

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934 For the fiscal year ended December 31, 1998

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number 0-21221

MICROVISION, INC.
(Exact name of registrant as specified in its charter)

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

19910 North Creek Parkway
Bothell, Washington 98011
(425) 415-6847
(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)

Common Stock Purchase Warrants
(Title of Class)

Check whether the registrant (1) has filed all reports required to be filed by
Section 13 or 15(d) of the Securities Exchange Act of 1934 during the 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-K 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-K or any
amendment to this Form 10-K. _____

The aggregate market value of the common stock held by non-affiliates of the
registrant as of March 31, 1999 was approximately \$96,756,700 (based on the
closing price for the registrant's Common Stock on the Nasdaq National Market of
\$16.625 per share).

The number of shares of the registrant's Common Stock outstanding as of March
31, 1999 was 6,159,399.

Documents Incorporated by Reference: Portions of the Proxy Statement to be
delivered to shareholders in connection with the Registrant's Annual Meeting of
Shareholders to be held on June 10, 1999 are incorporated by reference into Part
III of this report.

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PART I

Preliminary Note Regarding Forward-Looking Statements

The information set forth in this report in Item 1 "Description of Business" and in Item 7 "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. Such statements may include, but are not limited to, projections of revenues, income, or loss, capital expenditures, plans for product development and cooperative arrangements, future operations, financing needs or plans of the Company, as well as assumptions relating to the foregoing. With respect to the discussion below under "Year 2000 Compliance," factors that could affect the actual results include the possibility that remediation programs will not operate as intended, the Company's failure to timely or completely identify all software or hardware applications requiring remediation, unexpected costs, and the uncertainty associated with the impact of year 2000 issues on the Company's customers, vendors and others with whom it does business. The words "believe," "expect," "anticipate," "estimate," "project," and similar expressions identify forward-looking statements, which speak only as of the date the statement was made. Certain factors that realistically could cause results to differ materially from those projected in the forward-looking statements are set forth in Item 1 "Description of Business - Considerations Related to the Company's Business."

ITEM 1. DESCRIPTION OF BUSINESS

Overview

Microvision, Inc. ("Microvision" or the "Company"), incorporated in 1993, develops information display technologies that allow electronically generated images and information to be projected to 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 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 communications and visual simulation for defense, medical, industrial and entertainment that may include superimposing images on the user's field of vision. The Company expects that its technology will allow for the production of highly miniaturized, lightweight, battery-operated displays that can be held or worn comfortably. The Company's scanning technology may also be applied to the capturing of images, in such possible applications as a digital camera or a bar code reader. The Company may expend funds in evaluating and developing solutions for possible future products involving this application.

Information displays are the primary medium through which text and images generated by computers 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 develop more portable

products.

The Company'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 scanned display products and image capture products 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: the licensing of technology to OEMs of consumer electronics products; the 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, medical and industrial, and consumer electronics industries to develop or co-develop products that the Company believes to be the most commercially viable. Although the Company is engaged in development and co-development projects, it does not expect commercial sales of products until at least 2000, and commercial sales may not occur until substantially later, if at all.

The Company's existing prototypes have demonstrated the technical feasibility of the VRD technology 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 the development of high quality displays using smaller components 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 system (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.

Fundamental to the Company's technology development strategy is the development of standardized modules for each of the key components of a VRD system. These standardized modules can then be used in unique combinations to create a small number of technology platforms. Each platform is a complete VRD system that can be extended to meet the individual features for an entire family of products for a wide array of applications for various markets.

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Considerations Relating 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 the Company's potential customer base. There can be no assurance that the VRD technology will achieve 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 are 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, results of operations and financial condition. 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, 1998, the Company had an accumulated deficit since inception of \$22,836,000, and the Company expects to continue to incur substantial losses and negative cash flow at least through 2000 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 imaging industries, and competition. See "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, the University of Washington and the Company's other licensors to maintain the proprietary nature of the VRD and related technologies. Although the Company's licensors

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have patented various aspects of the VRD technology, and the Company continues to file its own patent applications, there can be no assurance 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. There can be no assurance that the Company will be able to meaningfully protect its trade secrets, know-how or other proprietary information or to prevent the 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 and other third parties. There can be no assurance that the Company will be able to negotiate such

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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 sales, marketing and manufacturing 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 "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. In 1993, the Company acquired the exclusive rights to the VRD technology under a license agreement with the University of Washington (the "UW License Agreement"). 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 UW License Agreement, the Company's operations and business prospects could be materially and adversely affected. In addition, the Company could lose the exclusivity under the UW License Agreement 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 material 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 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 commercially infeasible or technologically obsolete. Rapid and significant technological advances have characterized the electronic information display industry. 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."

Year 2000 Compliance. The effect on the Company of an internal Y2K failure, a third party Y2K failure or a combination of internal and external Y2K failures could range from a minor disruption in the Company purchases to an extended interruption in the information technology ("IT") and non-IT systems of third parties whose operations materially impact the Company's operations. Such an interruption could result in a material adverse effect on the

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Company's business, operating results and financial position. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Year 2000 Compliance Strategy."

Lack of Manufacturing Experience. The Company's success depends in part on its ability to manufacture its products and components 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 or, if it does, that these resources will meet quality standards. 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 "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 sales and marketing, technology and product development, and manufacturing. Competition for qualified personnel in these fields is intense, and the inability to attract and retain additional highly skilled personnel, or the loss of key personnel, could have a material adverse effect on the Company's business and results of operations. See "- Employees."

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."

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Shares Eligible for Future Sale. The sale of a substantial number of shares 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 Common Stock and the Public Warrants. As of December 31, 1998, the Company had outstanding 6,064,626 shares of Common Stock; 2,273,926 Public Warrants to purchase 2,273,926 shares of Common Stock; and private warrants to purchase an aggregate of 69,526 shares of Common Stock. As of that date, the Company had grants outstanding under its stock option plans options to purchase an aggregate of 2,365,151 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 remaining 286,150 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 popularity 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 improved means of connecting people and machines can increase 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

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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 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, 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 no longer provide the full range of performance characteristics, including high resolution, high level of brightness and low

power consumption required for state-of-the-art information systems.

Microvision's Retinal Display Technology

The Company's VRD technology is fundamentally different from previously commercialized display technologies. VRD systems create an image on the retina like a miniaturized video projector focused on the "projection screen" at the back of the viewer's eye. By continuously scanning a low power beam of colored light to "direct" rows of pixels to 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 drive electronics of the VRD technology acquire and process signals from the image or data source to control and synchronize the color mix, "gray-level" and placement of pixels. Color pixels are generated by a modulated light source, which varies the intensity of each of the red, green and blue lights 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 downward where another row of pixels is drawn. This process is continued until an entire field of "rows" has been placed and a full image appears to the user. Optical elements direct the beam of light through the pupil of the viewer's eye to create an image on the retina.

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Strategy

The Company's objective is to be a leading provider of scanned display and image capture products 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 control and health care industries. The Company 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.

Licensing of proprietary technology to OEMs for volume manufacture of products. The Company believes that in consumer markets the ability 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. The Company's strategy will be to seek both initial license fees from such arrangements as well as ongoing per unit royalties.

Additionally, certain potential applications of the VRD technology, such as pagers or cellular phones, could require integration of the VRD technology with other unrelated technologies. In markets requiring volume production of personal display components or subsystems that can be integrated with non-display components, the Company may provide components, subsystems or systems design technology to OEMs under licensing agreements.

The Company expects that such relationships generally will involve a period of co-development during which engineering and marketing professionals from OEMs would work with the Company's technical staff to specify, design and develop a product appropriate to the targeted market and application. The Company would charge 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 manufacturing obligations for consumer products it will reduce the capital requirements and risks inherent in bringing the VRD technology to the consumer market.

Development of an Intellectual Property Portfolio. 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

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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 technology 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 patented technologies and proprietary 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

The Company has identified a variety of potential applications for its VRD technology, 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 electronic mail, fax 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. The Company expects that the range of potential products in this category may include cellular phones, pagers, or personal digital assistants that project into view electronic mail messages, faxes, or other information as a bright, sharp image.

Visualization for Defense, Healthcare, Commercial, Industrial and Consumer 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.

Augmented vision applications superimpose high contrast, monochromatic or color images and information on the user's view of the surrounding environment as a means of enhancing the safety, precision or 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 could be viewed without blocking normal vision and could assist in threat detection, reconnaissance and other activities.

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

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<TABLE>
<CAPTION>

		MARKETS				
		Defense & Public Safety	Healthcare	Business	Industrial	Consumer
<S>	<C>	<C>	<C>	<C>	<C>	<C>
mail viewing	Hand-held	o Command and control	o Patient status monitoring	o Fax viewing	o Maintenance and field service	o E-mail viewing
Internet access	Communication Devices	o Tactical information systems	o Portable maintenance	o Internet access		
A		o Public safety				
P		o Law enforcement				
P	Simulation and Gaming	o Battlefield simulation	o Surgical training	o Architecture and interior design	o Training	o On-line
L	Entertainment					
I	Displays	o Aircraft simulation	o Endoscopic surgeries			
shopping				o Industrial design		o
Virtual reality				simulation		
T						
I						

O Augmented Private N Vision viewing S laptop systems	o Pilot information systems o Mine detection o Tactical warfare data o Personnel status monitor o GENII soldier system	o Overlay of patient data during surgeries "Head-down" viewing of patient vitals	o Multiple screen viewing for securities traders	o Maintenance o Inventory control o Factory process control o Sales automation	o
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</TABLE>

The Company believes certain market segments will be early adopters of the VRD technology, particularly those applications for which VRD technology, even at an earlier stage of development, can offer significant productivity or performance gains and associated cost savings. The Company believes that military and industrial users will value the ability of personal VRD based displays 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 VRD systems are expected to deliver.

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 received output from a personal computer and generated a full color image. The second and third prototypes are portable hand-held devices. For

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demonstration purposes, they also connect to a personal computer. The projection optics of the portable prototypes are packaged together with the vertical and horizontal scanners. One demonstrator is monochromatic and fits in an attache case that also houses the electronics that receive and condition the signal. The second demonstrator is a full color model with the electronics that receive and condition the signal being housed in a separate case that is the size of an airline carry-on bag. In 1998, the Company continued to develop prototypes, for Company use and for customers, that demonstrated higher resolution, greater brightness, smaller size and lower power consumption. The following four prototypes were developed: an SVGA (480,000 pixels) color helmet-mounted VRD; a high luminance, SXGA (approximately 1,300,000 pixels) green monochrome helmet-mounted VRD; a high-luminance, SXGA full color head-mounted VRD; and a battery powered, head-mounted red monochrome VRD. Currently under development is a "very high resolution" green monochrome system. During this same period, a color portable SVGA display was specifically developed for use by the Company for marketing purposes.

Technology Development

The Company's existing prototypes have demonstrated the technological feasibility of the VRD system 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 highly miniaturized versions and to design new architectures for specific applications. Research and development expenses for the fiscal years ended December 31, 1998, 1997 and 1996 were \$3,305,600, \$2,593,900 and \$1,586,700, respectively. All of the Company's contract revenue to date has been derived from performance on development contracts. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Drive Electronics. The Company has identified three 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 area of development relates to achieving and improving compatibility of the drive electronics with existing and emerging video standards. The Company's existing prototypes are compatible with current video format standards and the output from most personal computers. In 1998, two electronics architectures were developed, namely a very high resolution subsystem and a low-power subsystem. Both were incorporated into prototypes that were sold to customers. In 1999, the Company intends to develop the VRD

technology 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 system, red, green and blue photon generators will be used and modulated 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

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generators for the VRD system. Red 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 blue laser diodes in anticipation of large data storage markets. Miniaturized LEDs are less expensive than laser diodes. The Company expects these LEDs will provide sufficient brightness for certain applications, however, the Company still 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 commercial 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 may use conventional lasers. However, an important milestone was achieved in 1998 when the Company demonstrated custom green and blue LEDs as potential light sources for certain low power, low cost applications.

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 developed a mechanical resonance scanner ("MRS") to create the horizontal scan. 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. A second vibrating mirror is used to direct the horizontal beam vertically. The Company believes that its MRS and its vertical scanner counterpart may have significant commercial value independent of VRD applications.

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. In 1998 the Company demonstrated smaller "micro-electro-mechanical system" (MEMS) versions of both horizontal and vertical scanners. With the availability of both MRS and MEMS scanning systems, the Company achieved important flexibility from the standpoint of developing optimal architectures for potential products.

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 was demonstrated in a full color system. Continued design and engineering of this expanded exit pupil is required to develop commercial applications. In 1998, Company engineers developed optics designs for both monocular (one-eye) and biocular (two-eye) prototypes. A full "binocular" system was also developed and shipped to a customer. This system offered viewing of 3-dimensional imagery. The Company's ongoing optics development is directed at the creation of optical systems that are lightweight, high performance and cost-effective to manufacture.

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Intellectual Property and Proprietary Rights

In 1993, the Company acquired the exclusive rights to the VRD technology under the UW License Agreement. Additional development of the VRD technology took place at the University's Human Interface Technology Lab (the "HIT Lab") pursuant to a research agreement between the Company and the University (the "Research Agreement"). See " - University of Washington License Agreement." The University has received seven patents on the VRD technology and the MRS and has an additional seventeen U.S. patent applications pending in the United States and in certain foreign countries, all of the rights to which have been exclusively licensed to the Company.

The Company's ability to compete effectively in the information display market will depend, in part, on the ability of the Company, the University of Washington and other licensors to maintain the proprietary nature of the VRD technology or other technologies, 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 the MRS.

During 1998, the Company entered into a license agreement with a third party whereby the Company acquired an exclusive license to certain intellectual property related to the design and fabrication of a microminiature scanner using semiconductor fabrication techniques. The licensor has received four patents and has 11 patent applications pending pertaining to the intellectual property licensed by the Company.

The Company also generates intellectual property as a result of its ongoing performance on development contracts and as a result of the Company's internal research and development activities, and has filed seven patent applications in its own name resulting from these activities. 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.

The Company also relies on unpatented proprietary technology. To protect its rights in these areas, the Company requires all employees and where appropriate, contractors, 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.

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The Company 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."

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. Thomas A. Furness, III. In 1993, the Company 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 technology 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 the Company or the University. In granting the license, the University retained limited non-commercial rights with respect to the VRD technology, 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 the Company's sublicensing arrangements and to the prosecution and settlement by the Company of infringement disputes.

The Company could lose the exclusivity under the UW License Agreement if the Company 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 the Company's exclusivity, the Company 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 the Company 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. The Company may terminate the License Agreement at any time by serving 90 days prior written notice on the University of Washington. In the event of any termination of the License Agreement, the license granted to the Company 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 the Company's Common Stock. In addition, the University of Washington is entitled to receive certain ongoing royalties. See "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 the Research Agreement, which resulted in the Company having paid in full the \$5,133,500 license fee due under the UW License Agreement. In the event the Company defaults on its obligations, including the royalty obligation, the

University of Washington may terminate the License Agreement.

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At the same time it entered into the UW License Agreement, Microvision contracted with the HIT Lab and the Washington Technology Center 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 through March 31, 1998, at no additional cost to the Company, in order 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. In March 1998, the Company and the University of Washington again agreed to extend the terms of the Research Agreement from April 1, 1998 through December 31, 1998, at no additional cost to the Company, in order to enable the University of Washington to complete performance of certain research activities under the Research Agreement. The Research Agreement terminated on December 31, 1998. See Note 7 of Notes to the Financial Statements.

