

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-KSB

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fiscal year ended December 31, 1997
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from _____ to _____

Commission file number 0-21221

MICROVISION, INC.
(Name of small business issuer in its charter)

Washington 91-1600822
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

2203 Airport Way South, Suite 100
Seattle, Washington 98134
(206) 623-7055
(Address and telephone number of principal executive offices)

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

None

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

Common Stock, no par value
(Title of Class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. _____

State issuer's revenues for its most recent fiscal year: \$1,712,700

State the aggregate market value of the common stock held by non-affiliates, based on the closing price for the registrant's Common Stock on the Nasdaq National Market, as of March 20, 1998: approximately \$83,000,000.

State the number of shares outstanding of the issuer's Common Stock, as of March 20, 1998: 5,952,631

Transitional small business disclosure format: Yes No

TABLE OF CONTENTS

Item of Form 10-KSB	Page
Item 1 - Description of Business.....	1
Item 2 - Description of Property.....	19
Item 3 - Legal Proceedings.....	19
Item 4 - Submission of Matters to a Vote of Security Holders.....	19
PART II	
Item 5 - Market for the Registrant's Common Stock and Related Shareholder Matters.....	20
Item 6 - Management's Discussion and Analysis of Financial Condition and Results of Operations.....	20
Item 7 - Financial Statements.....	26
Item 8 - Changes in the Disagreements with Accountants on Accounting and Financial Disclosure.....	43
Part III	
Item 9 - Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act....	44
Item 10 - Executive Compensation.....	48

Item 11 -	Security Ownership of Certain Beneficial Owners and Management.....	53
Item 12 -	Certain Relationships and Related Transactions.....	55
Item 13 -	Exhibits and Reports on Form 8-K.....	57
SIGNATURES	59
EXHIBIT INDEX		

PART I

Preliminary Note Regarding Forward-Looking Statements

The information set forth in this report in Item 1 "Description of Business" and in Item 6 "Management's Discussion and Analysis of Financial Condition and Results of Operations" includes "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and is subject to the safe harbor created by that section. Certain factors that realistically could cause results to differ materially from those projected in the forward-looking statements are set forth in Item 1 "Considerations Related to the Company's Business."

ITEM 1. DESCRIPTION OF BUSINESS

Overview

Microvision, Inc. ("Microvision" or the "Company") is developing information display technologies that allow electronically generated images and information to be projected directly onto the retina of the viewer's eye. The Company has developed prototype Virtual Retinal Display(TM) ("VRD(TM)") devices, including portable color and monochrome versions and a full-color table-top version and is currently refining and developing its VRD technology for commercial applications. The Company expects to commercialize its technology through the development of products and as a supplier of personal display technology to original equipment manufacturers ("OEMs"). The Company believes the VRD technology will be useful in a variety of applications, including portable communication devices, visual simulation for medical, industrial, and entertainment equipment and devices that superimpose images on the user's field of vision. The Company expects that its technology will permit the use of highly miniaturized, lightweight, battery-operated, viewing devices that can be comfortably held or worn as "headphones for the eyes."

Information displays are the primary medium through which text and images generated by computer and other electronic systems are delivered to end-users. For decades, the cathode ray tube ("CRT") and, more recently, flat panel displays have been the dominant display devices. In recent years, as the computer and electronics industries have made substantial advances in miniaturization, manufacturers have sought lightweight, low-power, cost-effective displays to facilitate the development of more portable products. Flat panel technologies have made meaningful advances in these areas, and liquid crystal flat panel displays are now commonly used for laptop computers and other electronic products. Both CRT and flat panel technologies, however, pose difficult engineering and fabrication problems for more highly miniaturized products, because of inherent constraints in size, weight and power consumption. In addition, many products that use CRT and flat panel displays often become dim and difficult to see in outdoor or other settings where the ambient light is stronger than the light emitted from the screen. As display technologies attempt to keep pace with miniaturization and other

1

advances in information delivery systems, the Company believes that CRT and flat panel technologies will experience increasing difficulty providing the full range of performance characteristics - high resolution, bright display, low power consumption - required for state-of-the-art information systems.

Microvision's VRD technology is fundamentally different from previously commercialized display technologies. By scanning a low power beam of colored light to "paint" rows of pixels on the retina of the viewer's eye, the VRD creates a high resolution, full-motion image. In certain applications, the image appears in the viewer's field of vision as if the viewer were only an arm's length away from a high quality video screen. The VRD also can superimpose an image on the viewer's field of vision, enabling the viewer to see data or other information projected by the device in the context of his or her natural surroundings. In each case, a high resolution, bright image is created.

The Company's objective is to be a leading provider of personal display products and imaging technology in a broad range of professional and consumer applications. The Company intends to achieve this objective and to generate revenues through a combination of the following activities: technology licensing to OEMs of consumer electronics products; provision of engineering services associated with cooperative development arrangements and research contracts; and the manufacture and sale of high-performance personal display products to professional users, directly or through joint ventures.

The Company is in discussions with systems and equipment manufacturers in the defense and aerospace, health care, wireless communications, computing and commercial and consumer electronics industries. The Company intends to work with manufacturers in these sectors to develop or co-develop specific products that the Company believes to be the most commercially viable. Although the Company is entering into and performing on development and

co-development projects, it does not expect commercial sales of products until at least late 1998, and commercial sales may not occur until substantially later, if at all.

The Company's existing prototypes have demonstrated the technological feasibility of the VRD and the Company's ability to miniaturize certain of its key components. The Company has completed the development of a mechanical resonant scanner ("MRS"), which the Company believes represents a breakthrough in the miniaturization of scanning devices. The Company believes that the MRS will permit high quality image displays using smaller devices produced at lower cost than is possible with current alternative technologies. Additional work is in progress to achieve full-color capability in miniaturized VRD devices, to expand the "exit pupil" of the VRD (which defines the range within which the viewer's eye can move and continue to see the image) and to design products for specific applications.

The VRD was developed at the University of Washington's Human Interface Technology Lab (the "HIT Lab") by a team of engineers and technicians under the direction of Thomas A. Furness, III, a leader in the development of visual systems. In 1993, the Company

2

acquired the exclusive rights to the VRD technology under a license agreement with the University of Washington (the "UW License Agreement"). Additional development of the VRD technology has taken place at the HIT Lab pursuant to a research agreement between the University and the Company (the "Research Agreement"). See "- University of Washington License Agreement." The University has received six patents on the VRD technology and the MRS and has an additional ten patent applications pending, all of the rights to which have been exclusively licensed to the Company.

Considerations Related to the Company's Business

The following factors should be considered in evaluating the Company's business and operations:

Market Acceptance of New Technology. The Company's success will depend on successful development and commercial acceptance of the VRD technology. To achieve commercial success, this technology and products incorporating this technology must be accepted by OEMs and end-users, and must meet the expectations of a continually changing marketplace. There can be no assurance that the VRD technology will achieve any measure of market acceptance. See "- Strategy," "- Applications Markets and Products."

Early Stage of Product Development. Although the Company has developed prototype VRD displays, further research, development and testing is necessary before any products will be available for commercial sale. There can be no assurance that the Company will be successful in further refining the VRD technology to produce marketable products. In addition, delays in the development of products, or the inability of the Company to procure partners for the development of products, may delay the introduction of, or prevent the Company from introducing, products to the marketplace and adversely affect the Company's competitive position, financial condition and results of operations. See "- Applications, Markets and Products."

Expectation of Losses; Negative Cash Flows. The Company's revenues to date have been generated from development contracts. The Company does not expect to generate significant revenues from product sales in the near future. As of December 31, 1997, the Company had an accumulated deficit since inception of \$15,508,500, and the Company expects to continue to incur substantial losses and negative cash flow at least through 1998 and possibly thereafter. There can be no assurance that the Company will become profitable or cash flow positive at any time in the future. The likelihood of the success of the Company must be considered in light of the expenses, difficulties, and delays frequently encountered by businesses formed to pursue development of new technologies. In particular, the Company's operations to date have focused primarily on research and development of the VRD technology and prototypes and the Company has only during the past year developed marketing capabilities. It is not possible to estimate future operating expenses and revenues based upon historical performance. Operating results will depend, in part, on matters over which the Company has no control, including, without limitation, general economic conditions, technological and other developments in the electronics, computing, information display and

3

imaging industries, and competition. See "Item 6 - Management's Discussion and Analysis of Financial Condition and Results of Operations."

Patents and Protection of Proprietary Technology. The Company's ability to compete effectively in the information display market will depend, in part, on the ability of the Company and the University of Washington to maintain the proprietary nature of the VRD technology. The University of Washington has been awarded six U.S. patents relating to the VRD technology, including claims related to the ability to superimpose images on the user's field of view; a VRD using optical fiber; an expanded exit pupil; and to the mechanical resonant scanner. In addition, the University has filed applications for ten additional patents in the United States and in certain foreign countries. There can be no assurance, however, as to the degree of protection offered by these patents, or as to the likelihood that patents will be issued from the pending patent applications. Moreover, these patents may have limited commercial value or may lack sufficient breadth to protect adequately the aspects of the Company's technology to which the patents relate.

There can be no assurance that competitors, in the United States and in foreign countries, many of which have substantially greater resources than the Company and have made substantial investments in competing technologies, will not apply for and obtain patents that will prevent, limit or interfere with the Company's ability to make and sell its products. In addition, the Company is aware of several patents held by third parties that relate to certain aspects of retinal scanning devices. There is no assurance that these patents would not be used as a basis to challenge the validity of the University of Washington's patent rights, to limit the scope of the University's patent rights or to limit the University's ability to obtain additional or broader patent rights. A successful challenge to the validity of the University's patents may adversely affect the Company's competitive position and could limit the Company's ability to commercialize the VRD technology. Moreover, there can be no assurance that such patent holders or other third parties will not claim infringement by the Company or by the University with respect to current and future technology. Because U.S. patent applications are held and examined in secrecy, it is also possible that presently pending U.S. applications will eventually issue with claims that will be infringed by the Company's products or the VRD technology. The defense and prosecution of patent suits is costly and time-consuming, even if the outcome is ultimately favorable to the Company. This is particularly true in foreign countries where the expenses associated with such proceedings can be prohibitive. An adverse outcome in the defense of a patent suit could subject the Company to significant liabilities to third parties, require the Company and others to cease selling products that incorporate VRD technology or cease licensing the VRD technology, or require disputed rights to be licensed from third parties. Such licenses may not be available on satisfactory terms, or at all. Moreover, if claims of infringement are asserted against future co-development partners or customers of the Company, those partners or customers may seek indemnification from the Company for damages or expenses they incur.

The Company also relies on unpatented proprietary technology. Third parties could develop the same or similar technology or otherwise obtain access to the Company's proprietary technology. To protect its rights in these areas, the Company requires all employees and most consultants, advisors and collaborators to enter into confidentiality and noncompetition

4

agreements. There can be no assurance, however, that these agreements will provide meaningful protection for the Company's trade secrets, know-how or other proprietary information in the event of any unauthorized use, misappropriation or disclosure of such trade secrets, know-how or other proprietary information. See "- Intellectual Property and Proprietary Rights."

Dependence on Future Collaborations; Dependence on Third Parties. The Company's strategy for the development, testing, manufacture and commercialization of the VRD technology and products incorporating the VRD technology includes entering into cooperative development, joint venture or licensing arrangements with corporate partners, OEMs, licensors, licensees and others. There can be no assurance that the Company will be able to negotiate such arrangements on acceptable terms, if at all, or that such arrangements will be successful in yielding commercially viable products. If the Company is not able to establish such arrangements, it would require additional working capital to undertake such activities at its own expense and would require extensive manufacturing, marketing and sales expertise that it does not currently possess. In addition, the Company could encounter significant delays in introducing the VRD technology into certain markets or find that the development, manufacture or sale of products incorporating the VRD technology in such markets would not be feasible without, or would be adversely affected by the absence of, such agreements. To the extent the Company enters into cooperative development or other joint venture or licensing arrangements, the revenues received by the Company will depend upon the efforts of third parties, and there can be no assurance that such parties will put forth such efforts or that such efforts will be successful. See "- Strategy" and "Item 6 - Management's Discussion and Analysis of Financial Condition and Results of Operations".

Loss of Exclusive License. The Company's success depends on technology that it has licensed from the University of Washington. The Company relies on the University of Washington to prepare, file and prosecute patent applications relating to the VRD technology. If the University of Washington were to violate the terms of the Research Agreement or the UW License Agreement, the Company's operations and business prospects could be materially and adversely affected. In addition, Microvision could lose the exclusivity under the UW License Agreement if the Company fails to use its best efforts to commercialize the VRD technology, including having the VRD technology or VRD applications available for sale or other commercial use no later than two years following the termination of the Research Agreement (i.e., by March 2000), or if it fails to respond timely to claims of infringement with respect to the VRD technology. The loss of exclusivity under the UW License Agreement could have a materially adverse effect on the Company's business, operating results, and financial condition. See "Business- UW License Agreement."

Competition and Technological Advances. The information display industry is highly competitive. The Company's products and the VRD technology will compete with established manufacturers of miniaturized CRT and flat panel display devices, including companies such as Sony Corporation and Texas Instruments Incorporated, most of which have substantially greater financial, technical and other resources than the Company and many of which are developing alternative miniature display technologies. The Company also will compete with

5

other developers of miniaturized display devices. There can be no assurance that the Company's competitors will not succeed in developing information display technologies and products that would render the VRD technology or the Company's

proposed products obsolete. The electronic information display industry has been characterized by rapid and significant technological advances. There can be no assurance that the VRD technology or the Company's proposed products will remain competitive with such advances or that the Company will have sufficient funds to invest in new technologies or processes. See "- Competition."

Lack of Manufacturing Experience. In order for the Company to be successful as a product or component manufacturer, its products must be manufactured to meet high quality standards in commercial quantities at competitive prices. The Company currently has no capability to manufacture products in commercial quantities. The Company has only produced prototypes for research, development and demonstration purposes. Accordingly, the Company must obtain access through partners or contract manufacturers to manufacturing capacity and processes for the production of its future products, if any, in commercial quantities, which will require extensive lead time. There can be no assurance that the Company will successfully obtain access to these resources. See "- Strategy."

Capital Requirements. The Company believes that its current cash balances will satisfy its budgeted capital and operating requirements for at least the next 12 months, based on the Company's current operating plan. Actual expenses, however, may exceed the amount budgeted therefor and the Company may require additional capital to fund long-term operations and business development. The Company's capital requirements will depend on many factors, including, but not limited to, the rate at which the Company can develop the VRD technology, its ability to attract partners for product development and licensing arrangements, and the market acceptance and competitive position of products that incorporate the VRD technology. There can be no assurance that the Company will be able to obtain financing, or that, if it is able to obtain financing, it will be able to do so on satisfactory terms or on a timely basis. If additional funds are raised through the issuance of equity, convertible debt or similar securities, shareholders may experience additional dilution and such securities may have rights or preferences senior to those of the Common Stock. Moreover, if adequate funds were not available to satisfy the Company's short-term or long-term capital requirements, the Company would be required to limit its operations significantly. See "Item 6 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources."

Dependence on Key Personnel. The Company's success is dependent on its officers and other key personnel and on the ability to attract and retain qualified new personnel. Achievement of the Company's business objectives will require substantial additional expertise in the areas of technology, finance, manufacturing and marketing. Competition for qualified personnel in these fields is intense, and the inability to attract and retain additional highly skilled personnel, or the loss of key personnel, could have a material adverse effect on the Company's business and results of operations. See "- Employees" and "Item 9 - Directors and Executive Officers; Compliance with Section 16(a) of the Exchange Act."

6

Possibility of Future Regulation. The Company is not aware of any health or safety regulations applicable to VRD products, other than regulations related to labeling of devices that emit electro-magnetic radiation. There can be no assurance, however, that new health and safety regulations will not be promulgated that might materially and adversely affect the Company's ability to commercialize the VRD technology. See "- Human Factors and Safety."

Possible Illiquidity of Trading Market. The Common Stock and the publicly traded common stock purchase warrants (the "Public Warrants") are listed on the Nasdaq National Market. To maintain the listing of the Common Stock and the Public Warrants on the Nasdaq National Market, the Company must continue to satisfy certain maintenance standards. If the Company is unable to maintain the standards for continued quotation on the Nasdaq National Market, the Common Stock and the Public Warrants could be subject to removal from the Nasdaq National Market. Trading, if any, in the Common Stock and the Public Warrants would thereafter be conducted in the over-the-counter market on an electronic bulletin board established for securities that do not meet the Nasdaq listing requirements or in what are commonly referred to as the "pink sheets". As a result, an investor would find it more difficult to dispose of, or to obtain accurate quotations as to the price of the Company's securities. In addition, depending on several factors, including the future market price of the Common Stock and the Public Warrants, the Company's securities could become subject to the so-called "penny stock" rules that impose additional sales practice and market making requirements on broker-dealers who sell or make a market in the Company's securities and diminish the ability of the Company's shareholders to sell their securities in the secondary market.

Possible Volatility of Market Price. The trading price of the Company's Common Stock and the Public Warrants could be subject to significant fluctuations in response to such factors as, among others, variations in the Company's anticipated or actual results of operations, announcements of products utilizing the VRD technology or technological innovations by the Company or its competitors. Moreover, the stock market has from time to time experienced extreme price and volume fluctuations, which have particularly affected the market prices for emerging growth companies and which often have been unrelated to the operating performance of such companies. These broad market fluctuations may adversely affect the market price of the Company's Common Stock and the Public Warrants. In the past, following periods of volatility in the market price of an issuer's securities, class action lawsuits have been filed on occasion against such issuers. There can be no assurance that such litigation will not occur in the future with respect to the Company. Such litigation could result in substantial costs and a diversion of management's attention and resources, which could have a material adverse effect on the Company's business and results of operations. Any adverse determination in such litigation also

could subject the Company to significant liabilities.

Shares Eligible for Future Sale. Sales of substantial amounts of the Company's Common Stock or Public Warrants in the public market or the prospect of such sales could materially and adversely affect the market price of the Company's Common Stock and Public Warrants. As of December 31, 1997, the Company had outstanding 5,920,264 shares of Common Stock; 2,256,250 Public Warrants to purchase 2,256,250 shares of Common Stock; and 77,338 private warrants to purchase an aggregate of 77,338 shares of Common Stock. As

7

of that date, the Company had granted under its stock option plans options to purchase an aggregate of 1,983,467 shares of Common Stock. Almost all of the Company's outstanding shares of Common Stock may be sold without substantial restriction. All shares issued upon exercise of options granted under the Company's stock option plans are available for sale in the public market, subject in some cases to volume and other limitations. The Company also had granted Paulson Investment Company, Inc. and marion bass securities corporation, investment banking firms, the right to purchase 178,075 shares of Common Stock and 178,075 warrants exercisable for 178,075 shares of Common Stock (the "Representatives' Warrants"). The 356,150 shares of Common Stock that are issuable upon exercise of the Representatives' Warrants (including exercise of the warrants included therein) will be eligible for resale without restriction under the Securities Act.

Potential Effect of Anti-Takeover Provisions. The Company's Restated Articles of Incorporation (the "Articles of Incorporation") give the Company's Board of Directors the authority to issue, and to fix the rights and preferences of, shares of the Company's Preferred Stock, which may have the effect of delaying, deterring or preventing a change in control of the Company without action by the Company's shareholders. Furthermore, the Articles of Incorporation provide that the written demand of at least 25% of the outstanding shares is required to call a special meeting of the shareholders. In addition, certain provisions of Washington law could have the effect of delaying, deterring or preventing a change in control of the Company.

Industry Background

The ubiquitous nature of personal computing, electronic communication, television and video products has created a worldwide market for display technologies. Information displays are the primary medium through which text and images generated by computer and other electronic systems are delivered to end-users. While early computer systems were designed and used for tasks that involved little interaction between the user and the computer, today's graphical and multimedia information and computing environments require systems that devote most of their resources to generating and updating visual displays. The market for display technologies also has been stimulated by the increasing popularity of portable pagers and cellular phones; interest in simulated environments and augmented vision systems; and the recognition that better means of connecting people and machines can improve productivity and enhance the enjoyment of electronic entertainment and learning experiences.

For decades, the CRT has been the dominant display device. A CRT creates an image by scanning a beam of electrons across a phosphor-coated screen, causing the phosphors to emit visible light. The beam is generated by an electron gun and is passed through a deflection system that scans the beam rapidly left to right and top to bottom. A magnetic lens focuses the beam into a small glowing dot on the phosphor screen. It is these rapidly moving spots of light ("pixels") that "paint" the image on the surface of the viewing screen. The next generation of imaging technology, flat panel displays, is now in widespread use in portable computers, calculators, and other personal display devices. The most prevalent flat panel technology is the

8

liquid crystal display ("LCD"), which can consist of hundreds of thousands of pixels, each of which is formed by a single transistor acting on a crystalline material.

In recent years, as the computer and electronics industries have made substantial advances in miniaturization, manufacturers have sought lightweight, low power, cost-effective displays to enable the development of more portable products. Flat panel technologies have made meaningful advances in these areas, and liquid crystal flat panel displays are now commonly used for laptop computers and other electronic products. Both CRT and flat panel technologies, however, pose difficult engineering and fabrication problems for more highly miniaturized products, because of inherent constraints in size, weight and power consumption. In addition, many products that use CRT and flat panel displays often become dim and difficult to see in outdoor or other settings where the ambient light is stronger than the light emitted from the screen. The Company believes that as display technologies attempt to keep pace with miniaturization and other advances in information delivery systems, conventional CRT and flat panel technologies will experience increasing difficulty providing the full range of performance characteristics - high resolution, bright display, low power consumption - required for state-of-the-art information systems.

Microvision's Retinal Display Technology

The Company's VRD is fundamentally different from previously commercialized display technologies. The VRD can create an image on the retina like a miniaturized video projector focused on the "projection screen" at the back of the viewer's eye. In certain applications, the image appears in the viewer's field of vision as if the viewer were only an arm's length away from a high quality video screen. The VRD technology also can superimpose an image on the

viewer's field of vision, enabling the viewer to see data or other information projected by the device in the context of his or her natural surroundings. In each case, a high resolution, bright image is created.

By scanning a low-power beam of colored light to "paint" rows of pixels on the retina of the viewer's eye, the VRD technology creates a high resolution, full-motion image. The light source acts on the retina in much the same way as other natural light sources. The VRD is composed of four basic components: (1) drive electronics; (2) photon sources; (3) horizontal and vertical scanners; and (4) optics.

The drive electronics acquire and process signals from the image or data source to control and synchronize the color mix, grey-level and placement of pixels. Color pixels are generated by a modulated light source, which varies the intensity of red, green and blue light to generate a complete palette of colors and shades. The pixels are then arranged on the retina by a horizontal scanner that rapidly sweeps the light beam to place the pixels into a row, and a vertical scanner, which moves the light beam to the next line where another row of pixels is drawn. Optical elements direct the light beam into the viewer's eye, projecting an image through the viewer's pupil onto the retina.

9

Strategy

The Company's objective is to be a leading provider of personal display and imaging technology in a broad range of professional and consumer applications. Key elements of the Company's strategy to achieve this objective are:

Custom design, manufacture and sale of high performance products. The Company anticipates providing high performance products to professional end-users in markets with lower product volume requirements. The Company expects that end-users in this category will include professionals in the defense, law enforcement, industrial process controls and health care industries. As a result of the potential for professionals in these industries to realize productivity or performance gains and associated economic benefit from the use of personal display products, the Company believes that customers in these industries will be less sensitive to the cost of VRD products than customers in the consumer electronics markets. The Company also believes that, because the unit volume requirements for such end-users are generally lower, demand for such products may be more predictable and the risks associated with production and inventory more easily managed. Depending upon the circumstances, the Company may manufacture these products, using standard component suppliers and contract manufacturers as required, or may seek to form one or more joint ventures to manufacture the products. The Company expects that early production of specially designed products will enhance its ability to provide more fully integrated solutions and support for the development of similar products by manufacturers in high volume consumer markets.

Supply of display and imaging solutions and licensing of proprietary technology to OEMs for volume manufacture of products. The Company believes that in consumer markets the ability of personal display products to compete effectively is largely driven by the ability to price aggressively for maximum market penetration. Significant economies of scale in purchasing, volume manufacturing and distribution are important factors in driving costs downward to achieve pricing objectives and profitability. Microvision's strategy will be to seek both initial license fees from such arrangements as well as ongoing per unit royalties.

Additionally, certain types of products, such as pagers or cellular phones, may require the integration of the VRD with other unrelated electronic technologies. In markets requiring volume production of personal display products, the Company intends to provide components, subsystems and systems design technology to OEMs under licensing agreements.

The Company expects such relationships generally will involve a period of co-development during which engineering and marketing professionals from OEMs would work with Microvision's technical staff to specify, design and develop a product appropriate to the targeted market and application. Microvision charges fees to such OEMs to compensate for the costs of the engineering effort allocated to such development projects. The nature of the relationships with such OEMs may vary from partner to partner depending on the proposed application for the VRD, the product to be developed, and the OEM's design, manufacturing and distribution capabilities. The Company believes that by limiting its own direct

10

manufacturing obligations for consumer products it will reduce the capital requirements and risks inherent in bringing the VRD to the consumer market.

The Company believes that it can enhance its competitive position by reducing the cost and improving the performance of its VRD technology and by expanding its portfolio of intellectual property rights. A key part of the Company's technology development strategy includes developing and protecting (i) concepts relating to the function, design and application of the VRD system; (ii) component technologies and integration techniques essential to the commercialization of the VRD and which are expected to reduce the cost and improve the performance of the system; and (iii) component technologies and integration techniques that reduce technical requirements and accelerate the pace of commercial development. The Company is continuing to develop a portfolio of proprietary and patented technologies, processes and techniques that relate directly to the functionality and to the commercial viability of the VRD technology. See "-Technology Development" and "- Intellectual Property and Proprietary Rights."

Applications, Markets and Products

Microvision has identified a variety of potential applications for its VRD, including the following:

Hand-held Communications Devices. Manufacturers of wireless and cellular communications devices have identified a need for products that incorporate personal display units for viewing fax, electronic mail and graphic images on highly miniaturized devices. Existing display technologies have had difficulty satisfying this demand fully because of the requirements that such devices be highly miniaturized, full format, relatively low cost, and offer high resolution and brightness without requiring high levels of power supply. Microvision expects that the range of potential products in this category may include cellular phones and pagers that project into view electronic mail messages, faxes, or other images in a bright, sharp display.

Visual Simulation for Medical, Industrial and Entertainment Applications. Manufacturers of interactive media products have recognized that the visual experience offered by simulation is enhanced by high resolution, three-dimensional displays projected over a wide field of vision. Although simulated environments traditionally have been used as a training tool for professional use, they are increasingly popular as a means of entertainment, particularly in computer games. In a three-dimensional video game, an inexpensive pair of VRD eyeglasses with a wide field of view could provide a highly immersive visual experience.

Augmented Vision Displays. Augmented vision applications superimpose high contrast, monochromatic (or color) images and information on the viewer's field of vision as a means of enhancing the safety, precision and speed of the user's performance of tasks. For example, a head-mounted display could superimpose critical patient information such as vital signs, EKG traces, reference materials, X-rays or MRI images in a surgeon's field of vision. For military applications, troops could be equipped with eyeglasses that display high definition imagery that

11

could be viewed without blocking normal vision and could assist in threat detection, reconnaissance and other activities.

Microvision has targeted various market segments for these potential applications, including defense and public safety, health care, business, industrial and consumer electronics. The following table identifies product development opportunities within each of these markets.

<TABLE>
<CAPTION>

	Defense & Public Safety	Healthcare	Business	Industrial	Consumer
<S>	<C>	<C>	<C>	<C>	<C>
Hand-held Communication Devices	<ul style="list-style-type: none"> o Command and control o Tactical information systems o Portable maintenance o Public safety o Law enforcement 	<ul style="list-style-type: none"> o Patient status monitoring 	<ul style="list-style-type: none"> o Fax Viewing o E-mail viewing o Internet access 	<ul style="list-style-type: none"> o Maintenance and field service 	<ul style="list-style-type: none"> o E-mail viewing o Internet access
Simulation and Entertainment Displays	<ul style="list-style-type: none"> o Battlefield simulation o Aircraft simulation 	<ul style="list-style-type: none"> o Surgical training o Endoscopic surgeries 	<ul style="list-style-type: none"> o Architecture and interior design o Industrial design simulation 	<ul style="list-style-type: none"> o Training 	<ul style="list-style-type: none"> o Gaming o On-line shopping o Virtual reality
Augmented Vision	<ul style="list-style-type: none"> o Pilot information systems o Mine detection o Tactical warfare data o Personnel status monitor o GENII soldier system 	<ul style="list-style-type: none"> o Overlay of patient data during surgeries o "Head-down" viewing of patient vitals 	<ul style="list-style-type: none"> o Multiple screen viewing for securities traders 	<ul style="list-style-type: none"> o Maintenance and Inventory control o Factory process control o Sales automation 	<ul style="list-style-type: none"> o Private viewing laptop systems

</TABLE>

Microvision believes certain market segments will be early adopters of the VRD technology, particularly those industries for which VRD in an early stage of development can offer significant productivity or performance gains and associated cost savings. The Company believes that military and industrial users will place value on the ability of personal VRD devices to superimpose high contrast images on the user's natural field of vision. Similarly, users of wireless devices who have a need to receive critical or timely data through electronic mail, Internet or facsimile transmission are expected to value the performance characteristics that VRDs are expected to deliver.

Microvision is in discussions with systems and equipment manufacturers in the defense, wireless communications, computing and commercial and consumer electronics industries. The

12

Company intends to work with certain of these manufacturers to develop or co-develop specific products that the Company believes to be the most commercially viable. The Company has identified specifications for several products that it believes may address the particular needs of development programs sponsored by the U.S. military and that can be priced competitively. These products include a high performance, full-color helmet-mounted display for use in interactive simulations, and a medium priced, helmet-mounted augmented vision device that superimposes information in a monochromatic format on the user's natural field of vision and can be worn by technicians and other military personnel to provide easy access to real-time data. In addition, the Company believes it may develop moderately priced eyeglasses or goggles that can be fitted for augmented vision display and would be suitable for a variety of uses. There can be no assurance that the Company will be successful in developing these or other proposed products, with or without co-development partners. Even if the Company is successful in arranging development or co-development projects, it does not expect commercial sales of products until at least late 1998, and commercial sales may not occur until substantially later, if at all.

Prototypes

The Company has developed several prototypes to demonstrate the feasibility of the VRD technology. These prototypes are not incorporated into specific commercial products or applications, but rather are demonstration models of the technology. The first prototype developed was a table-top model that receives output from a personal computer. This prototype generates a full color image. Optical elements are positioned in front of the eye, but do not obscure the user's field of vision, so that as the image is scanned onto the optics and reflected onto the retina, the viewer sees the image superimposed on the viewer's natural field of vision. The second and third prototypes are hand held devices that are portable. For demonstration purposes, they also connect to a personal computer. One fits in an attache case and is monochromatic, while the other is full-color and the size of carry-on luggage. The projection optics of the portable prototypes are packaged together with the vertical and horizontal scanner and the light source in a module, which can be hand-held or mounted to a stand. The electronics that receive and condition the signal are packaged separately in the related case.

Research and development efforts are being continued in the area of drive electronics, development of photon sources, scanning techniques and optics design to advance the VRD from prototype to product stage. Laboratory test beds are being assembled, which will provide research and engineering capabilities to integrate and evaluate improved systems such as higher resolution electronics or newer light sources. See "Technology Development."

Technology Development

The Company's existing prototypes have demonstrated the technological feasibility of the VRD and the Company's ability to miniaturize certain of its key components. Additional work is in progress to continue miniaturization advances necessary for large scale application, to achieve full color capability in miniaturized versions, to expand the exit pupil of the VRD and to design for specific applications.

13

Drive Electronics. The Company has identified four areas where additional development of the drive electronics is necessary. The first involves further miniaturization using integrated circuits and advanced packaging techniques. To date, the Company has identified no technological barriers to the further miniaturization of the drive electronics. The second area involves refining the timing and nature of the signals driving the photon source and scanners to improve display quality. The third and fourth areas of development relate to achieving and improving compatibility of the drive electronics with existing and newly emerging video standards. The Company's existing prototypes are compatible with current video format standards and the output from most personal computers. In the future, the Company intends to develop the VRD to conform to a broader range of interface standards, including existing higher resolution standards and emerging standards such as high definition television. For interfaces with emerging video standards, additional development of the drive electronics technology will likely be required.

Photon Sources. The photon generator is the source of the light beam that creates the image on the retina. In a full-color VRD, red, green and blue photon generators will be used, each with its own modulator, to generate a mix yielding the desired color and brightness. Low-power solid state lasers, laser diodes and light-emitting diodes ("LEDs") are suitable photon generators for the VRD. Red, blue and green solid state lasers are currently available, but are useful only for VRD applications where cost and size are not critical. Miniaturized visible laser diodes are currently available only in red, although a number of companies are developing laser diodes in green and blue. Miniaturized LEDs are less expensive than laser diodes. Microvision expects these LEDs will provide sufficient brightness for certain applications, however, Microvision expects to use laser diodes for augmented vision applications that require maximum brightness. The Company intends to rely on others to complete development of the materials and processes necessary to produce blue and green LEDs and laser diodes. This development is not expected prior to the introduction of the Company's proposed initial products, and as a result the Company's proposed

initial full color VRD products are likely to use solid state lasers.

