marketing, general and administrative expenses include compensation and support costs for sales, marketing, management and administrative staff, and for other general and administrative costs, including legal, accounting, consultants and other operating expenses.

Marketing, general and administrative expenses increased by $3.3 million, or 45%, to $10.5 million from $7.2 million in 1999. The increase includes increased compensation and support costs for employees and contractors. The Company expects marketing, general and administrative expenses to increase substantially in future periods as the Company:

» Adds to its sales and marketing staff,
» Makes additional investments in sales and marketing activities, and
» Increases the level of corporate and administrative activity.

Non-cash compensation expense

Non-cash compensation expense increased by $1.3 million, or 503%, to $1.6 million from $264,000 in 1999. Non-cash compensation expense includes the amortization of the value of stock options granted to individuals who are not employees or directors of the Company for services provided to the Company.

A significant component of the increase is due to a five year consulting agreement between the Company and two independent consultants, entered into in August, 2000, to provide strategic business and financial consulting services. Under the terms of the agreements, each consultant received a warrant to purchase 100,000 shares of common stock at an exercise price of $34.00 per share. The warrants vest over three years and the unvested shares are subject to remeasurement at each balance sheet date during the vesting period. The original value of the warrants was estimated at $5.5 million. Due to a decrease in the Company stock price, the value at December 31, 2000 was estimated at $3.7 million. In 2000, total non-cash amortization for these agreements was $345,000.

Interest income and expense

Interest income increased by $1.9 million, or 167%, to $3.1 million from $1.2 million in 1999. This increase resulted primarily from higher average cash and investment securities balances in 2000 than the average cash and investment securities balances in the prior year.

Interest expense was consistent with 1999 because the amount of borrowings did not change significantly.

Income taxes

No provision for income taxes has been recorded because the Company has experienced net losses from inception through December 31, 2000. At December 31, 2000, the Company had net operating loss carry-forwards of approximately $65.6 million for federal income tax reporting purposes. The net operating losses begin expiring in 2005 if not previously utilized. In certain circumstances, as specified in the Internal Revenue Code, a 50% or more ownership change by certain combinations of the Company's shareholders during any three year period would result in a limitation on the Company's ability to utilize its net operating loss carry-forwards. The Company has determined that such a change of ownership occurred during 1995 and that the annual utilization of loss carry-forwards generated through the period of that change will be limited to approximately $761,000. An additional change of ownership occurred in 1996; however, the amount of the annual limitation is not material.

RESULTS OF OPERATIONS Year ended December 31, 1999 compared to year ended December 31, 1998

Revenue

Revenue decreased by approximately $171,000, or 2%, to $6.9 million in 1999 from $7.1 million in 1998. The decrease resulted from a lower level of development contract business in 1999 than that performed in 1998 on contracts entered into in both 1999 and 1998. Delays in booking development contracts and increases in certain development project budgets contributed to the decline in revenue.

During 1999, the Company went through a reorganization of its Research and Product Development department to more directly focus its technical capabilities on product development and production. Because the Company recognizes revenue on a percentage of completion basis, the resulting loss of direct labor hours worked on development contracts resulted in lower revenue generation in 1999. Revenue in 1999 includes revenue for which precontract costs were recognized in 1998.

During 1999, the Company entered into several development contracts with both commercial and government entities for further development of the retinal scanning display technology for meeting specific customer applications.

In the commercial business area, the Company entered into a multi-year product development and licensing agreement with Carl Zeiss Inc. to develop a range of products in ophthalmic diagnostics and surgical visualization.

In the defense business area, the Company entered into a $4.2 million contract with the U.S. Army's Aircrew Integrated Systems Program Office to further advance the form and functional development of a helmet-mounted display. In March 1999, the Company entered into a $750,000 SBIR Phase II Contract with U.S. Army's Aviation Applied Technology Directorate ("AATD") for the design of an advanced helmet-mounted display and imaging system to be used in the Virtual Cockpit Optimization Program ("VCOP"). In September 1999, the Company entered into a $1.5 million follow-on SBIR Phase III contract with the AATD to continue development of the VCOP advanced head-worn display.