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 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 information display technologies and products that would render the VRD technology or the Company's proposed products commercially infeasible or technologically 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

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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 could deliver images of a quality and resolution substantially better than that of commercially available miniaturized 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 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, \$75,000 and 31,250 shares of Common Stock upon filing of the first patent and \$100,000 and 62,500 shares of Common Stock upon issuance of the first patent. See Note 7 of Notes to the Financial Statements.

Employees

As of March 31, 1999, Microvision had 95 employees and seven contractors. 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

On April 12, 1999, the Company completed its move to its new headquarters located at 19910 North Creek Parkway, Bothell, Washington, where the Company initially leases approximately 67,500 square feet of combined use office and laboratory space. The Company also has a commitment to lease between 25,000 and 34,000 additional square feet during the fourth year of the seven year lease. See "--Liquidity and Capital Resources."

ITEM 3. LEGAL PROCEEDINGS

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

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

The annual meeting of the shareholders of the Company was held on October 15, 1998.

Richard F. Rutkowski, Stephen R. Willey, Richard A. Raisig, Jacob Brouwer, Robert A. Ratliffe, Richard Cowell, and Walter J. Lack were elected as directors for one year terms expiring at the next annual meeting of shareholders.

The amendment of the Company's 1996 Stock Option Plan to increase the number of shares of Common Stock reserved for issuance upon exercise of options granted under the Plan from 750,000 to 3,000,000 shares was approved.

The appointment of PricewaterhouseCoopers LLP as independent auditors of the Company for the year ending December 31, 1998 was approved.

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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 25, 1999, there were 149 holders of record of 6,159,399 shares of Common Stock and ten holders of record of 2,273,926 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 of the Company's Common Stock and Public Warrants for each full quarterly period in the last two fiscal years and the year to date as reported by the Nasdaq National Market are as follows:

<TABLE>
<CAPTION>

Quarter Ended	Common Stock		Public Warrants	
	High	Low	High	Low
<S>	<C>	<C>	<C>	<C>
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	16 3/8	12 1/2	7 7/8	5 1/4
June 30, 1998	14 7/8	8 5/8	7 13/16	3 1/8
September 30, 1998	11 15/16	6	4 17/32	1 1/2
December 31, 1998	13 1/2	4 9/16	3 1/4	1 3/4
March 31, 1999	16 3/4	11 3/8	8 3/8	4 11/16

</TABLE>

On March 31, 1999, the closing sale price for the Common Stock was \$16.625 and the closing sale price for the Public Warrants was \$7.750.

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ITEM 6. SELECTED FINANCIAL DATA

The statement of operations data set forth below with respect to the years ended December 31, 1998, 1997 and 1996, and the balance sheet data at December 31, 1998 and December 31, 1997 are derived from, and are qualified by reference to, the audited financial statements included elsewhere in this report and should be read in conjunction with those financial statements and notes thereto. The statement of operations data for the years ended December 31, 1995 and 1994

and the balance sheet data at December 31, 1996, 1995 and 1994 are derived from audited financial statements not included herein.

<TABLE>
<CAPTION>

Selected Financial Data
(in thousands, except per share data)

	Years Ended December 31,				
	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Statement of Operations Data					
Contract revenue	\$ 7,074	\$ 1,713	\$ 102	\$ 29	\$ --
Net loss	(7,328)	(4,945)	(3,457)	(2,944)	(2,812)
Net loss per share	(1.22)	(.85)	(.90)	(.63)	--
Weighted average shares outstanding	5,994	5,806	3,832	4,677	
Balance Sheet Data					
Cash, cash equivalents and investments held for resale	\$ 2,269	\$ 8,841	\$14,266	\$ 99	\$ 68
Working capital	1,358	8,441	13,321	(376)	(30)
Total assets	6,362	10,741	14,565	179	138
Capital lease obligations	418	92	--	--	--
Total shareholders' equity (deficit)	2,589	9,164	13,509	(365)	(10)

</TABLE>

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ITEM 7. 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 develop the VRD technology. The Company was in the development stage through 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 to develop and market the VRD technology. 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 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 currently has several prototype versions of the VRD including monochromatic and color portable units and a full color table-top model. The Company expects to continue funding prototype and demonstration versions of products incorporating the VRD technology throughout 1999. 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. See "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 the development of commercial products incorporating the VRD technology. In 1997, the Company hired a Vice President, Sales with experience in technical product sales to pursue development contracts as well as strategic relationships with systems integrators and equipment manufacturers for the joint development of commercial products incorporating the VRD technology. In March 1999, the Company hired a Vice President, Marketing to identify and assess the various market and product opportunities available to the Company for the 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 plans to continue to pursue, obtain and perform on development contracts, with the expectation that such contracts will lead to products incorporating the

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Company's VRD technology as well as to further the development of 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 potential products. In March 1999, the Company hired a Vice President, Research & Development with experience in product development and technology commercialization to lead the Company's research and product development efforts, manage the performance of revenue contracts, and direct the Company's internal research and product development activities. The Company has established, staffed, and equipped in-house laboratories to support its performance on development contracts as well as VRD technology development. The Company intends to continue hiring qualified technical personnel to achieve the Company's technology development objectives.

Results of Operations

YEAR ENDED DECEMBER 31, 1998 COMPARED TO YEAR ENDED
DECEMBER 31, 1997.

Contract Revenue. Contract revenue increased by \$5,361,400 to \$7,074,100 in 1998 from \$1,712,700 in 1997. The increase resulted from a higher level of development contract business in 1998 over that performed in 1997 on contracts entered into in both 1998 and 1997. The Company's customers include both the United States Government and various commercial enterprises, representing approximately 83% and 17%, respectively, of total revenue during 1998, and 37% and 63%, respectively, of total revenue during 1997. The Company expects its sources of revenue to fluctuate from year to year. See Note 2 of Notes to the Financial Statements.

During 1998, 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 in 1998, the Company announced that it had entered into a contract with the Wallace-Kettering Neuroscience Institute to collaborate on the design and manufacture of an advanced head-wearable display for use in neurosurgery. The display, which will provide "see-through" readability using the Company's VRD technology, is designed to allow surgeons to conveniently view anatomical images and other information during surgery. Also during 1998, the Company and Saab AB, in collaboration with Ericsson Saab Avionics AB, agreed to extend and broaden the company's commercial development program to develop the next generation high-resolution, helmet-mounted display technology for use in advanced aircraft display systems. During the year, the Company delivered its second helmet-mounted display to Saab AB and Ericsson Saab Avionics AB. The full-color, high-resolution system was designed to deliver unprecedented image fidelity for fighter pilots.

In the defense segment in 1998, the Company entered into a \$1 million contract with the U.S. Army's Battle Command Battle Lab to build a head-worn display with the objective of replacing the desktop monitor at a workstation within its tactical operations center. The

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prototype will be a light weight, dual eye (biocular) head-worn device with full color and high resolution. During the year, the Company received a Phase II Small Business Innovation Research (SBIR) contract for the development of a high fidelity head-mounted display for use in flight simulators for training military pilots. The \$1.1 million contract combines contributions from the Department of Defense, and Saab Ericsson Avionics, the Company's commercial partner, in the project. In June, the Company received a \$583,000 Phase II SBIR from the U.S. Air Force to develop a wide field of view head-mounted display system using the Company's VRD technology. The display is designed to allow Command, Control, Communications, Computers and Intelligence personnel to view large amounts of mission and situation critical data through a lightweight eyewear display system, resembling glasses. Also in 1998, the Company announced that it had entered into a contract to develop a lightweight, head wearable display for the U.S. Navy. The VRD enabled display, which features daylight "see-through" readability, will be used on Navy vessels to provide enhanced user interface to complex on-board information systems. The demonstrator was delivered to the U.S. Navy in December 1998.

Cost of Revenue. Cost of revenue includes both the direct and indirect costs of performing on revenue contracts as well as the additional staff and related support costs associated with building the Company's technical capabilities in preparation for performing additional contracts expected to be entered into by the Company in 1999 and thereafter. Cost of revenue also includes amounts invested by the Company in research and development activities undertaken in conjunction with work performed in fulfillment of development contracts.

Cost of revenue increased by \$4,596,700 to \$6,416,900 in 1998 from \$1,820,200 in 1997. The increase includes increases in both the direct and indirect costs incurred in the performance of development contracts resulting from a higher level of development contract business as well as a higher level of expenses incurred for staff, and related support costs associated with building the Company's technical capabilities and capacity to perform on expected future development contracts. The higher level of expense in 1998 over

1997 also reflects a higher level of investment made by the Company in developing its technology through work performed on development contracts, in addition to costs incurred on its own internal research and development projects. See "--Research and Development Expense."

The Company expects that the cost of revenue on a dollar basis will increase in the future. This increase likely will result from additional development contract work that the Company will be performing and the commensurate growth in the Company's personnel and technical capacity. The cost of facilities is also expected to increase as a result of the Company's relocation of its headquarters to larger facilities in April 1999. See "--Liquidity and Capital Resources." As a percentage of contract revenue, the Company expects that the cost of revenue will decline over time as the Company realizes economies of scale associated with a higher level of development contract business and as the Company's expenditures incurred to increase its technical capabilities and capacity become less as a percentage of a higher level of revenues.

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Research and Development Expense. Research and development expense consists of compensation and related support costs of employees and contractors engaged in internal research and development activities; payments made for lab operations, outside development and processing work; payments made under the Research Agreement in 1997 and prior years; fees and expenses related to patent applications and patent prosecution; and other expenses incurred in support of the Company's on-going internal research and development activities. Included in research and development expenses are costs incurred in acquiring and maintaining licenses of technology from other companies, options or other rights to acquire or use intellectual property, either related to the Company's VRD technology or otherwise. To date, the Company has expensed all research and development costs. See Note 2 of Notes to the Financial Statements.

Research and development expenses increased by \$711,700 to \$3,305,600 in 1998 from \$2,593,900 in 1997. In 1997 the Company made payments totaling \$962,500 to the University of Washington pursuant to the Research Agreement. With the final payment on the Research Agreement having been made in 1997, no such payments to the University of Washington were required or made in 1998. The balance of the expenses of \$3,305,600 and \$1,631,400 in 1998 and 1997 respectively, were incurred directly by the Company to further develop the VRD technology and to build the Company's research and product development capabilities through the addition of staff and equipment and related supporting costs. In addition, during 1998, the Company acquired an exclusive license on patents and other intellectual property related to the design and manufacture of a microminiature silicon scanner using microelectromechanical technology. The costs and expenses related to this acquisition are included in research and development expense in 1998.

The increase in research and development expenses of \$711,700 in 1998 over 1997 reflects continued implementation of the Company's operating plan, which calls for building its technical staff and supporting activities to further develop the Company's technology; establishing and equipping its own laboratories; and developing or acquiring intellectual property related to the Company's business.

The Company believes that a substantial level of continuing research and development expense will be required to further 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 expenses include compensation and support costs for the Company's sales, marketing, management and administrative staff and their related activities, and for other general and administrative costs, including legal and accounting costs, costs of consultants and professionals and other expenses.

Marketing, general and administrative expenses increased by \$1,827,100 to \$4,904,600 in 1998 from \$3,077,500 in 1997. The increase includes increased aggregate compensation and

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associated support costs for employees and contractors, including those employed at December 31, 1997 and those hired subsequent to that date, in sales and marketing and in management and administrative areas. The Company expects marketing, general and administrative expenses to increase substantially in future periods as the Company adds to its sales and marketing staff, makes additional investments in sales and marketing activities to support commercialization of its VRD technology and development of 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 decreased by \$307,700 to \$307,100 in 1998 from \$614,800 in 1997. This decrease resulted from lower average cash and investment balances in 1998, representing the remaining net proceeds received by the Company from its initial public offering in August 1996.

Interest expense increased by \$78,200 to \$81,600 in 1998 from \$3,400 in 1997. This increase resulted from interest related to assignments of certain accounts receivable under the Company's accounts receivables assignment facility and increased interest expense related to capital lease obligations entered into in 1998 and 1997.

Income Taxes. At December 31, 1998 the Company has net operating loss carry-forwards of approximately \$17,866,500 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 shareholders during any three-year period would result in limitations on the Company's ability to utilize its net operating loss carry-forwards. The Company has determined that such a change occurred during 1995 and the annual utilization of loss carry-forwards generated through the period of that change will be limited to approximately \$761,000. An additional change occurred in 1996; however, the actual amount of the annual limitation is not significant.

YEAR ENDED DECEMBER 31, 1997 COMPARED TO YEAR ENDED
DECEMBER 31, 1996

Contract Revenue. Contract 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. See Note 2 of Notes to the Financial Statements.

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

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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 a higher performance alternative to commercial helmet-mounted display technologies currently in use.

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 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 high-definition, head-mounted display to present visual imagery to helicopter pilots in an operation flight simulator.

Cost of Revenue. Cost of revenue includes both the direct and indirect costs of performing on revenue contracts as well as the additional staff and related support costs associated with building the Company's technical and managerial capabilities in preparation for performing on additional contracts expected to be entered into by the Company in 1999 and thereafter. Cost of revenue also includes amounts invested by the Company in research and development activities undertaken in conjunction with work performed in fulfillment of development contracts.

Cost of revenue increased by \$1,618,400 to \$1,820,200 in 1997 from \$201,800 in 1996. The increase includes increases in both the direct and indirect costs incurred in the performance of development contracts resulting from a higher level of development contract business as well as a higher level of expenses incurred in staff and related support costs associated with building the Company's technical capabilities and capacity to perform on expected future development contracts. The higher level of expense in 1997 over 1996 also reflects a higher level of investment made by the Company in developing its technology through work performed on development contracts in addition to that performed on its own internal research and development projects. See "--Research

Research and Development Expense. Research and development expense consists of compensation and related support costs of employees and contractors engaged in internal research and product development activities; costs incurred for lab materials, outside development and processing work; payments made under the Research Agreement; fees and expenses related to patent applications and patent prosecution; and other expenses incurred in support of the Company's on-going internal 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 \$1,007,200 to \$2,593,900 in 1997 from \$1,586,700 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 \$1,631,400 and \$303,300 in 1997 and 1996 respectively, were incurred directly by the Company to further develop the VRD technology and to build the Company's research and product development capabilities through the addition of staff and equipment and related supporting costs.

The increase in research and development expense of \$1,007,200 in 1997 over 1996 reflects implementation of the Company's operating plan, which calls for building its technical staff and supporting activities to further develop the Company's technology, independent of work performed at the University of Washington pursuant to the Research Agreement.

Marketing, General and Administrative Expense. Marketing, general and administrative expenses include compensation and support costs for the Company's sales, marketing, management and administrative staff and their related activities and for other general and administrative costs, including legal and accounting costs, costs of consultants and professionals and other expenses.

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 and contractors, including those employed at December 31, 1996 and those hired subsequent to that date, in sales and marketing and in management and administration.

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 and investment 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.

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.

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. See Note 6 of Notes to the Financial Statements.