Scanning. A pair of scanners, one horizontal and one vertical, is used to direct the light beam that creates the image on the retina. In laser printers and bar code readers, a spinning or oscillating mirror is used to scan a light beam, but these mechanical scanners are typically too large and too slow for use in miniaturized display settings. To solve this problem, the Company uses its mechanical resonance scanner ("MRS"). In operation, the MRS resembles a very small tuning fork with a mirrored surface. It is tuned to resonate at the exact scanning frequency needed to generate the display, so that very little power is needed to keep it oscillating. Directing the light beam at the vibrating mirror causes the light beam to scan rapidly back and forth horizontally. The second vibrating mirror is used to direct the horizontal beam vertically. The Company believes that its MRS may have significant commercial value independent of the VRD.

14

Continued development of the scanning subsystem of the VRD will be required in order to allow scanning capability for current standard video formats, including high definition television, as well as new digital video standards. Existing designs for scanner and scanner electronics may prove ineffective at higher resolutions and may need to be replaced with alternative scanning methods. As a result, achievement of future video standards may necessitate additional development of both the scanner and the scanner electronics. In the future, the Company plans to develop smaller versions of both horizontal and vertical scanners and to integrate them into a complete scanning unit.

Optics. For applications where the VRD device is to be worn, it is desirable to have an exit pupil (the range within which the viewer's eye can move and continue to see the image) of 10 to 15 millimeters. The Company has recently developed an expanded exit pupil of approximately 15 millimeters, which is suitable to a full-color system. Continued design and engineering of this expanded exit pupil is required to develop commercial applications. The Company's ongoing optics development is directed at the creation of optical systems that are lightweight and cost-effective to manufacture.

University of Washington License Agreement

The VRD technology was originally developed at the University of Washington's HIT Lab by a team of technicians and engineers under the direction of Dr. Furness. In 1993, Microvision secured the exclusive rights to the VRD technology and associated intellectual property from the University of Washington pursuant to the UW License Agreement. The scope of the license covers all possible commercial uses of the VRD worldwide, including the right to grant sublicenses. The license expires upon the expiration of the last of the University's patents that relate to the VRD, unless sooner terminated by Microvision or the University. In granting the license, the University retained limited non-commercial rights with respect to the VRD, including the right to use the technology for non-commercial research and for instructional purposes and the right to comply with applicable laws regarding the non-exclusive use of the technology by the United States government. The University also has the right to consent to Microvision's sublicensing arrangements and to the prosecution and settlement by Microvision of infringement disputes.

Microvision could lose the exclusivity under the UW License Agreement if the Company fails to use its best efforts to commercialize the VRD technology, including having the VRD technology or VRD applications available for sale or other commercial use no later than two years following the termination of the Research Agreement (i.e., by March 2000), or if it fails to respond to any infringement action relating to the VRD technology within 90 days of learning of such claim. In the event of the termination of Microvision's exclusivity, Microvision would lose its rights to grant sublicenses and would no longer have the first right to take action against any alleged infringement. In addition, each of Microvision and the University of Washington has the right to terminate the License Agreement in the event that the other party fails to cure a material breach of the Agreement within 30 days of written notice of the breach. Microvision may terminate the License Agreement at any time by serving 90 days

15

prior written notice on the University of Washington. In the event of any termination of the License Agreement, the license granted to Microvision would terminate.

Under the terms of the UW License Agreement, Microvision agreed to pay a non-refundable fee of \$5,133,500 (the "License Fee") and to issue to the University and to the inventors of the VRD technology, including Dr. Furness, shares of Microvision's Common Stock. In addition, the University of Washington is entitled to receive certain ongoing royalties. See "Item 6 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources." In August 1997, the Company made the final payment due under its Research Agreement with the University of Washington, which resulted in the Company now having paid in full the \$5,133,500 license fee due under its License Agreement for the VRD technology. In the event the Company defaults on its obligations, including royalty obligation, the University of Washington may terminate the License Agreement.

At the same time it entered into the License Agreement, Microvision contracted with the HIT Lab and the Washington Technology Center (the "WTC"), an agency of the State of Washington created to foster the development of the technology industry within the state, to fund further research and development of the VRD technology pursuant to the Research Agreement. The Research Agreement called for the Company to pay \$5,133,500 to the University of Washington over a four year term. Payments made pursuant to the Research Agreement were credited

against the License Fee. Any intellectual property developed by the HIT Lab pursuant to the Research Agreement is included in the exclusive license granted to Microvision under the UW License Agreement. In October 1997, the Company and the University of Washington agreed to extend the term of the Research Agreement from October 31, 1997 to March 31, 1998, at no additional cost to the Company. The extension is expected to enable the University of Washington to complete performance of certain research activities under the Research Agreement. In August 1997, the Company made the final payment due under the Research Agreement. See Note 7 of Notes to the Financial Statements.

The Research Agreement currently is scheduled to expire on March 31, 1998, but may be continued by agreement of the parties. Stephen R. Willey, the Company's Executive Vice President, acts as liaison between the HIT Lab, WTC and the Company. In addition, the HIT Lab provides the Company with quarterly reports on each functional area of the research and development activities it conducts, such as optics, mechanics, electronics and photonics, and Microvision employees and personnel at the HIT Lab jointly determine the direction of future research and development activities.

Intellectual Property and Proprietary Rights

The Company's ability to compete effectively in the information display market will depend, in part, on the ability of the Company and the University of Washington to maintain the proprietary nature of the VRD technology. The University of Washington has been awarded six U.S. patents related to the VRD technology. Patent No. 5,467,104 issued in November 1995 has 11 claims, including claims directed to the ability to superimpose images on the user's field

16

of vision. Patent No. 5,557,444 issued in September 1996 has 37 claims relating to the MRS. Patent No. 5,596,339 issued in January 1997 has 32 claims relating to a VRD using optical fiber. Patent No. 5,694,237 issued in December 1997 has nine claims relating to a mechanical resonant scanner. Patent No. 5,659,327 issued in August 1997 has 12 claims that are a continuation of U.S. Patent No. 5,467,104. Patent No. 5,701,132 also issued in December 1997 has 21 claims relating to the VRD and an expanded exit pupil through which a user views an image. In addition, the University has filed ten applications for patents in the United States and in certain foreign countries. The inventions covered by such applications generally address and accommodate component miniaturization, specific implementation of various system components and design elements to facilitate mass production.

The Company considers protection of these key enabling technologies and components to be a fundamental aspect of its strategy to penetrate diverse markets with unique products. As such, it intends to continue to develop its portfolio of proprietary and patented technologies, at the system, component, and process levels. There can be no assurance, however, as to the degree of protection offered by these patents, or as to the likelihood that patents will be issued from the pending patent applications. Moreover, these patents may have limited commercial value or may lack sufficient breadth to protect adequately the aspects of the Company's technology to which the patents relate. See "- Considerations Related to the Company's Business - Patents and Protection of Proprietary Technology."

The Company also relies on unpatented proprietary technology and there can be no assurance that others may not independently develop the same or similar technology or otherwise obtain access to the Company's proprietary technology. To protect its rights in these areas, the Company requires all employees and most consultants, advisors and collaborators to enter into confidentiality and noncompetition agreements. There can be no assurance, however, that these agreements will provide meaningful protection for the Company's trade secrets, know-how or other proprietary information in the event of any unauthorized use, misappropriation or disclosure of such trade secrets, know-how or other proprietary information. In addition, the University of Washington retains the right to publish information regarding the VRD technology for academic purposes. To date, the Company has had no experience in enforcing its confidentiality agreements.

Microvision has filed for registration of the marks "Virtual Retinal Display" and "VRD" in the United States Patent and Trademark Office. The marks were examined and entered into the opposition phase, where an opposition was filed. The Company believes the opposition filing is without merit, and that the Company should prevail in the proceedings. Regardless of the outcome, the Company believes that it will be entitled to continue to use the terms "Virtual Retinal Display" and "VRD."

17

Human Factors and Safety

As part of its research and development activities, the Company conducts ongoing research as to the cognitive, physiological and ergonomic factors that must be addressed by products incorporating VRD technologies and the safety of VRD technology, including such issues as the maximum permissible laser exposure limits established by American National Standards Institute ("ANSI"). Researchers from the HIT Lab have concluded that laser exposure to the retina under normal VRD operating conditions would be below the calculated maximum permissible exposure level set by ANSI.

Competition

The information display industry is highly competitive. The Company's products and the VRD technology will compete with established manufacturers of miniaturized CRT and flat panel display devices, including companies such as

Sony Corporation and Texas Instruments Incorporated, most of which have substantially greater financial, technical and other resources than the Company and many of which are developing alternative miniature display technologies. The Company also will compete with other developers of miniaturized display devices. There can be no assurance that the Company's competitors will not succeed in developing technologies and products that would render the VRD technology or the Company's products obsolete and non-competitive.

The electronic information display industry has been characterized by rapid and significant technological advances. There can be no assurance that the VRD technology or the Company's proposed products will remain competitive with such advances or that the Company will have sufficient funds to invest in new technologies or products or processes. Although the Company believes that its VRD technology and proposed display products should deliver images of a quality and resolution substantially better than that of commercially available LCD and CRT-based display products, there is no assurance that manufacturers of LCDs and CRTs will not develop further improvements of screen display technology that would eliminate or diminish the anticipated advantages of the Company's proposed products.

Other Technology Investment

The Company intends to pursue the acquisition and development of other imaging and display technologies as opportunities to do so arise.

In March 1994, the Company entered into a second exclusive license agreement with the University of Washington to commercialize imaging technology unrelated to the VRD

18

technology. This technology involves the projection of data and information onto the inside of a dome that is placed over the viewer's head. This imaging technology is referred to as HALO. The HALO license agreement requires the Company to pay \$175,000 to the University, and to issue 93,750 shares of Common Stock to the University and the inventors of the technology, upon the achievement of certain milestones, including, among other things, the receipt by the University of a patent covering the technology. See Note 7 of Notes to the Financial Statements.

Employees

As of March 20, 1998, Microvision had 60 full-time employees and one part-time employee. Microvision is actively seeking additional qualified full-time personnel where appropriate. The Company's employees are not subject to any collective bargaining agreements and management regards its relations with employees to be good.

ITEM 2. DESCRIPTION OF PROPERTY

Microvision currently leases approximately 18,000 square feet of combined use office and laboratory space at 2203 Airport Way South in Seattle, Washington. The VRD research facility occupies approximately 1,500 square feet of laboratory space at the HIT Lab located on the University of Washington campus in Seattle, Washington. The laboratory space is used in connection with the research activities performed by the HIT Lab. See "Item 1 - Description of Business - University of Washington License Agreement." The Company believes that the current facilities are adequate for its foreseeable future needs.

ITEM 3. LEGAL PROCEEDINGS

The Company is not a party to, nor is its property subject to, any material pending legal proceeding.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of security holders during the fourth quarter of 1997.

19
PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND WARRANTS; RELATED SHAREHOLDER MATTERS.

The Company's Common Stock and Public Warrants are traded on the Nasdaq National Market under the symbols "MVIS" and "MVISW," respectively. As of March 20, 1998, there were 124 holders of record of 5,952,631 shares of Common Stock and 6 holders of record of 2,268,739 Public Warrants. 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 and Public Warrants began trading publicly on August 27, 1996. The quarterly high and low sales prices since August 27, 1996 as reported by the Nasdaq National Market are as follows:

<TABLE>
<CAPTION>

Quarter Ended	Common Stock		Public Warrants	
	High	Low	High	Low
-----	-----	-----	-----	-----

<S>	<C>	<C>	<C>	<C>
September 30, 1996	6 5/8	4 3/4	2 1/2	1 13/32
December 31, 1996	7 3/8	3 3/8	2 1/2	3/4
March 31, 1997	7 11/16	3 1/2	2 11/16	15/16
June 30, 1997	6 7/8	5 3/16	2 7/8	1 1/2
September 30, 1997	18 3/4	5 1/4	8 3/8	1 1/2
December 31, 1997	19 1/4	11 3/8	9 5/8	5 3/8
March 31, 1998 (through March 20, 1998)	16 3/8	12 1/2	7 3/4	5 1/4

On March 20, 1998, the closing sale price for the Common Stock was \$14.625 and the closing sale price for the Public Warrants was \$7.25.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 from the University of Washington and entered into a research agreement with the University of Washington to further

20

develop the VRD technology. The Company was in the development stage as of and for the period ended December 31, 1996. In connection with its development activities, the Company incurred costs to incorporate and establish its business activities as well as develop and market VRD technology. As of December 31, 1997, the Company is no longer considered a development stage enterprise. Since the completion of its initial public offering in August 1996, the Company also has established and equipped its own in-house laboratory for the continuing development of the VRD technology and has transferred the core research and development work from the HIT Lab to the Company. The Company has incurred substantial losses since its inception and expects to continue to incur significant operating losses over the next several years.

The Company's objective is to become a leading provider of personal display products and imaging technology in a broad range of professional and consumer applications. The Company expects to achieve this objective and to generate revenues through a combination of the following activities: licensing its technology to original equipment manufacturers ("OEMs") of consumer electronic products; provision of engineering services associated with cooperative development arrangements, and research contracts; and the manufacture and sale of high-performance personal display products to certain professional users directly, through OEMs, or through joint ventures. The Company currently is in discussions with systems and equipment manufacturers in the defense and wireless communications, computing, and commercial and consumer electronics industries. The Company expects to work with certain of these manufacturers to develop or co-develop specific products that the Company believes to be the most commercially viable.

The Company currently has several prototype versions of the VRD including monochromatic and color portable units and a full-color bench top model. The Company expects to continue funding prototype and demonstration versions of products incorporating the VRD technology throughout 1998. 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 VRD technology by various industries and OEMs, market acceptance of products incorporating the VRD technology and the technical performance of such products. Additionally, the Company must be able to attract, retain and motivate qualified technical and management personnel and both anticipate and adapt to a rapidly changing, competitive market for information display technologies. See "Item 1 - Description of Business - Considerations Related to the Company's Business."

Plan of Operation

The Company intends to continue entering into strategic co-development relationships with systems and equipment manufacturers to pursue development of commercial products incorporating the VRD technology. In 1997, the Company hired a Vice President of Sales with experience in technical products sales to pursue strategic relationships with systems and equipment manufacturers for the joint development of commercial products incorporating the VRD technology. Also in 1997, the Company hired a Vice President of Marketing to identify and assess the various market and product opportunities available to the Company for the

21

commercialization of the VRD technology and to identify and evaluate potential co-development partners. The Company plans to continue to expand its sales and marketing staff in support of its objective of commercializing the VRD technology.

The Company also plans to continue investing in ongoing innovation and improvements to the VRD technology, including the development of component technology and additional prototypes, as well as design of subsystems and products. The Company has established, staffed, and equipped an in-house laboratory to support VRD technology development and product development engineering associated with cooperative development projects. The Company also

intends to continue hiring technical personnel to achieve the Company's technology development objectives. The Company also intends for the University of Washington to complete its work under the Research Agreement.

Results of Operations

Contract Revenues. Revenue increased by \$1,610,500 to \$1,712,700 in 1997 from \$102,200 in 1996. The increase resulted from the Company recognizing revenue from various contracts entered into in 1997, which exceeded the recognition of contract revenue in 1996. Contract revenue has been recognized using both the percentage-of-completion method and the cost plus fee method. See Note 2 of Notes to the Financial Statements.

During 1997, the Company entered into several development contracts with both commercial and government entities for further development of the VRD technology directed toward meeting specific customer applications.

In the commercial segment, the Company entered into a contract with Saab AB, in collaboration with Ericsson Saab Avionics AB, to explore the possibilities of advanced visual display systems incorporating the VRD technology. The Company was also contracted by The Boeing Company to build a technology demonstration system incorporating the VRD technology. The Company delivered the demonstrator to the Boeing Company in August 1997, which was the Company's first full-color VRD system to be delivered to any customer. Also during 1997, the Company entered into a third commercial development contract to incorporate its VRD technology into advanced helmet-mounted display systems for fixed wing military aircraft.

In the defense segment, the Company was awarded a multi-million dollar contract to build a helmet mounted display system based on the VRD technology for the Army's ACIS Comanche Compatible Common Helmet Program. The phase one contract, exceeding \$4 million, calls for the Company to provide the U.S. Army with a prototype display system that incorporates an alternative to commercial helmet mounted technologies.

The defense segment also included two Small Business Innovation Research (SBIR) contracts with the United States Air Force. One SBIR is to initiate the development of a full-color, high definition, head mounted display for pilot training applications. The second SBIR is to explore the development of very wide field of view, immersive display systems for

22

command, control, communications, and computer information systems. The Company was awarded its third SBIR from the United States Army to initiate the development of a full color, high-definition, head-mounted display to present visual imagery to helicopter pilots in an operation flight simulator.

Research and Development Expense. Research and development expense consist of payroll and related support costs of employees, consultants and contractors engaged in research and development activities; costs incurred in the performance of the Company's co-development and other contracts; payments made under the Research Agreement; fees and expenses related to patent applications and patent prosecution; and lab materials and other expenses incurred in support of the Company's on-going research and development activities. To date, the Company has expensed all such costs. See Note 2 of Notes to the Financial Statements.

Research and development expenses increased by \$2,625,600 to \$4,414,100 in 1997 from \$1,788,500 in 1996. The Company made payments totaling \$962,500 and \$1,283,400 in 1997 and 1996 respectively to the University of Washington pursuant to the Research Agreement. The balance of the expenses of \$3,451,600 and \$505,100 in 1997 and 1996 respectively, were incurred directly by the Company in the performance of contracts and to further develop the VRD technology.

The increase in research and development expenses of \$2,625,600 in 1997 over 1996 reflects implementation of the Company's operating plan, which calls for building its technical staff supporting activities to further develop the Company's technology; establishing and equipping its own laboratory; and performing work in support of the Company's sales and marketing activities related to the commercialization of the VRD technology. The increase also includes increased costs incurred in the performance of contracts.

The Company believes that a significant level of continuing research and development expense will be required to commercialize the VRD technology and to develop products incorporating the VRD technology. Accordingly, the Company anticipates that it will continue to commit substantial resources to research and development, including hiring additional technical and support personnel, and that these costs will continue to increase in future periods.

Marketing, General and Administrative Expense. Marketing, general and administrative expense include payroll and related costs for the Company's executive and administrative personnel, costs related to the Company's sales and marketing activities, office lease expenses and other overhead costs, including legal and accounting costs and fees of consultants and professionals.

Marketing, general and administrative expenses increased by \$1,227,700 to \$3,077,500 in 1997 from \$1,849,800 in 1996. The increase includes increased aggregate compensation and associated support costs for employees, including those employed at December 31, 1996 and those hired subsequent to that date, in sales and marketing and in administration. The Company expects marketing, general and administrative expenses to increase substantially in future

periods as the Company adds to its sales and marketing and administrative staff and makes additional investments in sales and marketing activities to support commercialization of its VRD technology and anticipated products and as it increases the level of corporate and administrative activity.

Other Income. Other income of \$222,500 in 1997 resulted from the reduction of an accrued liability for litigation upon settlement of the matter at a lesser amount than the established reserve.

Interest Income and Expense. Interest income increased by \$334,800 to \$614,800 in 1997 from \$280,000 in 1996. This increase resulted from higher average cash balances in 1997, representing the remaining net proceeds received by the Company from its initial public offering in August 1996.

Interest expense decreased by \$197,100 to \$3,400 in 1997 from \$200,500 in 1996. This decrease resulted from the repayment in November and December 1996 of the Company's 7% Convertible Subordinated Notes and related interest.

Income Taxes. At December 31, 1997, the Company has net operating loss carry-forwards of approximately \$8,847,000 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 1996 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 actual amount of the annual limitation is not significant.

Liquidity and Capital Resources

From inception through July 1996, the Company financed its operations primarily through private offerings of common stock and convertible preferred stock and convertible subordinated notes. In August 1996, the Company completed an initial public offering of 2,250,000 units, each unit consisting of one share of Common Stock and one five-year redeemable Public Warrant to purchase one share of Common Stock at \$12.00 per share. The Company received net proceeds from the offering of approximately \$15,500,000 after deducting underwriting discounts and offering expenses.

Through December 31, 1997, the Company had incurred an accumulated deficit of \$15,508,500, of which \$5,133,500 represented payments made to the University of Washington to fund the research and development of its VRD technology pursuant to the terms of the Research Agreement, and \$1,872,100 represented non-cash expenses for compensation and services associated with the issuances of stock, warrants and options.

In July 1996, the Company raised net proceeds of \$707,500 in a private placement of \$750,000 in principal amount of its 7% Convertible Subordinated Notes due 1997 (the "7%

Notes"). From November 25, 1996, through March 15, 1997, the 7% Notes were redeemable at the option of the noteholder at par (plus accrued and unpaid interest) plus 6,000 shares of Common Stock for every \$100,000 principal so redeemed. In November and December 1996, the 7% Notes were redeemed in full (plus accrued interest) and 45,000 shares of Common Stock were issued to the noteholders.

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 UW License Agreement, the Company is obligated to make payments with respect to royalties on the VRD. See "Item 1 - Description of Business-University of Washington License Agreement." If the Company is successful in establishing OEM co-development and joint venture arrangements, it is expected that the Company's partners would fund certain non-recurring engineering costs for product development. Nevertheless, the Company expects its cash requirements to increase significantly each year as it expands its activities and operations.

At December 31, 1997, the Company's total cash, cash equivalents and short-term investment securities balance was \$8,841,200. The Company believes that balance 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 therefor and the Company may require additional capital earlier to develop its products, to respond to competitive pressures or to meet unanticipated development difficulties. The Company's operating plan calls for the purchase and installation of certain laboratory equipment and facilities and the addition of technical and business staff. The operating plan also provides for the completion of the Research Agreement with the University of Washington and the development of strategic relationships with systems and equipment manufacturers. See "Item 1 - Description of Business." 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 significantly. 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 VRD technology and the market acceptance and competitive position of such products. See "Item 1 - Description of Business - Considerations Related to the Company's Business - Capital Requirements."

ITEM 7. FINANCIAL STATEMENTS

INDEX TO FINANCIAL STATEMENTS

	Page
Report of Independent Accountants.....	27
Balance Sheet as of December 31, 1997 and December 31, 1996.....	28
Statement of Operations for the years ended December 31, 1997 and December 31, 1996.....	29
Statement of Shareholders' Equity for the years ended December 31, 1997 and December 31, 1996.....	30
Statement of Cash Flows for the years ended December 31, 1997 and December 31, 1996.....	32
Notes to Financial Statements.....	33

Report of Independent Accountants

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

In our opinion, the accompanying balance sheet and the related statements of operations, of shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Microvision, Inc. at December 31, 1997 and 1996, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles. 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 generally accepted auditing standards 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 the opinion expressed above.

PRICE WATERHOUSE LLP
Seattle, Washington
March 27, 1998

Microvision, Inc.

<TABLE>
<CAPTION>
Balance Sheet

	December 31,	
	1997	1996
<S>	<C>	<C>
Assets		
Current assets		
Cash and cash equivalents	\$ 5,049,200	\$ 14,265,800
Investment securities available for sale	3,792,000	
Accounts receivable	150,000	25,000
Costs and estimated earnings in excess of billings on uncompleted contracts	843,800	
Other current assets	113,100	86,500
	-----	-----
Total current assets	9,948,100	14,377,300
Property and equipment, net	772,700	157,800
Other assets	20,000	30,200
	-----	-----
Total assets	\$ 10,740,800	\$ 14,565,300
	=====	=====

Liabilities and Shareholders' Equity
Current liabilities

Accounts payable	\$ 768,200	\$ 388,600
Accrued liabilities	715,900	667,600
Current portion of capital lease obligations	22,700	
	-----	-----
Total current liabilities	1,506,800	1,056,200
	-----	-----
Capital lease obligations, net of current portion	69,600	

Commitments and contingencies (Notes 7 and 8)		
Shareholders' equity		
Preferred stock, no par value, 31,250,000 shares authorized, none issued and outstanding		
Common stock, no par value, 31,250,000 shares authorized, 5,920,264 and 5,778,776 shares issued and outstanding	25,375,300	24,116,200
Deferred compensation	(701,200)	(43,600)
Unrealized holding loss on investment securities	(1,200)	
Accumulated deficit	(15,508,500)	(10,563,500)
	-----	-----
Total shareholders' equity	9,164,400	13,509,100
	-----	-----
Total liabilities and shareholders' equity	\$ 10,740,800	\$ 14,565,300
	=====	=====

The accompanying notes are an integral part of these financial statements.
</TABLE>

28

Microvision, Inc.

<TABLE>
<CAPTION>
Statement of Operations

	Year ended 1997	December 31, 1996
<S>	<C>	<C>
Contract revenue	\$ 1,712,700	\$ 102,200
	-----	-----
Research and development expense	4,414,100	1,788,500
Marketing, general and administrative expense	3,077,500	1,849,800
	-----	-----
	7,491,600	3,638,300
	-----	-----
Loss from operations	(5,778,900)	(3,536,100)
Other income	222,500	
Interest income	614,800	280,000
Interest expense	(3,400)	(200,500)
	-----	-----
Net loss	\$ (4,945,000)	\$ (3,456,600)
	=====	=====
Net loss per share	\$ (0.85)	\$ (0.90)
	=====	=====
Weighted-average shares outstanding	5,806,200	3,832,000
	=====	=====
Net loss per share assuming dilution	\$ (0.85)	\$ (0.90)
	=====	=====
Weighted-average shares outstanding assuming dilution	5,806,200	3,832,000
	=====	=====

The accompanying notes are an integral part of these financial statements.
</TABLE>

29

Microvision, Inc.

<TABLE>
<CAPTION>
Statement of Shareholders' Equity

Subscription receivable	Preferred stock		Common stock		Deferred compensation	
	Shares	Amount	Shares	Amount		
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at December 31, 1995	499,478	\$ 2,038,900	3,098,828	\$ 4,745,900	\$ (42,800)	
Issuance of stock to board members for services			22,250	110,000	(65,500)	
Issuance of warrants and options for common stock				23,400		
Issuance of preferred stock for cash, net of costs (at \$4.80/share)	360,298	1,493,900				
Issuance of common stock and warrants for services			10,605	71,000		
Exercise of warrants for common stock (10,000)			50,000	40,000		\$
Cashless exercise of warrants for common stock			296,875			
Cancellation of founder's common stock			(859,375)	(66,000)		
Amortization of deferred compensation, net					64,700	
Sale of common stock and warrants in IPO			2,250,000	15,482,900		
Conversion of convertible preferred stock	(859,776)	(3,532,800)	859,776	3,532,800		
Collection of subscription receivable 10,000						
Issuance of stock relating to retirement of 7% subordinated notes			45,000	176,200		
Other			4,817			
Net loss for the year ended December 31, 1996						
Balance at December 31, 1996	-	-	5,778,776	24,116,200	(43,600)	
Issuance of stock to board members for services			9,600	78,600	(78,600)	
Exercise of warrants and options for common stock			56,420	348,500		
Cashless exercise of warrants for common stock			75,468			
Issuance of options for services				37,200		
Issuance of options for common stock				785,000	(785,000)	
Amortization of deferred compensation					206,000	
Unrealized holding loss on investment securities						
Other				9,800		
Net loss for the year ended December, 31, 1997						
Balance at December 31, 1997	-	\$ -	5,920,264	\$ 25,375,300	\$ (701,200)	\$

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

Microvision, Inc.

<TABLE>
<CAPTION>
Statement of Shareholders' Equity

Page 2 of 2

	Unrealized holding loss on investment securities	Accumulated deficit	Shareholders' equity
<S>	<C>	<C>	<C>
Balance at December 31, 1995		\$ (7,106,900)	\$ (364,900)
Issuance of stock to board members for services			44,500
Issuance of warrants and options for common stock			23,400
Issuance of preferred stock for cash, net of costs (at \$4.80/share)			1,493,900
Issuance of common stock and warrants for services			71,000

Exercise of warrants for common stock		30,000	
Cashless exercise of warrants for common stock			
Cancellation of founder's common stock		(66,000)	
Amortization of deferred compensation, net		64,700	
Sale of common stock and warrants in IPO		15,482,900	
Conversion of convertible preferred stock			
Collection of subscription receivable		10,000	
Issuance of stock relating to retirement of 7% subordinated notes		176,200	
Other			
Net loss for the year ended December 31, 1996		(3,456,600)	(3,456,600)
	-----	-----	-----
Balance at December 31, 1996		(10,563,500)	13,509,100
Issuance of stock to board members for services			
Exercise of warrants and options for common stock			348,500
Cashless exercise of warrants for common stock			
Issuance of options for services			37,200
Issuance of options for common stock			
Amortization of deferred compensation			206,000
Unrealized holding loss on short-term investment securities	\$ (1,200)		(1,200)
Other			9,800
Net loss for the year ended December 31, 1997		(4,945,000)	(4,945,000)
	-----	-----	-----
Balance at December 31, 1997	\$ (1,200)	\$ (15,508,500)	\$ 9,164,400
	=====	=====	=====

The accompanying notes are an integral part of these financial statements.
</TABLE>

31

Microvision, Inc.

<TABLE>
<CAPTION>
Statement of Cash Flows

	Year ended December 31,	
	1997	1996
<S>	<C>	<C>
Cash flows from operating activities		
Net loss	\$ (4,945,000)	\$ (3,456,600)
Adjustments to reconcile net loss to net cash used in operations		
Depreciation and loss on disposal of equipment	146,200	44,000
Noncash expenses related to issuance of stock, warrants and options and amortization of deferred compensation	243,200	313,800
Unrealized holding loss on investment securities	(1,200)	
Change in:		
Accounts receivable	(125,000)	(25,000)
Costs and estimated earnings in excess of billings on uncompleted contracts	(843,800)	
Other current assets	(26,600)	(86,500)
Receivables from former employees		69,400
Other assets	10,200	(28,200)
Accounts payable and other	379,600	181,100
Accrued liabilities	48,300	331,200
	-----	-----
Net cash used in operating activities	(5,114,100)	(2,656,800)
	-----	-----
Cash flows from investing activities		
Purchases of investment securities	(3,792,000)	
Purchases of property and equipment	(666,600)	(192,700)
	-----	-----
Net cash used in investing activities	(4,458,600)	(192,700)
	-----	-----
Cash flows from financing activities		
Principal payments under capital leases	(2,200)	
Proceeds from 7% convertible subordinated notes		750,000
Repayment of 7% convertible subordinated notes		(750,000)
Net proceeds from issuance of common stock	358,300	15,522,900
Net proceeds from issuance of preferred stock		1,493,900
	-----	-----
Net cash provided by financing activities	356,100	17,016,800
	-----	-----
Net (decrease) increase in cash and cash equivalents	(9,216,600)	14,167,300

Cash and cash equivalents at beginning of year	14,265,800	98,500
	-----	-----
Cash and cash equivalents at end of year	\$ 5,049,200	\$ 14,265,800
	=====	=====

Supplemental disclosure of cash flow information

Cash paid for interest	\$ 3,400	\$ 21,700
	=====	=====

Supplemental schedule of noncash investing and financing activities

The Company entered into capital lease obligations of \$94,500 for the purchase of new equipment in 1997.

The accompanying notes are an integral part of these financial statements.
</TABLE>

Notes to Financial Statements
December 31, 1997 and 1996

1. The Company

Microvision, Inc. (the Company), a Washington corporation, was incorporated May 28, 1993. The Company was established to develop, manufacture and market Virtual Retinal Display (VRD) technology, which projects images directly onto the eye's retina. The Company is working to commercialize the VRD for potential defense, healthcare, business, industrial and consumer applications.

The Company was in the development stage as of and for the period ended December 31, 1996. In connection with its development activities the Company incurred costs to incorporate and establish its business activities as well as develop and market VRD technology. As of December 31, 1997, the Company is no longer considered a development stage enterprise.

On August 30, 1996, the Company completed its initial public offering (IPO) of 2,250,000 units each consisting of one share of common stock and one five-year redeemable warrant to purchase one share of common stock at \$12.00 per share. The Company received net proceeds from the offering of \$15.5 million after deducting underwriting discounts and offering expenses.

2. Summary of significant accounting policies

Cash, cash equivalents and investment securities

The Company considers all investments with original maturities of three months or less to be cash equivalents.

Short-term investment securities at December 31, 1997 are primarily debt securities of the U.S. Government and its agencies. The Company has classified its entire investment portfolio as available-for-sale. Under Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities, available-for-sale securities are stated at fair value with unrealized gains and losses included in shareholders' equity. Dividend and interest income are recognized when earned. Realized gains and losses are included in other income (expense). The cost of securities sold is based on the specific identification 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 their estimated useful life or the lease term.

Revenue Recognition

Revenue has primarily been generated from contracts for further development of the VRD technology and to produce prototypes for commercial enterprises and the United States government. Revenue on such contracts is generally recorded using the percentage-of-completion method measured on a cost incurred basis. With respect to cost-plus-fixed-fee contracts with the United States Government, the Company recognizes revenue based on costs incurred plus fee. Revenues recognized in excess of amounts billed are included in "costs and estimated earnings in excess of billings on uncompleted contracts".

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 income and are recognized in the period in which the revisions are determined. Profit incentives are included in revenues when their realization is reasonably assured.

During 1997, the Company had contract revenues related to two customers that aggregated 37% and 32%, respectively. Costs and estimated earnings in excess of revenues earned related to these two customers were 68% and 28%, respectively.

Income taxes

The Company provides for income taxes under the principles of Statement of

Financial Accounting Standards No. 109 (SFAS 109) which requires that provision 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.

Net loss per share

Statement of Financial Accounting Standards No. 128 (SFAS 128) was issued in February 1997. This pronouncement modifies the calculation and disclosure of net loss per share and was adopted by the Company during 1997. Under the provisions of SFAS 128, 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 common stock equivalents and convertible securities. Net loss per share assuming dilution for the years ended December 31, 1997 and 1996 is equal to net loss per share due to the fact that the effect of common stock equivalents outstanding during the periods, including options and warrants computed using the treasury stock method, is anti-dilutive. All net loss per share amounts from prior periods have been restated to reflect the adoption of SFAS 128.