Cost of revenue

Cost of revenue includes both the direct and indirect costs of performing on development contracts. Direct costs include labor, materials and other costs incurred directly in the performance of specific projects. Indirect costs include labor and other costs associated with operating the Research and Product Development department and building the technical capabilities of the Company. The cost of revenue is determined both by the level of direct costs incurred on development contracts and by the level of indirect costs incurred in managing and building the technical capabilities and capacity of the Company. The cost of revenue can fluctuate substantially from period to period depending on the level of both the direct costs incurred in the performance of projects and the level of indirect costs incurred.

Cost of revenue decreased by approximately $1.5 million or 23% to $4.9 million in 1999 from $6.4 million in 1998. The decrease resulted from a decrease in the direct costs associated with the Company's performance on development contracts in 1999 from that in 1998. The lower level of expense in 1999 as compared to 1998 also resulted from a higher level of investment made by the Company in developing its technologies through work performed on its own internal research and development projects, which resulted in greater overhead absorption by such research and development projects.

Research and development expense

Research and development expense consists of:

- » Compensation related costs of employees and contractors engaged in internal research and product development activities,
- » Laboratory operations, outsourced development and processing work,
- » Fees and expenses related to patent applications, prosecution and protection, and
- » Related operating expenses.

Included in research and development expenses are costs incurred in acquiring and maintaining licenses of technology from other companies. The Company has charged all research and development costs to cost of revenue or research and development expense.

Research and development expense increased by approximately $6.9 million or 210% to $10.2 million in 1999 from $3.3 million in 1998. The increase reflects continued implementation of the Company's operating plan, which calls for building its technical staff and supporting activities to further develop the Company's technology; establishing and equipping its own in-house laboratories; and developing intellectual property related to the Company's business.

In May 1999, the Company entered into a $2.6 million one year development contract with Cree to accelerate development of semi-conductor light-emitting diodes and laser diodes for application in the Company's proposed display and imaging products. The increase in research and development costs includes costs associated with the work performed by Cree pursuant to the development agreement. In addition, during 1999, costs of $452,000 related to the acquisition of an exclusive license were expensed by the Company.

Marketing, general and administrative expense

Marketing, general and administrative expenses include compensation and support costs for sales, marketing, management and administrative staff, and for other general and administrative costs, including legal, accounting, consultants and other operating expenses.

Marketing, general and administrative expenses increased by approximately $2.7 million or 61% to $7.2 million in 1999 from $4.5 million in 1998. The increase includes increased compensation and support costs for employees and contractors.

Non-cash compensation expense

Non-cash compensation expense decreased by $187,000 or 41% to $264,000 in 1999 from $451,000 in 1998. The decrease is due to the Company decreasing the practice of paying consultants with stock in lieu of cash.

Interest income and expense

Interest income increased by approximately $856,000 or 279% to $1.2 million in 1999 from $307,000 in 1998. This increase resulted from higher average cash and investment securities balances in 1999, as a result of the financing activities of the Company, from the average cash and investment securities balances in 1998.

Interest expense increased by approximately $91,000 or 111% to $172,000 in 1999 from $82,000 in 1998. This increase resulted from interest related to higher levels of borrowings.

Preferred stock dividends

The Company paid a cash dividend of $73,400 to the holder of its Series B Convertible Preferred Stock in connection with the redemption of its convertible preferred stock and issuance of common stock. In October 1999, the Company amended the option to purchase convertible preferred stock to extend the expiration date to June 30, 2000. This extension was accounted for as a preferred stock dividend with a fair market value $154,400. Additionally, during 1999, the Company recorded a charge of $1.8 million attributable to the beneficial conversion feature of convertible preferred stock issued in 1999.

Income taxes

No provision for income taxes has been recorded because the Company has experienced net losses from inception through December 31, 1999. At December 31, 1999, the Company had net operating loss carry-forwards of approximately $34.2 million for federal income tax reporting purposes.