Through December 31, 1998, the Company had incurred an accumulated deficit of \$22,836,000, 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 \$2,357,300 represented non-cash expenses for compensation and services associated with the issuances of stock, warrants and options.

In 1998, the Company established a non-recourse receivables assignment facility (the "Facility") with a financial institution. The Facility allows the Company to assign accounts receivable to the financial institution on a

non-recourse basis for cash. The maximum amount of assigned but uncollected receivables at any one time is \$2,500,000. The Facility, which carries an administrative fee and an interest discount, expires on September 24, 1999. As of December 31, 1998, approximately \$696,800 of receivables were assigned under this Facility and were recorded by the Company as a reduction of trade accounts receivable. See Note 5 to Notes to the Financial Statements.

In January 1999, the Company raised \$5,000,000 from the sale of convertible preferred stock to a private investor in a private placement. Unless converted sooner at the election of the investor, the convertible preferred stock will automatically convert into 400,000 shares of common stock at the end of its five-year term. The convertible preferred stock carries a cumulative dividend of 4% per annum, payable in cash or additional convertible preferred stock at the election of the Company. The investor also acquired two options to purchase additional convertible preferred stock, one with a six-month maturity and one with a nine-month maturity from the closing date of the transaction. Terms of the transaction include certain rights for the investor to have the common stock issuable upon conversion of the preferred stock registered under the Securities Act of 1933 (the "Securities Act") for resale by the holders thereof. See Note 11 of Notes to the Financial Statements.

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In April 1999, the Company raised \$6,000,000 from the sale of 440,893 shares of common stock to a private investment fund in a private placement. The investor also acquired two warrants to purchase additional common stock, one with a five-year term and the other with a one-year term. Under the terms of the agreement, the Company will register the shares issued in the initial sale and underlying the two warrants for resale by the holders thereof in accord with the Securities Act. Terms of the transaction include a provision that could result in a one-time issuance of additional shares, up to a fixed maximum, if the market price, as defined in the purchase agreement, of the Company's common stock on the date of effectiveness of the registration statement is less than the market price of the common stock on the closing date of the initial sale. See Note 11 of Notes to the Financial Statements.

In October 1998, the Company entered into a lease for office space to house the Company's operations over the longer term by providing space to accommodate planned growth in staff, lab and production space requirements. Under the terms of the lease, the Company will lease between 92,000 square feet and 101,000 square feet over the first four years of the seven-year term of the lease. Based on the initial commitment of approximately 67,500 square feet, the base rent expense during the first year of occupancy is approximately \$951,500, increasing to approximately \$1,002,300 in the second year. The lease is a triple net lease, which requires the Company to pay operating expenses in addition to the base rent. The lease terms include an option for the Company to extend the initial lease term for one period of five years, a second option to extend for an additional period of two years, and other options to acquire additional space during the initial seven-year term should the need arise. The terms of the lease require the Company to provide the landlord with a lease bond in the amount of \$1,150,000 as credit enhancement for the lease. As of December 31, 1998, \$400,000 of the required lease bond had been issued, with the remaining \$750,000 being issued in January 1999. The Company was required to secure one-half of the lease bond with a letter of credit. The Company was further required to secure the full amount of the letter of credit with cash. The requirement to maintain the lease bond can be terminated when the Company meets certain financial criteria as described in the lease. In January 1999, the Company exercised its option to finance \$420,000 of tenant improvements through the landlord and provided a letter of credit to support the borrowing. The Company was required to secure the entire amount of the letter of credit with cash. The amount of the letter of credit required is reduced over the term of the borrowing based on repayments made. Repayment of the borrowing will be included in the Company's rent. The Company completed its relocation into this facility in April 1999.

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 "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

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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, 1998, the Company's total cash, cash equivalents and short-term investment securities balance was \$2,269,000. The Company believes that this balance, together with the \$5,000,000 of proceeds received in January 1999 from the sale of convertible preferred stock and the \$6,000,000 of proceeds

received in April 1999 from the sale of common stock, 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 development of strategic relationships with systems and equipment manufacturers. See "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 "Description of Business - Considerations Related to the Company's Business - - Capital Requirements."

Year 2000 Compliance Strategy

The Company has developed and is implementing a comprehensive strategy for updating its information technology ("IT") and non-IT systems for Year 2000 ("Y2K") compliance. These systems include PC-based hardware, embedded systems, enterprise software (available Company-wide) and individual software (available on a user-by-user basis). The Company's strategy for achieving Y2K compliance includes evaluating its current systems and software for Y2K compliance, purchasing new systems and software where necessary and developing contingency plans for those systems that the Company cannot control.

Essentially all of the Company's IT systems have been purchased within the last three years. During that period, Y2K compliance has been a consideration in the purchase of all of the Company's primary IT and non-IT systems. The Company believes that it has currently reached the following levels of compliance:

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Technology -----	Current Level of Compliance -----
PC-based hardware	90%
Embedded systems	25%
Enterprise software	70%
Individual software	50%

In April 1999, the Company moved its headquarters and commenced a new lease with a different lessor. See "-- Liquidity and Capital Resources." Pursuant to the terms of the lease, the lessor is responsible for making the systems serving the facility "Year 2000 Compliant."

The Company's strategy includes identifying third parties whose failure to be Y2K compliant could have a material adverse impact on the Company's operations or financial condition. This process includes examining the Company's interaction with other IT systems including those of vendors and parties with which it communicates via e-mail and other information systems. The Company plans to request a statement from all significant vendors and third parties reporting their Y2K compliance status. If such vendors or other third parties raise Y2K compliance concerns, the Company plans to utilize backup vendors that are Y2K compliant. In addition, the Company is requesting a statement from all of its customers regarding their levels of Y2K compliance.

The Company presently expects its overall Y2K assessment to be completed the second quarter of 1999. There is no assurance, however, that taking the steps described within the proposed timeframe will ensure complete Y2K compliance.

To date, the cost of the Company's Y2K compliance strategy has been immaterial. The Company will have a budget of potential expenditures relating to its Y2K compliance strategy upon completion of its assessment in the second quarter of 1999.

The effect on the Company of an internal Y2K failure, a third party Y2K failure or a combination of internal and external Y2K failures could range from a minor disruption in the Company purchases to an extended interruption in the IT and non-IT systems of third-parties whose operations materially impact the Company's operations. Such an interruption could result in a material adverse effect on the Company's operating results and financial position. In addition, if the Company has a production product by the year 2000, the potential for a material adverse effect on the Company would increase. There can be no assurance that such a scenario, or part of such a scenario, will not occur.

The Company's contingency plans for a Y2K disruption of its operations include making additional purchase from vendors for a reasonable period

following January 1, 2000 in order to ensure the availability of materials needed for the Company to perform on its contractual obligations. The Company is also in the process of developing backup plans that will enable it to continue operations with the least amount of downtime and expense. There is

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no assurance, however, that such backup plans will enable the Company to avoid a materially adverse impact on its results of operations in the event of a Y2K disruption.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

None.

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ITEM 8. FINANCIAL STATEMENTS

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Report of Independent Accountants

April 1, 1999

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, of comprehensive loss and of cash flows present fairly, in all material respects, the financial position of Microvision, Inc. at December 31, 1998 and 1997, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1998 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.

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<TABLE>
<CAPTION>
Microvision, Inc.
Balance Sheet

	December 31, 1998	December 31, 1997
<S>	<C>	<C>
Assets		
Current assets		
Cash and cash equivalents	\$ 2,269,000	\$ 5,049,200
Investment securities available-for-sale		3,792,000

Accounts receivable, net of allowance of \$24,000 and \$0	1,538,800	150,000
Costs and estimated earnings in excess of billings on uncompleted contracts	758,500	843,800
Other current assets	282,800	113,100
	-----	-----
Total current assets	4,849,100	9,948,100
Property and equipment, net	1,394,100	772,700
Other assets	119,000	20,000
	-----	-----
Total assets	\$ 6,362,200	\$ 10,740,800
	=====	=====
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable	\$ 1,327,700	\$ 768,200
Accrued liabilities	1,028,100	715,900
Allowance for estimated contract losses	228,000	
Billings in excess of costs and estimated earnings on uncompleted contracts	771,500	
Current portion of capital lease obligations	136,100	22,700
	-----	-----
Total current liabilities	3,491,400	1,506,800
	-----	-----
Capital lease obligations, net of current portion	281,800	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, 6,064,626 and 5,920,264 shares issued and outstanding	25,742,600	25,375,300
Deferred compensation	(238,700)	(701,200)
Subscriptions receivable from related parties	(78,900)	
Unrealized holding loss on investment securities		(1,200)
Accumulated deficit	(22,836,000)	(15,508,500)
	-----	-----
Total shareholders' equity	2,589,000	9,164,400
	-----	-----
Total liabilities and shareholders' equity	\$ 6,362,200	\$ 10,740,800
	=====	=====

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

</TABLE>

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<TABLE>

<CAPTION>

Microvision, Inc.

Statement of Operations

	Year ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
Contract revenue	\$ 7,074,100	\$ 1,712,700	\$ 102,200
Cost of revenue	6,416,900	1,820,200	201,800
	-----	-----	-----
Gross margin	657,200	(107,500)	(99,600)
	-----	-----	-----
Research and development expense	3,305,600	2,593,900	1,586,700
Marketing, general and administrative expense	4,904,600	3,077,500	1,849,800
	-----	-----	-----
Total operating expenses	8,210,200	5,671,400	3,436,500
	-----	-----	-----
Loss from operations	(7,553,000)	(5,778,900)	(3,536,100)
Other income		222,500	
Interest income	307,100	614,800	280,000
Interest expense	(81,600)	(3,400)	(200,500)
	-----	-----	-----
Net loss	\$ (7,327,500)	\$ (4,945,000)	\$ (3,456,600)
	=====	=====	=====
Net loss per share	\$ (1.22)	\$ (.85)	\$ (.90)
	=====	=====	=====
Weighted-average shares outstanding	5,993,500	5,806,200	3,832,000
	=====	=====	=====

Net loss per share assuming dilution	\$ (1.22)	\$ (.85)	\$ (.90)
	=====	=====	=====
Weighted-average shares outstanding assuming dilution	5,993,500	5,806,200	3,832,000
	=====	=====	=====

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

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<TABLE>
<CAPTION>
Microvision, Inc.
Statement of Shareholders' Equity

page 1, part 1 of 2

<S>	Preferred stock		Common stock		Deferred compensation <C>
	Shares <C>	Amount <C>	Shares <C>	Amount <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	360,298	1,493,900			
Issuance of common stock and warrants for services			10,605	71,000	
Exercise of warrants for common stock			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					
Issuance of stock relating to retirement of 7% subordinated notes			45,000	176,200	
Other			4,817		
Net loss					
Balance at December 31, 1996	-	-	5,778,776	24,116,200	(43,600)

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

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<TABLE>
<CAPTION>

page 1, part 2 of 2

<S>	Subscriptions receivable from related parties <C>	Unrealized holding (loss) gain on investment securities <C>	Accumulated deficit <C>	Shareholders' equity <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				1,493,900
Issuance of common stock and warrants for services				71,000
Exercise of warrants for common stock	(10,000)			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			10,000
Issuance of stock relating to retirement of 7% subordinated notes				176,200
Other				-
Net loss			(3,456,600)	(3,456,600)
Balance at December 31, 1996	-	-	(10,563,500)	13,509,100

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

</TABLE>

38b

<TABLE>

<CAPTION>

Microvision, Inc.

Statement of Shareholders' Equity (continued)

page 2, part 1 of 2

<S>	Preferred stock		Common stock		Deferred compensation
	Shares <C>	Amount <C>	Shares <C>	Amount <C>	<C>
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					
Balance at December 31, 1997	-	-	5,920,264	25,375,300	(701,200)
Issuance of stock to board members for services			24,000	120,000	(120,000)
Exercise of warrants and options for common stock			85,178	344,600	
Cashless exercise of warrants for common stock			31,684		
Issuance of stock and options for services			3,500	34,700	
Issuance of options for common stock				5,300	(5,300)
Forfeitures of options for common stock				(137,300)	137,300
Amortization of deferred compensation					450,500
Unrealized holding gain on investment securities					
Net loss					
Balance at December 31, 1998	-	\$ -	6,064,626	\$25,742,600	\$ (238,700)

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

</TABLE>

39a

<TABLE>

<CAPTION>

page 2, part 2 of 2

Subscriptions receivable from related parties	Unrealized holding (loss) gain on investment securities	Accumulated deficit	Shareholders' equity
---	---	---------------------	----------------------

	<S>	<C>	<C>	<C>
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 investment securities			(1,200)	(1,200)
Other				9,800
Net loss			(4,945,000)	(4,945,000)
Balance at December 31, 1997	-----	-----	-----	-----
	-	(1,200)	(15,508,500)	9,164,400
Issuance of stock to board members for services				-
Exercise of warrants and options for common stock	(78,900)			265,700
Cashless exercise of warrants for common stock				-
Issuance of stock and options for services				34,700
Issuance of options for common stock				-
Forfeitures of options for common stock				-
Amortization of deferred compensation				450,500
Unrealized holding gain on investment securities		1,200		1,200
Net loss			(7,327,500)	(7,327,500)
Balance at December 31, 1998	-----	-----	-----	-----
	\$ (78,900)	\$ -	\$ (22,836,000)	\$ 2,589,000

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

</TABLE>

39b

<TABLE>
<CAPTION>
Microvision, Inc.
Statement of Comprehensive Loss

<S>	Year ended December 31,		
	1998	1997	1996
Net loss	<C> \$ (7,327,500)	<C> \$ (4,945,000)	<C> \$ (3,456,600)
Other comprehensive income - unrealized gain (loss) on investment securities available-for-sale	1,200	(1,200)	
Comprehensive loss	----- \$ (7,326,300) =====	----- \$ (4,946,200) =====	----- \$ (3,456,600) =====

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

</TABLE>

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<TABLE>
<CAPTION>
Microvision, Inc.
Statement of Cash Flows

<S>	Year ended December 31,		
	1998	1997	1996
Cash flows from operating activities			
Net loss	<C> \$ (7,327,500)	<C> \$ (4,945,000)	<C> \$ (3,456,600)
Adjustments to reconcile net loss to net cash used in operations			
Depreciation and loss on disposal of equipment	468,900	146,200	44,000
Noncash expenses related to issuance of stock, warrants and options and amortization of deferred compensation	485,200	243,200	313,800
Allowance for estimated contract losses	228,000		

Change in:			
Accounts receivable	(1,388,800)	(125,000)	(25,000)
Costs and estimated earnings in excess of billings on uncompleted contracts	85,300	(843,800)	
Other current assets	(169,700)	(26,600)	(86,500)
Other assets	(99,000)	10,200	41,200
Accounts payable	559,500	379,600	181,100
Accrued liabilities	312,200	48,300	331,200
Billings in excess of costs and expenses	771,500		
	-----	-----	-----
Net cash used in operating activities	(6,074,400)	(5,112,900)	(2,656,800)
	-----	-----	-----
Cash flows from investing activities			
Sales of investment securities	7,695,100		
Purchases of investment securities	(3,901,900)	(3,793,200)	
Purchases of property and equipment	(696,300)	(666,600)	(192,700)
	-----	-----	-----
Net cash provided by (used in) investing activities	3,096,900	(4,459,800)	(192,700)
	-----	-----	-----
Cash flows from financing activities			
Principal payments under capital leases	(68,400)	(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	265,700	358,300	15,522,900
Net proceeds from issuance of preferred stock			1,493,900
	-----	-----	-----
Net cash provided by financing activities	197,300	356,100	17,016,800
	-----	-----	-----
Net (decrease) increase in cash and cash equivalents	(2,780,200)	(9,216,600)	14,167,300
	-----	-----	-----
Cash and cash equivalents at beginning of year	5,049,200	14,265,800	98,500
	-----	-----	-----
Cash and cash equivalents at end of year	\$ 2,269,000	\$ 5,049,200	\$ 14,265,800
	=====	=====	=====

Supplemental disclosure of cash flow information

Cash paid for interest	\$ 81,600	\$ 3,400	\$ 21,700
	=====	=====	=====

Supplemental schedule of noncash investing and financing activities

Property and equipment acquired under capital leases	\$ 394,000	\$ 94,500	\$ -
	=====	=====	=====

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

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1. The Company

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

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

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 for the United States Government. Revenue on such contracts is recorded using the percentage-of-completion method measured on a cost incurred basis to the extent nonrefundable.