Research and development

Research and development costs are expensed as incurred. Research and development costs will be expensed until the net realizable value of a related product or technology is assured.

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.

Stock-based compensation

In October 1995, the Financial Accounting Standards Board issued Statement No. 123, Accounting for Stock-Based Compensation (SFAS 123), which was effective for the Company beginning in fiscal 1996. Under the provisions of this statement, employee stock-based compensation expense is measured using either the intrinsic-value method as prescribed by Accounting Principles Board Opinion No. 25 (APB 25) or the fair value method described in SFAS 123. Companies choosing the intrinsic-value method are required to disclose the pro forma impact of the fair value method on net income and earnings per share. The Company decided to implement the statement in fiscal 1996 using the intrinsic-value method for its employee stock-based compensation plans. The Company is required to implement Statement No. 123 for stock-based awards to other than employees. Accordingly, during 1997 and 1996, the Company valued shares of the Company's common stock, warrants and options issued to other than employees at \$115,800 and \$380,600, respectively.

3. Investment securities

34

At December 31, 1997, the Company has classified all investments as available-for-sale. The amortized cost was \$3,793,200, gross unrealized holding gains were \$1,300, gross unrealized holding losses were \$2,500 and fair value of the available-for-sale securities was \$3,792,000 at December 31, 1997. The debt securities held at December 31, 1997 have maturities ranging from September 1998 to May 1999.

4. Accrued liabilities

Accrued liabilities consist of the following:

<TABLE>
<CAPTION>

	December 31,	
	1997	1996
<S>	<C>	<C>
Bonuses	\$ 414,300	\$ 316,000
Vacation	103,000	20,000
Professional fees	155,500	322,500
Other	43,100	9,100
	-----	-----
	\$ 715,900	\$ 667,600
	=====	=====

</TABLE>

5. Property and equipment, net

Property and equipment consist of the following:

<TABLE>
<CAPTION>

	December 31,	
	1997	1996
<S>	<C>	<C>
Office furniture and equipment	\$ 185,700	\$ 63,200
Lab equipment	270,900	28,500
Computer hardware and software	433,000	113,800

Leasehold improvements	55,000	-----
	944,600	205,500
Less: Accumulated depreciation	(171,900)	(47,700)
	-----	-----
	\$ 772,700	\$ 157,800
	=====	=====

</TABLE>

35

6. Shareholders' equity

Common shares

On July 10, 1996, the Company issued 7% Convertible Subordinated Notes in the amount of \$750,000. The Notes bore interest at 7% payable in arrears on December 15 and June 15 and were due July 10, 1997. The Notes were convertible at any time following 90 days after the effective date of a public offering of the Company's common stock generating proceeds of at least \$5 million into 18,000 shares of common stock for each \$100,000 in outstanding principal amount of Notes. Additionally, at any time following 90 days after the effective date of such a public offering and prior to March 15, 1997, the holder could redeem the unpaid principal amount of Notes plus accrued interest and receive 6,000 shares of common stock of the Company for each \$100,000 in principal redeemed. In late 1996, the Company repaid the Notes on demand by holders and issued 45,000 shares of common stock to the holders. The aggregate fair value of the shares of common stock issued of \$176,200 was charged to interest expense.

In August 1996, the Company completed an initial public offering (IPO) of 2,250,000 units, each consisting of one share of common stock and one warrant to purchase one share of common stock. The Company received net proceeds from the offering of \$15,482,900. In anticipation of the IPO, on July 10, 1996, the Company's Board of Directors approved a 1-for-3.2 reverse stock split of the Company's common and preferred stock. All information in these financial statements pertaining to shares of capital stock and per share amounts has been adjusted to give retroactive effect to the reverse split. In connection with this action, a nominal number of fractional shares were redeemed in cash.

Preferred shares

In November 1994, the Company authorized the issuance and sale of 1,875,000 shares of Series A Preferred Stock which had liquidation and dividend preferences over common stock. Dividends accrued when and if declared by the Board of Directors. The Series A Preferred Stock was convertible into an equal number of shares of common stock. The Series A Preferred Stock was converted into 859,776 shares of common stock in conjunction with the IPO.

36

Warrants

In addition to the warrants issued in conjunction with the IPO (Public Warrants), during 1996 the Company issued warrants for various services. The following summarizes activity with respect to warrants during 1996 and 1997:

<TABLE>
<CAPTION>

	Warrants	
	Shares	Exercise price
<S>	<C>	<C>
Outstanding at December 31, 1995	932,813	\$ 2.40-6.40
Granted	2,860,050	2.40-12.00
Exercised	(412,500)	2.40-3.52
Canceled/expired	(550,000)	2.40-6.40
	-----	-----
Outstanding at December 31, 1996	2,830,363	4.80-12.00
Exercised	(140,625)	4.80-6.40
	-----	-----
Outstanding at December 31, 1997	2,689,738	\$ 4.80-12.00
	=====	=====
Exercisable at December 31, 1997	2,689,738	\$ 6.40-12.00
	=====	=====

</TABLE>

Options

During 1993, the Company adopted the 1993 Stock Option Plan which provides for granting incentive stock options (ISOs) and nonqualified options (NSOs) to employees, directors, officers, and certain nonemployees 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 Stock

Option Plan.

During 1994, the Company adopted the 1994 Combined Incentive and Nonqualified Stock Option Plan which provided for the granting of ISOs and NSOs to employees, directors, officers, and certain nonemployees 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.

During 1996, the Company adopted the 1996 Stock Option Plan (the 1996 Plan) and the 1996 Independent Director Stock Plan (the Director Plan). The 1996 Plan 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 750,000 shares of the Company's authorized but unissued common stock. The terms and conditions of any options granted, including the exercise price and vesting period are to be determined by the Plan Administrator. The Director Plan provides for granting up to a total of 75,000 shares of common stock to nonemployee directors of the Company as determined by the Board of Directors or a committee thereof. The Company expects to terminate the prior plans effective immediately following the issuance of the shares of common stock subject to the outstanding grants thereunder.

37

In January, 1997, options to purchase 6,624 shares of the Company's common stock at an exercise price of \$8.00 per share were issued to consultants in lieu of cash compensation. The options were vested in 1997 and expire five years following the date of issue. The Company recognized an expense of \$37,200 related to the issuance of the options.

The following table summarizes activity with respect to options for the two years ended December 31, 1997:

<TABLE>
<CAPTION>

	Shares	Weighted-average exercise price
<S>	<C>	<C>
Outstanding at December 31, 1995	645,892	\$ 3.91
Granted	387,124	6.86
Forfeited	(53,650)	7.59
	-----	-----
Outstanding at December 31, 1996	979,366	4.88
Granted	1,129,576	16.04
Exercised	(40,795)	6.09
Forfeited	(84,680)	8.10
	-----	-----
Outstanding at December 31, 1997	1,983,467	\$ 11.07
	=====	=====
Weighted-average fair value of options granted, net of forfeitures, during 1997		\$ 5.76
		=====
Weighted-average fair value of options granted, net of forfeitures, during 1996		\$ 2.11
		=====

</TABLE>

The following table summarizes information about stock options outstanding and exercisable at December 31, 1997:

<TABLE>
<CAPTION>

Range of exercise prices	Options outstanding			Options exercisable		
	Number outstanding at December 31, 1997	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable at December 31, 1997	Weighted-average exercise price	
<S>	<C>	<C>	<C>	<C>	<C>	
\$ 0.80	193,939	3.46	\$ 0.80	193,939	\$ 0.80	
3.20-4.80	211,289	4.51	3.45	211,289	3.45	
5.25-7.20	562,476	5.75	6.65	344,178	6.32	
8.00-12.00	310,411	7.33	9.53	6,624	8.00	
14.00-21.88	518,402	8.82	17.98	28,950	14.07	
22.19-34.18	186,950	9.02	27.07			
	-----			-----		
	1,983,467			784,980		
	=====			=====		

</TABLE>

The Company applies APB 25, Accounting for Stock Issued to Employees, and related interpretations in accounting for its plans. Options issued to employees were recorded at \$785,000 during the year ended December 31, 1997

based upon the difference between the exercise price and fair value of the underlying shares on the date of grant. However, no value was recorded related to the time value of the options. Had compensation cost for the Plan been determined based upon the fair value at the grant

38

date for awards under the Plan consistent with the methodology prescribed under SFAS 123, the Company's net loss would have been increased to the pro forma amounts indicated below:

<TABLE>
<CAPTION>

		1997		1996	
<S>		<C>		<C>	
Net loss	As reported	\$	(4,945,000)	\$	(3,456,600)
	Pro forma	\$	(5,961,500)	\$	(3,760,600)
Pro forma loss per share	As reported	\$	(0.85)	\$	(0.90)
	Pro forma	\$	(1.03)	\$	(0.98)

</TABLE>

The fair value of the options granted during 1997 and 1996 is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 1997 and 1996, respectively: dividend yield of zero percent for all years, expected volatility of 60% for all years, risk-free interest rate of 6.09% and 6.55%, assumed forfeiture rate of 5% for all years, and expected lives of 4 years.

7. Commitments and contingencies

In October 1993, the Company concurrently entered into a Research Agreement and Exclusive License Agreement (License Agreement) with the University of Washington (UW). The Research Agreement provided for the Company to pay \$5,133,500 to fund agreed-upon VRD research and development activities to be carried out by the UW. The research funding was required to be paid in sixteen quarterly instalments of \$320,800 and was payable at the beginning of each quarter. During 1997, the Company made its final payments under the Research Agreement. Total payments made for 1997 and 1996 were \$962,500 and \$1,283,400, respectively.

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 ongoing royalties. In 1997 and 1996, these royalties were not material.

Beginning in 2000, the Company is required to pay the University of Washington 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 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 has committed to pay to UW \$75,000 and 31,250 upon filing of the first patent and \$100,000 and 62,500 common shares upon issuance of the first patent.

The Board of Directors has approved a bonus plan as an incentive to senior management to achieve the exercise of the Public Warrants. Pursuant to this plan, the Company may distribute an aggregate of \$250,000 to senior management upon the successful completion of the exercise of the Public Warrants.

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 suits

39

would not have a material adverse effect on the Company's financial position or results of operations.

8. Lease commitments

During 1997 and 1996, the Company entered into leases for its current office space and certain equipment under noncancelable capital and operating leases with initial or remaining terms in excess of one year. In 1996, the Company exercised an option to occupy additional office space at greater cost and issued 7,693 preferred shares and warrants to purchase 1,563 shares of common stock to the landlord in lieu of paying cash through July 1996. Rent expense of approximately \$36,900 was recorded for the share issuance and warrants granted in December 1995. In 1997, the Company signed agreements to occupy additional space, and in February 1998 further increased its office space by signing an additional agreement.

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

<TABLE>
<CAPTION>

<S>	Capital leases	Operating lease
<C>	<C>	<C>
1998	\$ 34,100	\$ 198,800
1999	34,100	8,400
2000	32,000	
2001	9,400	
2002	7,800	
	-----	-----
Total minimum lease payments	117,400	\$ 207,200
		=====
Less: Amount representing interest	(25,100)	

Present value of capital lease obligations	92,300	
Less: Current portion	(22,700)	

Long-term obligation at December 31, 1997	\$ 69,600	
	=====	

</TABLE>

The capital leases are secured 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 \$94,500 and \$2,800, respectively, at December 31, 1997.

Rent expense was \$147,100 and \$52,600 for 1997 and 1996, respectively.

9. Income taxes

A current provision for income taxes has not been recorded for 1997 or 1996 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, 1997, the Company has net operating loss carry-forwards of approximately \$8,847,000 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

40

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 significant.

41

Deferred tax assets are summarized as follows:

<TABLE>
<CAPTION>

<S>	December 31,	
<C>	1997	1996
<C>	<C>	<C>
Net operating loss carry-forward	\$ 3,008,100	\$ 1,681,000
Capitalized research and development	1,718,000	1,515,000
Expenses related to issuance of equity instruments	636,500	-
Other	254,000	374,000
	-----	-----
	(5,616,600)	3,570,000
Less: Valuation allowance	(5,616,600)	(3,570,000)
	-----	-----
Deferred tax assets	\$ -	\$ -
	=====	=====

</TABLE>

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.

42

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not Applicable.

ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

Directors and Executive Officers

The directors and executive officers of the Company are as follows:

Name	Age	Position
Richard F. Rutkowski (1)	42	Chief Executive Officer, President and Director
Stephen R. Willey	44	Executive Vice President and Director
Richard A. Raisig (1)	50	Chief Financial Officer and Vice President, Operations and Director
Walter J. Lack (1)(2)	50	Director
Robert A. Ratliffe	37	Director
Jacob Brouwer (2)	71	Director
Richard A. Cowell	50	Director

(1) Member of the Compensation and Finance Committees

(2) Member of the Audit Committee

Richard F. Rutkowski served as Chief Operating Officer of the Company from December 1994 until September 1995, Chief Executive Officer of the Company since September 1995, as a director of the Company since August 1995, and was elected President of the Company since July 1996. Between November 1992 and May 1994, Mr. Rutkowski served as Executive Vice President of Medialink Technologies Corporation (formerly Lone Wolf Corporation), a developer of high speed digital networking technology for multimedia applications in audio-video computing, consumer electronics and telecommunications. Between February 1990 and April 1995, Mr. Rutkowski was principal of Rutkowski, Erickson, Scott, a consulting firm. Mr. Rutkowski also serves as a director of Digital Data Networks, Inc., a developer of wireless communications systems and networked electronic display media for the transit industry.

Stephen R. Willey has served as Executive Vice President of the Company since October 1995 and as a director since June 1995. Mr. Willey also serves as the Company's technical liaison to the University of Washington's HIT Lab. Between January 1994 and April 1996, Mr. Willey served as an outside consultant to the Company through DGI The Development Group, Inc. ("DGI"), a business and technology consulting firm that Mr. Willey founded in 1982 and CSI Connection Systems, Inc., also a business and

44

technology consulting firm founded by Mr. Willey. As principal of DGI, Mr. Willey provided technology consulting services to CREO Products, Inc., an electro-optics equipment manufacturer, between June 1989 and December 1992. Mr. Willey also co-founded PRO.NET Communications, Inc., an Internet services company. Mr. Willey has served as a director of PRO.NET since 1994.

Richard A. Raisig has served as Chief Financial Officer and Vice President, Operations of the Company since August 1996 and as a director of the Company since March 1996. Mr. Raisig was Chief Financial Officer of Videx Equipment Corporation, a manufacturer and rebuilder of wire processing equipment for the cabling industry from June 1995, until August 1996. From July 1992 to May 1995, Mr. Raisig was Chief Financial Officer and Senior Vice President-Finance for Killion Extruders, Inc., a manufacturer of plastic extrusion equipment. From February 1990 to July 1992, Mr. Raisig was Managing Director of Crimson Capital Company, an investment banking firm. Prior to 1990, Mr. Raisig was a Senior Vice President of Dean Witter Reynolds, Inc. Mr. Raisig is a Certified Public Accountant.

Walter J. Lack has served as a director of the Company since August 1995. Mr. Lack is a partner of Engstrom, Lipscomb & Lack, a Los Angeles, California law firm that he founded in 1974. Mr. Lack has acted as a special arbitrator for the Superior Court of the State of California since 1976 and for the American Arbitration Association since 1979. Mr. Lack also serves as a director of HCCH Insurance Holdings, Inc., a multinational insurance company listed on The New York Stock Exchange. Mr. Lack has been involved in a number of start-up companies, both as an investor and as a director.

Robert A. Ratliffe has served as a director of the Company since in July 1996. Mr. Ratliffe has been Vice President and principal of Eagle River, Inc., an investment company specializing in the telecommunications and technology sectors, and Vice President of Communications for Nextel Communications, Inc., a wireless telecommunications company, since early 1996. Between 1986 and 1996, Mr. Ratliffe served as Senior Vice President, Communications, for AT&T Wireless Services, Inc., and its predecessor, McCaw Cellular Communications, Inc., where he also served as Vice President of External Affairs and as Vice President of Acquisitions and Development. Prior to joining McCaw Cellular Communications, Inc., Mr. Ratliffe was a Vice President with Seafirst Bank.

Jacob Brouwer has served as a director of the Company since July 1996. Mr. Brouwer is the Chairman and Chief Executive Officer of Brouwer Claims Canada & Co. Ltd., an insurance adjusting company that he founded in 1956. Mr. Brouwer has served as a director for numerous companies, including the Canadian National Railway Company, The Insurance Corporation of British Columbia, Air B.C., Golden Tulip Hotels Ltd., and Northwestel Inc. Mr. Brouwer is past President of the British Columbia Adjusters Association, and former Chairman of the International Financial Centre of British Columbia. Mr. Brouwer currently serves as a director of Doman Industries, a forest products company.

45

Richard A. Cowell has served as a director of the Company since August 1996. Mr. Cowell is a Senior Associate at Booz Allen & Hamilton involved in, among other things, the incorporation of simulation and models into education and training programs for Department of Defense contractors. Prior to joining Booz Allen in March of 1996, Mr. Cowell served in the United States Army for 25 years. Immediately prior to his retirement from the Army, Mr. Cowell served as Director of the Louisiana Maneuvers Task Force reporting directly to the Chief of Staff, Army. Mr. Cowell has authored a number of articles relating to the future of the Army and received awards for his writing and producing of a film entitled "America's Army" in 1994. Mr. Cowell retired from the Army holding the rank of Colonel.

Directors of the Company hold office until the next annual meeting of shareholders or until their successors have been elected and duly qualified. Pursuant to the 1996 Independent Director Stock Plan, non-employee directors receive an annual award of Common Stock. See "- Benefit Plans - 1996 Independent Director Stock Plan." Non-employee directors receive no salary for their services and receive no fee from the Company other than as described above for their participation at Board meetings. All directors are reimbursed for reasonable travel and other out-of-pocket expenses incurred in attending meetings of the Board of Directors.

Executive officers are elected by the Board of Directors of the Company at the first meeting after each annual meeting of shareholders and hold office until their successors are elected and duly qualified.

Significant Employees

Todd R. McIntyre has served as Vice President, Business Development since January 1996. Mr. McIntyre is responsible for establishing relationships with third parties for the development of products incorporating the VRD technology. Prior to 1996, Mr. McIntyre held business development and marketing positions with several development stage companies, including Southern Limited Partnership, a magazine and book publisher; Sasquatch Publishing Company, Inc., a magazine and book publisher; SPRY Inc., an Internet software products publisher; and Notable Technologies, Inc., a wireless telecommunications products manufacturer.

Andrew Lee served as Vice President, Sales and Marketing from January 1997 to September 1997 and has served as Vice President, Sales since September 1997. Mr. Lee is responsible for developing and implementing the Company's sales and product marketing efforts. From January 1992 to January 1997, Mr. Lee was Senior Director, National Systems Sales, for AEI Music Network, Inc., the largest audio-visual systems integrator in the United States. From January 1989 to December 1991, Mr. Lee was Director, Sales and Marketing, for ADB Industries Inc., a manufacturer of precision assemblies for the defense and aerospace industries, where he was responsible for

46

designing and implementing marketing strategies for both commercial and military markets.

Douglas A. Stoll has served as Director of Engineering since October 1996. Mr. Stoll has responsibility for managing the Company's core technology and internal product development programs. Previously, Mr. Stoll spent 16 years with the Space and Defense Sector of TRW, Inc. in various project management roles. He managed several simulation and avionics design teams and was named the program manager for all TRW activities on the B-2 program from 1990 through 1992. Prior to joining TRW, Mr. Stoll spent 10 years in the U.S. Air Force as a B-52 pilot and as a scientific analyst at the Edwards Flight Test Center. He currently holds the rank of Lieutenant Colonel in the Air Force Reserves. Mr. Stoll earned an M.S. in Physics from Ohio State University, an M.S. in Systems Management from the University of Southern California and an executive MBA from UCLA.

John Lewis has served as Director of Research since November 1996. Mr. Lewis has primary responsibility for directing and managing the ongoing research on the Company's core technology and for developing the Company's intellectual property assets. From 1978 to 1996, Mr. Lewis held various technical and management positions at Polaroid Corporation. During his tenure at Polaroid, Mr. Lewis headed several projects that involved using micro-optics in the coupling of semiconductor light sources and using scanning mechanisms for high quality imaging. From 1986 to 1994, Mr. Lewis managed the Department of Physical Systems within Polaroid's Research Division. Mr. Lewis holds a B.S. degree in physics from Massachusetts Institute of Technology and is named as inventor on five patents and two patents pending.

Thomas M. Lippert, Ph.D., has served as Principal Scientist since August 1997. From 1992 to 1997, Dr. Lippert was Head of Display Technology at the David Sarnoff Research Center, where he was responsible for new business development

and product management on both commercial and government contracts. From 1987 to 1992, Dr. Lippert was a Senior Principal Development Engineer with the Military Avionics Division of Honeywell, where he had technical responsibility for research related to advanced electronic and optic technologies applicable to helmet-mounted sight and display systems.

Casey T. Tegreene, Esq., has served as Intellectual Property Counsel since July 1997. From 1992 to 1997, Mr. Tegreene was affiliated with the law firm of Seed and Berry where he specialized in electrical and mechanical patent matters including litigation. From 1989 to 1992 Mr. Tegreene was affiliated with Cravath, Swaine & Moore, where he specialized in corporate transactions and securities work. Prior to pursuing his legal career, Mr. Tegreene worked with Motorola's Government Electronics Group as a research and design engineer focusing on optical and microwave systems and components.

47

Section 16(a) Beneficial Ownership Reporting Compliance

Based solely on a review of the copies of the forms provided to the Company and written representations that no other filing of forms was required, the Company believes that, during the fiscal year ended December 31, 1997, the reporting persons subject to Section 16(a) of the Exchange Act, as amended, complied with all filing requirements applicable thereto, except that Stephen R. Willey filed one late report.

ITEM 10. EXECUTIVE COMPENSATION

The following table sets forth the compensation received for services in all capacities to the Company for the last three fiscal years by Richard F. Rutkowski, the Company's Chief Executive Officer and President; Stephen R. Willey, its Executive Vice President; and Richard A. Raisig, its Chief Financial Officer and Vice President, Operations (the "Named Executives"). No other officer of the Company received annual salary and bonuses exceeding \$100,000 in the fiscal year ended December 31, 1997.

<TABLE>
<CAPTION>

Name and Principal Position	Fiscal Year	Annual Compensation			Long-Term Compensation Awards Securities Underlying Options
		Salary (\$)	Bonus (\$)(1)	Other Annual Compensation (\$)	
Richard F. Rutkowski Chief Executive Officer and President	1997	126,250	100,000	-	340,000
	1996	92,500	134,375	-	-
	1995	-	30,000	-	69,671
Stephen R. Willey Executive Vice President	1997	130,000	85,000	-	-
	1996	78,333	115,400	36,667 (2)	-
	1995	-	-	67,500 (2)	296,875
Richard A. Raisig Chief Financial Officer and Vice President of Operations	1997	118,750	75,000	-	136,000
	1996	40,729	15,000	-	100,000
	1995	-	-	-	-

(1) Bonus amounts for 1997 include amounts paid in 1998 for services performed in 1997. Mr. Raisig's bonus included a portion related to the four month period ended December 31, 1996.

(2) Represents payments in consideration of consulting services rendered to the Company by Mr. Willey prior to and concurrent with Mr. Willey's employment with the Company. See "Certain Relationships and Related Transactions."

</TABLE>

48

Option Grants.

The following table sets forth the grants of options to purchase common stock during the last fiscal year to Richard F. Rutkowski, President and Chief Executive Officer and to Richard A. Raisig, Chief Financial Officer and Vice President, Operations.

<TABLE>
<CAPTION>

Name	Number of Securities Underlying Options Granted	Percent of Total Options Granted to Employees in 1997	Exercise Price (\$/Sh)	Expiration Date
Richard F. Rutkowski	80,000	7.16	14.00	10/1/07
	80,000	7.16	17.50	10/1/07
	80,000	7.16	21.88	10/1/07
	80,000	7.16	27.34	10/1/07
	20,000	1.79	34.18	10/1/07
Stephen R. Willey	-	-	-	-

Richard A. Raisig	28,000	2.51	14.00	10/1/07
	28,000	2.51	17.50	10/1/07
	65,000	5.82	21.88	10/1/07
	15,000	1.34	27.34	10/1/07

</TABLE>

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values. The following table sets forth information concerning exercise of stock options during 1997 by the Named Executives and the fiscal year-end value of unexercised options:

<TABLE>
<CAPTION>

Name	Number of Shares Acquired On Exercise	Value Realized	Number of Securities Underlying Unexercised Options at December 31, 1997		Value of Unexercised In-the-Money Options at December 31, 1997	
			Exercisable	Unexercisable	Exercisable	Unexercisable
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Richard F. Rutkowski	-	-	331,517	320,000	\$3,329,214	\$ 0
Stephen R. Willey	-	-	250,000	46,875	\$2,575,000	\$318,750
Richard A. Raisig	-	-	46,453	189,547	\$ 329,218	\$354,220

(1) Calculated based on a closing price of \$14.00 per share on December 31, 1997.

</TABLE>

Employment Agreements. Pursuant to his employment agreement with the Company effective October 1, 1997, Mr. Rutkowski receives an annual base salary of \$145,000, subject to increases as determined by the Board of Directors, and an annual cash performance bonus in an amount to be determined by the Board of Directors. In January 1998, Mr. Rutkowski's base salary was adjusted to \$175,000 and he was awarded a bonus of \$100,000 for services performed during 1997. In addition, Mr. Rutkowski

49

received options to purchase up to an aggregate of 340,000 shares of Common Stock for service to the Company during the period October 1, 1997 through December 31, 2001. These options have ten-year terms, vest quarterly, and will immediately vest and become exercisable upon the occurrence of certain events following a change in control. Mr. Rutkowski is entitled to all benefits offered generally to the Company's employees. Upon termination without cause of Mr. Rutkowski's employment by the Company, Mr. Rutkowski's stock options will continue to vest and Mr. Rutkowski will be entitled to a severance payment. The Employment Agreement expires, unless previously terminated, on December 31, 2001.

The Company entered into an employment agreement with Stephen R. Willey, the Company's Executive Vice President and a director of the Company, effective May 1, 1996. Pursuant to this agreement, Mr. Willey receives an annual base salary of \$110,000, adjusted annually for the cost of living and subject to increases as determined by the Board of Directors. In addition, Mr. Willey is entitled to receive an annual cash performance bonus in an amount determined by the Board of Directors. In addition, Mr. Willey received options to purchase an aggregate of 296,875 shares of Common Stock for his services during the period 1995 through 1998. In January 1998, Mr. Willey's base salary was adjusted to \$150,000 and he was awarded a bonus of \$85,000 for services performed in 1997. Upon termination without cause of Mr. Willey's employment by the Company, certain of Mr. Willey's stock options will vest and Mr. Willey will be entitled to a severance payment. Mr. Willey is entitled to all benefits offered generally to the Company's employees. Mr. Willey's employment agreement expires, unless previously terminated, on September 30, 1998.

Pursuant to his employment agreement with the Company, effective October 1, 1997, Mr. Raisig receives an annual base salary of \$130,000, subject to increases as determined by the Board of Directors, and an annual cash performance bonus in an amount to be determined by the Board of Directors. In January 1998, Mr. Raisig was awarded a bonus of \$75,000 for services performed during 1997 and four months in 1996. In addition, Mr. Raisig received options to purchase up to an aggregate of 136,000 shares of Common Stock for service to the Company during the period October 1, 1997 through December 31, 2000. These options have ten-year terms, vest quarterly, and will immediately vest and become exercisable upon the occurrence of certain events following a change in control. Mr. Raisig is entitled to all benefits offered generally to the Company's employees. Upon termination without cause of Mr. Raisig's employment by the Company, Mr. Raisig's stock options will continue to vest and Mr. Raisig will be entitled to a severance payment. The employment agreement expires, unless previously terminated, on December 31, 2000.

Benefit Plans

1996 Stock Option Plan. The Company's 1996 Stock Option Plan (the "1996 Plan"), which was adopted and approved by the Company's Board of Directors and the shareholders in July and August, 1996, respectively, provides for the grant of options to

acquire a maximum of 750,000 shares of the Company's authorized but unissued Common Stock, subject to adjustments in the event of certain changes in the Company's capitalization. The Board of Directors of the Company has authorized, subject to shareholder approval at the 1998 annual meeting of shareholders, an additional 1,750,000 shares of Common Stock to be reserved for issuance upon exercise of options granted under the 1996 Plan. Unless sooner terminated by the Board of Directors, the 1996 Plan will terminate ten years after its adoption by the Board of Directors of the Company.

The 1996 Plan permits the granting of incentive stock options ("ISOs") and nonqualified stock options ("NSOs") at the discretion of a plan administrator (the "Plan Administrator"). The Plan Administrator is comprised of "disinterested directors" and "outside directors" for purposes of Rule 16b-3 under the Exchange Act and Section 162(m) of the Internal Revenue Code, respectively. The Compensation Committee of the Board of Directors serves as Plan Administrator except with respect to grants awarded to executive officers of the Company, with respect to which the Board serves as Plan Administrator. Subject to the terms of the 1996 Plan, the Plan Administrator determines the terms and conditions of any options granted, including the exercise price. Eligible optionees include any current or future employee, officer, or agent of the Company or its subsidiaries. The 1996 Plan provides that the Plan Administrator must establish an exercise price for ISOs that is not less than the fair market value of the shares at the date of grant. If ISOs are granted to persons owning more than 10% of the voting stock of the Company, however, the 1996 Plan provides that the exercise price must be not less than 110% of the fair market value of the shares at the date of grant and that the term of the ISOs may not exceed five years. The term of all other options granted under the 1996 Plan may not exceed ten years. The Plan Administrator determines when options become exercisable. Options are not transferable other than by will or the laws of descent and distribution, and each option is exercisable during the lifetime of the optionee only by such optionee. In the event of a merger, consolidation or plan of exchange to which the Company is a party or a sale of all or substantially all of the Company's assets, the Board of Directors may elect one of the following alternatives: (i) outstanding options remain in effect in accordance with their terms; (ii) outstanding options may be converted into options to purchase stock in the surviving or acquiring corporation in the transaction; or (iii) outstanding options may be exercised with a 30-day period prior to the consummation of the transaction, at which time they will automatically expire, and the Board may accelerate the time frame for exercise of all options in full. Shares subject to options granted under the 1996 Plan that have lapsed or terminated may again be made subject to options granted under the 1996 Plan. Following termination of employment by the Company other than for cause, resignation, retirement, disability or death, an option holder has three months within which to exercise his options before the options will automatically expire.

1996 Independent Director Stock Plan. The 1996 Independent Director Stock Plan (the "Director Plan") was adopted and approved by the Board of Directors and the shareholders in July and August, 1996, respectively. A total of 75,000 shares of Common Stock have been reserved for issuance under the Director Plan. The Director

Plan provides for the grant of shares of Common Stock to non-employee directors ("Independent Directors") of the Company. The Director Plan is designed to work automatically without administration; however, to the extent administration is necessary, it will be performed by the Board of Directors or a committee thereof. The Director Plan is administered in accordance with Rule 16b-3 adopted under the Exchange Act.

Each Independent Director is awarded shares of Common Stock (the "Annual Award") on an annual basis each time he or she is elected to the Board (or, if directors are elected to serve terms longer than one year, as of the date of each annual shareholders' meeting during that term). The number of shares awarded in the Annual Award is equivalent to the result of \$20,000 divided by the fair market value of a share on the date of the award, rounded to the nearest 100 shares (or a fraction thereof if the Independent Director is elected or appointed to the Board at any time other than at the annual meeting of shareholders). Shares issued pursuant to an Annual Award vest in full on the day prior to the next annual meeting of shareholders subsequent to the date on which the Annual Award was granted. If any share awarded under the Director Plan is forfeited, such share will again be available for purposes of the Director Plan. Unless earlier suspended or terminated by the Board, the Director Plan will continue in effect until the earlier of: (i) ten years from the date on which it is adopted by the Board and (ii) the date on which all shares available for issuance under the Director Plan have been issued.

Prior Plans. The Company's 1993 Stock Option Plan, 1994 Combined Incentive and Nonqualified Stock Option Plan, and 1995 Combined Incentive and Nonqualified Stock Option Plan (the "Prior Plans"), provided for the award of ISOs to key employees and the award of NSOs to employees and certain non-employees who have important relationships with the Company. The Company reserved 228,938 and 435,000 authorized but unissued shares for issuance under the 1993 and 1994 plans, respectively, upon adoption of these plans, and in September 1995 reserved an additional 625,000 shares for issuance under the 1993 plan. As of December 31, 1997, options to purchase an aggregate of 625,264 shares of Common Stock remained outstanding under these plans. The Company granted no options under the 1995 plan. The Company does not intend to grant any additional options to purchase shares of Common Stock under the Prior Plans, and expects to terminate the Prior Plans effective immediately following the issuance of the shares of Common Stock subject to the outstanding grants thereunder.

Warrant Exercise Bonus Plan. The Board of Directors has approved a bonus plan as an incentive to senior management to achieve the exercise of the Public Warrants. Pursuant to this plan, the Company may distribute an aggregate of \$250,000 to senior management upon the successful completion of the exercise of the Public Warrants. See "Item 5 - Market for Registrant's Common Stock and Related Shareholder Matters" and Note 7 of Notes to Financial Statements.