LIQUIDITY AND CAPITAL RESOURCES

The Company has funded its operations to date primarily through the sale of common stock and convertible preferred stock and, to a lesser extent, revenues from development contracts and product shipments. At December 31, 2000, the Company had $40.7 million in cash, cash equivalents and investment securities.

Cash used in operating activities totaled approximately $23.1 million in 2000 compared to $14.8 million in 1999. Cash used in operating activities for each period resulted primarily from the net loss for the period.

Cash used in investing activities totaled approximately $9.3 million in 2000 compared to $33.9 million in 1999. The decrease in cash used in investing activities resulted primarily from decreases in the purchase of investment securities offset by increases in purchases of property and equipment.

The Company used cash for capital expenditures of approximately $5.4 million in 2000 compared to approximately $2.1 million in 1999. Historically, capital expenditures have been used to make leasehold improvements to leased office space and to purchase computer hardware and software, laboratory equipment and furniture and fixtures to support the Company's growth. Capital expenditures are expected to continue to increase as the Company expands its operations. The Company currently has no material commitments for capital expenditures.

Cash provided by financing activities totaled approximately $36.9 million in 2000 compared to $49.2 million in 1999. The decrease in cash provided by financing activities resulted primarily from decreases in the net proceeds from the issuance of common stock and preferred stock in 2000.

The Company's future expenditures and capital requirements will depend on numerous factors, including the progress of its research and development program, the progress in commercialization activities and arrangements, the cost of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights, competing technological and market developments and the ability of the Company to establish cooperative development, joint venture and licensing arrangements. In order to maintain its exclusive rights under the Company's license agreement with the University of Washington, the Company is obligated to make royalty payments to the University of Washington with respect to the Virtual Retinal Display technology. If the Company is successful in establishing OEM co-development and joint venture arrangements, the Company expects its partners to fund certain non-recurring engineering costs for technology development and/or for product development. Nevertheless, the Company expects its cash requirements to increase significantly each year as it expands its activities and operations with the objective of commercializing the retinal scanning display technology and other technologies.

The Company believes that its cash, cash equivalent and investment securities balances totaling $40.7 million, will satisfy its budgeted cash requirements for at least the next 12 months based on the Company's current operating plan. Actual expenses, however, may exceed the amounts budgeted therefore and the Company may require additional capital earlier to further the development of its technology, for expenses associated with product development, and to respond to competitive pressures or to meet unanticipated development difficulties. In addition, the Company's operating plan calls for the addition of sales, marketing, technical and other staff and the purchase of additional laboratory and production equipment. The operating plan also provides for the development of strategic relationships with systems and equipment manufacturers that may require additional investments by the Company. There can be no assurance that additional financing will be available to the Company or that, if available, it will be available on terms acceptable to the Company on a timely basis. If adequate funds are not available to satisfy either short-term or long-term capital requirements, the Company may be required to limit its operations substantially. The Company's capital requirements will depend on many factors, including, but not limited to, the rate at which the Company can, directly or through arrangements with OEMs, introduce products incorporating the retinal scanning display technology and the market acceptance and competitive position of such products.

SUBSEQUENT EVENTS

In February 2001, the Company acquired a fully paid-up royalty-free exclusive license to the HALO technology in exchange for 37,000 shares of Microvision common stock and $100,000.

In March 2001, Lumera raised $21.4 million, net of issuance costs, from the sale of 2,136,000 shares of convertible preferred stock to a group of investors in a private placement. In addition, Lumera issued 264,000 shares of convertible preferred stock to Microvision to retire $2.6 million of intercompany debt. The convertible preferred shares are convertible to an equal number of shares of common stock at the option of the holder.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Substantially all of the Company's cash equivalents and investment securities are at fixed interest rates and, as such, the fair value of these instruments is affected by changes in market interest rates. Due to the generally short-term maturities of these investment securities, the Company believes that the market risk arising from its holdings of these financial instruments is not significant. A one-percent change in market interest rates would have approximately a $407,200 impact on the fair value of the investment securities.