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 assured.

Concentration of credit risk and sales to major customers

Financial instruments which potentially subject the Company to concentrations of credit risk are primarily accounts receivable and cash equivalents. The Company typically requires no collateral from its customers. The Company has a cash investment policy which generally restricts investments to ensure preservation of principal and maintenance of liquidity.

The Company's customers include the United States Government and commercial enterprises, representing approximately 83% and 17%, respectively, of total revenue during 1998. These customers represented 37% and 63%, respectively, of total revenue during 1997. All revenues in 1996 were attributed to two commercial customers. Three commercial enterprises represent 17% and 63% of total revenues during 1998 and 1997, 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.

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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, 1998, 1997 and 1996 is equal to net loss per share since 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.

Fair value of financial instruments

The Company's financial instruments include cash and cash equivalents, investment securities, accounts receivable, accounts payable, accrued liabilities and capital lease obligations. Except for the capital leases, the carrying amounts of financial instruments approximates fair value due to their short maturities. The carrying amount of capital leases at December 31, 1998 and 1997 was not materially different from the fair value based on rates available for similar types of arrangements.

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

The Company's stock-based compensation plans are subject to provisions of Financial Accounting Standards Board issued Statement No. 123, "Accounting for Stock-Based Compensation" (SFAS 123). 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 SFAS 123 using the intrinsic-value method for its employee stock-based compensation plans. The Company is required to implement SFAS 123 for stock-based awards to other than employees. Accordingly, during 1998, 1997 and 1996, the Company valued shares of the Company's common stock, warrants and options issued to other than employees at \$154,700, \$115,800 and \$380,600, respectively.

New accounting pronouncements

The Financial Accounting Standards Board (the Company) issued SFAS No. 130, "Reporting Comprehensive Income," in June 1997. This statement establishes new standards for reporting and displaying comprehensive income in the financial statements and was adopted by the Company during the quarter ended March 31, 1998. SFAS 130 requires reclassification of prior periods financial statements to reflect application of the provisions of this statement. In addition to

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net income, comprehensive income includes charges or credits to equity that are not the result of transactions with shareholders.

In June 1997, the Financial Accounting Standards Board issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 establishes standards for the way that public business enterprises report selected information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosures about products and services, geographic areas, and major customers. The Company has adopted SFAS No. 131 and has provided the disclosures needed to conform with its requirements.

Reclassifications

Certain amounts in the 1997 and 1996 financial statements have been reclassified to conform to current year presentation.

3. Accrued liabilities

Accrued liabilities consist of the following:

<TABLE>
<CAPTION>

	December 31,	
	1998	1997
<S>	<C>	<C>
Bonuses	\$ 410,000	\$ 414,300
Payroll	258,400	
Vacation	115,400	103,000
Professional fees	140,200	155,500
Other	104,100	43,100
	-----	-----
	\$ 1,028,100	\$ 715,900
	=====	=====

</TABLE>

4. Property and equipment, net

Property and equipment consist of the following:

<TABLE>
<CAPTION>

	December 31,	
	1998	1997
<S>	<C>	<C>
Office furniture and equipment	\$ 283,000	\$ 185,700
Lab equipment	897,100	270,900
Computer hardware and software	766,400	433,000
Leasehold improvements	88,400	55,000
	-----	-----
	2,034,900	944,600
Less: Accumulated depreciation	(640,800)	(171,900)
----	-----	-----
	\$ 1,394,100	\$ 772,700
	=====	=====

</TABLE>

5. Non-recourse receivables assignment facility

The Company has established a non-recourse receivables purchasing facility (the "Facility") with a financial institution. The Facility allows the Company to assign accounts receivable to the financial institution on a non-recourse basis for cash. At any time, the maximum amount of

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assigned but uncollected receivables is \$2,500,000. The Facility, which carries an administration fee and an interest discount, expires on September 24, 1999. As of December 31, 1998, approximately \$696,800 of receivables were assigned under this Facility and were recorded by the Company as a reduction of trade accounts receivable. During 1998, the Company recorded fees and interest expense of \$44,900 under the facility.

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.

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Warrants

In addition to the warrants issued in conjunction with the IPO (Public Warrants), the Company has issued warrants for various services. The following summarizes activity with respect to warrants during the three years ended December 31, 1998:

<TABLE>
<CAPTION>

	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
Granted	17,676	12.00
Exercised	(31,684)	8.00-9.60
Canceled/expired	(69,566)	8.00-9.60
	-----	-----
Outstanding at December 31, 1998	2,606,164	\$4.80-12.00
	=====	=====
Exercisable at December 31, 1998	2,606,164	\$4.80-12.00
	=====	=====

</TABLE>

Options

During 1993, the Company adopted the 1993 Stock Option Plan (the 1993 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 Plan.

During 1994, the Company adopted the 1994 Combined Incentive and Nonqualified Stock Option Plan (the 1994 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.

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.

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, as amended, provides for granting ISOs and NSOs to employees, officers and agents of the Company as determined by the Plan Administrator, for the purchase of up to 3,000,000 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

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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.

Stock options issued under the 1993 and 1994 Plans vest over three years and expire five years after the vesting date. Stock options issued under the 1996 Plan vest over three to four years and typically expire after ten years. Stock issued under the Director Plan vests over one year.

In 1998, the three officers of the Company exercised a total of 43,000 stock options in exchange for recourse notes totaling \$78,900. These notes bear interest at 5.56% to 5.77% per annum. Each note is payable in full upon the earliest of (1) a fixed date ranging from January 31, 2001 to December 31, 2002, depending on the officer; (2) the sale of all of the shares acquired with the note; or (3) within 90 days of the officer's termination of employment. Each note is also payable on a pro rata basis upon the partial sale of shares acquired with the note. The notes are included in shareholders' equity on the balance sheet.

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The following table summarizes activity with respect to options for the three years ended December 31, 1998:

<TABLE>
<CAPTION>

	Shares	Weighted- average exercise price
<S>	<C>	<C>
Outstanding at December 31, 1995	645,892	\$ 3.91
Granted:		
Exercise price greater than fair value	307,875	7.31
Exercise price equal to fair value	79,249	5.10
Forfeited	(53,650)	7.59

Outstanding at December 31, 1996	979,366	4.88
Granted:		
Exercise price greater than fair value	791,526	17.72
Exercise price equal to fair value	161,800	14.66
Exercise price less than fair value	176,250	9.77
Exercised	(40,795)	6.09
Forfeited	(84,680)	8.10

Outstanding at December 31, 1997	1,983,467	11.07
Granted:		
Exercise price greater than fair value	474,043	18.88
Exercise price equal to fair value	96,575	11.91
Exercise price less than fair value	5,000	7.88
Exercised	(85,178)	4.05
Forfeited	(108,756)	14.65

Outstanding at December 31, 1998	2,365,151	\$ 12.75
	=====	

</TABLE>

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

<TABLE>
<CAPTION>

	Year ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
Exercise price greater than fair value	\$4.71	\$4.61	\$2.03
Exercise price equal to fair value	6.70	7.56	2.65
Exercise price less than fair value	5.28	9.03	

</TABLE>

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The following table summarizes information about stock options outstanding and exercisable at December 31, 1998:

<TABLE>
<CAPTION>

	Options outstanding			Options exercisable	
	Number	Weighted-	Weighted-	Number	Weighted-
Range of exercise prices	outstanding at December 31, 1998	average remaining contractual life	average exercise price	exercisable at December 31, 1998	average exercise price
<S>	<C>	<C>	<C>	<C>	<C>
\$0.80	160,939	2.51	\$ 0.80	160,939	\$ 0.80
\$3.20-\$4.80	204,289	3.50	\$ 3.41	204,289	\$ 3.41
\$5.25-\$7.81	529,030	5.06	\$ 6.68	497,697	\$ 6.66
\$8.00-\$11.95	336,352	6.93	\$ 9.56	54,895	\$ 8.85
\$12.00-\$17.88	545,485	8.11	\$15.49	240,597	\$14.73
\$18.00-\$26.56	392,856	8.16	\$21.73	5,264	\$18.74
\$27.34-\$34.18	196,200	9.08	\$28.56		
	-----			-----	
	2,365,151			1,163,681	
	=====			=====	

</TABLE>

At December 31, 1997, 784,980 stock options were exercisable at a weighted-average exercise price of \$4.48 per share. At December 31, 1996, 476,593 stock options were exercisable at a weighted-average exercise price of \$2.92 per share.

In 1998, 1997 and 1996, options to purchase 64, 6,624 and 10,605 shares respectively, of the Company's common stock were issued to consultants and other third parties in lieu of cash compensation. The Company recognized an expense of \$800, \$37,200 and \$21,000, respectively, related to the issuance of the options.

The Company applies APB 25 and related interpretations in accounting for its stock-based compensation to employees. Options issued to employees were recorded at \$5,300 and \$785,000 during 1998 and 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.

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Had compensation cost for the Plans been determined based upon the fair value at the grant date for awards under the Plans 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>

		1998	1997	1996
<S>	<C>	<C>	<C>	<C>
Net loss	As reported	\$ (7,327,500)	\$ (4,945,000)	\$ (3,456,600)
	Pro forma	\$ (10,689,200)	\$ (5,961,500)	\$ (3,760,600)
Pro forma loss per share	As reported	\$ (1.22)	\$ (.85)	\$ (.90)
	Pro forma	\$ (1.78)	\$ (1.03)	\$ (.98)

</TABLE>

The fair value of the options granted during 1998, 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 1998, 1997 and 1996, respectively: dividend yield of zero percent for all years, expected volatility of 60% for all years, risk-free interest rate of 5.11%, 6.09% and 6.55%, assumed forfeiture rate of 5% for all years, and expected lives of 5 years in 1998 and 4 years in 1997 and 1996.

7. Commitments and contingencies

Agreements with University of Washington

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 installments 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 1998, 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 common shares upon filing of the first patent and \$100,000 and 62,500 common shares upon issuance of the first patent.

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.

Litigation

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

8. Lease commitments

The Company leases its office space and certain equipment under noncancelable capital and operating leases with initial or remaining terms in excess of one year. In October 1998, the Company entered into a new facility lease that commences in April 1999. This lease includes an extension provision and rent escalation provisions over the term of the lease, and the future minimum rental commitments are included in the table below.

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

<TABLE>
<CAPTION>

	Capital Leases	Operating leases
<S>	<C>	<C>
1999	\$ 184,000	\$ 921,600
2000	184,000	1,172,800
2001	104,900	1,085,900
2002	30,000	1,388,600
2003	4,400	1,596,600
Thereafter	-----	3,625,600
	-----	-----
Total minimum lease payments	507,300	\$ 9,791,100
		=====
Less: Amount representing interest	(89,400)	
----	-----	
Present value of capital lease obligations	417,900	
Less: Current portion	(136,100)	
----	-----	

Long-term obligation at December 31, 1998 \$ 281,800
=====

</TABLE>

The capital leases are collateralized by the related assets financed and by security deposits held by the lessors under the lease agreements. The cost and accumulated depreciation of equipment under capital leases was \$506,100 and \$82,600, respectively, at December 31, 1998, and \$94,500 and \$2,800, respectively, at December 31, 1997.

Rent expense was \$294,000, \$147,100 and \$52,600 for 1998, 1997 and 1996, respectively. 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.

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9. Income taxes

A current provision for income taxes has not been recorded for 1998, 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, 1998, the Company has net operating loss carry-forwards of approximately \$17,886,500 for federal income tax reporting purposes. The net operating losses will expire beginning in 2005 if not previously utilized. In certain circumstances, as specified in the Internal Revenue Code, a 50% or more ownership change by certain combinations of the Company's stockholders during any three-year period would result in limitations on the Company's ability to utilize its net operating loss carry-forwards. The Company has determined that such a change occurred during 1995 and the annual utilization of loss carry-forwards generated through the period of that change will be limited to approximately \$761,000. An additional change occurred in 1996; however, the amount of the annual limitation is not significant.

Deferred tax assets are summarized as follows:

<TABLE>
<CAPTION>

	December 31,	
	1998	1997
<S>	<C>	<C>
Net operating loss carry-forward	\$ 6,081,000	\$ 3,008,100
Capitalized research and development	1,287,000	1,718,000
Expenses related to issuance of equity instruments	801,000	636,500
Other	98,000	254,000
	-----	-----
	8,267,000	5,616,600
Less: Valuation allowance	(8,267,000)	(5,616,600)
----	-----	-----
Deferred tax assets	\$ -	\$ -
	=====	=====

</TABLE>

The difference between the zero provision for income taxes in 1998, 1997 and 1996 and the expected amount determined by applying the federal statutory rate to losses before income taxes results primarily from increases in the valuation allowance.

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

10. Retirement savings plan

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

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11. Subsequent events

In January 1999, the Company raised \$5,000,000 from the sale of convertible preferred stock to a private investor in a private placement. Unless converted sooner at the election of the investor, the convertible preferred

stock will automatically convert into 400,000 shares of common stock at the end of its five year term. The convertible preferred stock carries a cumulative dividend of 4% per annum, payable in cash or additional convertible preferred stock at the election of the Company. The investor also acquired two options to purchase additional convertible preferred stock, one with a six month maturity and one with a nine month maturity from the closing date of the transaction. Terms of the transaction include certain rights for the investor to have the common stock underlying the preferred stock registered by the Company.

In April 1999, the Company raised \$6,000,000 from the sale of 440,893 shares of common stock to a private investment fund in a private placement. The investor also acquired two warrants to purchase additional common stock, one with a five year term and the other with a one year term. Under the terms of the agreement, the Company will register the shares issued in the initial sale and underlying the two warrants. Terms of the transaction include a provision that could result in a one-time issuance of additional shares, up to a fixed maximum, if the market price of the Company's common stock on the date of effectiveness of the registration statement is less than the market price of the common stock used in the initial sale.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There have been no changes in or disagreements with accountants in accounting or financial disclosure matters during the Company's fiscal years ended December 31, 1998 and 1997.

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PART III

ITEMS 10-13. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by Part III (Items 10-13) is set forth in Microvision's definitive proxy statement, which will be filed pursuant to Regulation 14A by April 30, 1999. Such information is incorporated herein by reference and made a part hereof.