52

Certain Tax Considerations Related to Executive Compensation

As a result of Section 162(m) of the Internal Revenue Code of 1986, as amended, in the event that compensation paid by the Company to a "covered employee" (the chief executive officer and the next four highest paid employees) in a year were to exceed an aggregate of \$1,000,000, the Company's deduction for such compensation could be limited to \$1,000,000.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding the beneficial ownership of the Common Stock as of March 20, 1998 by (i) each person known by the Company to own beneficially more than five percent of the Company's outstanding Common Stock ("Principal Shareholder"); (ii) each of the Company's directors; (iii) the Named Executives; and (iv) all executive officers and directors of the Company as a group.

<TABLE>
<CAPTION>

Name and Address of Beneficial Owner -----	Number of Shares -----	Percentage of Common Stock (2) -----
<S>	<C>	<C>
Mellon Bank Corporation (3) One Mellon Bank Center Pittsburgh, PA 15258	685,250	11.5%
Richard F. Rutkowski (4) c/o Microvision, Inc. 2203 Airport Way South, Suite 100 Seattle, WA 98134	351,992	5.6%
George M. Galpin (5) 20 West Dayton, Suite D-5 Edmonds, WA 98020	305,750	5.0%
Stephen R. Willey (6) c/o Microvision, Inc. 2203 Airport Way South, Suite 100 Seattle, WA 98134	281,510	4.6%
Walter J. Lack 10100 Santa Monica Blvd., 16th Floor Los Angeles, CA 90067	213,537	3.6%
Richard A. Raisig (7) c/o Microvision, Inc. 2203 Airport Way South, Suite 100 Seattle, WA 98134	62,821	1.0%

53

<TABLE>
<CAPTION>

<S>	<C>	<C>
Robert A. Ratliffe 2300 Carillon Point Kirkland, WA 98033	12,650	*
Jacob Brouwer 1200 West Pender Street, Suite 1200 Vancouver, B.C. VGE 259 Canada	6,400	*
Richard A. Cowell c/o Booz, Allen & Hamilton 4301 N. Fairfax Drive, Suite 200 Arlington, VA 22203	6,400	*
All executive officers and directors as a group (7 persons)	939,770	14.2%

* Less than 1% of the outstanding shares of Common Stock.

(1) Shares not outstanding but deemed beneficially owned by virtue of the right of an individual to acquire them within 60 days are treated as outstanding for determining the amount and percentage of Common Stock owned by such individual. To the Company's knowledge, except as noted, each person has sole voting and sole investment power with respect to the shares shown, subject to community property laws, where applicable.

(2) Rounded to the nearest 1/10th of one percent, based on 5,949,256 shares of Common Stock outstanding at February 28, 1998, assuming no exercise of the

Public Warrants, the Representatives' Warrants, or any other outstanding options or warrants.

- (3) Mellon Bank filed a Schedule 13G reporting beneficial ownership of more than 5% of the Company's stock on or about December 10, 1997. According to the filing, Mellon Bank had sole dispositive power over 695,000 shares and shared dispositive power over 250 shares of Common Stock.
- (4) Includes 351,517 shares issuable upon exercise of options.
- (5) Mr. Galpin filed a Schedule 13D reporting his beneficial ownership of more than 5% of the Company's Common Stock on or about March 22, 1997. According to the filing, Mr. Galpin had sole voting power over 236,500 share (including 187,000 shares underlying Public Warrants); shared voting power over 43,250 shares; sole dispositive power over 236,500 share (including 187,000 shares underlying Public Warrants); and shared dispositive power over 69,250 shares (including 14,500 shares underlying warrants).

54

- (6) Includes 278,125 shares issuable upon exercise of options and Public Warrants.
- (7) Includes 61,656 shares issuable upon exercise of options.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Since inception of the Company, there has not been, nor is there currently proposed, any transaction or series of similar transactions to which the Company was or is to be a party in which the amount involved exceeds \$60,000 and in which any director or executive officer had or will have a direct or indirect material interest other than the transactions described below.

The Company was founded and promoted by Times Holding Limited; Sisley Enterprises S.A.; Yokohama Enterprises, Inc.; George Hatch; the Hunter Family Trust No.2; Caisey Harlingten; Ronetna Limited; and Dunbrody International, Ltd. (each individually, a "Promoter" and all, collectively, the "Promoters"). In July 1993, an aggregate of 1,893,750 shares of Common Stock were issued by the Company to the Promoters for an aggregate purchase price of \$212,100. On May 28, 1996, the Company repurchased 859,375 shares of Common Stock from the Promoters. Consideration for such purchase included the cancellation of promissory notes from the Promoters in an aggregate principal amount of \$66,600 and the reduction in the exercise price of warrants previously granted to them, which were subsequently exercised, to purchase 96,875 shares of Common Stock from \$0.80 to zero.

Effective January 1, 1994, the Company entered into consulting agreements with David L. Hunter and Caisey Harlingten, Promoters of the Company. Pursuant to the agreements, Messrs. Hunter and Harlingten each provided business development and strategic planning services to the Company, and assisted the Company with its financing activities and provided general management, marketing, development and investment assistance to the Company. Messrs. Hunter and Harlingten were paid \$90,018 and \$88,000 under their respective agreements, which terminated in November 1994 and February 1995, respectively.

Between October 1995 and April 1996, salary payable to Stephen R. Willey, Executive Vice President and a Director of the Company, in the aggregate amount of \$36,667 was paid directly to an affiliate of Mr. Willey.

55

In February 1996, Walter J. Lack, a director of the Company, purchased 15,625 shares of the Company's Series A Preferred Stock for \$75,000 in cash. In June 1996, the Company issued 833 shares of common stock to Mr. Lack upon the exercise of certain warrants issued thereto as compensation for consulting services provided by Mr. Lack to the Company.

In early July 1996, the Company issued \$750,000 in aggregate principal amount of its 7% Notes to six investors raising net proceeds of \$707,500 for the Company's immediate operating requirements and for payment of certain expenses incurred in connection with its initial public offering. The 7% Notes were convertible or redeemable at the option of the holder at any time 90 days after the date of the final prospectus issued in connection with the Company's initial public offering. The 7% Notes bore interest at the rate of 7% per annum, payable semiannually in arrears on December 15 and June 15, and were to mature on July 10, 1997. The 7% Notes were subordinate to all future senior indebtedness of the Company. Walter J. Lack, a director of the Company, purchased \$250,000 in principal amount of the 7% Notes. In December 1996, Mr. Lack redeemed the 7% notes in full and, pursuant to the terms of the 7% notes, was issued 15,000 shares of Common Stock. The remaining 7% Notes were redeemed in November and December 1996. See Note 6 of Notes to Financial Statements.

During 1996, the Company made loans to Richard F. Rutkowski, Chief Executive Officer and President and a director of the Company, and Stephen R. Willey, in the amounts of \$82,400 and \$69,000, respectively. The loans were evidenced by promissory notes with maturities of one year and earned interest at 8% per annum payable quarterly. The loans were made in consideration of Messrs. Rutkowski and Willey agreeing to a modification of their respective employment agreements. The loan grants were approved by the Board of Directors of the Company. The loans and all accrued interest thereon were repaid in full during 1996.

56

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

- 3.1 Amended and Restated Articles of Incorporation of Microvision, Inc., as filed on August 14, 1996 with the Secretary of State of the State of Washington*
- 3.2 Amended and Restated Bylaws of Microvision, Inc.*
- 4.1 Form of specimen certificate for Common Stock*
- 4.2 Form of Warrant for purchase of Common Stock*
- 4.3 Warrant Agreement*
- 4.4 Form of Representatives' Warrant for purchase of Units*
- 10.1 Project I Research Agreement between The University of Washington and the Washington Technology Center and the H. Group, dated June 10, 1993*
- 10.2 Assignment of License and Other Rights between The University of Washington and the Washington Technology Center and the H. Group, dated July 25, 1993*
- 10.3 Project II Research Agreement between The University of Washington and the Washington Technology Center and Microvision, Inc., dated October 28, 1993 *+
- 10.4 Exclusive License Agreement between The University of Washington and Microvision, Inc., dated October 28, 1993 *+
- 10.5 Employment Agreement between Microvision, Inc., and Richard F. Rutkowski, effective October 1, 1997
- 10.6 Employment Agreement between Microvision, Inc., and Stephen R. Willey, dated May 1, 1996*
- 10.7 1993 Stock Option Plan*
- 10.8 1994 Combined Incentive and Nonqualified Stock Option Plan*
- 10.9 1995 Combined Incentive and Nonqualified Stock Option Plan*
- 10.10 1996 Stock Option Plan, as amended**
- 10.11 1996 Independent Director Stock Plan, as amended
- 10.12 Office Lease Agreement by and between David A. Sabey and Sandra L. Sabey and Microvision, Inc., dated December 22, 1995, as amended on January 26, 1996*
- 10.13 Form of Director Indemnification Agreement*
- 10.14 Exclusive License Agreement between the University of Washington and Microvision, Inc. dated March 3, 1994*
- 10.15 Second Amendment of Office Lease Agreement between the City of Seattle and Microvision, Inc., dated February 26, 1997***
- 10.16 Third Amendment of Office Lease Agreement between the City of Seattle and Microvision, Inc., dated November 13, 1997
- 10.17 Form of Office Lease between the City of Seattle and Microvision, Inc., dated December 1, 1997, relating to Suites 110 and 205 of office building located at 2203 Airport Way South, Seattle, Washington
- 10.18 Employment Agreement between Microvision, Inc., and Richard A. Raisig, effective October 1, 1997
- 11 Computation of Pro Forma Loss Per Share
- 23 Consent of Price Waterhouse LLP
- 27 Financial Data Schedule

57

- -----
- * Incorporated by reference to the Company's Form SB-2 Registration Statement, Registration No. 333-5276-LA.
- ** Incorporated by reference to the Company's Post-Effective Amendment No. 2 on Form SB-2 Registration Statement, Registration No. 333-5276-LA.
- *** Incorporated by reference to the Company's Annual Report on Form 10-KSB for the year ended December 31, 1996, Registration No. 0-21221.
- + Subject to confidential treatment.

(b) Reports on Form 8-K.

Not applicable.

58

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MICROVISION, INC.

Date: March 31, 1998 By RICHARD F. RUTKOWSKI

Richard F. Rutkowski
President

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the following capacities on March 31, 1998.

Signature -----	Title -----
RICHARD F. RUTKOWSKI ----- Richard F. Rutkowski	Chief Executive Officer, President and Director (Principal Executive Officer)

STEPHEN R. WILLEY Executive Vice President and Director

EMPLOYMENT AGREEMENT
FOR
RICHARD F. RUTKOWSKI

AGREEMENT, effective as of October 1, 1997 by and between MICROVISION, INC., a Company of the State of Washington, having its principal place of business at 2203 Airport Way South, Suite 100, Seattle Washington 98134, hereinafter referred to as the "Company") and Richard F. Rutkowski, (hereinafter called "Executive").

W I T N E S S E T H:

WHEREAS, the Company wishes to continue to retain the services of the Executive to work for the Company as its President and Chief Executive Officer (herein referred to as the "Position") upon the terms and conditions hereinafter set forth; and

WHEREAS, in consideration for continued service in the Position, the Executive has agreed to enter into and be bound by the terms of this Agreement.

NOW THEREFORE, in consideration of the foregoing and mutual covenants herein contained, the parties agree as follows:

1. EMPLOYMENT

- 1.1 The Company hereby employs Executive to serve in the Position and Executive hereby accepts such employment as of the effective date of this Agreement.
- 1.2 Executive will devote his best efforts and full time and attention to performing all duties assigned or delegated to him by the Board of Directors of the Company consistent with the Position.
- 1.3 The term of employment shall end on December 31, 2001, unless this Agreement is extended by the parties.

2. COMPENSATION - SALARY AND BENEFITS

- 2.1 For his services hereunder, Executive shall receive an annual salary of \$145,000, payable in regular installments under the payroll of the Company.
- 2.2 The level of Executive's salary shall be reviewed by the Board of Directors on an annual basis and upon such review, may remain the same or be increased in such amount as the Board of Directors, in its discretion, based upon merit, determines, provided that there shall be no decrease in the salary of the Executive without his consent.
- 2.3 In addition to the salary to which Executive is entitled under Section 2.1, Executive shall be entitled to participate in benefit plans, if any, that the Company may offer or establish from time to time for Executives of equal or lesser rank.

Page 1 of 9

Participation in benefit plans for the Executive shall terminate if the Company terminates similar benefits for Executives of equal or lessor rank.

- 2.4 If at any time the Company does not maintain medical and dental insurance coverage for all Executives, the Company shall reimburse the Executive for securing private coverage during the term of this Agreement.
- 2.5 All salary and benefits, if any, shall be subject to the customary withholding of taxes as required by law. Except as otherwise provided in Section 8 hereof, Executive's salary and benefits end immediately upon the termination of employment.

3. INCENTIVE COMPENSATION

- 3.1 If the Company maintains a formal cash incentive plan for senior management, the Executive shall be eligible to participate in such plan with a target incentive opportunity at least equal to the highest percentage opportunity provided to any other Executive covered under such plan.
- 3.2 If such a formal plan is not maintained by the Company, the Executive shall be eligible for consideration to receive an annual cash incentive payment from the Company. Executive's eligibility for such a discretionary incentive payment ends upon termination of employment. This amount shall be determined annually in the sole and complete discretion of the Board of Directors, which may take into account in its decision, among other items, such items as:

- 3.2.1 The financial performance of the Company, including, but not limited to revenues, operating income, and net income, if any;
- 3.2.2 The individual accomplishments of the Executive;
- 3.2.3 Other company achievements, including, but not limited to, product research, development and introduction; market offerings and the arrangement of strategic alliances; and
- 3.2.4 Competitive practice for executives in similar situations.

4. STOCK OPTIONS

The Executive shall receive options to purchase common stock of the Company in the amounts set forth below. All such options shall be granted in accordance with the stock option plan maintained by the Company and shall be subject to the terms and conditions set forth therein and in the stock option grant letter issued by the Company to Executive thereunder. If there are insufficient shares available under the stock option plan in existence at the time of this Agreement, such shares shall be granted subject to the approval of shareholders at the next annual meeting subsequent to the execution of this Agreement. The options shall be exercisable for ten years from the date of grant, and shall vest in quarterly installments as noted below.

Page 2 of 9

- 4.1 An option to purchase up to 80,000 shares at a price of \$14.00. These options shall vest in four equal quarterly installments, commencing on October 1, 1997.
- 4.2 An option to purchase up to 80,000 shares at a price of \$17.50. These options shall vest in four equal quarterly installments commencing on October 1, 1998.
- 4.3 An option to purchase up to 80,000 shares at a price of \$21.88. These options shall vest in four equal quarterly installments commencing on October 1, 1999.
- 4.4 An option to purchase up to 80,000 shares at a price of \$27.34. These options shall vest in four equal quarterly installments commencing on October 1, 2000.
- 4.5 An option to purchase up to 20,000 shares at a price of \$34.18. These options shall vest in one quarterly installment commencing on October 1, 2001.

5. BUSINESS EXPENSES

- 5.1 The parties acknowledge that Executive may incur, from time to time, for the benefit of the Company and in furtherance of the Company's business, various expenses such as travel, entertainment and promotional expenses. The Company agrees that it shall either pay such expenses directly, advance sums to Executive to be used for payment of such expenses, or reimburse Executive for such expenses incurred by him.
- 5.2 The Company agrees to pay such expenses, in accordance with its written policies covering the payment of business expenses and to the extent that these expenses do not exceed limits contained in such policies or applicable law. Executive agrees to submit to the Company such documentation as may be necessary to substantiate that all expenses paid or reimbursed pursuant to this Section 5 were reasonable and necessary for the performance of his duties under this Agreement.

6. PERFORMANCE OF EMPLOYMENT

- 6.1 Executive will observe and comply with such reasonable rules, regulations and policies as may from time to time be established by the Board of Directors of the Company, either orally or in writing.
- 6.2 Executive specifically agrees that he will comply with the confidentiality and security rules established by the Board of Directors with respect to confidential and financial information of the Company.

Page 3 of 9

7. EMPLOYMENT CONDUCT AND CONFIDENTIAL INFORMATION

- 7.1 Executive shall, at all times during the term of this Agreement, observe and conform to all laws regulating the business of the Company.
- 7.2 Executive acknowledges and recognizes that during the term of this Agreement, he will necessarily become privy to certain confidential and proprietary information of the Company and customers of the

Company (hereinafter referred to as "Confidential Data"). Confidential Data shall include but not be limited to all information concerning the identity of the Company's customers and suppliers, technical, financial and business activities, plans, operations, proprietary software, systems, procedures or know-how of the Company and any information regarding customers of the Company and their business affairs or endeavors. Executive agrees that he will hold all Confidential Data in the strictest confidence and that he will not disclose to any person or entity for any reason nor use any Confidential Data in any way other than on behalf of the Company or as the Company may otherwise direct.

7.3 Executive agrees that all business records and files, including but not limited to memoranda, notes, client lists, and proposals pertaining to the business, services or processes of the Company, shall be the sole property of the Company and he shall not retain, remove or copy such materials during the term of this Agreement or upon its termination or expiration, without the prior unanimous written consent of the Board of Directors of the Company. Upon the termination of this Agreement, or at any other time upon the request of the Board of Directors of the Company, Executive shall deliver all such materials to the Company.

7.4 The foregoing obligations of Executive shall survive the termination or expiration of this Agreement.

8. SEVERANCE PAYMENTS

8.1 If the Executive terminates the Agreement for any reason other than Constructive Termination (as defined in Section 8.3.5), or if the Company terminates the Agreement for Cause, no severance payment of any kind shall be made.

8.2 If the Company terminates this Agreement for reasons other than Cause, or if the Executive is Constructively Terminated prior to a Change in Control, the Company shall:

8.2.1 Pay to the Executive a lump sum equal to the Executive's salary of record for a period equal to the greater of one (1) year or the remaining period of this Agreement.

8.2.2 Continue to provide medical and dental insurance to the Executive for the greater of a period of one (1) year or the remainder of the term of this Agreement on the same terms as if the Executive were an active Executive of the Company.

Page 4 of 9

8.3 If the Executive is terminated or Constructively Terminated by the Company following a Change of Control, the Company shall:

8.3.1 Pay to the Executive a lump sum equal to the Executive's salary of record for a period of three (3) years;

8.3.2 Pay to the Executive a lump sum equal to three (3) times the average of the Executive's cash bonuses received in the three (3) preceding calendar years;

8.3.3 Continue to provide medical and dental insurance to the Executive for a period of one (1) year on the same terms as if the Executive were an active Executive of the Company.

8.3.4 For purposes of this Agreement, a Change of Control shall be deemed to occur on any of the following events:

8.3.4.1 Any "person", including a "group" as determined in accordance with Section 13(d)(3) of the Securities Exchange Act of 1934, as amended, is, or becomes, the beneficial owner of securities of the Company representing more than thirty percent (30%) of the combined voting power of the Company's then outstanding securities;

8.3.4.2 As a result of, or in connection with, any tender offer or exchange offer, merger or other business combination, sale of assets or contested election, or any combination of the foregoing transactions (a "Transaction"), the persons who constituted the Board of Directors the Company prior to the Transaction cease to constitute a majority of the Board of Directors of the Company or any successor to the Company;

8.3.4.3 The Company is merged or consolidated with another Company and as a result of the merger or consolidation, less than fifty percent (50%) of the outstanding voting securities of the surviving or resulting Company shall

then be owned in the aggregate by the former stockholders of the Company;

8.3.4.4 A tender offer or exchange offer is made and consummated for the ownership of securities of the Company representing more than thirty percent (30%) of the combined voting power of the Company's then outstanding voting securities; or

8.3.4.5 The Company transfers substantially all of its assets to another Company of which the Company owns less than fifty percent (50%) of the outstanding voting securities.

8.3.5 For purposes of this Agreement, Constructive Termination means:

Page 5 of 9

8.3.5.1 The reduction of the Executive's salary or target incentive;

8.3.5.2 The demotion or reduction in duties of the Executive;

8.3.5.3 The relocation of the Executive's place of employment more than 50 miles from the existing place of employment; or

8.3.5.4 Breach by the Company or its successor of any material provision of this Agreement.

8.4 For purposes of this Agreement, "Cause" shall be defined as any of the following:

8.4.1 Repeated failure or refusal of the Executive to carry out the reasonable directions of the Board of Directors of the Company consistent with the duties and obligations of the Executive;

8.4.2 Willful violation of state or federal law involving the commission of a crime against the Company or a felony adversely affecting the Company; or

8.4.3 Any material breach of this Agreement or of any covenant herein or the falsification of any material representation or warranty not corrected as provided in Section 8.5 hereof.

8.5 If a breach of this Agreement by either party is relied upon as a justification for any action taken by a party pursuant to any provision of this Agreement, before such action is taken, the party asserting the breach shall give the other party written notice of the existence and nature of the breach and the opportunity to correct such breach during the thirty (30) day period following the delivery of such notice.

9. RESTRICTIVE COVENANT AND INJUNCTIVE RELIEF. During the term of this agreement and for a period of twenty-four (24) months after the termination of this Agreement for any reason:

9.1 While this Agreement is in effect, Executive shall not, directly or indirectly, as an individual or representative of any other person and/or entity, deal with or solicit for business purposes that are in competition with any product or service offered by the Company, any current customer of the Company or any person and/or entity that is, or has commenced negotiations to become, a customer of the Company.

9.2 Executive shall not, directly or indirectly, solicit, raid, entice, or induce any other Executive of the Company to become employed by or associated with any other person or entity.

9.3 Executive shall not, directly or indirectly, as an Executive, consultant, agent, partner, principal, stockholder (other than as a holder of less than one percent (1%) of the shares of a publicly or privately held company), officer, director, or in any other individual or representative capacity, engage in any business activity that is competitive with any products or services offered by the Company at the time of the Executive's termination.

Page 6 of 9

9.4 The parties hereto acknowledge that the Executive's services, knowledge and experience are unique and of special value to the Company, and that, in the event of a breach or threatened breach by Executive of any of his obligations under this Agreement, including but not limited to those set forth in this Section 9, the Company will not have an adequate remedy at law. Accordingly, in the event of any breach or threatened breach of any provision of this Agreement by Executive, the Company shall be entitled to such equitable and injunctive relief as may be available to restrain Executive and any

other individual or entity participating in breach or threatened breach, from violating the provisions of this Agreement. Nothing herein shall be construed as prohibiting the Company from pursuing any other remedies available at law for such breach or threatened breach, including the recovery of damages and the immediate termination of Executive's employment hereunder.

10. INVENTIONS, CREATIONS AND DISCOVERIES

10.1 Executive acknowledges that during the course of his employment he may, either alone or in conjunction with others, be involved with the creation, authorship or development of inventions, materials or property, including but not limited to the field of laser or LED-based scanning display technologies, computer software, computer software and hardware applications (hereinafter referred to as "Materials"). Executive agrees that he will disclose all such Materials to the Board of Directors of the Company. Executive acknowledges that all such Materials shall be the property of the Company whether or not patent or copyright applications are filed with respect thereto from the date of their conception. If an assignment is necessary to transfer ownership thereof to the Company, Executive agrees that this Agreement, without more, shall constitute such an assignment. At the Company's request, Executive shall be required to make or assist in the filing of letters of patent, copyright applications or the like with respect to such Materials. In connection therewith, Executive agrees to execute all documents necessary or beneficial to establish or maintain the Company's rights in such property, applications or the like. All such filings shall be made, if possible, in the name of the Company, at its expense. If made during the term of his employment, Executive shall receive no additional compensation therefor. If such filings are required after the termination of the Executive's employment by the Company, he shall receive reasonable compensation for his assistance.

Pursuant to RCW 49.44.140, the Company has no rights under Section 10 of this Agreement to any invention for which no equipment, supplies, facilities, or trade secret information of the Company was used and which was developed entirely on Executive's own time, unless: (a) the invention relates (i) directly to the business of the Company or (ii) to the Company's actual or demonstrably anticipated research or development; or (b) the invention results from any work performed by Executive for the Company.

10.2 The foregoing obligations of Executive shall survive the termination or expiration of this Agreement.

Page 7 of 9

11. ASSIGNMENT. The rights of either party shall not be assigned or transferred without the other party's consent, nor shall the duties of either party be delegated in whole or in part without the other party's consent. Any unauthorized assignment, transfer or other delegation shall be of no force or effect.

12. AMENDMENTS. No amendments or additions to this Agreement shall be binding unless in writing and signed by both parties.

13. GOVERNING LAW. This Agreement shall be governed in all respects by the laws of the State of Washington.

14. BINDING ARBITRATION. Any disagreement, dispute, controversy or claim arising out of or in any way related to this Agreement, the subject matter hereof or the interpretation hereof or any arrangements relating hereto or contemplated herein or the breach, termination or invalidity hereof or the provision or failure to provide for any other benefits pursuant to any other bonus or compensation plans, stock option plan, life insurance or benefit plan or similar plan or agreement with the Company shall be settled exclusively and finally by binding arbitration. If this Section 14 conflicts with any provision in any such plan or agreement, this provision requiring arbitration shall control.

14.1 The arbitration shall be conducted through Judicial Arbitration and Mediation Services/Endispute (henceforth referred to as "JAMS") to be held before such arbitrator as the parties may agree, or if they are unable to agree, to be selected by obtaining five proposed arbitrators from JAMS and alternately striking names until one name remains.

14.2 The arbitration shall be conducted in accordance with the Judicial Arbitration and Mediation Services Rules of Practice and Procedure as are then in effect, except as modified by the agreement of the parties.

14.3 Either party may initiate a claim by contacting JAMS.

14.4 The decision of the arbitrator shall be final and binding on all parties and the parties waive their right to trial de novo or appeal,

except and only for the purpose of enforcing the decision of the arbitrator, for which purpose the parties hereby agree that the Superior Court of King Country Washington shall have jurisdiction.

14.5 The prevailing party shall be entitled to recover reasonable attorneys' fees and the costs of bringing or defending the arbitration and any action for enforcement, the amount of the awards being determined by the arbitrator.

15. PARAGRAPH HEADINGS. The paragraph headings used in this Agreement are included solely for convenience and shall not affect or be used in connection with the interpretation of this Agreement.

16. WAIVER, MODIFICATION, CANCELLATION. Any waiver, alteration or modification of any of the provisions of this Agreement or cancellation or replacement of this Agreement shall not be valid unless in writing and signed by all of the parties hereto.

Page 8 of 9

17. HEIRS AND SUCCESSORS. This Agreement shall be binding upon the Company, Executive and their successors, heirs, personal representatives and transferees.

18. WAIVER. The waiver by either party of a breach of any provision contained herein must be in writing and shall in no way be construed as a waiver of any succeeding breach of such provision or the waiver of the provision itself.

19. NOTICE. Whenever under the provisions of this Agreement notice is required to be given, it shall be in writing and shall be deemed given when hand delivered or mailed, postage prepaid by registered or certified mail, return receipt requested, addressed to the Executive or the Company at the following addresses:

Executive: Richard F. Rutkowski
c/o Microvision, Inc.
2203 Airport Way South, Suite 100
Seattle, WA 98134

Company: Microvision, Inc.
2203 Airport Way South Suite 100
Seattle, WA 98134
Attn: Secretary

Either party hereto may change his or its address for purposes of this Agreement by notification to the other party in accordance with this Section.

20. SEVERABILITY. If any provision of this Agreement is held invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions will not in any way be affected or impaired thereby.

21. ENTIRE AGREEMENT. This Agreement contains the entire agreement of the parties regarding the subject matter hereof and supersedes all prior agreements, understandings and negotiations regarding the same.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

MICROVISION, INC.

by -----/-----
Date Witness

EXECUTIVE

- -----/-----
Date Witness

Page 9 of 9

MICROVISION INC.

1996 INDEPENDENT DIRECTOR STOCK PLAN, AS AMENDED

1. Purpose. The purposes of this 1996 Independent Director Stock Plan, as amended, are to attract, reward, and retain the best available personnel to serve as directors of Microvision, Inc., a Washington corporation (the "Company"), and to provide added incentive to non-employee directors of the Company to serve as directors by increasing their ownership interest in the Company.

2. Definitions. As used herein, the following definitions shall apply:

2.1 "Board" means the Board of Directors of the Company.

2.2 "Code" means the Internal Revenue Code of 1986, as amended.

2.3 "Common Stock" means the common stock of the Company, no par value per Share.

2.4 "Company" means Microvision, Inc., a Washington corporation.

2.5 "Director" means a member of the Board.

2.6 "Exchange Act" means the Securities Exchange Act of 1934, as amended.

2.7 "Fair Market Value" means the value of a Share determined as follows:

(a) if the Common Stock is listed on any established stock exchange or a national market system, including without limitation the National Market system of the National Association of Securities Dealers, Inc., Automated Quotation System ("Nasdaq"), the closing sales price for such stock (or the closing bid, if no sales were reported, then as quoted on such exchange or system (or the exchange with the greatest volume of trading in Common Stock) on the last market trading day before the day of determination) as reported in The Wall Street Journal or such other source as the Board deems reliable;

(b) if the Common Stock is quoted on the Nasdaq (but not on the National Market thereof) or regularly quoted by a recognized securities dealer but selling prices are not reported, then the mean between the high and low asked prices for the Common Stock on the last market trading day before the date of determination, as reported in The Wall Street Journal or such other source as the Board deems reliable; or

(c) in the absence of an established market for the Common Stock, then as determined in good faith by the Board.

-1-

2.8 "Independent Director" means a director who is not an employee of the Company or any Parent or Subsidiary thereof. The payment of a director's fee by the Company shall not be sufficient in and of itself to constitute employment by the Company.

2.9 "Parent" means a parent corporation, whether now or hereafter existing, as defined in Section 425(e) of the Code.

2.10 "Plan" means this 1996 Independent Director Stock Plan, as amended.

2.11 "Plan Administrator" means the administrator of this Plan as described in Section 4.1.

2.12 "Share" means a share of Common Stock.

2.13 "Subsidiary" means a subsidiary corporation, whether now or hereafter existing, as defined in Section 425(f) of the Code.

3. Shares Subject to this Plan. Subject to Section 8 of this Plan, the total number of Shares that may be awarded under this Plan shall not exceed 75,000 Shares, as such Shares were constituted on the date on which this Plan was amended by the Board as set forth on the last page hereof. If any Shares awarded under this Plan are forfeited pursuant to Section 6.1 or 6.2, such Shares shall again be available for purposes of this Plan.

4. Administration of this Plan.

4.1 Administration. Except as otherwise required herein, this Plan shall be administered by the Board or, if the Board shall authorize a committee to administer this Plan, by such committee to the extent so authorized; provided, however, that only the Board may suspend, amend or terminate this Plan as provided in Section 9. No Director shall vote on any action by the Board with respect to any matter relating to an award held by such Director.

4.2 Powers of the Plan Administrator. Subject to the specific provisions of this Plan, the Plan Administrator shall have the authority, in its discretion: (i) to determine, on review of relevant information and in accordance with Section 2.7 of this Plan, the Fair Market Value of the Common Stock; (ii) to interpret this Plan; (iii) to prescribe, amend, and rescind rules and regulations relating to this Plan; (iv) to authorize any person to execute on behalf of the Company any instrument required to effectuate the award of Shares previously granted hereunder; and (v) to make all other determinations deemed necessary or advisable to administer this Plan. The interpretation and construction by the Plan Administrator of any terms or provisions of this Plan, any Shares awarded hereunder, or of any rule or regulation promulgated in connection herewith, and all actions taken by the Plan Administrator, shall be conclusive and binding on all interested parties.

-2-

4.3 Limited Liability. No member of the Board or the Plan Administrator or officer of the Company shall be liable for any action or inaction of the entity or body, or another person or, except in circumstances involving bad faith, of himself or herself.

4.4 Exchange Act. At any time that the Company has a class of securities registered pursuant to Section 12 of the Exchange Act, the Board and the Plan Administrator shall administer this Plan in accordance with Rule 16b-3 adopted under the Exchange Act, as such rule may be amended from time to time, and Shares awarded to Independent Directors shall be subject to the applicable provisions of Rule 16b-3 or any successor thereto and to such additional conditions or restrictions as may be required to qualify for the maximum exemption from Section 16 of the Exchange Act with respect to Plan transactions.

5. Award of Shares.

5.1 Eligibility. Shares may be awarded pursuant to this Plan only to Independent Directors. All awards hereunder shall be made automatically in accordance with the terms set forth in this Section 5. No person shall have any discretion to select which Independent Directors shall be awarded Shares or to determine the number of Shares to be awarded to Independent Directors. Employee directors who cease to be employees of the Company or any Parent or Subsidiary of the Company but who continue as directors shall become eligible for awards pursuant to this Plan, as if they were newly elected directors, as of the date they cease to be employees.

5.2 Shareholder Approval of Plan. No awards may be made under this Plan unless and until shareholder approval of this Plan has been obtained in accordance with Section 11 hereof.

5.3 Annual Award. Each Independent Director shall be awarded Shares (the "Annual Award"), in an amount determined in accordance with the formula set forth below, on an annual basis, each time he or she is elected to the Board (or, if Directors are elected to serve terms longer than one year, as of the date of each annual shareholders' meeting during that term). The number of Shares awarded in the Annual Award shall be equivalent to the result of \$20,000 divided by the Fair Market Value of a Share on the date of the Annual Award (the "Award Date"), rounded to the nearest 100 Shares. Notwithstanding the foregoing, the Annual Award made to any Independent Director elected or appointed to the Board at any time other than at the annual meeting of shareholders shall be made on the date of such election or appointment, and shall be equivalent to the product of such result (before rounding) multiplied by a fraction whose numerator is the number of days between the date of election or appointment to the Board and the next annual meeting of shareholders, and whose denominator is 365, which product shall be rounded to the nearest 100 Shares.