Presently, all of the Company's development contract payments are made in U.S. dollars and, consequently, the Company believes it has no foreign currency exchange rate risk. However, in the future the Company may enter into development contracts in foreign currencies which may subject the Company to foreign exchange rate risk. The Company does not have any derivative instruments and does not presently engage in hedging transactions.

The weighted average maturities of cash equivalents and investment securities, available-for-sale, as of December 31, 2000, are as follows:

	Amount	Percent
Cash	$ 350,200	0.9%
Less than one year	14,867,200	36.5%
One to two years	18,300,000	44.9%
Two to three years	7,200,000	17.7%
	$40,717,400	100.0%

CORPORATE INFORMATION

Form 10-K

A copy of the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission may be obtained upon request without charge from the Company's headquarters, attention: Investor Relations.

Market for the registrant's common stock and related shareholder matters

The Company's common stock trades on The Nasdaq Stock Market® under the symbol "MVIS." As of March 1, 2001, there were 246 holders of record of 11,900,600 shares of common stock. The Company has never declared or paid cash dividends on the common stock. The Company currently anticipates that it will retain all future earnings to fund the operation of its business and does not anticipate paying dividends on the common stock in the foreseeable future.

The Company's common stock began trading publicly on August 27, 1996. The quarterly high and low sales prices of the Company's common stock for each full quarterly period in the last two fiscal years and the year to date as reported by the Nasdaq National Market are as follows:

The Company's common stock began trading publicly on August 27, 1996. The quarterly high and low sales prices of the Company's common stock for each full quarterly period in the last two fiscal years and the year to date as reported by the Nasdaq National Market are as follows:

	COMMON STOCK	
	High	Low
Quarter ended		
March 31, 1999	16 3/4	11 3/8
June 30, 1999	30 3/8	14 3/8
September 30, 1999	26 7/16	12 3/4
December 31, 1999	31 1/2	12 1/2
March 31, 2000	68 1/2	25 3/8
June 30, 2000	56 1/2	21 3/4
September 30, 2000	55 1/8	29 3/16
December 31, 2000	39	13 5/8
January 1, 2001 to March 1, 2001	29	16

On March 1, 2000, the last sale price for the common stock was $16.50.

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OFFICERS AND DIRECTORS

BOARD OF DIRECTORS

Richard F. Rutkowski
President and Chief Executive Officer
Microvision, Inc.

Stephen R. Willey
Executive Vice President
Microvision, Inc.

Richard A. Raisig
Chief Financial Officer and
Vice President, Operations
Microvision, Inc.

Walter J. Lack
Attorney at Law
Engstrom, Lipscomb & Lack

Robert A. Ratliffe
Vice President and Principal
Eagle River, Inc.

Jacob Brouwer
Chairman and Chief Executive Officer
Brouwer Claims Canada & Co. Ltd.

Richard A. Cowell
Principal
Booz-Allen & Hamilton Inc.

Dennis J. Reimer
Retired, Chief of Staff, U.S. Army,
and Director of the National
Memorial Institute for the Prevention
of Terrorism in Oklahoma City

William Owens
Vice Chairman and
Co-Chief Executive Officer
Teledesic LLC

Margaret Elardi
President
FG 7-11, LLC

Jacqueline Brandwynne
Founder and Chief Executive Officer
Brandwynne Corporation

EXECUTIVE OFFICERS

Richard F. Rutkowski
President and Chief Executive Officer

Stephen R. Willey
Executive Vice President

Richard A. Raisig
Chief Financial Officer and
Vice President, Operations

INDEPENDENT ACCOUNTANTS

PricewaterhouseCoopers LLP

TRANSFER AGENT

American Stock Transfer and Trust Company
59 Maiden Lane
New York, NY 10038
Shareholder Services
800 937-5449

STOCK LISTING

Microvision, Inc. common stock is traded on The Nasdaq Stock Market under the symbol MVIS.

INVESTOR INQUIRIES

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