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PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES 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(1)
- 3.1.1 Articles of Amendment of Articles of Incorporation Containing the Statement of Rights and Preferences of the Series B Convertible Preferred Stock of Microvision, Inc., dated January 13, 1999(6)
- 3.2 Amended and Restated Bylaws of Microvision, Inc. (4)
- 4.1 Form of specimen certificate for Common Stock(1)
- 4.2 Form of Warrant for purchase of Common Stock(1)
- 4.3 Warrant Agreement(1)
- 4.4 Form of Representatives' Warrant for purchase of Units(1)
- 4.5 Form of specimen certificate for the Series B-1 Stock. (6)
- 4.6 Form of specimen certificate for the Series B-2 Stock(6)
- 4.7 Form of specimen certificate for the Series B-3 Stock(6)
- 4.8 Registration Rights Agreement, dated as of January 14, 1999, between Microvision, Inc. and Margaret Elardi(6)
- 4.9 Registration Rights Agreement, dated as of April 1, 1999, between Microvision, Inc. and Capital Ventures International.
- 4.10 Microvision, Inc. Series 1 Stock Purchase Warrant, dated April 1, 1999 issued to Capital Ventures International
- 4.11 Microvision, Inc. Series 2 Stock Purchase Warrant, dated April 1, 1999 issued to Capital Ventures International
- 10.1 Project I Research Agreement between The University of Washington and the Washington Technology Center and the H. Group, dated June 10, 1993(1)
- 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(1)
- 10.3 Project II Research Agreement between The University of Washington and the Washington Technology Center and Microvision, Inc., dated October 28, 1993 (1)+
- 10.4 Letter dated March 27, 1998 extending the term of the Research Agreement between the University of Washington and Microvision.(3)
- 10.5 Exclusive License Agreement between The University of Washington and Microvision, Inc., dated October 28, 1993 (1)+
- 10.6 Employment Agreement between Microvision, Inc., and Richard F. Rutkowski, effective October 1, 1997(2)
- 10.7 Employment Agreement between Microvision, Inc., and Stephen R. Willey, effective October 1, 1998
- 10.8 1993 Stock Option Plan(1)

- 10.9 1994 Combined Incentive and Nonqualified Stock Option Plan(1)
- 10.10 1995 Combined Incentive and Nonqualified Stock Option Plan(1)
- 10.11 1996 Stock Option Plan, as amended(5)
- 10.12 1996 Independent Director Stock Plan, as amended(2)

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- 10.13 Exclusive License Agreement between the University of Washington and Microvision, Inc. dated March 3, 1994(1)
- 10.14 Form of Executive Stock Loan Agreement(4)
- 10.15 Employment Agreement between Microvision, Inc., and Richard A. Raisig, effective October 1, 1997(2)
- 10.16 Lease between S/I Northcreek II, LLC and Microvision, Inc., dated October 27, 1998(5)
- 10.17 Non-recourse Receivable Purchase Agreement dated as of September 30, 1998 between Silicon Valley Financial Services and Microvision, Inc.
- 10.18 Series B Convertible Preferred Stock Purchase Agreement, dated as of January 14, 1999, between Microvision, Inc. and Margaret Elardi(6)
- 10.19 Securities Purchase Agreement, dated as of April 1, 1999, between Microvision, Inc. and Capital Ventures International
- 11 Computation of Pro Forma Loss Per Share
- 23 Consent of PricewaterhouseCoopers LLP
- 27 Financial Data Schedule

- -----

- (1) Incorporated by reference to the Company's Form SB-2 Registration Statement, Registration No. 333-5276-LA.
 - (2) Incorporated by reference to the Company's Annual Report on form 10-K for the year ended December 31, 1997, Registration No. 0-21221.
 - (3) Incorporated by reference to the Company's Form 10-QSB for the quarterly period ended March 31, 1998.
 - (4) Incorporated by reference to the Company's Form 10-QSB for the quarterly period ended June 30, 1998.
 - (5) Incorporated by reference to the Company's Form 10-QSB for the quarterly period ended September 30, 1998.
 - (6) Incorporated by reference to the Company's Current Report on Form 8-K filed on January 28, 1999.
- + Subject to confidential treatment.

(b) Reports on Form 8-K.

Microvision filed no reports on Form 8-K during the last quarter of the fiscal year ended December 31, 1998.

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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: April 13, 1999

By /s/ RICHARD F. RUTKOWSKI

Richard F. Rutkowski
President and Chief Executive Officer

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 April 13, 1999.

Signature -----	Title -----
/s/ RICHARD F. RUTKOWSKI ----- Richard F. Rutkowski	Chief Executive Officer, President and Director (Principal Executive Officer)
/s/ STEPHEN R. WILLEY ----- Stephen R. Willey	Executive Vice President and Director
/s/ RICHARD A. RAISIG ----- Richard A. Raisig	Chief Financial Officer and Vice President, Operations and Director (Principal Financial and Accounting Officer)
/s/ WALTER J. LACK ----- Walter J. Lack	Director

Director

Robert A. Ratliffe

Director

Jacob Brouwer

Director

Richard A. Cowell

Director

/s/ WILLIAM A. OWENS

William A. Owens

Director

/s/ DOUGLAS TRUMBULL

Douglas Trumbull

Director

Margaret Elardi

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EXHIBIT INDEX

The following documents are filed herewith or have been included as exhibits to previous filings with the Securities and Exchange Commission and are incorporated by reference as indicated below.

- 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(1)
- 3.1.1 Articles of Amendment of Articles of Incorporation Containing the Statement of Rights and Preferences of the Series B Convertible Preferred Stock of Microvision, Inc., dated January 13, 1999(6)
- 3.2 Amended and Restated Bylaws of Microvision, Inc. (4)
- 4.1 Form of specimen certificate for Common Stock(1)
- 4.2 Form of Warrant for purchase of Common Stock(1)
- 4.3 Warrant Agreement(1)
- 4.4 Form of Representatives' Warrant for purchase of Units(1)
- 4.5 Form of specimen certificate for the Series B-1 Stock. (6)
- 4.6 Form of specimen certificate for the Series B-2 Stock(6)
- 4.7 Form of specimen certificate for the Series B-3 Stock(6)
- 4.8 Registration Rights Agreement, dated as of January 14, 1999, between Microvision, Inc. and Margaret Elardi(6)
- 4.9 Registration Rights Agreement, dated as of April 1, 1999, between Microvision, Inc. and Capital Ventures International.
- 4.10 Microvision, Inc. Series 1 Stock Purchase Warrant, dated April 1, 1999 issued to Capital Ventures International
- 4.11 Microvision, Inc. Series 2 Stock Purchase Warrant, dated April 1, 1999 issued to Capital Ventures International
- 10.1 Project I Research Agreement between The University of Washington and the Washington Technology Center and the H. Group, dated June 10, 1993(1)
- 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(1)
- 10.3 Project II Research Agreement between The University of Washington and the Washington Technology Center and Microvision, Inc., dated October 28, 1993 (1)+
- 10.4 Letter dated March 27, 1998 extending the term of the Research Agreement between the University of Washington and Microvision.(3)
- 10.5 Exclusive License Agreement between The University of Washington and Microvision, Inc., dated October 28, 1993 (1)+
- 10.6 Employment Agreement between Microvision, Inc., and Richard F. Rutkowski, effective October 1, 1997(2)
- 10.7 Employment Agreement between Microvision, Inc., and Stephen R. Willey, effective October 1, 1998
- 10.8 1993 Stock Option Plan(1)
- 10.9 1994 Combined Incentive and Nonqualified Stock Option Plan(1)
- 10.10 1995 Combined Incentive and Nonqualified Stock Option Plan(1)
- 10.11 1996 Stock Option Plan, as amended(5)
- 10.12 1996 Independent Director Stock Plan, as amended(2)
- 10.13 Exclusive License Agreement between the University of Washington and Microvision, Inc. dated March 3, 1994(1)
- 10.14 Form of Executive Stock Loan Agreement(4)

- 10.15 Employment Agreement between Microvision, Inc., and Richard A. Raisig, effective October 1, 1997(2)
- 10.16 Lease between S/I Northcreek II, LLC and Microvision, Inc., dated October 27, 1998(5)
- 10.17 Non-recourse Receivable Purchase Agreement dated as of September 30, 1998 between Silicon Valley Financial Services and Microvision, Inc.
- 10.18 Series B Convertible Preferred Stock Purchase Agreement, dated as of January 14, 1999, between Microvision, Inc. and Margaret Elardi(6)
- 10.19 Securities Purchase Agreement, dated as of April 1, 1999, between Microvision, Inc. and Capital Ventures International
- 11 Computation of Pro Forma Loss Per Share
- 23 Consent of PricewaterhouseCoopers LLP
- 27 Financial Data Schedule

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- (1) Incorporated by reference to the Company's Form SB-2 Registration Statement, Registration No. 333-5276-LA.
 - (2) Incorporated by reference to the Company's Annual Report on form 10-K for the year ended December 31, 1997, Registration No. 0-21221.
 - (3) Incorporated by reference to the Company's Form 10-QSB for the quarterly period ended March 31, 1998.
 - (4) Incorporated by reference to the Company's Form 10-QSB for the quarterly period ended June 30, 1998.
 - (5) Incorporated by reference to the Company's Form 10-QSB for the quarterly period ended September 30, 1998.
 - (6) Incorporated by reference to the Company's Current Report on Form 8-K filed on January 28, 1999.
- + Subject to confidential treatment.

REGISTRATION RIGHTS AGREEMENT

REGISTRATION RIGHTS AGREEMENT (this "Agreement"), dated as of April 1, 1999, by and among MICROVISION, INC., a corporation organized under the laws of the State of Washington (the "Company"), and the undersigned (the "Initial Investors").

WHEREAS:

A. The Company and the Initial Investors have entered into a Securities Purchase Agreement dated the date hereof (the "Securities Purchase Agreement"; capitalized terms used herein and not otherwise defined herein shall have the respective meanings set forth in the Securities Purchase Agreement). In connection with the Securities Purchase Agreement, the Company has agreed, upon the terms and subject to the conditions contained therein, to issue and sell to the Initial Investors (i) shares of the Company's common stock, no par value per share (the "Common Stock"), (ii) in certain circumstances, the Adjustment Shares, (iii) the Series 1 Warrants and (iv) the Series 2 Warrants (together with the Series 1 Warrants, the "Warrants"). The Closing Shares and the Adjustment Shares are referred to herein as the "Shares" and the shares of Common Stock issuable upon exercise of or otherwise pursuant to the Warrants are referred to herein as the "Warrant Shares."

B. To induce the Initial Investors to execute and deliver the Securities Purchase Agreement, the Company has agreed to provide certain registration rights under the Securities Act of 1933, as amended, and the rules and regulations thereunder, or any similar successor statute (collectively, the "Securities Act"), and applicable state securities laws;

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and the Initial Investors, intending to be legally bound, hereby agree as follows:

1. DEFINITIONS.

As used in this Agreement, the following terms shall have the following meanings:

(i) "Investors" means the Initial Investors and any transferees or assignees who agree to become bound by the provisions of this Agreement in accordance with Section 9 hereof.

(ii) "register," "registered," and "registration" refer to a registration effected by preparing and filing a Registration Statement or Statements in compliance with the Securities Act and pursuant to Rule 415 under the Securities Act or any successor rule providing for offering securities on a continuous basis ("Rule 415"), and the declaration or ordering of effectiveness of such Registration Statement by the United States Securities and Exchange Commission (the "SEC").

(iii) "Registrable Securities" means (i) the Shares, (ii) the Warrants, (iii) the Warrant Shares and (iv) any shares of capital stock issued or issuable, from time to time (with any adjustments), as a distribution on or in exchange for or otherwise with respect to any of the foregoing, whether as default payments or otherwise.

(iv) "Registration Statement" means one or more registration statements of the Company under the Securities Act registering all of the Registrable Securities, including the Initial Registration Statement, any Uncovered Shares Amendments and Uncovered Shares Registration Statements (each, as defined below).

2. REGISTRATION.

a. Mandatory Registration. The Company shall file with the United States Securities and Exchange Commission ("SEC"), on or prior to the date which is thirty days after the Closing Date (the "Filing Date") a Registration Statement on Form S-3 (or, if Form S-3 is not then available, on such form of Registration Statement as is then available to effect a registration of all of the Registrable Securities, subject to the consent of the Initial Investors (as determined pursuant to Section 11(j) hereof)) covering the resale of at least 1,231,010 Registrable Securities, which Registration Statement, to the extent allowable under the Securities Act and the Rules promulgated thereunder (including Rule 416), shall state that such Registration Statement also covers such indeterminate number of additional shares of Common Stock as may become issuable upon exercise of the Warrants to prevent dilution resulting from stock splits, stock dividends or similar transactions (the "Initial Registration Statement"). The Registrable Securities included in the Initial Registration Statement shall be allocated to the Investors as set forth in Section 11(k) hereof. The Initial Registration Statement (and each amendment or supplement

thereto, and each request for acceleration of effectiveness thereof) shall be provided to (and subject to the review by) the Initial Investors and their counsel prior to its filing or other submission. If for any reason (including, but not limited to, a determination by the staff of the SEC that the Adjustment Shares or any other

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Registrable Securities cannot be included in the Initial Registration Statement (an "SEC" Determination") the Initial Registration Statement declared effective by the SEC does not include all of the Registrable Securities (any such shares that are not included being the "Uncovered Shares"), the Company shall prepare and file with the SEC, as soon as practicable, but in any event prior to the later of (x) the third (3rd) business day after becoming aware of the existence of any Uncovered Shares and (y) the tenth (10th) day after the date on which the Initial Registration Statement is declared effective by the SEC (such later date referred to herein as the "Uncovered Share Filing Date"), either (a) an amendment (the "Uncovered Shares Amendment") to the Initial Registration Statement effecting a registration of the Uncovered Shares or (b) a registration statement which registers the Uncovered Shares (the "Uncovered Shares Registration Statement"). The Uncovered Shares Amendment or the Uncovered Shares Registration Statement (and each amendment or supplement thereto, and each request for acceleration of effectiveness thereof) shall be provided to the Initial Investor and its counsel for review and comment prior to its filing or other submission. The Company shall use its best efforts to cause the Uncovered Shares Amendment or the Uncovered Shares Registration Statement to become effective as soon as practicable after the filing thereof.

b. Underwritten Offering. Provided that the Company consents thereto, the Investors may offer and sell the Registrable Securities pursuant to a Registration Statement filed in accordance with Section 2(a) in an underwritten offering. In any such underwritten offering, the Investors who hold a majority in interest of the Registrable Securities subject to such underwritten offering, with the consent of the Initial Investors, shall have the right to select one legal counsel to represent the Investors and an investment banker or bankers and manager or managers to administer the offering, which investment banker or bankers or manager or managers shall be reasonably satisfactory to the Company. In the event that any Investors elect not to participate in such underwritten offering, the Registration Statement covering all of the Registrable Securities shall contain appropriate plans of distribution reasonably satisfactory to the Investors participating in such underwritten offering and the Investors electing not to participate in such underwritten offering (including, without limitation, the ability of nonparticipating Investors to sell from time to time and at any time during the effectiveness of such Registration Statement).