5.4 Other Fees. The Plan Administrator also may authorize the issuance of Shares under this Plan in lieu of any cash payment of fees payable to Independent Directors, under directors' compensation programs adopted by the Board with respect to services provided by Independent Directors on Board committees or as chairs of committees; provided that such

-3-

issuance would not impede the purposes of this Plan or the qualification of the Plan for the maximum exemption from Section 16 of the Exchange Act. The number of Shares issued pursuant to this Section 5.4, if any, in lieu of any particular fee shall be the cash amount of the fee divided by the Fair Market Value of a Share on the date the fee is earned.

5.5 Limitations. If any award granted under this Plan would cause the number of Shares issued pursuant to this Plan to exceed the maximum aggregate number permitted hereunder, then each such automatic award shall be for that number of Shares determined by dividing the total number of Shares remaining available for issuance by the number of Independent Directors eligible for grant of an award on the Award Date. Thereafter, no further Awards shall be made until such time, if any, as additional Shares become available under this Plan through action of the shareholders to increase the number of Shares that may be issued

under this Plan or through forfeiture of Shares previously awarded hereunder.

6. Vesting and Forfeiture.

6.1 Vesting. Shares awarded pursuant to an Annual Award shall vest in full on the day prior to the date of the regular annual meeting of the shareholders next following such Annual Award (the "Vesting Date") if the Independent Director has attended at least 75% of the regularly scheduled meetings of the Board, in person or by telephone, during that period. If an Independent Director does not attend at least 75% of the regularly scheduled meetings of the Board between the Award Date and Vesting Date, the Shares awarded pursuant to that Annual Award shall be forfeited without having vested.

6.2 Termination of Status as a Director. If a Director ceases to be an Independent Director for any reason other than death or disability before his or her last Annual Award vests, the Shares awarded pursuant to that Annual Award shall be forfeited.

6.3 Disability of Director. Notwithstanding Sections 6.1 or 6.2 above, if an Independent Director is unable to continue his service as a Director as a result of his or her permanent and total disability (as defined in Section 22(e)(3) of the Code), unvested Shares awarded pursuant to an Annual Award to such Independent Director shall become immediately vested.

6.4 Death of Director. In the event of the death of an Independent Director, unvested shares of such Independent Director shall become vested as of the date of death.

6.5 Certificates. As soon as practicable after each Award Date, the Company shall instruct its stock transfer agent to issue and deliver one or more certificates in the name of each recipient of an Annual Award representing the Shares awarded pursuant thereto on that Award Date. Each recipient of an Annual Award shall deposit with the Plan Administrator its designee blank stock powers, duly executed and otherwise in form satisfactory to the Plan Administrator, for such Independent Director's certificate. The Plan Administrator shall hold the certificates representing unvested Shares and the stock powers related thereto until the Shares have been vested in accordance with this Section 6. Any certificates representing Annual Awards that fail

-4-

to vest shall be returned to the Company's stock transfer agent for cancellation, and the affected recipient of the Award shall execute any documents reasonably necessary to facilitate the cancellation. Any certificates representing vested Shares shall be delivered to the relevant Independent Director as soon as practicable after the Shares vest. Any Certificates representing Shares held by the Plan Administrator for an Independent Director who has died shall be delivered as soon as practicable to the decedent's beneficiary previously designated to the Plan Administrator in writing by such Independent Director, or if no such designation exists, to his or her estate.

6.6 Status Before Vesting.

(a) Each recipient of an Annual Award shall be a shareholder of record with respect to all Shares awarded, whether or not vested, and shall be entitled to all of the rights of such a holder, except that the Share certificates for Annual Awards shall be held by the Plan Administrator until delivered in accordance with Section 6.5.

(b) Any dividend checks or communications to shareholders received by the Plan Administrator with respect to a certificate held by the Plan Administrator shall promptly be transmitted to the Independent Director whose name is on the certificate.

(c) No Independent Director may transfer any interest in unvested shares to any person other than the Company.

7. Effect of Merger, Sale of Assets, Liquidation or Dissolution. In the event of a merger, consolidation or plan of exchange to which the Company is a party and in which the Company is not the survivor, or a sale of all or substantially all of the Company's assets, any unvested Shares shall vest automatically upon the closing of such transaction.

8. Securities Regulations.

Shares shall not be issued under this Plan unless the issuance and delivery of such Shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, any applicable state securities laws, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, applicable laws of foreign countries and other jurisdictions and the requirements of any quotation service or stock exchange on which the Shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance, including the availability of an exemption from registration for the issuance and sale of any Shares hereunder. The inability of the Company to obtain, from any regulatory body having jurisdiction, the authority deemed by the Company's

counsel to be necessary for the lawful issuance and sale of any Shares hereunder or the unavailability of an exemption from registration for the issuance and sale of any Shares hereunder shall relieve the Company of any liability with respect of the nonissuance or sale of such Shares as to which such requisite authority shall not have been obtained.

-5-

In connection with the issuance of Shares under this Plan, the Company may require recipients to represent and warrant at the time of issuance that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required by any relevant provision of the aforementioned laws. The Company may place a stop-transfer order against any Shares on the official stock books and records of the Company, and a legend may be stamped on stock certificates to the effect that the Shares may not be pledged, sold or otherwise transferred unless an opinion of counsel is provided (concurring in by counsel for the Company) stating that such transfer is not in violation of any applicable law or regulation. The Company also may require such other action or agreement by award recipients as may from time to time be necessary to comply with federal and state securities laws. THIS PROVISION SHALL NOT OBLIGATE THE COMPANY TO UNDERTAKE REGISTRATION OF SHARES ISSUED PURSUANT TO THIS PLAN.

9. Amendment and Termination.

9.1 Plan. The Board may at any time suspend, amend or terminate this Plan, provided that the approval of the Company's shareholders is necessary within twelve months before or after the adoption by the Board of Directors of any amendment that will:

(a) increase the number of Shares that are to be reserved for issuance under this Plan;

(b) permit awards to a class of persons other than those now permitted to receive awards under this Plan; or

(c) require shareholder approval under applicable law, including Section 16(b) of the Exchange Act.

9.2 Limitations. Notwithstanding the foregoing, the provisions set forth in Sections 2 and 5 of this Plan (and any additional Sections of this Plan that affect terms required to be specified in this Plan by Rule 16b-3) shall not be amended more than once every six months, other than to comport with changes in the Code, the Employee Retirement Income Security Act, or the rules thereunder.

9.3 Automatic Termination. Unless sooner terminated by the Board, this Plan shall terminate ten years from the date on which this Plan is first adopted by the Board. No award may be made after such termination or during any suspension of this Plan. The amendment or termination of this Plan shall not, without the consent of any Independent Director who then has unvested Shares, alter or impair any rights or obligations with respect to such Shares theretofore granted under this Plan.

-6-

10. Miscellaneous.

10.1 Status as a Director. Nothing in this Plan or in any award granted pursuant to this Plan shall confer on any person any right to continue as a Director of the Company or to interfere in any way with the right of the Company to terminate his or her relationship with the Company at any time.

10.2 Reservation of Shares. The Company, during the term of this Plan, at all times will reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of this Plan.

11. Effectiveness of This Plan. This Plan shall become effective on the date on which it is adopted by the Company's Board of Directors (the "Effective Date"). No award may be granted under this Plan to any director of the Company until the Plan is approved by the shareholders, and any Award made before such approval shall be conditioned on and is subject to such approval.

Adopted by the Board of Directors on July 10, 1996, and approved by the shareholders on August 9, 1996.

Amended by the Board of Directors on November 8, 1996.

Amended by the Board of Directors on October 29, 1997.

-7-

THIS AMENDMENT is made and entered into this 13th day of November 1997 by and between City of Seattle, a Washington municipal corporation ("Landlord"), and Microvision, Inc., a Washington corporation ("Tenant").

WITNESSETH:

WHEREAS, Landlord and Tenant entered into a written Office Lease Agreement dated December 22, 1995, First Amendment of Office Lease Agreement dated January 26, 1996, and Second Amendment of Office Lease Agreement dated February 26, 1997 and Third Amendment of Lease Agreement dated September 24, 1997 (the "Lease"), in which Landlord leased to Tenant and Tenant leased from Landlord Premises located in Building A of Park 90/5, the address of which is 2203 Airport Way South, Seattle, Washington 98134; and

WHEREAS, This Third Amendment of Office Lease Agreement cancels and supersedes that certain Third Amendment of Office Lease Agreement dated September 24, 1997 executed by the parties.

WHEREAS, Landlord and Tenant desire to further amend the Lease to increase the number of rentable square feet of space in the Premises, to adjust Tenant's Share of the Building and Tenant's Share of the Property, to adjust the Base Rent, and to increase the number of parking stalls allotted to Tenant.

NOW, THEREFORE, Landlord and Tenant hereby agree as follows:

1. The following Subsections are hereby added to and shall become a part of Section 1.3 "Premises":

1.3.1 Effective October 1, 1997, the square footage of the Premises shall be increased from approximately 11,851 rentable square feet to approximately 14,189 rentable square feet by adding Suite 115 (approximately 2,338 rentable square feet). Suite 115 is outlined in yellow on the floor plan attached as Exhibit B.

2. The following Subsections are hereby added to and shall become a part of Section 1.4 "Tenant's Share":

1.4.1 Effective October 1, 1997, Tenant's Share of the Building shall be increased from 12.18 percent to 14.58 percent and Tenant's Share of the Property shall be increased from 4.16 percent to 4.98 percent.

3. The following Subsections are hereby added to and shall become a part of Section 1.9 "Base Rent":

1.9.1 Effective November 1, 1997, the Base Rent shall be increased from \$9,135.15 per month to \$10,937.36 per month.

4. The following sentence shall be added to Section 1.13 Parking:

Effective October 1, 1997, subject to Section 31 of the Lease, Landlord shall provide Tenant an additional five (5) unassigned parking stalls in the parking area(s) servicing the Building so that the total number of unassigned parking stalls allotted to Tenant shall be thirty (28) stalls. All of said parking stalls are provided to Tenant free of charge.

5. The floor plan attached as Exhibit B to the Second Amendment of Office Lease Agreement is hereby deleted in its entirety and replaced with the Exhibit B attached to this Third Amendment of Office Lease Agreement.

6. Section 2.4 "Tenant's Right of First Refusal" has been exercised by Tenant and is therefore deleted in its entirety and of no further force and effect.

7. Improvements. Tenant hereby accepts the Premises, which include Suite 115, in "AS IS" condition. The provisions of the Lease pertaining to improvements to the Premises have been fulfilled, and Landlord shall not be required to make additional improvements to the Premises.

8. Agency Disclosure. Martin Smith Inc hereby discloses that it represents the Landlord in this transaction.

6. Effectiveness of Lease. The parties confirm, ratify and agree that, except as set forth in this Third Amendment of Lease, all the terms and provisions of the Lease shall remain unchanged and in full force and effect.

Dated the date first above written.

Landlord:

Tenant:

The City of Seattle, a Washington
municipal corporation

Microvision, Inc., a Washington
corporation

By: _____

By: _____

ALL OF BLOCK 242, INCLUDING ALL OF VACATED ALLEY IN SAID BLOCK, EXCEPT THAT PORTION OF THE EAST 170 FEET THEREOF LYING SOUTHERLY OF THE SOUTHERLY LINE OF THE SPURTRACK RIGHT OF WAY GRANTED TO NORTHERN PACIFIC RAILWAY COMPANY BY INSTRUMENT RECORDED MARCH 28, 1950, UNDER RECORDING NUMBER 3998467, AS A LIMITED BOUNDARY LINE;

LOTS 12 TO 22, INCLUSIVE, BLOCK 251;

ALL OF VACATED 8TH AVENUE SOUTH LYING BETWEEN SAID BLOCK 242 AND 251;

LOTS 1 THROUGH 11, INCLUSIVE, BLOCK 251, EXCEPT THE WEST 285 FEET THEREOF;

ALL IN SEATTLE TIDELANDS, IN KING COUNTY, WASHINGTON, AS SHOWN ON THE OFFICIAL MAPS ON FILE IN THE OFFICE OF THE COMMISSIONER OF PUBLIC LANDS AT OLYMPIA, WASHINGTON; AND

EXCEPT ALL THOSE PARTS OF LOTS 1, 2 AND 3, BLOCK 251, SEATTLE TIDELANDS, IN KING COUNTY, WASHINGTON, AS SHOWN ON THE OFFICIAL MAPS ON FILE IN THE OFFICE OF THE COMMISSIONER OF PUBLIC LANDS AT OLYMPIA, WASHINGTON, DESCRIBED AS FOLLOWS:

BEGINNING AT A POINT IN THE NORTH LINE OF SAID BLOCK 251, 285 FEET EAST AS MEASURED ALONG SAID NORTH LINE FROM THE NORTHWEST CORNER OF SAID BLOCK, SAID POINT BEING IN THE EAST LINE OF THE PROPERTY CONVEYED TO THE GREAT NORTHERN RAILWAY COMPANY BY SEATTLE UNION STOCKYARDS BY WARRANTY DEED DATED JUNE 30, 1926, AND RECORDED MARCH 07, 1927, IN VOLUME 1346 OF DEEDS, PAGE 192; THENCE SOUTH ALONG SAID EAST PROPERTY LINE, BEING PARALLEL WITH AND DISTANT 285 FEET EAST FROM THE WEST LINE OF SAID BLOCK 251, A DISTANCE OF 160 FEET; THENCE NORTHEASTERLY IN A STRAIGHT LINE 164.92 FEET, MORE OR LESS, TO A POINT IN SAID NORTH LINE OF BLOCK 251, DISTANT 40 FEET EAST AS MEASURED ALONG SAID NORTH LINE, FROM THE POINT OF BEGINNING; THENCE WEST ALONG SAID NORTH LINE 40 FEET TO THE POINT OF BEGINNING.,

Initials: _____

MARTIN SMITH INC
500 WATERMARK TOWER
1109 FIRST AVENUE
SEATTLE, WA 98101-2988
TEL 682-3300 FAX 340-1283

OFFICE LEASE
PARK 90/5

This Lease is made this 1st day of December 1997 by and between The City of Seattle, a Washington municipal corporation ("Landlord"), and Microvision, Inc., a Washington corporation ("Tenant"), who agree as follows:

Fundamental Terms. As used in this Lease, the following capitalized terms shall have the following meanings:

"Land" means the land on which the Building is located, situated in the City of Seattle, County of King, State of Washington, which is described on Exhibit A.

"Project" means that project in which the Building is located, commonly known as Park 90/5, Buildings A, B, C, D, and E, the street address of each of which is 2203 Airport Way South, Seattle, Washington.

"Building" means the building in which the Premises are located, commonly known as Building A, the street address of which is 2203 Airport Way South, Seattle, Washington 98134.

"Premises" means that certain space outlined in red in Exhibit B and located on the first floor of the Building designated as Suite ____.

"Agreed Areas" means the agreed amount of rentable square feet of space in the Project, Building and the Premises. Landlord and Tenant stipulate and agree for all purposes under this Lease that the Project contains approximately 285,079 rentable square feet of space (the "Project Area"), that the Building contains approximately 97,300 rentable square feet of space (the "Building Area") and that the Premises contain approximately _____ rentable square feet of space (the "Premises Area"). Landlord and Tenant further agree that the Building Area may exclude portions of the Building which are used for other than office purposes, such as areas used for retail purposes or for storage purposes.

"Tenant's Share" means "Tenant's Share of the Building" or "Tenant's Share of the Project", as applicable. Tenant's Share of the Building means the Premises Area divided by the Building Area, expressed as a percentage, which is two and thirty-seven one-hundredths percent (2.37%). Tenant's Share of the Project means the Premises Area divided by the Project Area, expressed as a percentage, which is eighty-one one-hundredths (.81%) Notwithstanding the foregoing, if one or more of the facilities, services and utilities the costs of which are included within the definition of Operating Costs is not furnished to one or more tenants or to particular types of tenants, then in connection with the calculation of Tenant's Share of each of such costs the Building Area shall be reduced by the number of rentable square feet of space occupied by such tenants and Tenant's Share shall be separately computed as to each of such costs.

If a portion of the Building is damaged or condemned, or any other event occurs which alters the number of rentable square feet of space in the Premises, the Building, or the Project, then Landlord shall adjust Tenant's Share to equal the number of rentable square feet of space then existing in the Premises (as altered by such event) divided by the number of rentable square feet of space then existing in the Building (as altered by such event).

"Commencement Date" means December 1, 1997.

"Expiration Date" means January 14, 1999.

"Term" means the period of time commencing on the Commencement Date and ending on the Expiration Date, unless sooner terminated pursuant to this Lease.

"Minimum Monthly Rent" means Two Thousand Ninety-nine and thirty-seven/100ths Dollars (\$2,099.37) per month during the Term of this Lease.

"Permitted Use" means use for purposes of general business office and related administrative purposes.

"Base Year" means the calendar year 1995.

"Prepaid Rent" means Zero Dollars (\$0.00).

"Security Deposit" means Zero Dollars (\$0.00).

"Parking stalls" means three (3) unreserved parking stalls in the Building parking area, subject to the provisions of Section 36 captioned "Parking".

"Landlord's Address for Notice" means Park 90/5, c/o Martin Smith Inc, 1109 First Avenue, Suite 500, Seattle, Washington 98101-2988.

"Landlord's Address for Payment of Rent" means Park 90/5 Building, c/o Martin Smith Inc, 1109 First Avenue, Suite 500, Seattle, Washington 98101-2988.

"Tenant's Address for Notice" means Microvision, Inc., 2203 Airport Way South, Suite 100, Seattle, Washington 98134.

"Landlord's Agent" means Martin Smith Inc or such other agent as Landlord may appoint from time to time.

"Broker(s)" means Martin Smith Inc representing the Landlord.

"Exhibits" means the following Exhibits to this Lease:

- Exhibit A - Legal Description of the Property
- Exhibit B - Outline Drawing of the Premises
- Exhibit C - Work Letter
- Exhibit D - Rules and Regulations

"Rider" means the following Rider which is attached hereto: Rider dated December 1, 1997 by and between The City of Seattle, a Washington municipal corporation ("Landlord"), and Microvision, Inc., a Washington corporation ("Tenant").

"Definitions" means the words and phrases defined in Section 37 captioned "Definitions".

Premises. Landlord leases to Tenant and Tenant leases from Landlord the Premises for the Term.

Appurtenances. Tenant, and its authorized representatives, shall have the right to use, in common with others and subject to the Rules and Regulations, the Common Areas of the Building. Landlord shall have the right, in Landlord's sole discretion, from time to time to (i) make changes to the Building interior and exterior and Common Areas, including without limitation, changes in the location, size, shape, number and appearance thereof, (ii) to close temporarily any of the Common Areas for maintenance purposes so long as reasonable access to the Premises remains available, and (iii) to use the Common Areas while engaged in making additional improvements, repairs or alterations to the Building. All of the windows and exterior walls of the Premises and any space in the Premises used for shafts, stacks, pipes, conduits, ducts, electrical equipment or other utilities or Building facilities are reserved solely to Landlord and Landlord shall have rights of access through the Premises for the purpose of operating, maintaining and repairing the same, provided, however, that such changes shall not materially affect Tenant's access to, or use and occupancy of, the Premises.

Term. This Lease shall become legally binding as of the earlier of the Commencement Date or the date Tenant enters onto the Premises with Landlord's consent, and shall remain in full force and effect thereafter until the expiration of the Term, unless sooner terminated pursuant to this Lease. The Term shall commence on the Commencement Date and expire on the Expiration Date. The Commencement Date shall be the date specified in Section 1.

Minimum Monthly Rent; Late Charge.

Minimum Monthly Rent. Tenant shall pay to Landlord the Minimum Monthly Rent without deduction, offset, prior notice or demand, in advance on the first day of each month during the Term. Minimum Monthly Rent for any partial month shall be prorated at the rate of 1/30th of the Minimum Monthly Rent per day. Minimum Monthly Rent is exclusive of any sales, franchise, business or occupation or other tax based on rents (other than Landlord's general income taxes) and should such taxes apply during the Term, the Minimum Monthly Rent shall be increased by the amount of such taxes. All Rent shall be paid to Landlord at Landlord's Address for Payment of Rent or at such other address as Landlord may specify by notice to Tenant.

Late Charge. Tenant acknowledges that the late payment by Tenant of any Rent will cause Landlord to incur administrative, collection, processing and accounting costs and expenses not contemplated under this Lease, the exact amount of which are extremely difficult or impracticable to fix. Therefore, if any Rent is not received by Landlord from Tenant by the fifth (5th) calendar day after such Rent is due, Tenant shall immediately pay to Landlord a late charge equal to five percent (5%) of the amount of such Rent or Seventy-five and No/100th Dollars (\$75.00), whichever is greater. Landlord and Tenant agree that this late charge represents a reasonable estimate of such costs and expenses and is fair compensation to Landlord for its loss caused by Tenant's nonpayment. Should Tenant pay said late charge but fail to pay contemporaneously therewith all unpaid amounts of Rent, Landlord's acceptance of this late charge shall not constitute a waiver of Tenant's default with respect to Tenant's nonpayment nor prevent Landlord from exercising all other rights and remedies available to

Landlord under this Lease or under law.

2

Prepaid Rent and Security Deposit. On execution of this Lease, Tenant shall deposit with Landlord the Prepaid Rent, as monthly rent for the first full month of the Term for which Rent is payable, and the Security Deposit, as a Security Deposit for the performance by Tenant of the provisions of this Lease. If Tenant is in default, Landlord may use the Security Deposit, or any portion of it, to cure the default, including without limitation, paying for the cost of any work necessary to restore the Premises, the Tenant improvements and any alterations to good condition or to compensate Landlord for all damage sustained by Landlord resulting from Tenant's default. Tenant shall within five (5) days of demand pay to Landlord a sum equal to the portion of the Security Deposit expended or applied by Landlord as provided in this Section so as to maintain the Security Deposit in the sum initially deposited with Landlord. If Tenant is not in default as of the expiration or termination of the Term, including without limitation, in default in payment of the Rent for the last month of the Term, then Landlord shall return the Security Deposit, without interest, to Tenant within a reasonable period of time after the expiration or termination of the Term. Landlord's obligations with respect to the Security Deposit are those of a debtor and not a trustee. Landlord may commingle the Security Deposit with Landlord's general and other funds.

Real Property Taxes.

Payment of Tenant's Share of Increases in Real Property Taxes. Tenant shall pay to Landlord, as Additional Rent, monthly, in advance on the first day of each month during the Term, an amount equal to one-twelfth (1/12th) of Tenant's Share of all increases in Real Property Taxes, or such other taxes required by the State of Washington for government-owned property, that are or will be levied or assessed against the Property during each calendar year during the Term over and above the Real Property Taxes that are levied or assessed against the Property during the Base Year as reasonably estimated by Landlord. Such Additional Rent is exclusive of any sales, franchise, business or occupation or other tax based on rents and should such taxes apply during the Term, such Additional Rent shall be increased by the amount of such taxes. Within one hundred twenty (120) days after the end of each calendar year during the Term or within such longer period of time as may be reasonably necessary, Landlord shall furnish to Tenant a statement of the Real Property Taxes for the preceding calendar year and Tenant's Share of the increase in Real Property Taxes. If Tenant's Share of the increase in such Real Property Taxes for that calendar year over such Real Property Taxes for the Base Year exceeds the monthly payments made by Tenant, then Tenant shall pay Landlord the deficiency within thirty (30) days after receipt of the statement. If Tenant's payments made during that calendar year exceed Tenant's Share of the increase in such Real Property Taxes for that calendar year over such Real Property Taxes for the Base Year, then, at Landlord's option, either Landlord shall pay Tenant the excess at the time Landlord furnishes the statement to Tenant, or Tenant shall be entitled to offset the excess against the next installment(s) of Minimum Monthly Rent and Additional Rent, provided, however, that at the end of the Term Landlord shall pay Tenant the excess at the time Landlord furnishes the statement to Tenant.

General and Special Assessments. With respect to any general or special assessments which may be levied against or upon the Property, or which under the laws then in force may be evidenced by improvement or other bonds or may be paid in annual installments, only the amount of such annual installment, and interest due thereon, shall be included in the computation of Real Property Taxes.

Proration. Tenant's Share of Real Property Taxes shall be prorated on the basis of a 360-day year to account for any fractional portion of a tax year included in the Term at its commencement and expiration.

No Effect on Minimum Monthly Rent. Notwithstanding anything to the contrary in this Section, the Minimum Monthly Rent payable by Tenant shall in no event be less than the Minimum Monthly Rent specified in Section 1.

Personal Property Taxes. Tenant shall pay prior to delinquency all personal property taxes assessed against and levied upon trade fixtures, furnishings, equipment and all other personal property of Tenant contained in the Premises or elsewhere. If possible, Tenant shall cause such trade fixtures, furnishings, equipment and all other personal property of Tenant to be assessed and billed separately from the Property.

Operating Costs.

Payment of Tenant's Share of Increases in Operating Costs. Tenant shall pay to Landlord, as Additional Rent, monthly, in advance on the first day of each month during the Term, an amount equal to one-twelfth (1/12th) of Tenant's Share of the increase in the Operating Costs of the Property for each calendar year during the Term over the Operating Costs for the Base Year as reasonably estimated by Landlord. The Property is part of the Project. Those Operating Costs attributable to the Project shall be appropriately apportioned by Landlord to the Building based on the ratio of the Building Area to the Project Area unless in Landlord's reasonable judgment any such Operating Costs should be

apportioned to the Building on another basis. If any tenant or occupant of space in the Building or Project provides or pays separately for one or more of its utilities and services, then Landlord shall have the right to increase the Operating Costs of the Building or Project, as the case may be, by an amount equal to the costs that Landlord would have incurred if it had provided and paid for such utilities and services. Landlord shall reasonably estimate the Operating Costs for the Base Year and for each calendar year during the Term based on the Operating Costs that would have been incurred if the Building had been 95% occupied during the Base Year or each such calendar year, as the case may be, taking into account historical operating costs for the Building. Such Additional Rent is exclusive of any sales, franchise, business or occupation or other tax based on rents and should such taxes apply during the Term, such Additional Rent shall be increased by the amount of such taxes. Within one hundred twenty (120) days after the end of each calendar year during the Term or within such longer period of time as may be reasonably necessary, Landlord shall furnish to Tenant a statement of the Operating Costs for the preceding calendar year and Tenant's Share of the increase in the Operating Costs. If Tenant's Share of the increase in the Operating Costs for that calendar year over the Operating Costs for the Base Year exceeds the monthly payments made by Tenant, then Tenant shall pay Landlord the deficiency within thirty (30) days after receipt of the statement. If

3

Tenant's payments made during that calendar year exceed Tenant's Share of the increase in the Operating Costs for that calendar year over the Operating Costs for the Base Year, then, at Landlord's option, either Landlord shall pay Tenant the excess at the time Landlord furnishes the statement to Tenant, or Tenant shall be entitled to offset the excess against the next installment(s) of Minimum Monthly Rent and Additional Rent, provided, however, that at the end of the Term Landlord shall pay Tenant the excess at the time Landlord furnishes the statement to Tenant.

Proration. Tenant's Share of Operating Costs shall be prorated on the basis of a 360 day year to account for any fractional portion of a year included in the Term at its commencement and expiration.

No Effect on Minimum Monthly Rent. Notwithstanding anything to the contrary in this Section, the Minimum Monthly Rent payable by Tenant shall in no event be less than the Minimum Monthly Rent specified in Section 1.

Use. Tenant shall use the Premises for the Permitted Use and for no other use without Landlord's prior consent. Tenant agrees that it has determined to its satisfaction that the Premises can be used for the Permitted Use. Tenant waives any right to terminate this Lease if the Premises cannot be used for the Permitted Use during the Term unless the prohibition on use is the result of actions taken by Landlord. Tenant's use of the Premises shall be in accordance with the following:

Insurance. Tenant shall not do, bring, or keep anything in or about the Premises or the Property that will cause a cancellation of any insurance covering the Property. If the rate of any insurance carried by Landlord on the Property as published by the Washington Survey and Rating Bureau, or any successor rating bureau or agency, is increased as a result of Tenant's use, then Tenant shall pay to Landlord not less than ten (10) days before the date Landlord is obligated to pay a premium on the insurance, a sum equal to the difference between the original premium and the increased premium.

Compliance with Laws. Tenant shall comply with all Laws concerning the Premises and Tenant's use of the Premises.

Waste, Nuisance and Improper Use. Tenant shall not use the Premises in any manner that will constitute waste, nuisance or unreasonable annoyance to other tenants in the Building, including without limitation, (i) the use of loudspeakers or sound or light apparatus that can be heard or seen outside the Premises, (ii) for cooking or other activities that cause odors that can be detected outside the Premises, or (iii) for lodging or sleeping rooms.

Damage to Property. Tenant shall not do anything in, on or about the Premises that will cause damage to the Property.

Rules and Regulations. Tenant and its authorized representatives shall comply with the Rules and Regulations set forth on Exhibit D attached hereto. Landlord shall have the right to amend the Rules and Regulations from time to time. In the event of a conflict between this Lease and the Rules and Regulations, as amended, this Lease shall control. Landlord shall have the right to enforce the Rules and Regulations. Landlord shall have no liability or responsibility whatsoever with respect to the noncompliance by other tenants or their authorized representatives with any of such Rules and Regulations.

Hazardous Substances. Tenant shall not dispose of or otherwise allow the release of any Hazardous Substances in, on or under the Premises, or the Property, or in any tenant improvements or alterations placed on the Premises by Tenant. Tenant represents and warrants to Landlord that Tenant's intended use of the Premises does not involve the use, production, disposal or bringing on to the Premises of

any Hazardous Substances, except for products normally used in general business offices which constitute Hazardous Substances, provided that such products are used, stored and disposed of in accordance with applicable laws and manufacturer's and supplier's guidelines. Tenant shall promptly comply with all laws and with all orders, decrees or judgments of governmental authorities or courts having jurisdiction, relating to the use, collection, treatment, disposal, storage, control, removal or cleanup of Hazardous Substances, on or under the Premises or the Property, or incorporated in any tenant improvements or alterations, at Tenant's expense.

Compliance; Notification. After notice to Tenant and a reasonable opportunity for Tenant to effect such compliance, Landlord may, but is not obligated to, enter upon the Premises and take such actions and incur such costs and expenses to effect such compliance as it deems advisable to protect its interest in the Premises and the Property, provided, however that Landlord shall not be obligated to give Tenant notice and an opportunity to effect such compliance if (i) such delay might result in material adverse harm to the Premises, or the Property, or (ii) an emergency exists. Tenant shall reimburse Landlord for the full amount of all costs and expenses incurred by Landlord in connection with such compliance activities, and such obligation shall continue even after expiration or termination of the Term. Tenant shall notify Landlord immediately of any release of any Hazardous Substances on the Premises or the Property.

Indemnity by Tenant. Tenant agrees to hold Landlord harmless from and against any and all damages, charges, cleanup costs, remedial actions, costs and expenses, which may be imposed on, incurred or paid by, or asserted against Landlord, the Premises or the Property by reason of, or in connection with (1) any misrepresentation, breach of warranty or other default by Tenant under this Lease, or (2) the acts or omissions of Tenant, its authorized representatives, or any subtenant or other person for whom Tenant would otherwise be liable, resulting in the release of any Hazardous Substances on the Premises or the Property.

4

Acknowledgment as to Hazardous Substances. Tenant acknowledges that the Premises may contain Hazardous Substances, and Tenant accepts the Premises and the Building notwithstanding such Hazardous Substances. If Landlord is required by any law to take any action to remove or abate any Hazardous Substances, or if Landlord deems it necessary to conduct special maintenance or testing procedures with regard to any Hazardous Substances, or to remove or abate any Hazardous Substances, Landlord may take such action or conduct such procedures at times and in a manner that Landlord deems appropriate under the circumstances, and Tenant shall permit the same.

Survival. The provisions of this Section shall survive the expiration or sooner termination of the Term. No subsequent modification or termination of this Lease by agreement of the parties or otherwise shall be construed to waive or to modify any provisions of this Section unless the termination or modification agreement or other document expressly so states in writing.

Landlord's Maintenance; Inclusion in Operating Costs.

Landlord's Maintenance. Except as provided in Section 13 captioned "Tenant's Maintenance; Remedies", Section 18 captioned "Destruction" and Section 19 captioned "Condemnation" and except for damage caused by any negligent or intentional act or omission of Tenant or its authorized representatives, Landlord shall maintain in good condition and repair the following: (i) the structural parts of the Building, which structural parts include only the foundations, bearing and exterior walls (excluding glass and doors), subflooring and roof, (ii) the building standard lighting fixtures, window coverings and ceiling tiles and the unexposed electrical, plumbing and sewage systems, including without limitation, those portions lying outside the Premises, (iii) the heating, ventilating and air-conditioning system, if any, servicing the Building, (iv) the lobbies, corridors, elevators, public or common restrooms and other common areas of the Building, and (v) the sidewalks, grounds, landscaping, parking and loading areas, if any, and other common areas of the Property.

Inclusion in Operating Costs. The cost of maintaining, repairing, replacing or servicing the portions of the Building that Landlord is required to maintain pursuant to this Section shall be included in Operating Costs to the extent provided in Section 9 captioned "Operating Costs".

Tenant's Maintenance; Remedies.