c. Payments by the Company. The Company shall use its best efforts to cause each Registration Statement required to be filed pursuant to Section 2(a) hereof to become effective as soon as practicable, but, as to the Initial Registration Statement filed pursuant to Section 2(a), in no event later than the ninetieth (90th) day after the Closing Date (the "Registration Deadline"), and as to any Uncovered Shares Amendment or Uncovered Shares Registration Statement, in no event later than the forty-fifth (45th) day after the Uncovered Share Filing Date (the "Uncovered Share Registration Deadline"). If (i) the Registration Statement(s) covering the Registrable Securities required to be filed by the Company pursuant to Section 2(a) hereof is not filed with the SEC by the Filing Date or the Uncovered Share Filing Date, as applicable, or declared effective by the SEC on or before the Registration Deadline or the Uncovered Share Registration Deadline, as applicable, or if, after a Registration Statement has been declared effective by the SEC, sales of all the Registrable Securities (including any Registrable Securities required to be registered pursuant to Section 3(b) hereof) required to be included therein (except, in the case of the Initial Registration

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Statement, for Uncovered Shares which are the subject of an SEC Determination) cannot be made pursuant to the Registration Statement (by reason of a stop order, the Company's failure to update a Registration Statement, any reason resulting in Uncovered Shares or any other reason outside the control of the Investors) or (ii) the Common Stock is not listed or included for quotation on the Nasdaq National Market (the "NNM"), the New York Stock Exchange (the "NYSE") or the American Stock Exchange (the "AMEX") at any time after the Registration Deadline, then the Company will make payments to the Investors in such amounts and at such times as shall be determined pursuant to this Section 2(c) as partial relief for the damages to the Investors by reason of any such delay in or reduction of their ability to sell the Registrable Securities (which remedy shall not be exclusive of any other remedies available at law or in equity). The Company shall pay to each Investor an amount equal to the product of (i) the aggregate Investment Amount (as defined in the Securities Purchase Agreement) paid by such Investor (or if such Investor is not an Initial Investor, the Investment Amount paid by such Investor's transferor or assignor of such Shares and Warrants) for the Shares and Warrants purchased by such Investor (or such Investor's transferor or assignor) pursuant to the Securities Purchase Agreement (the "Aggregate Purchase Price"), multiplied by (ii) one percent (with such percentage increasing to and remaining at two percent for purposes of all calculations which take into account time periods (or portions thereof) after the 30th day after the Registration Deadline or Uncovered Share Registration

Deadline, as applicable), multiplied by (iii) the sum of (x) the quotient calculated by dividing (A) the number of days after the Filing Date or Uncovered Share Filing Date, as applicable, and prior to the date the Registration Statement or Uncovered Share Amendment or Uncovered Share Registration Statement, as applicable, in each case as required to be filed pursuant to Section 2(a), is filed with the SEC by (B) thirty, plus (y) the quotient calculated by dividing (A) the number of days after the Registration Deadline or Uncovered Share Registration Deadline, as applicable, and prior to the date the Registration Statement or Uncovered Share Amendment or Uncovered Share Registration Statement, as applicable, in each case as filed pursuant to Section 2(a), is declared effective by the SEC by (B) thirty, plus (z) the quotient calculated by dividing (A) the number of additional days that sales of any Registrable Securities required to be included in a Registration Statement (except, in the case of the Initial Registration Statement, for any Uncovered Shares which are the subject of an SEC Determination) cannot be made pursuant to a Registration Statement after such Registration Statement has been declared effective or the Common Stock is not listed or included for quotation on the NYSE, the NYSE or AMEX by (B) thirty; provided, however, that there shall be excluded from each such period any delays which are solely attributable to changes (other than corrections of Company mistakes with respect to information previously provided by the Investors) required by the Investors in a Registration Statement with respect to information relating to the Investors, including, without limitation, changes to the plan of distribution. For example, if the Initial Registration Statement becomes effective thirty (30) days after the Registration Deadline, the Company would pay \$10,000 for each \$1,000,000 of Aggregate Purchase Price; thereafter, for each period of 30 days that sales cannot be made pursuant to the Initial Registration Statement (except as to Uncovered Shares which are the subject of an SEC Determination), the Company would pay an additional \$20,000 for each \$1,000,000 of Aggregate Purchase Price. Such amounts shall be paid in cash or, at each Investor's option, subject to the limitations on the Company's ability to issue such shares as set forth in Rule 4460(i) of the NASD (as defined below) or any successor rule, may be paid in shares of Common Stock at a conversion price equal to the lesser of (i) \$13.60875 or (ii)

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the Market Price as of the date such payment is due. Any shares of Common Stock issued upon conversion of such amounts shall be Registrable Securities. If the Investor desires to convert the amounts due hereunder into Registrable Securities, it shall so notify the Company in writing within two (2) business days of the date on which such amounts are first payable in cash and such amounts shall be so convertible beginning on the last day upon which the cash amount would otherwise be due in accordance with the following sentence. Payments of cash pursuant hereto shall be made within five (5) days after the end of each period that gives rise to such obligation, provided that, if any such period extends for more than thirty (30) days, interim payments shall be made for each such thirty (30) day period. Delivery of shares of Common Stock upon conversion of the amounts set forth in this Section 2(c) shall be made within two (2) business days after the Investor's delivery of a written notice of conversion to the Company.

d. Piggy-Back Registrations. If at any time prior to the expiration of the Registration Period (as hereinafter defined) the Company shall file with the SEC a registration statement relating to an offering for its own account or the account of others under the Securities Act of any of its equity securities (other than on Form S-4 or Form S-8 or their then equivalents relating to equity securities to be issued solely in connection with any acquisition of any entity or business or equity securities issuable in connection with stock option or other employee benefit plans) and the Company is not prohibited from including such Registrable Securities on such registration statement, the Company shall send to each Investor who is entitled to registration rights under this Section 2(d) written notice of such determination and, if within fifteen (15) days after the date of such notice, such Investor shall so request in writing, the Company shall include in such registration statement all or any part of the Registrable Securities such Investor requests to be registered, except that if, in connection with any underwritten public offering for the account of the Company the managing underwriter(s) thereof shall impose a limitation on the number of shares of Common Stock which may be included in the registration statement because, in such underwriter(s)' judgment, marketing or other factors dictate such limitation is necessary to facilitate public distribution, then the Company shall be obligated to include in such registration statement only such limited portion of the Registrable Securities with respect to which such Investor has requested inclusion hereunder as the underwriter shall permit. Any exclusion of Registrable Securities shall be made pro rata among the Investors seeking to include Registrable Securities, in proportion to the number of Registrable Securities sought to be included by such Investors; provided, however, that the Company shall not exclude any Registrable Securities unless the Company has first excluded all outstanding securities, the holders of which are not entitled to inclusion of such securities in such registration statement or are not entitled to pro rata inclusion with the Registrable Securities; and provided, further, however, that, after giving effect to the immediately preceding proviso, any exclusion of Registrable Securities shall be made pro rata with holders of other securities having the right to include such securities in the registration statement other than holders of securities entitled to inclusion of their securities in such registration statement by reason of demand registration

rights (except to the extent any existing agreements otherwise provide). No right to registration of Registrable Securities under this Section 2(d) shall be construed to limit any registration required under Section 2(a) hereof. If an offering in connection with which an Investor is entitled to registration under this Section 2(d) is an underwritten offering, then each Investor whose Registrable Securities are included in such registration statement shall, unless otherwise agreed by the Company,

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offer and sell such Registrable Securities in an underwritten offering using the same underwriter or underwriters and, subject to the provisions of this Agreement, on the same terms and conditions as other shares of Common Stock included in such underwritten offering.

e. Eligibility for Form S-3. The Company represents and warrants that it meets the requirements for the use of Form S-3 for registration of the sale by the Initial Investors and any other Investor of the Registrable Securities and the Company shall file all reports required to be filed by the Company with the SEC in a timely manner so as to maintain its eligibility for the use of Form S-3.

3. OBLIGATIONS OF THE COMPANY.

In connection with the registration of the Registrable Securities, the Company shall have the following obligations:

a. The Company shall prepare and file with the SEC, on or before the Filing Date or the Uncovered Share Filing Date, as applicable, the applicable Registration Statement required by Section 2(a) and shall use its best efforts to cause such Registration Statement to become effective as soon as practicable after such filing (but in no event later than the Registration Deadline or the Uncovered Share Registration Deadline, as applicable), and shall keep the Registration Statement effective pursuant to Rule 415 at all times until such date as is the earlier of (i) the date on which all of the Registrable Securities have been sold and (ii) the date on which all of the Registrable Securities (in the reasonable opinion of counsel to the Initial Investors) may be immediately sold to the public without registration or restriction pursuant to Rule 144(k) under the Securities Act (the "Registration Period"), which Registration Statement (including any amendments or supplements thereto and prospectuses contained therein and all documents incorporated by reference therein) (i) shall comply in all material respects with the requirements of the Securities Act and the rules and regulations of the SEC promulgated thereunder and (ii) shall not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein, or necessary to make the statements therein not misleading. The financial statements of the Company included in the Registration Statement or incorporated by reference therein will comply as to form in all material respects with applicable accounting requirements and the published rules and regulations of the SEC applicable with respect thereto. Such financial statements will be prepared in accordance with U.S. generally accepted accounting principles, consistently applied, during the periods involved (except (i) as may be otherwise indicated in such financial statements or the notes thereto, or (ii) in the case of unaudited interim statements, to the extent they may not include footnotes or may be condensed on summary statements and fairly present in all material respects the consolidated financial position of the Company and its consolidated subsidiaries as of the dates thereof and the consolidated results of their operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to immaterial year-end adjustments)).

b. The Company shall prepare and file with the SEC such amendments (including post-effective amendments) and supplements to the Registration Statement and the prospectus used in connection with the Registration Statement as may be necessary to keep the

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Registration Statement effective at all times during the Registration Period, and, during such period, comply with the provisions of the Securities Act with respect to the disposition of all Registrable Securities of the Company covered by the Registration Statement until such time as all of such Registrable Securities have been disposed of in accordance with the intended methods of disposition by the seller or sellers thereof as set forth in the Registration Statement. In the event the number of shares available under the Initial Registration Statement filed pursuant to this Agreement plus the number of shares then required to be registered under an Uncovered Share Amendment or Uncovered Share Registration Statement is, for any three (3) consecutive trading days (the last of such three (3) trading days being the "Registration Trigger Date"), insufficient to cover one hundred percent (100%) of the Registrable Securities (including Registrable Securities issuable upon exercise of the Warrants (without giving effect to any limitations on exercise contained in Section 7(g) of the Warrants)), the Company shall amend the Registration Statement, or file a new Registration Statement (on the short form available therefor, if applicable), or both, so as to cover one hundred thirty-five percent (135%) of the Registrable Securities (including Registrable Securities issuable upon exercise of the Warrants (without giving effect to any limitations

on exercise contained in Section 7(g) of the Warrants)) as of the Registration Trigger Date, in each case, as soon as practicable, but in any event within fifteen (15) days after the Registration Trigger Date. The Company shall use its best efforts to cause such amendment and/or new Registration Statement to become effective as soon as practicable following the filing thereof.

c. The Company shall furnish to each Investor whose Registrable Securities are included in the Registration Statement and its legal counsel (i) promptly after the same is prepared and publicly distributed, filed with the SEC, or received by the Company, one copy of the Registration Statement and any amendment thereto, each preliminary prospectus and prospectus and each amendment or supplement thereto, and, in the case of the Registration Statement referred to in Section 2(a), each letter written by or on behalf of the Company to the SEC or the staff of the SEC (including, without limitation, any request to accelerate the effectiveness of any Registration Statement or amendment thereto), and each item of correspondence from the SEC or the staff of the SEC, in each case relating to such Registration Statement (other than any portion, if any, thereof which contains information for which the Company has sought confidential treatment), (ii) on the date of effectiveness of the Registration Statement or any amendment thereto, a notice stating that the Registration Statement or amendment has been declared effective, and (iii) such number of copies of a prospectus, including a preliminary prospectus, and all amendments and supplements thereto and such other documents as such Investor may reasonably request in order to facilitate the disposition of the Registrable Securities owned by such Investor.

d. The Company shall use its best efforts to (i) register and qualify the Registrable Securities covered by the Registration Statement under such other securities or "blue sky" laws of such jurisdictions in the United States as each Investor who holds Registrable Securities being offered reasonably requests, (ii) prepare and file in those jurisdictions such amendments (including post-effective amendments) and supplements to such registrations and qualifications as may be necessary to maintain the effectiveness thereof during the Registration Period, (iii) take such other actions as may be necessary to maintain such registrations and qualifications in effect at all times during the Registration Period, and (iv) take all other actions reasonably necessary or

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advisable to qualify the Registrable Securities for sale in such jurisdictions; provided, however, that the Company shall not be required in connection therewith or as a condition thereto to (a) qualify to do business in any jurisdiction where it would not otherwise be required to qualify but for this Section 3(d), (b) subject itself to general taxation in any such jurisdiction, (c) file a general consent to service of process in any such jurisdiction, (d) provide any undertakings that cause the Company undue expense or burden, or (e) make any change in its articles or bylaws, which in each case the Board of Directors of the Company determines to be contrary to the best interests of the Company and its stockholders.

e. In the event the Investors who hold a majority in interest of the Registrable Securities being offered in an offering select underwriters for the offering, the Company shall enter into and perform its obligations under an underwriting agreement, in usual and customary form, including, without limitation, customary indemnification and contribution obligations, with the underwriters of such offering.

f. As promptly as practicable after becoming aware of such event, the Company shall notify each Investor by telephone and facsimile of the happening of any event, of which the Company has knowledge, as a result of which the prospectus included in the Registration Statement, as then in effect, includes an untrue statement of a material fact or omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, and use its best efforts promptly to prepare a supplement or amendment to the Registration Statement to correct such untrue statement or omission, and deliver such number of copies of such supplement or amendment to each Investor as such Investor may reasonably request.

g. The Company shall use its best efforts to prevent the issuance of any stop order or other suspension of effectiveness of a Registration Statement, and, if such an order is issued, to obtain the withdrawal of such order at the earliest practicable date (including in each case by amending or supplementing such Registration Statement) and to notify each Investor who holds Registrable Securities being sold (or, in the event of an underwritten offering, the managing underwriters) of the issuance of such order and the resolution thereof (and if such Registration Statement is supplemented or amended, deliver such number of copies of such supplement or amendment to each Investor as such Investor may reasonably request).

h. The Company shall permit a single firm of counsel designated by the Initial Investors to review the Registration Statement and all amendments and supplements thereto a reasonable period of time prior to their filing with the SEC, and shall not file any document in a form to which such counsel reasonably objects within three (3) business days after receipt thereof.

i. The Company shall make generally available to its security holders

as soon as practical, but not later than ninety (90) days after the close of the period covered thereby, an earnings statement (in form complying with the provisions of Rule 158 under the Securities Act) covering a twelve-month period beginning not later than the first day of the Company's fiscal quarter next following the effective date of the Registration Statement.

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j. At the request of any Investor, the Company shall use its best efforts to furnish, on the date of effectiveness of the Registration Statement (i) an opinion, dated as of such date, from counsel representing the Company addressed to the Investors and in form, scope and substance as is customarily given in an underwritten public offering and (ii) in the case of an underwriting, a letter, dated such date, from the Company's independent certified public accountants in form and substance as is customarily given by independent certified public accountants to underwriters in an underwritten public offering, addressed to the underwriters, if any, and the Investors. In addition at the request of any Investor whose Registrable Securities are included in the Registration Statement, the Company shall furnish on the date of effectiveness of such registration statement an opinion, dated as of such date, from counsel representing the Company to the Investors to the effect that such Registration Statement and the related prospectus comply as to form in all material respects with the requirements of the Securities Act and the applicable rules and regulations thereunder (except that no opinion need be expressed with respect to the financial statements, including the notes and schedules thereto, or any other financial, statistical or accounting information, or information relating to the Investors or any underwriters or the method of distribution of the Registrable Securities by the Investors and any underwriters included therein).

k. The Company shall make available for inspection by (i) any Investor who beneficially owns at least 1000 Registrable Securities, (ii) any underwriter participating in any disposition pursuant to the Registration Statement, (iii) one firm of attorneys and one firm of accountants or other agents retained by the Investors, and (iv) one firm of attorneys retained by all such underwriters (collectively, the "Inspectors") all pertinent financial and other records, and pertinent corporate documents and properties of the Company (collectively, the "Records"), as shall be reasonably deemed necessary by each Inspector to enable each Inspector to exercise its due diligence responsibility, and cause the Company's officers, directors and employees to supply all information which any Inspector may reasonably request for purposes of such due diligence; provided, however, that each Inspector shall hold in confidence and shall not make any disclosure (except to an Investor) of any Record or other information which the Company determines in good faith to be confidential, and of which determination the Inspectors are so notified, unless (a) the disclosure of such Records is necessary to avoid or correct a misstatement or omission in any Registration Statement, (b) the release of such Records is ordered pursuant to a subpoena or other order from a court or government body of competent jurisdiction, or (c) the information in such Records has been made generally available to the public other than by disclosure in violation of this or any other agreement. The Company shall not be required to disclose any confidential information in such Records to any Inspector until and unless such Inspector shall have entered into confidentiality agreements (in form and substance satisfactory to the Company) with the Company with respect thereto, substantially in the form of this Section 3(k). Each Investor agrees that it shall, upon learning that disclosure of such Records is sought in or by a court or governmental body of competent jurisdiction or through other means, give prompt notice to the Company and allow the Company, at its expense, to undertake appropriate action to prevent disclosure of, or to obtain a protective order for, the Records deemed confidential. Nothing herein shall be deemed to limit the Investors' ability to sell Registrable Securities in a manner which is otherwise consistent with applicable laws and regulations.

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l. The Company shall hold in confidence and not make any disclosure of information concerning an Investor provided to the Company unless (i) disclosure of such information is necessary to comply with federal or state securities laws, (ii) the disclosure of such information is necessary to avoid or correct a misstatement or omission in any Registration Statement, (iii) the release of such information is ordered pursuant to a subpoena or other order from a court or governmental body of competent jurisdiction, (iv) such information has been made generally available to the public other than by disclosure in violation of this or any other agreement, or (v) such Investor consents to the form and content of any such disclosure. The Company agrees that it shall, upon learning that disclosure of such information concerning an Investor is sought in or by a court or governmental body of competent jurisdiction or through other means, give prompt notice to such Investor prior to making such disclosure, and allow the Investor, at its expense, to undertake appropriate action to prevent disclosure of, or to obtain a protective order for, such information.

m. The Company shall use its best efforts to promptly either (i) cause all the Registrable Securities covered by the Registration Statement to be listed on the NYSE or the AMEX or another national securities exchange and on each additional national securities exchange on which securities of the same class or series issued by the Company are then listed, if any, if the listing of such Registrable Securities is then permitted under the rules of such exchange,

or (ii) secure the designation and quotation, of all the Registrable Securities covered by the Registration Statement on the NNM and, without limiting the generality of the foregoing, to arrange for or maintain at least two market makers to register with the National Association of Securities Dealers, Inc. ("NASD") as such with respect to such Registrable Securities.

n. The Company shall provide a transfer agent and registrar, which may be a single entity, for the Registrable Securities not later than the effective date of the Registration Statement.

o. The Company shall cooperate with the Investors who hold Registrable Securities being offered and the managing underwriter or underwriters, if any, to facilitate the timely preparation and delivery of certificates (not bearing any restrictive legends) representing Registrable Securities to be offered pursuant to the Registration Statement and enable such certificates to be in such denominations or amounts, as the case may be, as the managing underwriter or underwriters, if any, or the Investors may reasonably request and registered in such names as the managing underwriter or underwriters, if any, or the Investors may request, and, within three (3) business days after a Registration Statement which includes Registrable Securities is ordered effective by the SEC, the Company shall deliver, and shall cause legal counsel selected by the Company to deliver, to the transfer agent for the Registrable Securities (with copies to the Investors whose Registrable Securities are included in such Registration Statement) an opinion of such counsel in the form attached hereto as Exhibit 1.

p. At the request of an Initial Investor or Investors who hold a majority-in-interest of the Registrable Securities, the Company shall prepare and file with the SEC such amendments (including post-effective amendments) and supplements to a Registration Statement

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and the prospectus used in connection with the Registration Statement as may be necessary in order to change the plan of distribution set forth in such Registration Statement.

q. The Company shall comply with all applicable laws related to a Registration Statement and offering and sale of securities and all applicable rules and regulations of governmental authorities in connection therewith (including without limitation the Securities Act and the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated by the SEC).

r. The Company shall take all such other actions as any Investor or the underwriters, if any, reasonably request in order to expedite or facilitate the disposition of such Registrable Securities.

s. From and after the date of this Agreement, the Company shall not, and shall not agree to, allow the holders of any securities of the Company to include any of their securities in any Registration Statement under Section 2(a) hereof or any amendment or supplement thereto under Section 3(b) hereof without the consent of the holders of a majority in interest of the Registrable Securities.

4. OBLIGATIONS OF THE INVESTORS.

In connection with the registration of the Registrable Securities, the Investors shall have the following obligations:

a. It shall be a condition precedent to the obligations of the Company to complete the registration pursuant to this Agreement with respect to the Registrable Securities of a particular Investor that such Investor shall furnish to the Company such information regarding itself, the Registrable Securities held by it and the intended method of disposition of the Registrable Securities held by it as shall be reasonably required to effect the registration of such Registrable Securities and shall execute such documents in connection with such registration as the Company may reasonably request. At least five (5) business days prior to the first anticipated filing date of the Registration Statement, the Company shall notify each Investor of the information the Company requires from each such Investor.

b. Each Investor, by such Investor's acceptance of the Registrable Securities, agrees to cooperate with the Company as reasonably requested by the Company in connection with the preparation and filing of the Registration Statement hereunder, unless such Investor has notified the Company in writing of such Investor's election to exclude all of such Investor's Registrable Securities from the Registration Statement.

c. In the event Investors holding a majority in interest of the Registrable Securities being offered determine to engage, subject to the Company's consent, which will not be unreasonably withheld, the services of an underwriter, each Investor agrees to enter into and perform such Investor's obligations under an underwriting agreement, in usual and customary form,

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including, without limitation, customary indemnification and contribution

obligations, with the underwriter(s) of such offering and the Company and take such other actions as are reasonably required in order to expedite or facilitate the disposition of the Registrable Securities, unless such Investor has notified the Company in writing of such Investor's election not to participate in such underwritten distribution.

d. Each Investor agrees that, upon receipt of any notice from the Company of the happening of any event of the kind described in Section 3(f) or 3(g), such Investor will immediately discontinue disposition of Registrable Securities pursuant to the Registration Statement covering such Registrable Securities until such Investor's receipt of the copies of the supplemented or amended prospectus contemplated by Section 3(f) or 3(g) and, if so directed by the Company, such Investor shall deliver to the Company (at the expense of the Company) or destroy (and deliver to the Company a certificate of destruction) all copies in such Investor's possession, of the prospectus covering such Registrable Securities current at the time of receipt of such notice. Notwithstanding anything to the contrary, the Company shall cause the transfer agent for the Registrable Securities to deliver unlegended shares of Common Stock to a transferee of an Investor in accordance with the terms of the Warrants in connection with any sale of Registrable Securities with respect to which such Investor has entered into a contract for sale prior to receipt of such notice and for which such Investor has not yet settled.

e. No Investor may participate in any underwritten distribution hereunder unless such Investor (i) agrees to sell such Investor's Registrable Securities on the basis provided in any underwriting arrangements in usual and customary form entered into by the Company, (ii) completes and executes all questionnaires, powers of attorney, indemnities, underwriting agreements and other documents reasonably required under the terms of such underwriting arrangements, and (iii) agrees to pay its pro rata share of all underwriting discounts and commissions and any expenses in excess of those payable by the Company pursuant to Section 5 below. Notwithstanding anything in this Section 4(e) to the contrary, this Section 4(e) is not intended to limit an Investor's rights under Section 2(a) or 3(b) hereof.

f. Each Investor agrees that it will not effect any disposition of the Registrable Securities except as contemplated in the Registration Statement and that it will promptly notify the Company of any material change in the information set forth in the Registration Statement regarding such Investor's plan of distribution. In connection with any sale of Registrable Securities which is made pursuant to the Registration Statement, each Investor shall instruct its broker or brokers to deliver the prospectus in connection with such sale, shall supply copies of such prospectus to such broker or brokers and shall otherwise use its reasonable efforts to comply with the prospectus delivery requirements of the Securities Act.

5. EXPENSES OF REGISTRATION.

All reasonable expenses incurred by the Company or the Investors in connection with registrations, filings or qualifications pursuant to Sections 2 and 3 above (excluding brokers' fees, underwriting discounts and commissions, and similar selling expenses), including, without

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limitation, all registration, listing and qualifications fees, printers and accounting fees, the fees and disbursements of counsel for the Company, and the fees and disbursements of one counsel selected by the Investors, shall be borne by the Company. In addition, the Company shall pay all of the Investors' costs and expenses (including reasonable legal fees) incurred in connection with the enforcement of the rights of the Investors hereunder.

6. INDEMNIFICATION.

In the event any Registrable Securities are included in a Registration Statement under this Agreement:

a. To the extent permitted by law, the Company will indemnify, hold harmless and defend (i) each Investor who holds such Registrable Securities, and (ii) the directors, officers, partners, members, employees and agents of such Investor and each person who controls any Investor within the meaning of Section 15 of the Securities Act or Section 20 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), if any (each, an "Indemnified Person"), against any joint or several losses, claims, damages, liabilities or expenses (collectively, together with actions, proceedings or inquiries by any regulatory or self-regulatory organization, whether commenced or threatened, in respect thereof, "Claims") to which any of them may become subject insofar as such Claims arise out of or are based upon: (i) any untrue statement or alleged untrue statement of a material fact in a Registration Statement or the omission or alleged omission to state therein a material fact required to be stated or necessary to make the statements therein not misleading, (ii) any untrue statement or alleged untrue statement of a material fact contained in any preliminary prospectus if used prior to the effective date of such Registration Statement, or contained in the final prospectus (as amended or supplemented, if

the Company files any amendment thereof or supplement thereto with the SEC) or the omission or alleged omission to state therein any material fact necessary to make the statements made therein, in light of the circumstances under which the statements therein were made, not misleading, or (iii) any violation or alleged violation by the Company of the Securities Act, the Exchange Act, any other law, including, without limitation, any state securities law, or any rule or regulation thereunder relating to the offer or sale of the Registrable Securities (the matters in the foregoing clauses (i) through (iii) being, collectively, "Violations"). Subject to the restrictions set forth in Section 6(c) with respect to the number of legal counsel, the Company shall reimburse the Investors and each other Indemnified Person, promptly as such expenses are incurred and are due and payable, for any reasonable legal fees or other reasonable expenses incurred by them in connection with investigating or defending any such Claim. Notwithstanding anything to the contrary contained herein, the indemnification agreement contained in this Section 6(a): (i) shall not apply to a Claim arising out of or based upon a Violation which occurs in reliance upon and in conformity with information furnished in writing to the Company by such Indemnified Person expressly for use in the Registration Statement or any such amendment thereof or supplement thereto; (ii) shall not apply to amounts paid in settlement of any Claim if such settlement is effected without the prior written consent of the Company, which consent shall not be unreasonably withheld; and (iii) with respect to any preliminary prospectus, shall not inure to the benefit of any Indemnified Person if the untrue statement or omission of material fact contained in the preliminary prospectus was corrected on a timely basis in the prospectus, as then amended or

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supplemented, if such corrected prospectus was timely made available by the Company pursuant to Section 3(c) hereof, and the Indemnified Person was promptly advised in writing not to use the incorrect prospectus prior to the use giving rise to a Violation and such Indemnified Person, notwithstanding such advice, used it. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of the Indemnified Person and shall survive the transfer of the Registrable Securities by the Investors pursuant to Section 9.

b. In connection with any Registration Statement in which an Investor is participating, each such Investor agrees severally and not jointly to indemnify, hold harmless and defend, to the same extent and in the same manner set forth in Section 6(a), the Company, each of its directors, each of its officers who signs the Registration Statement, its employees, agents and each person, if any, who controls the Company within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act, and any other stockholder selling securities pursuant to the Registration Statement or any of its directors or officers or any person who controls such stockholder or underwriter within the meaning of the Securities Act or the Exchange Act (collectively and together with an Indemnified Person, an "Indemnified Party"), against any Claim to which any of them may become subject, under the Securities Act, the Exchange Act or otherwise, insofar as such Claim arises out of or is based upon any Violation, in each case to the extent (and only to the extent) that such Violation occurs in reliance upon and in conformity with written information furnished to the Company by such Investor expressly for use in connection with such Registration Statement; and subject to Section 6(c) such Investor will reimburse any legal or other expenses (promptly as such expenses are incurred and are due and payable) reasonably incurred by them in connection with investigating or defending any such Claim; provided, however, that the indemnity agreement contained in this Section 6(b) shall not apply to amounts paid in settlement of any Claim if such settlement is effected without the prior written consent of such Investor, which consent shall not be unreasonably withheld; provided, further, however, that the Investor shall be liable under this Agreement (including this Section 6(b) and Section 7) for only that amount as does not exceed the net proceeds actually received by such Investor as a result of the sale of Registrable Securities pursuant to such Registration Statement. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of such Indemnified Party and shall survive the transfer of the Registrable Securities by the Investors pursuant to Section 9. Notwithstanding anything to the contrary contained herein, the indemnification agreement contained in this Section 6(b) with respect to any preliminary prospectus shall not inure to the benefit of any Indemnified Party if the untrue statement or omission of material fact contained in the preliminary prospectus was corrected on a timely basis in the prospectus, as then amended or supplemented, and the Indemnified Party failed to utilize such corrected prospectus.

c. Promptly after receipt by an Indemnified Person or Indemnified Party under this Section 6 of notice of the commencement of any action (including any governmental action), such Indemnified Person or Indemnified Party shall, if a Claim in respect thereof is to be made against any indemnifying party under this Section 6, deliver to the indemnifying party a written notice of the commencement thereof, and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume control of the defense thereof with counsel mutually satisfactory to the

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indemnifying party and the Indemnified Person or the Indemnified Party, as the case may be; provided, however, that such indemnifying party shall not be entitled to assume such defense and an Indemnified Person or Indemnified Party shall have the right to retain its own counsel with the fees and expenses to be paid by the indemnifying party, if, in the reasonable opinion of counsel retained by the indemnifying party, the representation by such counsel of the Indemnified Person or Indemnified Party and the indemnifying party would be inappropriate due to actual or potential conflicts of interest between such Indemnified Person or Indemnified Party and any other party represented by such counsel in such proceeding or the actual or potential defendants in, or targets of, any such action include both the Indemnified Person or the Indemnified Party and the indemnifying party and any such Indemnified Person or Indemnified Party reasonably determines that there may be legal defenses available to such Indemnified Person or Indemnified Party which are in conflict with those available to such indemnifying party. The indemnifying party shall pay for only one separate legal counsel for the Indemnified Persons or the Indemnified Parties, as applicable, and such legal counsel shall be selected by Investors holding a majority-in-interest of the Registrable Securities included in the Registration Statement to which the Claim relates (with the approval of the Initial Investors if it holds Registrable Securities included in such Registration Statement), if the Investors are entitled to indemnification hereunder, or by the Company, if the Company is entitled to indemnification hereunder, as applicable. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action shall not relieve such indemnifying party of any liability to the Indemnified Person or Indemnified Party under this Section 6, except to the extent that the indemnifying party is actually prejudiced in its ability to defend such action. The indemnification required by this Section 6 shall be made by periodic payments of the amount thereof during the course of the investigation or defense, as such expense, loss, damage or liability is incurred and is due and payable.