Tenant's Maintenance. Except as provided in Section 12 captioned "Landlord's Maintenance; Inclusion in Operating Costs", Section 18 captioned "Destruction" and Section 19 captioned "Condemnation" and except for damage caused by any grossly negligent or intentional act or omission of Landlord or its authorized representatives, Tenant, at its cost, shall maintain in good condition and repair the Premises, including without limitation, all of the Tenant Improvements (except for latent defects), Tenant's alterations, Tenant's trade fixtures, Tenant's personal property, signs, walls, interior partitions, wall coverings, windows, non-building standard window coverings, glass, doors,

carpeting and resilient flooring, non-building standard ceiling tiles, plumbing fixtures and non-building standard lighting fixtures. Tenant shall be liable for any damage to the Premises and the Building resulting from the acts or omissions of Tenant or its authorized representatives.

Landlord's Remedies. If Tenant fails to maintain the Premises in good condition and repair as required by Subsection 13(a) and if such failure is not cured within thirty (30) days after notice of such failure is given by Landlord to Tenant, then Landlord may, at its option, cause the Premises to be maintained in good condition and repair and Tenant shall promptly reimburse Landlord for all costs incurred by Landlord in performance of Tenant's obligation to maintain the Premises.

Tenant Improvements and Alterations; Trade Fixtures.

Tenant Improvements and Alterations. Tenant accepts the Premises in "AS IS" condition without any obligations for the performance of improvements or other work by Landlord. Tenant shall install and pay for the improvements and alterations as set forth in the Work Letter attached hereto as Exhibit C. Tenant shall not make any other improvements or alterations to the Premises without Landlord's prior consent. Any improvements and alterations made by either party shall remain on and be surrendered with the Premises on expiration or termination of the Term, except that Landlord can elect by giving notice to Tenant within thirty (30) days before the expiration of the Term, or within thirty (30) days after termination of the Term, to require Tenant to remove any improvements and alterations that Tenant has made to the Premises. If Landlord so elects, Tenant, at its cost, shall restore the Premises to the condition designated by Landlord in its election, before the last day of the Term, or within thirty (30) days after notice of election is given, whichever is later. Any improvements and alterations that remain on the Premises on expiration or termination of the Term shall automatically become the property of Landlord and title to such improvements and alterations shall automatically pass to Landlord at such time without any payment therefor by Landlord to Tenant. If Tenant or its authorized representatives make any improvements or alterations to the Premises as provided in this Section, then such improvements and alterations (i) shall be made in a first class manner in conformity with then building standard improvements, (ii) shall be made utilizing then building standard materials, (iii) shall be made in compliance with the Rules and Regulations and the reasonable directions of Landlord, (iv) shall be made pursuant to a valid building permit to be obtained by Tenant, at its cost, (v) shall be made in conformity with then applicable Laws, including without limitation, building codes, and (vi) shall not be commenced until five (5) days after Landlord has received notice from Tenant stating the date the installation of such improvements and alterations is to commence so that Landlord can post and record an appropriate notice of nonresponsibility.

Trade Fixtures. Tenant shall not install any trade fixtures in or on the Premises without Landlord's prior consent.

5

Mechanics' Liens. Tenant shall pay, or cause to be paid, all costs of labor, services and/or materials supplied in connection with any Work. Tenant shall keep the Property free and clear of all mechanics' liens and other liens resulting from any Work. Prior to the commencement of any Work or the supply or furnishing of any labor, services and/or materials in connection with any Work, Tenant shall provide Landlord with a labor and material payment bond in an amount equal to one hundred percent (100%) of the aggregate price of all contracts therefor, with release of the bond conditioned on Tenant's payment in full of all claims of lien claimants for such labor, services and/or materials supplied in the prosecution of the Work. Said payment bond shall name Landlord as a primary obligee, shall be given by a surety which is satisfactory to Landlord, and shall be in such form as Landlord shall approve in its sole discretion. Tenant shall have the right to contest the correctness or validity of any such lien if, immediately on demand by Landlord, it procures and records a lien release bond issued by a responsible corporate surety in an amount sufficient to satisfy statutory requirements therefor in the State of Washington. Tenant shall promptly pay or cause to be paid all sums awarded to the claimant on its suit, and, in any event, before any execution is issued with respect to any judgment obtained by the claimant in its suit or before such judgment becomes a lien on the Premises, whichever is earlier. If Tenant shall be in default under this Section, by failing to provide security for or satisfaction of any mechanic's or other liens, then Landlord may (but shall not be obligated to), in addition to any other rights or remedies it may have, discharge said lien by (i) paying the claimant an amount sufficient to settle and discharge the claim, (ii) procuring and recording a lien release bond, or (iii) taking such other action as Landlord shall deem necessary or advisable, and, in any such event, Tenant shall pay as Additional Rent, on Landlord's demand, all costs (including reasonable attorney fees) incurred by Landlord in settling and discharging such lien together with interest thereon in accordance with Section 34 captioned "Interest on Unpaid Rent" from the date of Landlord's payment of said costs. Landlord's payment of such costs shall not waive any default of Tenant under this Section.

Utilities and Services.

Utilities and Services Furnished by Landlord. Landlord shall furnish the Premises with:

Electricity for lighting and power suitable for the use of the Premises for ordinary general office purposes; provided, however, that Tenant shall not at any time have a connected electrical load for lighting purposes in excess of the wattage per square foot of Premises Area required for building standard amounts of lighting, or a connected load for all other power requirements in excess of four (4) watts per square foot of Premises Area as determined by Landlord, and the electricity so provided for lighting and power shall not exceed such limits, subject to any lower limits set by any governmental authority with respect thereto;

Subject to the reasonable limitations of the existing building systems, heating, ventilating and air-conditioning, if the Building has an air-conditioning system, to maintain a temperature range in the Premises which is customary for similar office space in the Seattle, Washington area (but in compliance with any applicable governmental regulations with respect thereto). Tenant agrees to keep closed, when necessary, blinds, draperies and windows which must be closed to provide for the efficient operation of the heating and air conditioning systems, if any, and Tenant agrees to cooperate with Landlord and to abide by the regulations and requirements which Landlord may prescribe for the proper functioning and protection of the heating, ventilating and air-conditioning system, if any. If Tenant requires heating, ventilating and air conditioning to the Premises other than during normal business hours from 7:30 A.M. to 6:00 P.M. daily, except Saturdays, Sundays and those legal holidays generally observed in the State of Washington, Landlord shall, upon Tenant's request made not less than 24 hours before the time Tenant requires the after hour service, and not later than Noon on the Friday before any Saturday or Sunday on which Tenant requires such service, and not later than Noon of the day before any holiday on which Tenant requires such service (except as otherwise provided in the Rules and Regulations), furnish such heating, ventilating and air conditioning. If Tenant receives such services, then Tenant shall pay, upon demand, an amount equal to Tenant's proportionate share of the actual direct cost to Landlord in providing the heating, ventilating and air conditioning outside of normal business hours;

Water for restroom and drinking purposes and access to restroom facilities;

Elevator service for general office pedestrian usage if the Building is serviced by elevators;

Relamping of building-standard light fixtures;

Washing of interior and exterior surfaces of exterior windows with reasonable frequency; and

Janitorial service five (5) times per week, except holidays.

Payment for Excess Utilities and Services. All services and utilities for the Premises not required to be furnished by Landlord pursuant to Section 16(a) shall be paid for by Tenant. If Tenant requires, on a regular basis, water, heat, air conditioning, electric current, elevator or janitorial service in excess of that provided for in Section 16(a), then Tenant shall first obtain the consent of Landlord which consent may be withheld in Landlord's sole discretion. If Landlord consents to such excess use, Landlord may install an electric current or water meter (including, without limitation, any additional wiring, conduit or panel required therefor) to measure the excess electric current or water consumed by Tenant or may cause the excess usage to be measured by other reasonable methods (e.g. by temporary "check" meters or by survey). Tenant shall pay to Landlord upon demand (i) the cost of any and all water, heat, air conditioning, electric current, janitorial, elevator or other services or utilities required to be furnished to Tenant in excess of the services and utilities required to be furnished by Landlord as provided in Section 16(a); (ii) the cost of installation, maintenance and repair of any meter installed in the Premises; (iii) the cost of all electricity and water consumed by Tenant in connection with any dedicated heating, ventilating and/or air conditioning, computer power and/or air conditioning, telecommunications or other special systems of Tenant, including any power usage other than through existing standard 110-volt AC outlets; and (iv) any cost incurred by Landlord in keeping account of or determining such

6

excess utilities or services furnished to Tenant. Landlord's failure to bill Tenant for any such excess utilities or services shall not waive Landlord's right to bill Tenant for the excess at a later time.

Temperature Balance. Landlord makes no representation to Tenant regarding the adequacy or fitness of the heating, ventilating and air-conditioning systems, if any, in the Building to maintain temperatures that may be required for, or because of, any of Tenant's equipment which uses other than the fractional horsepower normally required for office equipment, and Landlord shall have no liability for loss or damage suffered by Tenant or others in connection

therewith. If the temperature otherwise maintained in any portion of the Premises by the heating, air conditioning or ventilation system is affected as a result of (i) any lights, machines or equipment (including without limitation electronic data processing machines) used by Tenant in the Premises, (ii) the occupancy of the Premises by more than one person per two hundred (200) square feet of rentable area therein, (iii) an electrical load for lighting or power in excess of the limits per square foot of rentable area of the Premises specified in Section 16(a), or (iv) any rearrangement of partitioning or other improvements, Landlord may install any equipment, or modify any existing equipment (including the standard air conditioning equipment) Landlord deems necessary to restore the temperature balance. The cost of any such equipment, including without limitation, the cost of design and installation thereof, and the cost of operating, metering, maintaining or repairing the same, shall be paid by Tenant to Landlord upon demand. Tenant shall not install or operate window-mounted heating or air-conditioning units.

Special Electrical or Water Connections; Electricity Use. Tenant will not, without the prior consent of Landlord, which Landlord in its sole discretion may refuse, connect or use any apparatus or device in the Premises (i) using current in excess of 110 volts or (ii) which will cause the amount of electricity, water, heating, air conditioning or ventilation furnished to the Premises to exceed the amount required for use of the Premises for ordinary general office purposes, as determined by Landlord, during normal business hours or (iii) which would cause Tenant's connected load to exceed any limits established in Section 16(a). Tenant shall not connect with electric current except through existing outlets in the Premises and shall not connect with water pipes except through existing plumbing fixtures in the Premises. In no event shall Tenant's use of electricity exceed the capacity of existing feeders to the Building or the risers or wiring installation, and Landlord may prohibit the use of any electrical equipment which in Landlord's opinion will overload such wiring or interfere with the use thereof by other tenants in the Building. If Landlord consents to the use of equipment requiring such changes, Tenant shall pay the cost of installing any additional risers, panels or other facilities that may be necessary to furnish energy to the Premises.

Landlord will not permit additional coring of the floor of the Premises in order to install new electric outlets in the Premises unless Tenant furnishes Landlord with X-ray scans of the floor area where the Tenant wishes to place additional electrical outlets and Landlord, in its absolute discretion, is satisfied, on the basis of such X-ray scans and other information obtained by Landlord, that coring of the floor in order to install such additional outlets will not weaken the structure of the floor.

Landlord's Duties. Landlord shall not be in default under this Lease or liable for any damages resulting from, or incidental to, any of the following, nor shall any of the following be an actual or constructive eviction of Tenant, nor shall the Rent be abated by reason of: (i) failure to furnish or delay in furnishing any of the services described in this Section when such failure or delay is caused by accident or any condition beyond the reasonable control of Landlord, including the making of necessary repairs or improvements to the Premises or to the Building, (ii) any electrical surges or spikes, or (iii) failure to make any repair or to perform any maintenance, unless such failure shall persist for an unreasonable time after notice of the need for such repair or maintenance is given to Landlord by Tenant. Landlord shall use reasonable efforts to remedy any interruption in the furnishing of such services.

Governmental Regulations. Any other provisions of this Section notwithstanding, if any governmental authority or utility supplier imposes any laws, controls, conditions, or other restrictions upon Landlord, Tenant, or the Building, relating to the use or conservation of energy or utilities, mandated changes in temperatures to be maintained in the Premises or the Building or the reduction of automobile or other emissions (collectively, the "Controls"), or in the event Landlord is required or elects to make alterations to the Building in order to comply with the Controls, Landlord may, in its sole discretion, comply and may require Tenant to comply with the Controls or make such alterations to the Building in order to comply with the Controls. Such compliance and the making of such alterations shall not constitute an actual or constructive eviction of Tenant, impose on Landlord any liability whatsoever, or entitle Tenant to any abatement of Rent.

Insurance. Prior to the commencement of use of this Lease, Tenant shall secure and maintain, at no expense to Landlord, a policy or policies of insurance as set forth below. Evidence of such insurance shall be delivered to the address set forth below-. Said policy(ies) (1) shall be subject to approval by the Landlord's Risk Manager as to Company, Form and Coverage, (2) be primary to all other insurance the Landlord may secure, and (3) must protect Landlord from any and all claims and risks in connection with any activity performed by virtue of this Lease or any use and occupancy of the Premises authorized by this Lease. Said insurance policy(ies) and subsequent renewals must be maintained in full force and effect, at no expense to the Landlord, throughout the entire Term of this Lease.

Commercial General Liability Insurance. A policy of Commercial General Liability Insurance written on an insurance industry standard occurrence form (CG 00 01) or equivalent, including all the usual coverages known as:

Premises/Operations Liability

7

Products/Completed Operations
Personal/Advertising Injury
Contractual Liability
Independent Contractors Liability
Stop Gap/Employers Contingent Liability
Liquor Liability/Host Liquor Liability (as applicable)
Fire Damage Legal Liability

Such policy(ies) must provide the following minimum limits:

Bodily Injury and Property Damage	
\$ 2,000,000	General Aggregate
\$ 2,000,000	Products and Completed Operations Aggregate
\$ 1,000,000	Personal and Advertising Injury
\$ 1,000,000	Each Occurrence
\$ 100,000	Fire Damage

Stop Gap Employers Liability	
\$ 1,000,000	Each Accident
\$ 1,000,000	Disease - Policy Limit
\$ 1,000,000	Disease - Each Employee

Any deductible or self-insured retention must be disclosed and is subject to approval by the Landlord's Risk Manager. The cost of any claim payments falling within the deductible shall be the responsibility of the Tenant.

Business Automobile Liability Insurance. A policy of Business Automobile Liability Insurance, including coverage for owned, non-owned, leased or hired vehicles written on an insurance industry standard form (CA 00 01) or equivalent. Such policy(ies) must provide the following minimum limit:

Bodily Injury and Property Damage \$ 1,000,000 per accident

Such insurance, as provided under items (a) and (b) above, shall be endorsed to include the Landlord, its officers, elected officials, employees, agents and volunteers as additional insured, and shall not be reduced or canceled without forty-five (45) days prior written notice to the Landlord. In addition, Tenant's insurance shall be primary as respects the Landlord, and any other insurance maintained by the Landlord shall be excess and not contributing insurance with the Tenant's insurance.

Worker's Compensation Insurance. A policy of Worker's Compensation Insurance. As respects Workers' Compensation insurance in the State of Washington, the Tenant shall secure its liability for industrial injury to its employees in accordance with the provisions of Title 51 of the Revised Code of Washington. If the Tenant is qualified as a self-insurer in accordance with Chapter 51.14 of the Revised Code of Washington, Tenant shall so certify by a letter signed by a corporate officer setting forth the limits of any policy of excess insurance covering its employees.

Property Insurance. A policy of Property Insurance covering its furniture, fixtures, equipment and inventory and all improvements which it makes to the Premises in an amount equal to replacement cost thereof, against (i) loss from the perils of fire, and other risks of direct physical loss, not less broad than provided by the insurance industry standard "Causes of Loss - Special Form (CP 10 30)", (ii) Loss or damage from water damage, or sprinkler systems now or hereafter installed in on the premises; (iii) Loss or damage by explosion of steam boilers, pressure vessels, oil or gasoline storage; and (iv) Business Interruption or Extra Expense, with sufficient coverage to provide for the payment of Rent and other fixed costs during any interruption of Tenant's business because of fire or other cause.

Coverage and/or Limits. Coverage and/or limits may be altered or increased as necessary, to reflect type of or exposure to risk. Landlord shall have the right to periodically review the appropriateness of such limits in view of inflation and/or changing industry conditions and to require an increase in such limits upon ninety (90) days prior written notice.

Evidence of Insurance. The following documents must be provided as evidence of insurance coverage:

A copy of the policy's declarations pages, showing the Insuring Company, policy effective dates, limits of liability, and the Schedule of Forms and Endorsements.

A copy of the endorsement naming the Landlord as an Additional Insured, showing the policy number, and signed by an authorized representative of the insurance company on Form CG2026 (ISO) or equivalent.

8

A copy of the "Endorsements Form List" to the policy or policies showing endorsements issued on the policy, and including any company-specific or manuscript endorsements.

A copy of an endorsement stating that the coverages provided by this policy to the Landlord or any other named insured shall not be terminated, reduced or otherwise materially changed without providing at least forty-five (45) days prior written notice to the Landlord.

A copy of a "Separation of Insureds" or "Severability of Interests" clause, indicating essentially that - except with respect to the limits of insurance, and any rights or duties specifically assigned to the first named insured, this insurance applies as if each named insured were the only named insured, and separately to each insured against whom claim is made or suit is brought (Commercial General Liability and Business Automobile Liability Insurance).

All policies shall be subject to approval by the Landlord's Risk Manager as to company (must be rated A-VII or higher in the A.M. Best's Key Rating Guide and licensed to do business in the State of Washington or issued as a surplus line by a Washington Surplus lines broker), form and coverage, and primary to all other insurance.

Maintain Insurance. If Tenant fails to maintain such insurance, Landlord may do so, and Tenant shall reimburse Landlord for the full expense thereof upon demand. Tenant shall not keep or use in or about the Premises any article which is prohibited by Landlord's insurance policy. Tenant shall pay immediately any increase in Landlord's premiums for insurance during the term of this Lease which results from Tenant's use of the Premises.

Waiver of Subrogation. Either Landlord nor Tenant shall be liable to the other party or to any insurance company (by way of subrogation or otherwise) insuring the other party for any loss or damage to any building, structure or tangible personal property of the other occurring in or about the Premises or Building, even though such loss or damage might have been occasioned by the negligence of such party, its' agents or employees, if such loss or damage is covered by insurance benefiting the party suffering such loss or damage or was required under the terms of this Lease to be covered by insurance procured by the party suffering the loss.

Destruction.

Insured Damage. If during the Term the Premises or the Building are partially or totally destroyed by any casualty that is covered by any insurance carried by Landlord covering the Building, rendering the Premises partially or totally inaccessible or unusable, Landlord shall restore the Premises or the Building to substantially the same condition as they were in immediately before such destruction, if (i) the insurance proceeds available to Landlord equal or exceed the cost of such restoration, (ii) in the opinion of a registered architect or engineer appointed by Landlord such restoration can be completed within one hundred eighty (180) days after the date on which Landlord obtains all permits necessary for such restoration, and (iii) such restoration is permitted under then existing laws to be done in such a manner as to return the Premises, or the Building, as the case may be, to substantially the same condition as they were in immediately before such destruction. To the extent that the insurance proceeds must be paid to a mortgagee under, or must be applied to reduce any debt secured by, a mortgage covering the Property, the insurance proceeds shall be deemed not to be available to Landlord unless such mortgagee permits Landlord to use the insurance proceeds for such restoration. Such destruction shall not terminate this Lease.

Major or Uninsured Damage. If during the Term the Premises or the Building are partially or totally destroyed by any casualty and Landlord is not obligated under Section 18(a) captioned "Insured Damage" to restore the Premises or the Building, as the case may be, then Landlord may, at its election, either (i) restore the Premises or the Building to substantially the same condition as they were in immediately before such destruction, or (ii) terminate this Lease effective as of the date of such destruction. If Landlord does not give Tenant notice within sixty (60) days after the date of such destruction of its election to restore the Premises or the Building, as the case may be, Landlord shall be deemed to have elected to terminate this Lease. If Landlord elects to restore the Premises or the Building, as the case may be, Landlord shall use commercially reasonable efforts to complete such restoration within one hundred eighty (180) days after the date on which Landlord obtains all permits necessary for such restoration, provided, however, that such one hundred eighty (180) day period shall be extended by a period equal to any delays caused by Force Majeure, and such destruction shall not terminate this Lease.

Damage to the Building. If during the Term the Building is partially destroyed by any casualty and if in the opinion of Landlord the Building should be restored in such a way as to materially alter the Premises, then Landlord may, at Landlord's election, terminate this Lease by giving notice to Tenant of Landlord's election to do so within sixty (60) days after the date of such destruction.

Extent of Landlord's Obligation to Restore. If Landlord is required or elects to restore the Premises as provided in this Section, Landlord shall not be required to restore alterations made by Tenant, Tenant's trade fixtures and Tenant's personal property, such excluded items being the sole responsibility of Tenant to restore.

Abatement or Reduction of Rent. In case of damage to, or destruction of, the Premises or the Building the Minimum Monthly Rent shall be abated or reduced, between the date of destruction and the date of completion of restoration, by an amount that is in the same ratio to the Minimum Monthly Rent as the total number of square feet of the Premises that are so damaged or destroyed bears to the total number of square feet in the Premises.

9

Condemnation. If during the Term there is any taking of part or all of the Premises or the Building by condemnation, then the rights and obligations of the parties shall be as follows:

Minor Taking. If there is a taking of less than ten percent (10%) of the Premises, this Lease shall remain in full force and effect.

Major Taking. If there is a taking of ten percent (10%) or more of the Premises and if the remaining portion of the Premises is of such size or configuration that Tenant is unable to conduct its business in the Premises, then the Term shall terminate as of the date of taking.

Taking of Part of the Building. If there is a taking of a part of the Building other than the Premises and if in the opinion of Landlord the Building should be restored in such a way as to materially alter the Premises, then Landlord may terminate the Term by giving notice to such effect to Tenant within sixty (60) days after the date of vesting of title in the condemnor and the Term shall terminate as of the date specified in such notice, which date shall not be less than sixty (60) days after the giving of such notice.

Award. The entire award for the Premises, the Building and the Property, shall belong to and be paid to Landlord, Tenant hereby assigning to Landlord Tenant's interest therein, if any, provided, however, that Tenant shall have the right to claim and recover from the condemnor compensation for the loss of any alterations made by Tenant, Tenant's trade fixtures, Tenant's personal property, moving expenses and business interruption.

Abatement of Rent. If any part of the Premises is taken by condemnation and this Lease remains in full force and effect, on the date of taking the Minimum Monthly Rent shall be reduced by an amount that is in the same ratio to the Minimum Monthly Rent as the total number of square feet in the Premises taken bears to the total number of square feet in the Premises immediately before the date of taking.

Assignment and Subletting.

Landlord's Consent; Definitions. Tenant acknowledges that the Building is a multi-tenant office building, occupied by tenants specifically selected by Landlord, and that Landlord has a legitimate interest in the type and quality of such tenants, the location of tenants in the Building and in controlling the leasing of space in the Building so that Landlord can better meet the particular needs of its tenants and protect and enhance the relative image, position and value of the Building in the office building market. Tenant further acknowledges that the rental value of the Premises may fluctuate during the Term in accordance with market conditions, and, as a result, the Rent paid by Tenant under the Lease at any particular time may be higher or lower than the then market rental value of the Premises. Landlord and Tenant agree, and the provisions of this Section are intended to so provide, that, if Tenant voluntarily assigns its interest in this Lease or in the Premises or subleases any part or all of the Premises, a portion of the profits from any increase in the market rental value of the Premises shall belong solely to Landlord. Tenant acknowledges that, if Tenant voluntarily assigns this Lease or subleases any part or all of the Premises, Tenant's investment in the subject portion of the Premises (specifically including, but not limited to, tenant improvements, good will or other assets) may be lost or reduced as a result of such action.

Consent Required. Tenant shall not voluntarily assign or encumber its interest in this Lease or in the Premises, or sublease any part or all of the Premises, without Landlord's prior consent, which consent shall not be unreasonably withheld. Any assignment, encumbrance or sublease without Landlord's consent shall be voidable and, at Landlord's election, shall constitute a default by Tenant under this Lease. In determining whether to approve a proposed assignment or sublease, Landlord shall place primary emphasis on the proposed transferee's reputation and creditworthiness, the character of the business to be conducted by the proposed transferee at the Premises and the affect of such assignment or subletting on the tenant mix in the Building. In addition, Landlord shall have the right to approve the specific form of any assignment or sublease agreement. In no event shall Landlord be obligated to consent to any assignment or subletting which increases (i) the Operating Costs, (ii) the burden on the Building services, or (iii) the foot traffic, elevator

usage or security concerns in the Building, or creates an increased probability of the comfort and/or safety of the Landlord and other tenants in the Building being unreasonably compromised or reduced (for example, but not exclusively, Landlord may deny consent to an assignment or subletting where the space will be used for a school or training facility, an entertainment, sports or recreation facility, retail sales to the public (unless Tenant's permitted use is retail sales), a personnel or employment agency, a medical office, or an embassy or consulate or similar office. Landlord shall not be obligated to approve an assignment or subletting to (x) a current tenant of the Building or (y) a prospective tenant of the Building with whom Landlord is then negotiating. Landlord's foregoing rights and options shall continue throughout the entire term of this Lease. No consent to any assignment, encumbrance or sublease shall constitute a waiver of the provisions of this Section and no other or subsequent assignment, encumbrance or sublease shall be made without Landlord's prior consent. Neither an assignment or subletting nor the collection of Rent by Landlord from any person other than Tenant, nor the application of any such Rent as provided in this Section shall be deemed a waiver of any of the provisions of this Section or release Tenant from its obligation to comply with the terms and provisions of this Lease and Tenant shall remain fully and primarily liable for all of Tenant's obligations under this Lease, including the obligation to pay Rent under this Lease. Any personal guarantee(s) of Tenant's obligations under this Lease shall remain in full force and effect following any such assignment or subletting. Landlord may condition approval of an assignment or subletting hereunder on an increase in the amount of the Security Deposit or on receipt of personal guarantees of the assignee's or sublessee's obligations under this Lease. If Landlord approves of an assignment or subletting hereunder and this Lease contains any renewal options, expansion options, rights of first refusal, rights of first negotiation or any other rights or options pertaining to additional space in the Building, such rights and/or options shall not run to the assignee or subtenant, it being agreed by the parties hereto that any such rights and options are personal to Tenant named herein and may not be transferred.

10

Conditions to Assignment or Sublease. Tenant agrees that any instrument by which Tenant assigns or sublets all or any portion of the Premises shall expressly provide that the assignee or subtenant may not further assign or sublet the assigned or sublet space without Landlord's prior consent (which consent shall not, subject to Landlord's rights under Section 20(b), be unreasonably withheld or delayed), and that the assignee or subtenant will comply with all of the provisions of this Lease and that Landlord may enforce the Lease provisions directly against such assignee or subtenant. If this Lease is assigned, whether or not in violation of the terms and provisions of this Lease, Landlord may collect Rent from the assignee. If the Premises, or any part thereof, is sublet, Landlord may, upon a default under this Lease, collect rent from the subtenant. In either event, Landlord may apply the amount collected from the assignee or subtenant to Tenant's obligation to pay Rent under this Lease.

Events Constituting an Assignment or Sublease. For purposes of this Section, the following events shall be deemed an assignment or sublease, as appropriate: (i) the issuance of equity interests (whether stock, partnership interests or otherwise) in Tenant, or any assignee or subtenant, if applicable, or any entity controlling any of them, to any person or group of related persons, in a single transaction or a series of related or unrelated transactions, such that, following such issuance, such person or group shall have Control (as defined below) of Tenant, or any assignee or subtenant, if applicable; or (ii) a transfer of Control of Tenant, or any assignee or subtenant, if applicable, or any entity controlling any of them, in a single transaction or a series of related or unrelated transactions (including, without limitation, by consolidation, merger, acquisition or reorganization), except that the transfer of outstanding capital stock or other listed equity interests by persons or parties other than "insiders" within the meaning of the Securities Exchange Act of 1934, as amended, through the "over-the-counter" market or any recognized national or international securities exchange, shall not be included in determining whether Control has been transferred. "Control" shall mean direct or indirect ownership of fifty percent (50%) or more of all the legal and equitable interest in any business entity.

Processing Expenses. Tenant shall pay to Landlord the amount of Landlord's cost of processing each proposed assignment or subletting, including without limitation, attorneys' and other professional fees, and the cost of Landlord's administrative, accounting and clerical time (collectively, "Processing Costs"), and the amount of all direct and indirect expense incurred by Landlord arising from the assignee or sublessee taking occupancy of the subject space, including without limitation, costs of freight elevator operation for moving of furnishings and trade fixtures, security service, janitorial and cleaning service, rubbish removal service, costs of changing signage, and costs of changing locks and making new keys (collectively, "Occupancy Costs"). Notwithstanding anything to the contrary herein, Landlord shall not be required to process any request for Landlord's consent to an assignment or subletting until Tenant has paid to Landlord the amount of Landlord's estimate of the Processing Costs and the Occupancy Costs.

Consideration to Landlord. In the event of any assignment or sublease, whether or not requiring Landlord's consent, Landlord shall be entitled to receive, as Additional Rent, one-half (1/2) of any consideration, including without limitation, payment for leasehold improvements owned by Landlord, paid by the assignee or subtenant for the assignment or sublease and, in the case of sublease, the excess of the amount of rent paid for the sublet space by the subtenant over the total amount of Minimum Monthly Rent under Section 5 and Additional Rent under Sections 7 and 9. Upon Landlord's request, Tenant shall assign to Landlord all amounts to be paid to Tenant by the assignee or subtenant and shall direct such assignee or subtenant to pay the same directly to Landlord. If there is more than one sublease under this Lease, the amounts (if any) to be paid by Tenant to Landlord pursuant to the preceding sentence shall be separately calculated for each sublease and amounts due Landlord with regard to any one sublease may not be offset against rental and other consideration pertaining due under any other sublease.

With regard to an approved assignment or subletting, Tenant acknowledges that Landlord's agreement to deal directly with the assignee or subtenant with regard to such party's occupancy of the Premises and the administration of the Lease, without requiring Tenant to monitor or become directly involved in such matters, constitutes appropriate and acceptable consideration for the capture by Landlord of any rent or consideration paid by the assignee or subtenant in excess of that required to be paid by Tenant under the Lease.

Procedures. If Tenant desires to assign this Lease or any interest therein or sublet all or part of the Premises, Tenant shall give Landlord written notice thereof designating the space proposed to be sublet and the terms proposed. Landlord shall have the prior right and option (to be exercised by written notice to Tenant given within fifteen (15) days after receipt of Tenant's notice) (i) to sublet from Tenant any portion of the Premises proposed by Tenant to be sublet, for the term for which such portion is proposed to be sublet, but at the same Rent (including Additional Rent as provided for in Sections 7 and 9) as Tenant is required to pay to Landlord under this Lease for the same space, computed on a pro rata square footage basis, and during the term of such sublease Tenant shall be released of its obligations under the Lease with regard to the subject space, (ii) if the term of the sublease (including any renewal terms) will expire during the final eighteen (18) months of the Term (or if Tenant has exercised a renewal option, if any, then during the final eighteen (18) months of the subject renewal period), to terminate this Lease as it pertains to the portion of the Premises so proposed by Tenant to be sublet, or (iii) to approve Tenant's proposal to sublet conditional upon Landlord's subsequent written approval of the specific sublease obtained by Tenant and the specific subtenant named therein. If Landlord exercises its option in (i) above, then Landlord may, at Landlord's sole cost, construct improvements in the subject space and, so long as the improvements are suitable for general office purposes, Landlord shall have no obligation to restore the subject space to its original condition following the termination of the sublease. If Landlord exercises its option described in (iii) above, Tenant shall submit to Landlord for Landlord's written approval Tenant's proposed sublease agreement (in which the proposed subtenant shall be named) together with a current reviewed or audited financial statement prepared by a certified public accountant for such proposed subtenant and a credit report on such proposed subtenant prepared by a recognized credit reporting agency. If Landlord fails to exercise any aforesaid option to sublet or to terminate, this shall not be construed as or constitute a

11

waiver of any of the provisions of this Section. If Landlord exercises any such option to sublet or to terminate, Landlord shall not have any liability for any real estate brokerage commission(s) or with respect to any of the costs and expenses that Tenant may have incurred in connection with its proposed subletting, and Tenant agrees to hold Landlord harmless from and against any and all claims (including, without limitation, claims for commissions) arising from such proposed subletting. Landlord's foregoing rights and options shall continue throughout the Term. For purposes of this Section, a proposed assignment of this Lease in whole or in part shall be deemed a proposed subletting of such space.

Documentation. No permitted subletting by Tenant shall be effective until there has been delivered to Landlord a counterpart of the sublease in which the subtenant agrees to be and remain jointly and severally liable with Tenant for the payment of Rent pertaining to the sublet space and for the performance of all of the terms and provisions of this Lease; provided, however, that the subtenant shall be liable to Landlord for rent only in the amount set forth in the sublease. No permitted assignment shall be effective unless and until there has been delivered to Landlord a counterpart of the assignment in which the assignee assumes all of Tenant's obligations under this Lease arising on or after the date of the assignment. The failure or refusal of a subtenant or assignee to execute any such instrument shall not release or discharge the subtenant or assignee from its liability as set forth above.

No Merger. Without limiting any of the provisions of this Section, if Tenant has entered into any subleases of any portion of the Premises, the voluntary or other surrender of this Lease by Tenant, or a mutual cancellation by Landlord and Tenant, shall not work a merger, and shall, at the option of Landlord, terminate all or any existing subleases or subtenancies or, at the

option of Landlord, operate as an assignment to Landlord of any or all such subleases or subtenancies.

Default. The occurrence of any of the following shall constitute a default by Tenant under this Lease:

Failure to Pay Rent. Failure to pay Rent when due, if the failure continues for a period of three (3) days after notice of such default has been given by Landlord to Tenant.

Failure to Comply with Rules and Regulations. Failure to comply with the Rules and Regulations, if the failure continues for a period of twenty-four (24) hours after notice of such default is given by Landlord to Tenant. If the failure to comply cannot reasonably be cured within twenty-four (24) hours, then Tenant shall not be in default under this Lease if Tenant commences to cure the failure to comply within twenty-four (24) hours and diligently and in good faith continues to cure the failure to comply.

Other Defaults. Failure to perform any other provision of this Lease, if the failure to perform is not cured within thirty (30) days after notice of such default has been given by Landlord to Tenant. If the default cannot reasonably be cured within thirty (30) days, then Tenant shall not be in default under this Lease if Tenant commences to cure the default within thirty (30) days and diligently and in good faith continues to cure the default.

Appointment of Trustee or Receiver. The appointment of a trustee or receiver to take possession of substantially all of the Tenant's assets located at the Premises or of Tenant's interest in this Lease, where possession is not restored to Tenant within sixty (60) days; or the attachment, execution or other judicial seizure of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease, where such seizure is not discharged within sixty (60) days.

Remedies. If Tenant commits a default, Landlord shall have the following alternative remedies, which are in addition to any remedies now or later allowed by law:

Maintain Lease in Force. Maintain this Lease in full force and effect and recover the Rent and other monetary charges as they become due, without terminating Tenant's right to possession, irrespective of whether Tenant shall have abandoned the Premises. If Landlord elects to not terminate the Lease, Landlord shall have the right to attempt to re-let the Premises at such rent and upon such conditions and for such a term, and to do all acts necessary to maintain or preserve the Premises as Landlord deems reasonable and necessary without being deemed to have elected to terminate the Lease including removal of all persons and property from the Premises; such property may be removed and stored in a public warehouse or elsewhere at the cost of and for the account of Tenant. In the event any such re-letting occurs, this Lease shall terminate automatically upon the new Tenant taking possession of the Premises. Notwithstanding that Landlord fails to elect to terminate the Lease initially, Landlord at any time during the term of this Lease may elect to terminate this Lease by virtue of such previous default of Tenant.

Terminate Lease. Terminate Tenant's right to possession by any lawful means, in which case this Lease shall terminate and Tenant shall immediately surrender possession of the Premises to Landlord. In such event Landlord shall be entitled to recover from Tenant all damages incurred by Landlord by reason of Tenant's default including without limitation thereto, the following: (i) The worth at the time of award of any unpaid Rent which had been earned at the time of such termination; plus (ii) the worth at the time of award of the amount by which the unpaid Rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus (iii) the worth at the time of award of the amount by which the unpaid Rent for the balance of the Term after the time of award exceeds the amount of such rental loss that is proved could be reasonably avoided; plus (iv) any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom, including without limitation, any costs or expenses incurred by Landlord in (A) retaking possession of the Premises, including reasonable attorney fees therefor, (B) maintaining or preserving the Premises after such default, (C) preparing the Premises for reletting to a new tenant, including repairs or necessary alterations to the Premises for such reletting, (D) leasing

commissions, and (E) any other costs necessary or appropriate to relet the Premises; plus (v) at Landlord's election, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by applicable state law. Upon any such re-entry Landlord shall have the right to make any reasonable repairs, alterations or modifications to the Premises, which Landlord in its sole discretion deems reasonable and necessary. As used in Subsection 22(b)(i) the "worth at the time of award" is computed by allowing interest at the rate of eighteen percent (18%) per year from the date of default. As used in Subsections 22(b)(ii) and 22(b)(iii) the "worth at the time of award" is

computed by discounting such amounts at the discount rate of eight percent (8%) per year.

Bankruptcy.

Assumption of Lease. If Tenant becomes a Debtor under Chapter 7 of the Bankruptcy Code ("Code") or a petition for reorganization or adjustment of debts is filed concerning Tenant under Chapters 11 or 13 of the Code, or a proceeding is filed under Chapter 7 of the Code and is transferred to Chapters 11 or 13 of the Code, the Trustee or Tenant, as Debtor and as Debtor-In-Possession, may not elect to assume this Lease unless, at the time of such assumption, the Trustee or Tenant has:

Cured all defaults under the Lease and paid all sums due and owing under the Lease or provided Landlord with "Adequate Assurance" (as defined below) that: (i) within ten (10) days from the date of such assumption, the Trustee or Tenant will completely pay all sums due and owing under this Lease and compensate Landlord for any actual pecuniary loss resulting from any existing default or breach of this Lease, including without limitation, Landlord's reasonable costs, expenses, accrued interest, and attorneys' fees incurred as a result of the default or breach; (ii) within twenty (20) days from the date of such assumption, the Trustee or Tenant will cure all non-monetary defaults and breaches under this Lease, or, if the nature of such non-monetary defaults is such that more than twenty (20) days are reasonably required for such cure, that the Trustee or Tenant will commence to cure such non-monetary defaults within twenty (20) days and thereafter diligently prosecute such cure to completion; and (iii) the assumption will be subject to all of the provisions of this Lease.

For purposes of this Section, Landlord and Tenant acknowledge that, in the context of a bankruptcy proceeding involving Tenant, at a minimum, "Adequate Assurance" shall mean: (i) the Trustee or Tenant has and will continue to have sufficient unencumbered assets after the payment of all secured obligations and administrative expenses to assure Landlord that the Trustee or Tenant will have sufficient funds to fulfill the obligations of Tenant under this Lease; (ii) the Bankruptcy Court shall have entered an Order segregating sufficient cash payable to Landlord and/or the Trustee or Tenant shall have granted a valid and perfected first lien and security interest and/or mortgage in or on property of Trustee or Tenant acceptable as to value and kind to Landlord, to secure to Landlord the obligation of the Trustee or Tenant to cure the monetary and/or non-monetary defaults and breaches under this Lease within the time periods set forth above; and (iii) the Trustee or Tenant, at the very minimum, shall deposit a sum equal to two (2) month's Minimum Monthly Rent to be held by Landlord (without any allowance for interest thereon) to secure Tenant's future performance under the Lease.

Assignment of Lease. If the Trustee or Tenant has assumed the Lease pursuant to the provisions of this Section for the purpose of assigning Tenant's interest hereunder to any other person or entity, such interest may be assigned only after the Trustee, Tenant or the proposed assignee have complied with all of the terms, covenants and conditions of this Lease, including, without limitation, those with respect to Additional Rent. Landlord and Tenant acknowledge that such terms, covenants and conditions are commercially reasonable in the context of a bankruptcy proceeding of Tenant. Any person or entity to which this Lease is assigned pursuant to the provisions of the Code shall be deemed without further act or deed to have assumed all of the obligations arising under this Lease on and after the date of such assignment. Any such assignee shall upon request execute and deliver to Landlord an instrument confirming such assignment.

Adequate Protection. Upon the filing of a petition by or against Tenant under the Code, Tenant, as Debtor and as Debtor-In-Possession, and any Trustee who may be appointed agree to adequately protect Landlord as follows: (i) to perform each and every obligation of Tenant under this Lease until such time as this Lease is either rejected or assumed by Order of the Bankruptcy Court; (ii) to pay all monetary obligations required under this Lease, including without limitation, the payment of Minimum Monthly Rent, Tenant's Share of Real Property Taxes, Tenant's Share of Operating Costs and any other sums payable by Tenant to Landlord under this Lease which is considered reasonable compensation for the use and occupancy of the Premises; (iii) provide Landlord a minimum of thirty (30) days prior written notice, unless a shorter period is agreed to in writing by the parties, of any proceeding relating to any assumption of this Lease or any intent to abandon the Premises, which abandonment shall be deemed a rejection of this Lease; and (iv) to perform to the benefit of Landlord as otherwise required under the Code. The failure of Tenant to comply with the above shall result in an automatic rejection of this Lease.

Limitation of Actions. Any claim, demand, right or defense of any kind by Tenant which is based upon or arises in connection with this Lease or the negotiations prior to its execution, shall be barred unless Tenant commences an action thereon, or interposes in a legal proceeding a defense by reason thereof, within one (1) year after the date of the act or omission on which such claim, demand, right or defense is based.

Limitation on Landlord's Liability. Anything in this Lease to the contrary notwithstanding, covenants, undertakings and agreements herein made on the part

of Landlord are made and intended not as personal covenants, undertakings and agreements or for the purpose of binding Landlord personally or the assets of Landlord except Landlord's interest in the Property, but are made and intended for the purpose of binding only the Landlord's interest in the Property. No personal liability or personal responsibility is assumed by, nor shall at any time be asserted or enforceable against Landlord or its partners and their respective heirs, legal representatives, successors and assigns on account of this Lease or on account of any covenant, undertaking or agreement of Landlord contained in this Lease.

13

Signs. Tenant shall not have the right to place, construct or maintain any sign, advertisement, awning, banner or other exterior decoration without Landlord's consent. Any sign that Tenant has Landlord's consent to place, construct and maintain shall comply with all laws, and Tenant shall obtain any approval required by such laws. Landlord makes no representation with respect to Tenant's ability to obtain such approval.

Landlord's Right to Enter the Premises. Landlord and its authorized representatives shall have the right to enter the Premises at reasonable times and upon reasonable prior notice (except in an emergency when no such notice shall be required) for any of the following purposes: (i) to determine whether the Premises are in good condition and whether Tenant is complying with its obligations under this Lease, (ii) to do any maintenance; to make any restoration to the Premises or the Building that Landlord has the right or the obligation to perform, and to make any improvements to the Premises or the Building that Landlord deems necessary, (iii) to serve, post or keep posted any notices required or allowed under the provisions of this Lease, (iv) to post any ordinary "For Sale" signs at any time during the Term and to post any ordinary "For Lease" signs during the last ninety (90) days of the Term, and (v) to show the Premises to prospective brokers, agents, purchasers, tenants or lenders, at any time during the Term.

Landlord shall not be liable in any manner for any inconvenience, annoyance, disturbance, loss of business, nuisance, or other damage arising out of Landlord's entry on the Premises as provided in this Section, except damage resulting from the grossly negligent or willful acts of Landlord or its authorized representatives. Tenant shall not be entitled to an abatement or reduction of Rent if Landlord exercises any right reserved in this Section. Landlord shall conduct its activities on the Premises as allowed in this Section in a reasonable manner so as to cause minimal inconvenience, annoyance or disturbance to Tenant.

Subordination. This Lease is and shall be prior to any mortgage recorded after the date of this Lease affecting the Property. If, however, a lender requires that this Lease be subordinate to any mortgage, this Lease shall be subordinate to that mortgage if Landlord first obtains from the lender a written agreement that provides substantially the following:

"As long as Tenant performs its obligations under this Lease, no foreclosure of, deed given in lieu of foreclosure of, or sale under the mortgage, and no steps or procedures taken under the mortgage, shall affect Tenant's rights under this Lease. "

Tenant shall attorn to any purchaser at any foreclosure sale, or to any grantee or transferee designated in any deed given in lieu of foreclosure. Tenant shall execute the written agreement and any other documents required by the lender to accomplish the purposes of this Section.

Right to Estoppel Certificates. Tenant, within ten (10) days after notice from Landlord, shall execute and deliver to Landlord, in recordable form, a certificate stating that this Lease is unmodified and in full force and effect, or in full force and effect as modified and stating the modifications. The certificate shall also state the amount of Minimum Monthly Rent, the dates to which Rent has been paid in advance, and the amount of any Prepaid Rent or Security Deposit and such other matters as Landlord may reasonably request. Failure to deliver the certificate within such ten (10) day period shall be conclusive upon Tenant for the benefit of Landlord and any successor to Landlord, that this Lease is in full force and effect and has not been modified except as may be represented by Landlord requesting the certificate.

Transfer of Landlord's Interest. If Landlord sells or transfers the Property, Landlord, on consummation of the sale or transfer, shall be released from any liability thereafter accruing under this Lease if Landlord's successor has assumed in writing, for the benefit of Tenant, Landlord's obligations under this Lease. If any Security Deposit or Prepaid Rent has been paid by Tenant, Landlord shall transfer such Security Deposit or Prepaid Rent to Landlord's successor and on such transfer Landlord shall be discharged from any further liability with respect to such Security Deposit or Prepaid Rent.

Attorneys' Fees. If either party shall bring any action for relief against the other party, declaratory or otherwise, arising out of this Lease, including any

action by Landlord for the recovery of Rent or possession of the Premises, the losing party shall pay the successful party a reasonable sum for attorneys' fees which shall be deemed to have accrued on the commencement of such action and shall be paid whether or not such action is prosecuted to judgment.

Surrender; Holding Over.

Surrender. On expiration or ten (10) days after termination of the Term, Tenant shall surrender the Premises and all Tenant's improvements and alterations to Landlord broom clean and in good condition. Tenant shall remove all of its trade fixtures and personal property within the time period stated in this Section. Tenant, at its cost, shall perform all restoration made necessary by, and repair any damage to the Premises caused by, the removal of its trade fixtures, personal property and signs to Landlord's reasonable satisfaction within the time period stated in this Section. Landlord may, at its election, retain or dispose of in any manner any of Tenant's trade fixtures or personal property that Tenant does not remove from the Premises on expiration or within ten (10) days after termination of the Term as allowed or required by the provisions of this Lease by giving ten (10) days notice to Tenant. Title to any such trade fixtures and personal property that Landlord elects to retain or

14

dispose of on expiration of such ten (10) day period shall vest in Landlord. Tenant waives all claims against Landlord for any damage to Tenant resulting from Landlord's retention or disposition of any such trade fixtures and personal property. Tenant shall be liable to Landlord for Landlord's costs for storing, removing and disposing of Tenant's trade fixtures and personal property. If Tenant fails to surrender the Premises to Landlord on expiration or ten (10) days after termination of the Term as required by this Section, Tenant shall pay Landlord Rent in an amount equal to twice the Minimum Monthly Rent applicable for the month immediately prior to the expiration or termination of the Term for the entire time Tenant thus remains in possession and Tenant shall hold Landlord harmless from all damages resulting from Tenant's failure to timely surrender the Premises, including without limitation, (i) any Rent payable by, or any damages claimed by, any prospective tenant of any part or all of the Premises, and (ii) Landlord's damages resulting from such prospective tenant rescinding or refusing to enter into the prospective lease of part or all of the Premises by reason of Tenant's failure to timely surrender the Premises. If Tenant, without Landlord's prior consent, remains in possession of the Premises after expiration or termination of the Term, or after the date in any notice given by Landlord to Tenant terminating this Lease, such possession by Tenant shall be deemed to be a tenancy at sufferance terminable at any time by either party.

Holding Over with Landlord's Consent. If Tenant, with Landlord's prior consent, remains in possession of the Premises after expiration or termination of the Term, or after the date in any notice given by Landlord to Tenant terminating this Lease, such possession by Tenant shall be deemed to be a month-to-month tenancy terminable by Landlord by a notice given to Tenant at least twenty (20) days prior to the end of any such monthly period or by Tenant by a notice given to Landlord at least thirty (30) days prior to the end of any such monthly period. During such month-to-month tenancy, Tenant shall pay Rent in the amount then agreed to in writing by Landlord and Tenant. All provisions of this Lease, except those pertaining to term, shall apply to the month-to-month tenancy.

Agency Disclosure; Broker.

Agency Disclosure. Martin Smith Inc hereby discloses that it represents the Landlord in this transaction.

Broker. Landlord and Tenant each represent to the other that neither is represented by any broker, agent or finder with respect to this Lease in any manner, except the Broker(s). The commission due to the Broker(s) shall be paid by Landlord pursuant to a separate agreement. Each party agrees to indemnify and hold the other party harmless from and against any and all liability, costs, damages, causes of action or other proceedings instituted by any broker, agent or finder, licensed or otherwise, claiming through, under or by reason of the conduct of the indemnifying party in any manner whatsoever in connection with this Lease. If Tenant engages a broker, agent or finder to represent Tenant in connection with any renewal of this Lease, then the commission or any fee of such broker, agent or finder shall be paid by Tenant.

Interest on Unpaid Rent. In addition to the Late Charge as provided in Section 5(b), Rent not paid when due shall bear interest from the date due until paid at the rate of eighteen percent (18%) per year, or the maximum legal rate of interest, whichever is less.

Consent. Whenever the consent of either Landlord or Tenant is required under this Lease, such consent shall not be effective unless given in writing and shall not be unreasonably withheld or delayed, provided, however, that such consent may be conditioned as provided in this Lease.

Parking. Landlord grants Tenant the right to use the number of parking stalls provided for in Section 1 of this Lease. Each parking stall provided to Tenant

shall be unassigned, except as may be expressly provided otherwise in Section 1 of this Lease. Tenant's parking privilege under this Lease shall be subject to such rules and regulations as Landlord and/or Landlord's parking operator may adopt from time to time. Landlord retains the right to alter such rules and regulations and to relocate within a reasonable distance, or to reconfigure, the parking area in which Tenants parking stall(s) are located, with reasonable notice to Tenant, but Landlord shall at all times continue to provide the designated number of parking stall(s) to Tenant. Tenant shall pay, upon demand by Landlord, Landlord's costs incurred to stencil any reserved parking stall(s) provided to Tenant under this Lease.

Definitions. As used in this Lease, the following words and phrases, whether or not capitalized, shall have the following meanings:

"Additional Rent" means pass-throughs of increases in Operating Costs and Taxes, as defined in this Lease, and other monetary sums to be paid by Tenant to Landlord under the provisions of this Lease.

"Alteration" means any addition or change to, or modification of, the Premises made by Tenant, including without limitation, fixtures, but excluding trade fixtures as defined in this Section.

"Authorized representatives" means any officer, agent, employee, independent contractor or invitee of either party.

"Award" means all compensation, sums or anything of value awarded, paid or received on a total or partial condemnation.

"Common Areas" means all areas outside the Premises and within the Building or on the Land that are provided and designated by Landlord from time to time for the general, non-exclusive use of Landlord, Tenant and other tenants of the Building and their authorized representatives, including without limitation, common

15

entrances, lobbies, corridors, stairways and stairwells, elevators, escalators, public restrooms and other public portions of the Building.

"Condemnation" means the exercise of any governmental power, whether by legal proceedings or otherwise, by a condemnor and a voluntary sale or transfer by Landlord to any condemnor, either under threat of condemnation or while legal proceedings for condemnation are pending.

"Condemnor" means any public or quasi-public authority or entity having the power of condemnation.

"Damage" means any injury, deterioration, or loss to a person, property, the Premises or the Building caused by another person's acts or omissions or by Acts of God. Damage includes death.

"Damages" means a monetary compensation or indemnity that can be recovered in the courts by any person who has suffered damage to his person, property or rights through another's acts or omissions.

"Date of taking" means the date the condemnor has the right to possession of the property being condemned.

"Encumbrance" means any mortgage, deed of trust or other written security device or agreement affecting the Premises, and the note or other obligation secured by it, that constitutes security for the payment of a debt or performance of an obligation.

"Expiration" means the coming to an end of the time specified in the Lease as its duration, including any extension of the Term.

"Force majeure" means strikes, lockouts, labor disputes, shortages of labor or materials, fire or other casualty, Acts of God or any other cause beyond the reasonable control of a party.

"Good condition" means the good physical condition of the Premises and each portion of the Premises, including without limitation, all of the Tenant Improvements, Tenant's alterations, Tenant's trade fixtures, Tenant's Personal Property, all as defined in this Section, signs, walls, interior partitions, windows, window coverings, glass, doors, carpeting and resilient flooring, ceiling tiles, plumbing fixtures and lighting fixtures, all of which shall be in conformity with building standard finishes, ordinary wear and tear, damage by fire or other casualty and taking by condemnation excepted.

"Hazardous substances" means any industrial waste, toxic waste, chemical contaminant or other substance considered hazardous, toxic or lethal to persons or property or designated as hazardous, toxic or lethal to persons or property under any laws, including without limitation, asbestos material or materials containing asbestos.

"Hold harmless" means to defend and indemnify from all liability, losses, penalties, damages as defined in this Section, costs, expenses (including without limitation, attorneys' fees), causes of action, claims or judgments arising out of or related to any damage, as defined in this Section, to any person or property.

"Law" means any constitution, statute, ordinance, regulation, rule, resolution, judicial decision, administrative order or other requirement of any federal, state, county, municipal or other governmental agency or authority having jurisdiction over the parties or the Property, or both, in effect either at the time of execution of this Lease or at any time during the Term, including without limitation, any regulation or order of a quasi-official entity or body (e.g., board of fire examiners or public utilities) and any legally effective conditions, covenants or restrictions affecting the Property.

"Lender" means the mortgagee, beneficiary, secured party or other holder of an encumbrance, as defined in this Section.

"Lien" means a charge imposed on the Premises by someone other than Landlord, by which the Premises are made security for the performance of an act.

"Maintenance" means repairs, replacement, repainting and cleaning.

"Mortgage" means any deed of trust, mortgage or other written security device or agreement affecting the Premises, and the note or other obligation secured by it, that constitutes security for the payment of a debt or performance of an obligation.

"Mortgagee" means the beneficiary under a deed of trust or mortgagee under a mortgage.

"Mortgagor" means the grantor or trustor under a deed of trust or mortgagor under a mortgage.

"Operating Costs" means all costs of any kind incurred by Landlord in operating, cleaning, equipping, protecting, lighting, repairing, replacing, heating, air-conditioning, maintaining and insuring the Property. Operating Costs shall include, without limitation, the following costs: (i) salaries, wages, bonuses and other compensation (including hospitalization, medical, surgical, retirement plan, pension plan, union dues, life insurance, including group life insurance, welfare and other fringe benefits, and vacation, holidays and other paid absence benefits) relating to employees of Landlord or its agents directly engaged in the operation, repair, or maintenance of the Property; (ii) payroll, social security, workers' compensation, unemployment and similar

16

taxes with respect to such employees of Landlord or its authorized representatives, and the cost of providing disability or other benefits imposed by law or otherwise, with respect to such employees; (iii) uniforms (including the cleaning, replacement and pressing thereof) provided to such employees; (iv) premiums and other charges incurred by Landlord with respect to fire, earthquake, other casualty, all risk, rent loss and liability insurance, any other insurance as is deemed necessary or advisable in the reasonable judgment of Landlord and, after the Base Year, costs of repairing an insured casualty to the extent of the deductible amount under the applicable insurance policy; (v) water charges and sewer rents or fees; (vi) license, permit and inspection fees; (vii) sales, use and excise taxes on goods and services purchased by Landlord in connection with the operation, maintenance or repair of the Property and Building systems and equipment; (viii) telephone, facsimile, messenger, express delivery service, postage, stationery supplies and other expenses incurred in connection with the operation, management, maintenance, or repair of the Property; (ix) property management fees and expenses; (x) repairs to and physical maintenance of the Property, including building systems and appurtenances thereto and normal repair and replacement of worn-out equipment, facilities and installations, but excluding the replacement of major building systems (except to the extent provided in (xvi) and (xvii) below); (xi) janitorial, window cleaning, security, extermination, water treatment, rubbish removal, plumbing and other services and inspection or service contracts for elevator, electrical, HVAC, mechanical and other building equipment and systems or as may otherwise be necessary or proper for the operation or maintenance of the Property; (xii) supplies, tools, materials, and equipment used in connection with the operation, maintenance or repair of the Property; (xiii) accounting, legal and other professional fees and expenses; (xiv) painting the exterior or the public or common areas of the Building and the cost of maintaining the sidewalks, landscaping and other common areas of the Property; (xv) all costs and expenses for electricity, chilled water, air conditioning, water for heating, gas, fuel, steam, heat, lights, power and other energy related utilities required in connection with the operation, maintenance and repair of the Property; (xvi) the cost of any improvements which Landlord elects to capitalize made by Landlord to the Property during the Term in compliance with the requirements of any laws or regulation or insurance requirement with which the Property was not required to comply during the Base Year, as reasonably amortized by Landlord, with interest on the unamortized balance at the rate of twelve percent (12%) per year, or the maximum legal rate of interest, whichever

is less; (xvii) the cost of any improvements which Landlord elects to capitalize made by Landlord to the Property during the term of this Lease for the protection of the health and safety of the occupants of the Property or that are intended to reduce other Operating Costs, as reasonably amortized by Landlord, with interest on the unamortized balance at the rate of twelve percent (12%) per year, or the maximum legal rate of interest, whichever is less; (xviii) a reasonable reserve for repair or replacement of equipment used in the maintenance or operation of the Property; (xix) the cost of furniture, draperies, carpeting, landscaping and other customary and ordinary items of personal property (excluding paintings, sculptures and other works of art) provided by Landlord for use in common areas of the Building or in the Building office (to the extent that such Building office is dedicated to the operation and management of the Property), such costs to be amortized over the useful life thereof; (xx) any such expenses and costs resulting from substitution of work, labor, material or services in lieu of any of the above itemizations, or for any such additional work, labor, services or material resulting from compliance with any laws or orders applicable to the Property; (xxi) Building office rent or rental value; and (xxii) all other costs which, in accordance with generally accepted accounting principles used by Landlord, as applied to the maintenance and operation of office and/or retail buildings, are properly chargeable to the operation and maintenance of the Property.

Operating Costs shall not include the following: (i) depreciation on the Building; (ii) debt service; (iii) capital improvements, except as otherwise provided in clauses (xvi) and (xvii) above, (iv) rental under any ground or underlying leases; (v) Real Property Taxes, (vi) attorneys' fees and expenses incurred in connection with lease negotiations with prospective tenants; (vii) the cost of tenant improvements; (viii) advertising expenses; or (ix) real estate broker's or other leasing commissions.

"Parties" means Landlord and Tenant.

"Party" means Landlord or Tenant.

"Person" means one or more human beings, or legal entities or other artificial persons, including without limitation, partnerships, corporations, trusts, estates, associations and any combination of human beings and legal entities.

"Property" means the Premises, Building, Project, and Land.

"Provision" means any term, agreement, covenant, condition, clause, qualification, restriction, reservation, or other stipulation in the Lease that defines or otherwise controls, establishes, or limits the performance required or permitted by either party.

"Real Property Taxes" means any form of tax, assessment, general assessment, special assessment, lien, levy, bond obligation, license fee, license tax, tax or excise on rent, or any other levy, charge or expense, together with any statutory interest thereon, (individually and collectively, the "Impositions"), now or hereafter imposed or required by any authority having the direct or indirect power to tax, including any federal, state, county or city government or any school, agricultural, lighting, drainage or other improvement or special assessment district thereof, (individually and collectively, the "Governmental Agencies") on any interest of Landlord or Tenant or both (including any legal or equitable interest of Landlord or its mortgagee, if any) in the Premises or the Property, including without limitation:

any Impositions upon, allocable to or measured by the area of the Premises or the Property, or the rental payable hereunder, including without limitation, any gross income tax or excise tax levied by any Governmental Agencies with respect to the receipt of such rental; or

16

any Impositions upon or with respect to the possession, leasing, operation, management, maintenance, alteration, repair or use or occupancy by Tenant of the Premises or any portion thereof; or

any Impositions upon or with respect to the building equipment and personal property used in connection with the operation and maintenance of the Property or upon or with respect to the furniture, fixtures and decorations in the common areas of the Property.

any Impositions upon this Lease or this transaction or any document to which Tenant is a party creating or transferring an interest or an estate in the Premises; or

any Impositions by Governmental Agencies (whether or not such Impositions constitute tax receipts) in substitution, partially or totally, of any impositions now or previously included within the definition of real property taxes, including those calculated to increase tax increments to Governmental Agencies and to pay for such services as fire protection, water drainage, street, sidewalk and road maintenance, refuse removal or other governmental services formerly provided without charge to property owners or occupants; or

any and all costs, including without limitation, the fees of attorneys, tax consultants and experts, incurred by Landlord should Landlord elect to negotiate or contest the amount of such real property taxes in formal or informal proceedings before the Governmental Agency imposing such real property taxes; provided, however, that real property taxes shall in no event include Landlord's general income, inheritance, estate, gift or franchise taxes.

"Rent" means Minimum Monthly Rent, as adjusted from time to time under this Lease, Additional Rent, Prepaid Rent, Security Deposit, all as defined in this Section, payments of Tenant's Share of increases in Real Property Taxes and Operating Costs, insurance, utilities and other charges payable by Tenant to Landlord.

"Rentable square feet of space" as to the Premises or the Building, as the case may be, means the number of usable square feet of space times the applicable R/U Ratio(s) as defined in this Section.

"Restoration" means the reconstruction, rebuilding, rehabilitation and repairs that are necessary to return damaged portions of the Premises and the Building to substantially the same physical condition as they were in immediately before the damage.

"R/U Ratio" means the rentable area of a floor of the Building divided by the usable area of such floor, both of which shall be computed in accordance with American National Standard Z65.1-1996 Method of Measuring Floor Space in Office Buildings as published by the Building Owners and Managers Association, as amended from time to time.

"Substantially complete" or "substantially completed" or "substantial completion" means the completion of Landlord's construction obligation, subject to completion or correction of "punch list" items, that is, minor items of incomplete or defective work or materials or mechanical maladjustments that are of such a nature that they do not materially interfere with or impair Tenant's use of the Premises for the Permitted Use.

"Successor" means assignee, transferee, personal representative, heir, or other person or entity succeeding lawfully, and pursuant to the provisions of this Lease, to the rights or obligations of either party.

"Tenant Improvements" means (i) the improvements and alterations set forth in Exhibit C, (ii) window coverings, lighting fixtures, plumbing fixtures, cabinetry and other fixtures installed by either Landlord or Tenant at any time during the Term, and (iii) any improvements and alterations of the Premises made for Tenant by Landlord at any time during the Term.

"Tenant's personal property" means Tenant's equipment, furniture, and movable property placed in the Premises by Tenant.

"Tenant's trade fixtures" means any property attached to the Premises by Tenant.

"Termination" means the ending of the Term for any reason before expiration, as defined in this Section.

"Work" means the construction of any improvements or alterations or the performance of any repairs done by Tenant or caused to be done by Tenant on the Premises as permitted by this Lease.

Miscellaneous Provisions.

Entire Agreement. This Lease sets forth the entire agreement of the parties as to the subject matter hereof and supersedes all prior discussions and understandings between them. This Lease may not be amended or rescinded in any manner except by an instrument in writing signed by a duly authorized officer or representative of each party hereto.

Governing Law. This Lease shall be governed by, and construed and enforced in accordance with, the laws of the State of Washington.

Severability. Should any of the provisions of this Lease be found to be invalid, illegal or unenforceable by any court of competent jurisdiction, such provision shall be stricken and the remainder of this Lease shall nonetheless remain in full force and effect unless striking such provision shall materially alter the intention of the parties.

Jurisdiction. In the event any action is brought to enforce any of the provisions of this Lease, the parties agree to be subject to exclusive in personam jurisdiction in the Superior Court, King County, for the State of Washington or in the United States District Court for the Western District of Washington and agree that in any such action venue shall lie exclusively at Seattle, Washington.

Waiver. No waiver of any right under this Lease shall be effective unless contained in a writing signed by a duly authorized officer or representative of the party sought to be charged with the waiver and no waiver of any right arising from any breach or failure to perform shall be deemed to be a waiver of any future right or of any other right arising under this Lease.

Captions. Section captions contained in this Lease are included for convenience only and form no part of the agreement between the parties.

Notices. All notices or requests required or permitted under this Lease shall be in writing. If given by Landlord such notices or requests may be personally delivered or sent by certified mail, return receipt requested, postage prepaid. If given by Tenant such notices or requests shall be sent by certified mail, return receipt requested, postage prepaid. Such notices or requests shall be deemed given when so delivered or mailed, irrespective of whether such notice or request is actually received by the addressee. All notices or requests to Landlord shall be sent to Landlord at Landlord's Address for Notice and all notices or requests to Tenant shall be sent to Tenant at Tenant's Address for Notice. Either party may change the address to which notices shall be sent by notice to the other party.

Binding Effect. Subject to the provisions of Section 20 captioned "Assignment and Subletting", this Lease shall be binding upon, and inure to the benefit of, the parties hereto and their respective successors and assigns. No permitted assignment of this Lease or Tenant's rights hereunder shall be effective against Landlord unless and until an executed counterpart of the instrument of assignment shall have been delivered to Landlord and Landlord shall have been furnished with the name and address of the assignee. The term "Tenant" shall be deemed to include the assignee under any such permitted assignment.

Effectiveness. This Lease shall not be binding or effective until properly executed and delivered by Landlord and Tenant.

Gender and Number. As used in this Lease, the masculine shall include the feminine and neuter, the feminine shall include the masculine and neuter, the neuter shall include the masculine and feminine, the singular shall include the plural and the plural shall include the singular, as the context may require.

Time of the Essence. Time is of the essence in the performance of all covenants and conditions in this Lease for which time is a factor.

Dated the date first above written.

Landlord:	Tenant:
The City of Seattle, a Washington municipal corporation	Microvision, Inc., a Washington corporation
By _____	By _____
Dwight D. Dively	Its _____
Director	
Executive Services Department	
	By _____
	Its _____

This Lease has been prepared for submission to you and your attorney. Martin Smith Inc is not authorized to give legal or tax advice. Neither Landlord nor Martin Smith Inc makes any representations or recommendations as to the legal sufficiency, legal effect or tax consequences of this document or any transaction relating thereto. These are questions for your attorney with whom you should consult before signing the document to determine whether your legal rights are adequately protected.

EXHIBIT A
LEGAL DESCRIPTION

[Omitted]

EXHIBIT B
FLOOR PLAN

EXHIBIT C
WORK LETTER

This Work Letter is made and entered into this 1st day of December 1997 by and between The City of Seattle, a Washington municipal corporation ("Landlord"), and Microvision, Inc., a Washington corporation ("Tenant").

RECITALS: Landlord and Tenant have entered into a Lease dated of even date herewith covering certain Premises designated as Suite 110 in Building A of the Park 90/5 complex located in Seattle, Washington (the "Lease"). The Lease contemplates the construction by Tenant of certain improvements to the Premises. Landlord and Tenant desire to set forth their agreement as to construction of such improvements in writing and hereby agree as follows:

The Work. Under the Lease, Tenant has agreed to accept the Premises "AS IS," without any obligations for the performance of improvements or other work by Landlord, and Tenant desires to perform certain improvements thereto (the "Work"). Such Work shall be in accordance with the provisions of this Work Letter, and to the extent not expressly inconsistent herewith, in accordance with the provisions of the Lease. Performance of the Work shall not serve to abate or extend the time for the commencement of Rent under the Lease, except to the extent Landlord delays approvals beyond the times permitted.

Cost of the Work. Except as provided hereinafter, Tenant shall pay all costs (the "Cost of the Work") associated with the Work whatsoever, including without limitation, all permits, inspection fees, fees of space planners, architects, engineers, and contractors, utility connections, the cost of all labor and materials, bonds, insurance, and any structural or mechanical work, additional HVAC equipment or sprinkler heads, or modifications to any building mechanical, electrical, plumbing or other systems and equipment or relocation of any existing sprinkler heads, either within or outside the Premises required as a result of the layout, design, or construction of the Work.

Space Plan and Working Drawings. Tenant shall submit a "Space Plan and Working Drawings" to Landlord for review and approval prior to commencement of the Work.

Change Orders. No changes, modifications, alterations or additions to the approved Space Plan or Working Drawings may be made without the prior written consent of the Landlord after written request therefor by Tenant. In the event that the Premises are not constructed in accordance with said approved Space Plan and Working Drawings, then Tenant shall not be permitted to occupy the Premises until the Premises reasonably comply in all respects with said approved Space Plan and Working Drawings; in such case, the Rent shall nevertheless commence to accrue and be payable as otherwise provided in the Lease.

Compliance. Tenant's Work shall comply in all respects with the following: (a) the Building Code of the City and State in which the Building is located and State, County, City or other laws, codes, ordinances and regulations, as each may apply according to the rulings of the controlling public official, agent or other such person, (b) applicable standards of the National Board of Fire Underwriters and National Electrical Code, and (c) building material manufacturer's specifications.

Performance.

Tenant's Work shall be performed in a thoroughly safe, first-class and workmanlike manner in conformity with the approved Space Plan and Working Drawings, and shall be in good and usable condition at the date of completion.

Tenant shall be required to obtain and pay for all necessary permits and/or fees with respect to Tenant's Work, and the same shall be shown to Landlord prior to commencement of the Work.

Landlord shall have the right to require Tenant to furnish bonds or other security in form and amount reasonably satisfactory to Landlord for the prompt and faithful performance and payment for Tenant's Work.

If contemplated or permitted under the statutes of the State in which the Property is located, within ten (10) days after completion of construction of Tenant's Work, Tenant shall execute and file a Notice of Completion with respect thereto and furnish a copy thereof to Landlord upon recordation, failing which, Landlord may itself execute and file the same on behalf of Tenant as Tenant's agent for such purpose.

Copies of "as built" drawings shall be provided to Landlord no later than thirty (30) days after completion of the Work.

Landlord's approval of Tenant's plans and specifications, and Landlord's recommendations or approvals concerning contractors, subcontractors, space planners, engineers or architects, shall not be deemed a warranty as to the

quality or adequacy of the Work, or the design thereof, or of its compliance with Laws, codes and other legal requirements.

Landlord shall not be responsible for any disturbance or deficiency created in the air conditioning or other mechanical, electrical or structural facilities within the Property or Premises as a result of the Work.

22

If such disturbances or deficiencies result, Tenant shall correct the same and restore the services to Landlord's reasonable satisfaction, within a reasonable time.

If performance of the Work shall require that additional services or facilities (including without limitation, extra or after-hours elevator usage or cleaning services) be provided, Tenant shall pay Landlord's reasonable charges therefor.

Tenant's contractors shall comply with the rules of the Property and Landlord's requirements respecting the hours of availability of elevators and manner of handling materials, equipment and debris. Demolition must be performed after 6:00 p.m. Monday through Friday or on weekends. Delivery of materials, equipment and removal of debris must be arranged to avoid any inconvenience or annoyance to other occupants. The Work and all cleaning in the Premises must be controlled to prevent dirt, dust or other matter from infiltrating into adjacent tenant or mechanical areas.

Insurance. All contractors and sub-contractors shall carry Worker's Compensation Insurance covering all of their respective employees in the statutory amounts, Employer's Liability Insurance in the amount of at least \$500,000 per occurrence, and comprehensive general liability insurance of at least \$3,000,000 combined single limit for bodily injury, death, or property damage: and the policies therefor shall cover Landlord and Tenant, as additional insureds, as well as the contractor or subcontractor. Tenant shall carry builder's risk insurance coverage respecting the construction and improvements to be made by Tenant, in the amount of the anticipated cost of construction of the Work (or any guaranteed maximum price). All insurance carriers hereunder shall be rated at least A and X in Best's Insurance Guide. Certificates for all such insurance shall be delivered to Landlord before the construction is commenced or contractor's equipment is moved onto the Property. All policies of insurance must require that the carrier give Landlord twenty (20) days' advance written notice of any cancellation or reduction in the amounts of insurance. In the event that during the course of Tenant's Work any damage shall occur to the construction and improvements being made by Tenant, then Tenant shall repair the same at Tenant's cost.

Asbestos. If the Property was constructed at a time when asbestos was commonly used in construction, Tenant acknowledges that asbestos-containing materials ("ACM") may be present at the Property, and that airborne asbestos fibers may involve a potential health hazard unless proper procedures are followed. In such case, before commencing the Work, Tenant and its contractor shall consult with Landlord and Landlord's asbestos consultant concerning appropriate procedures to be followed. Landlord shall, at Tenant's expense, undertake any necessary initial asbestos-related work, before Tenant commences the Work. During performance of the Work, Tenant shall require that its contractor comply with all laws, rules, regulations and other governmental requirements, as well as all directives of Landlord's asbestos consultant, respecting ACM. Tenant hereby irrevocably appoints Landlord and Landlord's asbestos consultant as Tenant's attorney-in-fact for purposes of supervising and directing any asbestos-related aspects of the Work (but such appointment shall not relieve Tenant from its obligations hereunder, nor impose any affirmative requirement on Landlord to provide such supervision or direction).

Liens. Tenant shall pay, or cause to be paid, all costs of labor, services and/or materials supplied in connection with any Work. Tenant shall keep the Property free and clear of all mechanics' liens and other liens resulting from any Work. Tenant shall have the right to contest the correctness or validity of any such lien if, immediately on demand by Landlord, it procures and records a lien release bond issued by a responsible corporate surety in an amount equal to one and one-half times the amount of the claim of lien or furnishes other security for payment of such lien satisfactory to Landlord. Tenant shall promptly pay or cause to be paid all sums awarded to the claimant on its suit, and, in any event, before any execution is issued with respect to any judgment obtained by the claimant in its suit or before such judgment becomes a lien on the Property, whichever is earlier. If Tenant shall be in default under this Section, by failing to provide security for or satisfaction of any mechanic's or other liens, then Landlord may (but shall not be obligated to), in addition to any other rights or remedies it may have, discharge said lien by (i) paying the claimant an amount sufficient to settle and discharge the claim, (ii) procuring and recording a lien release bond, or (iii) taking such other action as Landlord shall deem necessary or advisable, and, in any such event, Tenant shall pay as Additional Rent, on Landlord's demand, all costs (including reasonable attorney fees) incurred by Landlord in settling and discharging such lien together with interest thereon in accordance with Section 39 of the Lease, from the date of Landlord's payment of said costs. Landlord's payment of such costs shall not waive any default of Tenant under this Section. Nothing contained herein shall

authorize Tenant to do any act which shall subject Landlord's title to the Property or Premises to any liens or encumbrances whether claimed by operation of law or express or implied contract. Any claim to a lien or encumbrance upon the Property or Premises arising in connection with the Work shall be null and void, or, at Landlord's option, shall attach only against Tenant's interest in the Premises and shall in all respects be subordinate to Landlord's title to the Property and Premises.

Indemnity. Tenant shall indemnify, defend and hold harmless Landlord (and Landlord's principals, partners, agents, trustees, beneficiaries, officers, employees and affiliates) from and against any claims, demands, losses, damages, injuries, liabilities, expenses, judgments, liens, encumbrances, orders, and awards, together with attorneys' fees and litigation expenses arising out of or in connection with the Work, or Tenant's failure to comply with the provisions hereof, or any failure by Tenant's contractors, subcontractors or their employees to comply with the provisions hereof, except to the extent caused by Landlord's intentional or negligent acts.

Taxes. Tenant shall pay prior to delinquency all taxes, charges or other governmental impositions (including without limitation, any real estate taxes or assessments, sales tax or value added tax)

24

assessed against or levied upon Tenant's fixtures, furnishings, equipment and personal property located in the Premises and the Work to the Premises under this Agreement. Whenever possible, Tenant shall cause all such items to be assessed and billed separately from the property of Landlord. In the event any such items shall be assessed and billed with the property of Landlord, Tenant shall pay its share of such taxes, charges or other governmental impositions to Landlord within thirty (30) days after Landlord delivers a statement and a copy of the assessment or other documentation showing the amount of such impositions applicable to Tenant.

INCORPORATED INTO LEASE; DEFAULT. THE PARTIES AGREE THAT THE PROVISIONS OF THIS Work Letter ARE HEREBY INCORPORATED BY THIS REFERENCE INTO THE LEASE FULLY AS THOUGH SET FORTH THEREIN. In the event of any express inconsistencies between the Lease and this Work Letter, the latter shall govern and control. If Tenant shall default under this Work Letter, Landlord may order that all Work being performed in the Premises be stopped immediately, and that no further deliveries to the Premises be made, until such default is cured, without limitation as to Landlord's other remedies. Any amounts payable by Tenant to Landlord hereunder shall be paid as Additional Rent under the Lease. Any default by the other party hereunder shall constitute a default under the Lease and shall be subject to the remedies and other provisions applicable thereto under the Lease.

Dated the date first above written.

Landlord:

The City of Seattle, a Washington municipal corporation

By _____
Dwight D. Dively
Director
Executive Services Department

Tenant:

Microvision, Inc., a Washington corporation

By _____
Its _____
By _____
Its _____

24
RIDER

This Rider is part of that certain Lease dated December 1, 1997 (the "Lease") by and between The City of Seattle, a Washington municipal corporation ("Landlord"), and Microvision, Inc., a Washington corporation ("Tenant"), covering certain Premises designated as Suite 110 in Building A of the Park 90/5 complex located in Seattle, Washington. Landlord and Tenant further agree as follows:

39. Option to Extend. Landlord hereby grants to Tenant the right, at its option, to extend the Term for one (1) period of two (2) years commencing January 15, 1999 and ending January 14, 2001 (the "Extended Term") upon each and all of the following terms and conditions:

(a) Tenant gives to Landlord, and Landlord actually receives, on or before August 14, 1998, a written notice of the exercise of the option to extend the Term (the "Notice of Exercise"), time being of the essence. If the Notice of Exercise is not so given and received, this option shall automatically expire and be of no further force and effect.

(b) Tenant is not in default under this Lease either at the time the Notice of Exercise is given and received or as of the date that the Extended Term would commence.

(c) All the terms and conditions of this Lease shall apply, except where specifically modified by this option.

(d) Tenant shall provide Landlord, simultaneously with the Notice of Exercise, Tenant's most recent audited and monthly unaudited financial statements, bank references, Dun & Bradstreet report, and a balance sheet certified as being true by Tenant's chief financial officer. If, in Landlord's reasonable discretion, Landlord determines from any of the foregoing material that the creditworthiness of Tenant is materially less than the creditworthiness of Tenant as of the date of execution of this Lease, Landlord may reject Tenant's exercise of this Option to Extend by written notice to Tenant, and upon such rejection this Option to Extend shall become null and void and be of no further force or effect, and this Lease shall expire on January 14, 1999.

(e) The monthly Base Rent payable during the Extended Term shall be mutually agreed upon between Landlord and Tenant based on the then prevailing market rate rental for comparable space and term in the Building or other comparable buildings located in the area of the Property for present commitments to lease space at the time the Extended Term would commence, within sixty (60) days after Tenant gives the Notice of Exercise, and, if not agreed upon within such period, as it may be extended by mutual agreement of the parties. In no event, however, shall the monthly Base Rent be less than the Base Rent paid during the last year of the initial Lease Term. In the event Landlord and Tenant are unable to negotiate a mutually acceptable market rental rate for the Extended Term within such sixty (60) day period, this Option to Extend shall become null and void and be of no further force or effect, and this Lease shall expire on January 14, 1999.

(f) Tenant agrees that the amount of the Security Deposit payable by Tenant for the Extended Term shall be increased to an amount equal to the first monthly installment of Base Rent payable by Tenant in the first month of the Extended Term.

40. Nondiscrimination and Affirmative Action. Tenant shall comply with all federal, state, and local laws and ordinances prohibiting discrimination with regard to race, color, national origin, ancestry, creed, religion, political ideology, sex, sexual orientation, marital status, or the presence of any sensory, mental or physical handicap.

Dated the date first above written.

Landlord:

The City of Seattle, a Washington
municipal corporation

By: _____

Dwight D. Dively
Director,
Executive Services Department

Tenant:

Microvision, Inc., a Washington
corporation

By: _____

Its: _____

By: _____

Its: _____

EMPLOYMENT AGREEMENT
FOR
RICHARD A. RAISIG

AGREEMENT, effective as of October 1, 1997 by and between MICROVISION, INC., a Company of the State of Washington, having its principal place of business at 2203 Airport Way South, Suite 100, Seattle Washington 98134, hereinafter referred to as the "Company") and Richard A. Raisig (hereinafter called "Executive").

W I T N E S S E T H:

WHEREAS, the Company wishes to continue to retain the services of the Executive to work for the Company as its Chief Financial Officer and Vice President, Operations (herein referred to as the "Position") upon the terms and conditions hereinafter set forth; and

WHEREAS, in consideration for continued service in the Position, the Executive has agreed to enter into and be bound by the terms of this Agreement.

NOW THEREFORE, in consideration of the foregoing and mutual covenants herein contained, the parties agree as follows:

1. EMPLOYMENT

- 1.1 The Company hereby employs Executive to serve in the Position and Executive hereby accepts such employment as of the effective date of this Agreement.
- 1.2 Executive will devote his best efforts and full time and attention to performing all duties assigned or delegated to him by the Board of Directors of the Company consistent with the Position.
- 1.3 The term of employment shall end on December 31, 2000, unless this Agreement is extended by the parties.

2. COMPENSATION - SALARY AND BENEFITS

- 2.1 For his services hereunder, Executive shall receive an annual salary of \$130,000, payable in regular installments under the payroll of the Company.
- 2.2 The level of Executive's salary shall be reviewed by the Board of Directors on an annual basis and upon such review, may remain the same or be increased in such amount as the Board of Directors, in its discretion, based upon merit, determines, provided that there shall be no decrease in the salary of the Executive without his consent.
- 2.3 In addition to the salary to which Executive is entitled under Section 2.1, Executive shall be entitled to participate in benefit plans, if any, that the Company may offer or establish from time to time for Executives of equal or lesser rank.

Page 1 of 9

Participation in benefit plans for the Executive shall terminate if the Company terminates similar benefits for Executives of equal or lessor rank.

- 2.4 If at any time the Company does not maintain medical and dental insurance coverage for all Executives, the Company shall reimburse the Executive for securing private coverage during the term of this Agreement.
- 2.5 All salary and benefits, if any, shall be subject to the customary withholding of taxes as required by law. Except as otherwise provided in Section 8 hereof, Executive's salary and benefits end immediately upon the termination of employment.

3. INCENTIVE COMPENSATION

- 3.1 If the Company maintains a formal cash incentive plan for senior management, the Executive shall be eligible to participate in such plan with a target incentive opportunity at least equal to the highest percentage opportunity provided to any other Executive of comparable position covered under such plan.
- 3.2 If such a formal plan is not maintained by the Company, the Executive shall be eligible for consideration to receive an annual cash incentive payment from the Company. Executive's eligibility for such a discretionary incentive payment ends upon termination of employment. This amount shall be determined annually in the sole and complete discretion of the Board of Directors, which may take into account in its decision, among other items, such items as:

- 3.2.1 The financial performance of the Company, including, but not limited to revenues, operating income, and net income, if any;
- 3.2.2 The individual accomplishments of the Executive;
- 3.2.3 Other company achievements, including, but not limited to, product research, development and introduction; market offerings and the arrangement of strategic alliances; and
- 3.2.4 Competitive practice for executives in similar situations.

4. STOCK OPTIONS

The Executive shall receive options to purchase common stock of the Company in the amounts set forth below. All such options shall be granted in accordance with the stock option plan maintained by the Company and shall be subject to the terms and conditions set forth therein and in the stock option grant letter issued by the Company to Executive thereunder. If there are insufficient shares available under the stock option plan in existence at the time of this Agreement, such shares shall be granted subject to the approval of shareholders at the next annual meeting subsequent to the execution of this Agreement. The options shall be exercisable for ten years from the date of grant, and shall vest in quarterly installments as noted below.

Page 2 of 9

- 4.1 An option to purchase up to 28,000 shares at a price of \$14.00. These options shall vest in four equal quarterly installments, commencing on September 1, 1997.
- 4.2 An option to purchase up to 28,000 shares at a price of \$17.50. These options shall vest in four equal quarterly installments commencing on September 1, 1998.
- 4.3 An option to purchase up to 20,000 shares at a price of \$21.88. These options shall vest in one four month installment commencing on September 1, 1999.
- 4.4 An option to purchase up to 45,000 shares at a price of \$21.88. These options shall vest in three equal quarterly installments commencing on January 1, 2000.
- 4.5 An option to purchase up to 15,000 shares at a price of \$27.34. These options shall vest in one quarterly installment commencing on October 1, 2000.

5. BUSINESS EXPENSES

- 5.1 The parties acknowledge that Executive may incur, from time to time, for the benefit of the Company and in furtherance of the Company's business, various expenses such as travel, entertainment and promotional expenses. The Company agrees that it shall either pay such expenses directly, advance sums to Executive to be used for payment of such expenses, or reimburse Executive for such expenses incurred by him.
- 5.2 The Company agrees to pay such expenses, in accordance with its written policies covering the payment of business expenses and to the extent that these expenses do not exceed limits contained in such policies or applicable law. Executive agrees to submit to the Company such documentation as may be necessary to substantiate that all expenses paid or reimbursed pursuant to this Section 5 were reasonable and necessary for the performance of his duties under this Agreement.

6. PERFORMANCE OF EMPLOYMENT

- 6.1 Executive will observe and comply with such reasonable rules, regulations and policies as may from time to time be established by the Board of Directors of the Company, either orally or in writing.
- 6.2 Executive specifically agrees that he will comply with the confidentiality and security rules established by the Board of Directors with respect to confidential and financial information of the Company.

Page 3 of 9

7. EMPLOYMENT CONDUCT AND CONFIDENTIAL INFORMATION

- 7.1 Executive shall, at all times during the term of this Agreement, observe and conform to all laws regulating the business of the Company.
- 7.2 Executive acknowledges and recognizes that during the term of this Agreement, he will necessarily become privy to certain confidential and proprietary information of the Company and customers of the

Company (hereinafter referred to as "Confidential Data"). Confidential Data shall include but not be limited to all information concerning the identity of the Company's customers and suppliers, technical, financial and business activities, plans, operations, proprietary software, systems, procedures or know-how of the Company and any information regarding customers of the Company and their business affairs or endeavors. Executive agrees that he will hold all Confidential Data in the strictest confidence and that he will not disclose to any person or entity for any reason nor use any Confidential Data in any way other than on behalf of the Company or as the Company may otherwise direct.

7.3 Executive agrees that all business records and files, including but not limited to memoranda, notes, client lists, and proposals pertaining to the business, services or processes of the Company, shall be the sole property of the Company and he shall not retain, remove or copy such materials during the term of this Agreement or upon its termination or expiration, without the prior unanimous written consent of the Board of Directors of the Company. Upon the termination of this Agreement, or at any other time upon the request of the Board of Directors of the Company, Executive shall deliver all such materials to the Company.

7.4 The foregoing obligations of Executive shall survive the termination or expiration of this Agreement.

8. SEVERANCE PAYMENTS

8.1 If the Executive terminates the Agreement for any reason other than Constructive Termination (as defined in Section 8.3.5), or if the Company terminates the Agreement for Cause, no severance payment of any kind shall be made.

8.2 If the Company terminates this Agreement for reasons other than Cause, or if the Executive is Constructively Terminated prior to a Change in Control, the Company shall:

8.2.1 Pay to the Executive a lump sum equal to the Executive's salary of record for a period equal to the greater of one (1) year or the remaining period of this Agreement.

8.2.2 Continue to provide medical and dental insurance to the Executive for the greater of a period of one (1) year or the remainder of the term of this Agreement on the same terms as if the Executive were an active Executive of the Company.

Page 4 of 9

8.3 If the Executive is terminated or Constructively Terminated by the Company following a Change of Control, the Company shall:

8.3.1 Pay to the Executive a lump sum equal to the Executive's salary of record for a period of three (3) years;

8.3.2 Pay to the Executive a lump sum equal to three (3) times the average of the Executive's cash bonuses received in the three (3) preceding calendar years;

8.3.3 Continue to provide medical and dental insurance to the Executive for a period of one (1) year on the same terms as if the Executive were an active Executive of the Company.

8.3.4 For purposes of this Agreement, a Change of Control shall be deemed to occur on any of the following events:

8.3.4.1 Any "person", including a "group" as determined in accordance with Section 13(d)(3) of the Securities Exchange Act of 1934, as amended, is, or becomes, the beneficial owner of securities of the Company representing more than thirty percent (30%) of the combined voting power of the Company's then outstanding securities;

8.3.4.2 As a result of, or in connection with, any tender offer or exchange offer, merger or other business combination, sale of assets or contested election, or any combination of the foregoing transactions (a "Transaction"), the persons who constituted the Board of Directors the Company prior to the Transaction cease to constitute a majority of the Board of Directors of the Company or any successor to the Company;

8.3.4.3 The Company is merged or consolidated with another Company and as a result of the merger or consolidation, less than fifty percent (50%) of the outstanding voting securities of the surviving or resulting Company shall

then be owned in the aggregate by the former stockholders of the Company;

8.3.4.4 A tender offer or exchange offer is made and consummated for the ownership of securities of the Company representing more than thirty percent (30%) of the combined voting power of the Company's then outstanding voting securities; or

8.3.4.5 The Company transfers substantially all of its assets to another Company of which the Company owns less than fifty percent (50%) of the outstanding voting securities.

8.3.5 For purposes of this Agreement, Constructive Termination means:

Page 5 of 9

8.3.5.1 The reduction of the Executive's salary or target incentive;

8.3.5.2 The demotion or reduction in duties of the Executive;

8.3.5.3 The relocation of the Executive's place of employment more than 50 miles from the existing place of employment; or

8.3.5.4 Breach by the Company or its successor of any material provision of this Agreement.

8.4 For purposes of this Agreement, "Cause" shall be defined as any of the following:

8.4.1 Repeated failure or refusal of the Executive to carry out the reasonable directions of the Board of Directors of the Company consistent with the duties and obligations of the Executive;

8.4.2 Willful violation of state or federal law involving the commission of a crime against the Company or a felony adversely affecting the Company; or

8.4.3 Any material breach of this Agreement or of any covenant herein or the falsification of any material representation or warranty not corrected as provided in Section 8.5 hereof.

8.5 If a breach of this Agreement by either party is relied upon as a justification for any action taken by a party pursuant to any provision of this Agreement, before such action is taken, the party asserting the breach shall give the other party written notice of the existence and nature of the breach and the opportunity to correct such breach during the thirty (30) day period following the delivery of such notice.

9. RESTRICTIVE COVENANT AND INJUNCTIVE RELIEF. During the term of this agreement and for a period of twenty-four (24) months after the termination of this Agreement for any reason:

9.1 While this Agreement is in effect, Executive shall not, directly or indirectly, as an individual or representative of any other person and/or entity, deal with or solicit for business purposes that are in competition with any product or service offered by the Company, any current customer of the Company or any person and/or entity that is, or has commenced negotiations to become, a customer of the Company.

9.2 Executive shall not, directly or indirectly, solicit, raid, entice, or induce any other Executive of the Company to become employed by or associated with any other person or entity.

9.3 Executive shall not, directly or indirectly, as an Executive, consultant, agent, partner, principal, stockholder (other than as a holder of less than one percent (1%) of the shares of a publicly or privately held company), officer, director, or in any other individual or representative capacity, engage in any business activity that is competitive with any products or services offered by the Company at the time of the Executive's termination.

Page 6 of 9

9.4 The parties hereto acknowledge that the Executive's services, knowledge and experience are unique and of special value to the Company, and that, in the event of a breach or threatened breach by Executive of any of his obligations under this Agreement, including but not limited to those set forth in this Section 9, the Company will not have an adequate remedy at law. Accordingly, in the event of any breach or threatened breach of any provision of this Agreement by Executive, the Company shall be entitled to such equitable and injunctive relief as may be available to restrain Executive and any

other individual or entity participating in breach or threatened breach, from violating the provisions of this Agreement. Nothing herein shall be construed as prohibiting the Company from pursuing any other remedies available at law for such breach or threatened breach, including the recovery of damages and the immediate termination of Executive's employment hereunder.

10. INVENTIONS, CREATIONS AND DISCOVERIES

10.1 Executive acknowledges that during the course of his employment he may, either alone or in conjunction with others, be involved with the creation, authorship or development of inventions, materials or property, including but not limited to the field of laser or LED-based scanning display technologies, computer software, computer software and hardware applications (hereinafter referred to as "Materials"). Executive agrees that he will disclose all such Materials to the Board of Directors of the Company. Executive acknowledges that all such Materials shall be the property of the Company whether or not patent or copyright applications are filed with respect thereto from the date of their conception. If an assignment is necessary to transfer ownership thereof to the Company, Executive agrees that this Agreement, without more, shall constitute such an assignment. At the Company's request, Executive shall be required to make or assist in the filing of letters of patent, copyright applications or the like with respect to such Materials. In connection therewith, Executive agrees to execute all documents necessary or beneficial to establish or maintain the Company's rights in such property, applications or the like. All such filings shall be made, if possible, in the name of the Company, at its expense. If made during the term of his employment, Executive shall receive no additional compensation therefor. If such filings are required after the termination of the Executive's employment by the Company, he shall receive reasonable compensation for his assistance.

Pursuant to RCW 49.44.140, the Company has no rights under Section 10 of this Agreement to any invention for which no equipment, supplies, facilities, or trade secret information of the Company was used and which was developed entirely on Executive's own time, unless: (a) the invention relates (i) directly to the business of the Company or (ii) to the Company's actual or demonstrably anticipated research or development; or (b) the invention results from any work performed by Executive for the Company.

10.2 The foregoing obligations of Executive shall survive the termination or expiration of this Agreement.

Page 7 of 9

11. ASSIGNMENT. The rights of either party shall not be assigned or transferred without the other party's consent, nor shall the duties of either party be delegated in whole or in part without the other party's consent. Any unauthorized assignment, transfer or other delegation shall be of no force or effect.

12. AMENDMENTS. No amendments or additions to this Agreement shall be binding unless in writing and signed by both parties.

13. GOVERNING LAW. This Agreement shall be governed in all respects by the laws of the State of Washington.

14. BINDING ARBITRATION. Any disagreement, dispute, controversy or claim arising out of or in any way related to this Agreement, the subject matter hereof or the interpretation hereof or any arrangements relating hereto or contemplated herein or the breach, termination or invalidity hereof or the provision or failure to provide for any other benefits pursuant to any other bonus or compensation plans, stock option plan, life insurance or benefit plan or similar plan or agreement with the Company shall be settled exclusively and finally by binding arbitration. If this Section 14 conflicts with any provision in any such plan or agreement, this provision requiring arbitration shall control.

14.1 The arbitration shall be conducted through Judicial Arbitration and Mediation Services/Endispute (henceforth referred to as "JAMS") to be held before such arbitrator as the parties may agree, or if they are unable to agree, to be selected by obtaining five proposed arbitrators from JAMS and alternately striking names until one name remains.

14.2 The arbitration shall be conducted in accordance with the Judicial Arbitration and Mediation Services Rules of Practice and Procedure as are then in effect, except as modified by the agreement of the parties.

14.3 Either party may initiate a claim by contacting JAMS.

14.4 The decision of the arbitrator shall be final and binding on all parties and the parties waive their right to trial de novo or appeal,

except and only for the purpose of enforcing the decision of the arbitrator, for which purpose the parties hereby agree that the Superior Court of King Country Washington shall have jurisdiction.

14.5 The prevailing party shall be entitled to recover reasonable attorneys' fees and the costs of bringing or defending the arbitration and any action for enforcement, the amount of the awards being determined by the arbitrator.

15. PARAGRAPH HEADINGS. The paragraph headings used in this Agreement are included solely for convenience and shall not affect or be used in connection with the interpretation of this Agreement.

16. WAIVER, MODIFICATION, CANCELLATION. Any waiver, alteration or modification of any of the provisions of this Agreement or cancellation or replacement of this Agreement shall not be valid unless in writing and signed by all of the parties hereto.

Page 8 of 9

17. HEIRS AND SUCCESSORS. This Agreement shall be binding upon the Company, Executive and their successors, heirs, personal representatives and transferees.

18. WAIVER. The waiver by either party of a breach of any provision contained herein must be in writing and shall in no way be construed as a waiver of any succeeding breach of such provision or the waiver of the provision itself.

19. NOTICE. Whenever under the provisions of this Agreement notice is required to be given, it shall be in writing and shall be deemed given when hand delivered or mailed, postage prepaid by registered or certified mail, return receipt requested, addressed to the Executive or the Company at the following addresses:

Executive: Richard A. Raisig
c/o Microvision, Inc.
2203 Airport Way South, Suite 100
Seattle, WA 98134

Company: Microvision, Inc.
2203 Airport Way South Suite 100
Seattle, WA 98134
Attn: Secretary

Either party hereto may change his or its address for purposes of this Agreement by notification to the other party in accordance with this Section.

20. SEVERABILITY. If any provision of this Agreement is held invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions will not in any way be affected or impaired thereby.

21. ENTIRE AGREEMENT. This Agreement contains the entire agreement of the parties regarding the subject matter hereof and supersedes all prior agreements, understandings and negotiations regarding the same.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

MICROVISION, INC.

by -----/-----
Date Witness

EXECUTIVE

by -----/-----
Date Witness

Page 9 of 9

Exhibit 11

Computation of net loss per share

In February 1997, Statement of Financial Accounting Standards No. 128, Earnings per Share (SFAS 128) was issued. This pronouncement modifies the calculation and disclosure of earnings (loss) per share (EPS) and was adopted by the Company in its financial statements for the year ended December 31, 1997. The following discloses the loss per share calculations in accordance with the provisions of SFAS 128.

<TABLE>
<CAPTION>

	Year ended December 31,	
	1997	1996
	-----	-----
<S>	<C>	<C>
Weighted-average number of shares outstanding for use in computing loss per share	5,806,200	3,832,000
	=====	=====
Weighted-average number of shares outstanding for use in computing loss per share assuming dilution	5,806,200	3,832,000
	=====	=====
Net loss	\$ (4,945,000)	\$ (3,456,600)
	=====	=====
Net loss per common share	\$ (0.85)	\$ (0.90)
	=====	=====
Net loss per common share assuming dilution	\$ (0.85)	\$ (0.90)
	=====	=====

</TABLE>

Consent of Independent Accountants

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-19011) of Microvision, Inc. of our report dated March 27, 1998 appearing in this Annual Report on Form 10-KSB.

PRICE WATERHOUSE LLP
Seattle, Washington
March 31, 1998

<TABLE> <S> <C>

<ARTICLE>

5

<LEGEND>

This Schedule contains summary financial information extracted from the audited financial statements of Microvision, Inc., for the year ended December 31, 1997 and is qualified in its entirety by reference to such financial statements.

</LEGEND>

<S>

<C>

<PERIOD-TYPE>	12-MOS	
<FISCAL-YEAR-END>		DEC-31-1997
<PERIOD-END>		DEC-31-1997
<CASH>		5,049,200
<SECURITIES>		3,792,000
<RECEIVABLES>		150,000
<ALLOWANCES>		0
<INVENTORY>		0
<CURRENT-ASSETS>		9,948,100
<PP&E>		944,600
<DEPRECIATION>		171,900
<TOTAL-ASSETS>		10,740,800
<CURRENT-LIABILITIES>		1,506,800
<BONDS>		0
<PREFERRED-MANDATORY>		0
<PREFERRED>		0
<COMMON>		25,375,300
<OTHER-SE>		(16,210,900)
<TOTAL-LIABILITY-AND-EQUITY>		10,740,800
<SALES>		0
<TOTAL-REVENUES>		1,712,700
<CGS>		0
<TOTAL-COSTS>		0
<OTHER-EXPENSES>		7,491,600
<LOSS-PROVISION>		0
<INTEREST-EXPENSE>		3,400
<INCOME-PRETAX>		(4,945,000)
<INCOME-TAX>		0
<INCOME-CONTINUING>		(4,945,000)
<DISCONTINUED>		0
<EXTRAORDINARY>		0
<CHANGES>		0
<NET-INCOME>		(4,945,000)
<EPS-PRIMARY>		(.85)
<EPS-DILUTED>		(.85)

</TABLE>