7. CONTRIBUTION.

To the extent any indemnification by an indemnifying party is prohibited or limited by law, the indemnifying party agrees to make the maximum contribution with respect to any amounts for which it would otherwise be liable under Section 6 to the fullest extent permitted by law; provided, however, that (i) no contribution shall be made under circumstances where the maker would not have been liable for indemnification under the fault standards set forth in Section 6, (ii) no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any seller of Registrable Securities who was not guilty of such fraudulent misrepresentation, and (iii) contribution (together with any indemnification or other obligations under this Agreement) by any seller of Registrable Securities shall be limited in amount to the net amount of proceeds received by such seller from the sale of such Registrable Securities.

8. REPORTS UNDER THE EXCHANGE ACT.

With a view to making available to the Investors the benefits of Rule 144 promulgated under the Securities Act or any other similar rule or regulation of the SEC that may at any time permit the Investors to sell securities of the Company to the public without registration ("Rule 144"), the Company agrees to:

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a. file with the SEC in a timely manner and make and keep available all reports and other documents required of the Company under the Securities Act and the Exchange Act so long as the Company remains subject to such requirements (it being understood that nothing herein shall limit the Company's obligations under Section 4(c) of the Securities Purchase Agreement) and the filing and availability of such reports and other documents is required for the applicable provisions of Rule 144; and

b. furnish to each Investor so long as such Investor owns Warrants or Registrable Securities, promptly upon request, (i) a written statement by the Company that it has complied with the reporting requirements of Rule 144, the Securities Act and the Exchange Act, (ii) a copy of the most recent annual or quarterly report of the Company and such other reports and documents so filed by the Company, and (iii) such other information as may be reasonably requested to permit the Investors to sell such securities pursuant to Rule 144 without registration.

9. ASSIGNMENT OF REGISTRATION RIGHTS.

The rights of the Investors hereunder, including the right to have the Company register Registrable Securities pursuant to this Agreement, shall be automatically assignable by each Investor to any transferee of all or any portion of the Warrants or the Registrable Securities if: (i) the Investor agrees in writing with the transferee or assignee to assign such rights, and a copy of such agreement is furnished to the Company after such assignment, (ii) the Company is furnished with written notice of (a) the name and address of such

transferee or assignee and (b) the securities with respect to which such registration rights are being transferred or assigned, (iii) following such transfer or assignment, the further disposition of such securities by the transferee or assignee is restricted under the Securities Act and applicable state securities laws, (iv) the transferee or assignee agrees in writing with the Company to be bound by all of the provisions contained herein, and (v) such transfer shall have been made in accordance with the applicable requirements of the Securities Purchase Agreement. In addition, and notwithstanding anything to the contrary contained in this Agreement, the Securities Purchase Agreement or the Warrants, the Securities (as defined in the Securities Purchase Agreement) may be pledged, and all rights of the Investors under this Agreement or any other agreement or document related to the transaction contemplated hereby may be assigned, without further consent of the Company, to a bona fide pledgee in connection with an Investor's margin or brokerage accounts.

10. AMENDMENT OF REGISTRATION RIGHTS.

Provisions of this Agreement may be amended and the observance thereof may be waived (either generally or in a particular instance and either retroactively or prospectively), only with written consent of the Company, the Initial Investors (to the extent the Initial Investors still own Warrants or Registrable Securities) and Investors who hold a majority in interest of the Registrable Securities or, in the case of a waiver, with the written consent of the party charged with the enforcement of any such provision. Any amendment or waiver effected in accordance with this Section 10 shall be binding upon each Investor and the Company.

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11. MISCELLANEOUS.

a. A person or entity is deemed to be a holder of Registrable Securities whenever such person or entity owns of record such Registrable Securities. If the Company receives conflicting instructions, notices or elections from two or more persons or entities with respect to the same Registrable Securities, the Company shall act upon the basis of instructions, notice or election received from the registered owner of such Registrable Securities.

b. Any notices required or permitted to be given under the terms of this Agreement shall be sent by certified or registered mail (return receipt requested) or delivered personally or by courier or by confirmed telecopy, and shall be effective five (5) days after being placed in the mail, if mailed, or upon receipt or refusal of receipt, if delivered personally or by courier or confirmed telecopy, in each case addressed to a party. The addresses for such communications shall be:

If to the Company:

Microvision, Inc.
2203 Airport Way South, Suite 100
Seattle, Washington 98134
Telephone No.: (206) 623-7055
Facsimile No.: (206) 623-5961
Attention: Richard Raisig

with a copy to:

Stoel Rives LLP
3600 One Union Square
Seattle, Washington 98101
Telephone No.: (206) 624-0900
Facsimile No.: (206) 386-7500
Attention: Christopher J. Voss

If to an Investor, at such address as such Investor shall have provided in writing to the Company or such other address as such Investor furnishes by notice given in accordance with this Section 11(b).

c. Failure of any party to exercise any right or remedy under this Agreement or otherwise, or delay by a party in exercising such right or remedy, shall not operate as a waiver thereof.

d. This Agreement shall be governed by and construed in accordance with the laws of the State of New York applicable to contracts made and to be performed in the State of New York. The Company irrevocably consents to the jurisdiction of the United States federal courts and state courts located in New York, New York in any suit or proceeding based on or arising under this Agreement and irrevocably agrees that all claims in respect of such suit or proceeding may be

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determined in such courts. The Company irrevocably waives the defense of an

inconvenient forum to the maintenance of such suit or proceeding. The Company further agrees that service of process upon the Company mailed by first class mail to the address set forth in Section 11(b) shall be deemed in every respect effective service of process upon the Company in any such suit or proceeding. Nothing herein shall affect an Investor's right to serve process in any other manner permitted by law. The Company agrees that a final non-appealable judgment in any such suit or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on such judgment or in any other lawful manner.

e. This Agreement, the Securities Purchase Agreement and the Warrants (including all schedules and exhibits thereto) constitute the entire agreement among the parties hereto with respect to the subject matter hereof and thereof. There are no restrictions, promises, warranties or undertakings, other than those set forth or referred to herein and therein. This Agreement, the Securities Purchase Agreement and the Warrants supersede all prior agreements and understandings among the parties hereto and thereto with respect to the subject matter hereof and thereof.

f. Subject to the requirements of Section 9 hereof, this Agreement shall inure to the benefit of and be binding upon the successors and assigns of each of the parties hereto.

g. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

h. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which shall constitute one and the same agreement. This Agreement, once executed by a party, may be delivered to the other party hereto by facsimile transmission of a copy of this Agreement bearing the signature of the party so delivering this Agreement.

i. Each party shall do and perform, or cause to be done and performed, all such further acts and things, and shall execute and deliver all such other agreements, certificates, instruments and documents, as the other party may reasonably request in order to carry out the intent and accomplish the purposes of this Agreement and the consummation of the transactions contemplated hereby.

j. All consents, approvals and other determinations to be made by the Investors pursuant to this Agreement shall be made by the Investors holding a majority in interest of the Registrable Securities (determined as if all Warrants then outstanding had been exercised for Registrable Securities) then held by all Investors or the Initial Investors, as the case may be.

k. The initial number of Registrable Securities included on any Registration Statement and each increase to the number of Registrable Securities included thereon shall be allocated pro rata among the Investors based on the number of Registrable Securities held by each Investor at the time of such establishment or increase, as the case may be. In the event an Investor

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shall sell or otherwise transfer any of such holder's Registrable Securities, each transferee shall be allocated a pro rata portion of the number of Registrable Securities included on a Registration Statement for such transferor. Any shares of Common Stock included on a Registration Statement and which remain allocated to any person or entity which does not hold any Registrable Securities shall be allocated to the remaining Investors, pro rata based on the number of shares of Registrable Securities then held by such Investors. For the avoidance of doubt, the number of Registrable Securities held by an Investor shall be determined as if all Warrants then outstanding and held by an Investor were exercised for Registrable Securities.

l. For purposes of this Agreement, the term "business day" means any day other than a Saturday or Sunday or a day on which banking institutions in the State of New York are authorized or obligated by law, regulation or executive order to close.

m. Notwithstanding any references in this Agreement to multiple Initial Investors, the parties hereto acknowledge and agree that Capital Ventures International is the sole Initial Investor hereunder.

[Remainder of Page Intentionally Left Blank]

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

MICROVISION, INC.

By: /s/ RICHARD A. RAISIG

Name: Richard A. Raisig

Its: CFO / VP Operations

INITIAL INVESTORS:

CAPITAL VENTURES INTERNATIONAL

By: Heights Capital Management, Inc.,
Its authorized agent

By: /s/ MICHAEL SPOLAN

Name: Michael Spolan

Title: Secretary and General
Counsel

EXHIBIT 1
to
Registration
Rights
Agreement

[Date]

[Name and address
of transfer agent]

RE: MICROVISION, INC.

Ladies and Gentlemen:

We are counsel to Microvision, Inc., a corporation organized under the laws of the State of Washington (the "Company"), and we understand that [Name of Investor] (the "Holder") has purchased from the Company (i) shares (the "Shares") of the Company's common stock, no par value per share (the "Common Stock"), and (ii) warrants (the "Warrants") to acquire shares of Common Stock (the "Warrant Shares"). The Shares and the Warrants were issued by the Company pursuant to a Securities Purchase Agreement, dated as of April 1, 1999, by and among the Company and the other signatories thereto (the "Agreement"). Pursuant to a Registration Rights Agreement, dated as of April 1, 1999, by and among the Company and the other signatories thereto (the "Registration Rights Agreement"), the Company agreed, among other things, to register the Registrable Securities (as that term is defined in the Registration Rights Agreement) under the Securities Act of 1933, as amended (the "Securities Act"), upon the terms provided in the Registration Rights Agreement. In connection with the Company's obligations under the Registration Rights Agreement, on _____, 1999, the Company filed a Registration Statement on Form S-3 (File No. 333- _____) (the "Registration Statement") with the Securities and Exchange Commission (the "SEC") relating to the Registrable Securities, which names the Holder as a selling stockholder thereunder.

[Other customary introductory and scope of examination language to be inserted]

Based on the foregoing, we are of the opinion that the Registrable Securities have been registered under the Securities Act.

[Other customary language to be included.]

Very truly yours,

cc: [Name of Investor]

VOID AFTER 5:00 P.M., NEW YORK CITY TIME,
ON APRIL 1, 2004

THIS WARRANT AND THE SHARES ISSUABLE UPON EXERCISE OF THIS WARRANT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION. THE SECURITIES REPRESENTED HEREBY MAY NOT BE OFFERED OR SOLD IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER APPLICABLE SECURITIES LAWS UNLESS OFFERED, SOLD OR TRANSFERRED PURSUANT TO AN AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THOSE LAWS.

Right to Purchase 145,495 Shares
of Common Stock, no par value per share

Date: April 1, 1999

MICROVISION, INC.
SERIES 1 STOCK PURCHASE WARRANT

THIS CERTIFIES THAT, for value received, Capital Ventures International, or its registered assigns, is entitled to purchase from MICROVISION, INC., a corporation organized under the laws of the State of Washington (the "Company"), at any time or from time to time during the period specified in Section 2 hereof, One Hundred and Forty Five Thousand Four Hundred and Ninety Five (145,495) fully paid and nonassessable shares of the Company's common stock, no par value per share (the "Common Stock"), at an exercise price per share (the "Exercise Price") equal to \$19.05225. The number of shares of Common Stock purchasable hereunder (the "Warrant Shares") and the Exercise Price are subject to adjustment as provided in Section 4 hereof. The term "Warrants" means this Warrant, the other Series 1 Warrants (the "Series 1 Warrants") and the Series 2 Warrants of the Company issued pursuant to that certain Securities Purchase Agreement, dated as of April 1, 1999, by and among the Company and the other signatories thereto (the "Securities Purchase Agreement").

This Warrant is subject to the following terms, provisions and conditions:

1. Manner of Exercise; Issuance of Certificates; Payment for Shares. Subject to the provisions hereof, including, without limitation, the limitations contained in Section 7 hereof, this Warrant may be exercised at any time during the Exercise Period (as defined below) by the holder hereof, in whole or in part, by the surrender of this Warrant, together with a completed exercise agreement in the form attached hereto (the "Exercise Agreement"), to the Company by 11:59 p.m. New York time on any business day at the Company's principal executive offices (or such other office or agency of the Company as it may designate by notice to the holder hereof) and upon (i) payment to the Company in cash, by certified or official bank check or by wire transfer for the account of the Company, of the Exercise Price for the Warrant Shares specified in the Exercise Agreement or (ii) if the holder is permitted to effect a Cashless Exercise (as defined in Section 11(c) hereof) pursuant to Section 11(c) hereof, delivery to the Company of a written notice of an election to effect a Cashless Exercise for the Warrant Shares specified in the Exercise Agreement. The Warrant Shares so purchased shall be deemed to be issued to the holder hereof or such holder's designee, as the record owner of such shares, as of the close of business on the date on which this Warrant shall have been surrendered and the completed Exercise Agreement shall have been delivered and payment shall have been made for such shares as set forth above or, if such day is not a business day, on the next succeeding business day. The Warrant Shares so purchased, representing the aggregate number of shares specified in the Exercise Agreement, shall be delivered to the holder hereof within a reasonable time, not exceeding two business days, after this Warrant shall have been so exercised (the "Delivery Period"). If the Company's transfer agent is participating in the Depository Trust Company ("DTC") Fast Automated Securities Transfer program, and so long as the certificates therefor do not bear a legend and the holder is not obligated to return such certificate for the placement of a legend thereon, the Company shall cause its transfer agent to electronically transmit the Warrant Shares so purchased to the holder by crediting the account of the holder or its nominee with DTC through its Deposit Withdrawal Agent Commission system ("DTC Transfer"). If the aforementioned conditions to a DTC Transfer are not satisfied, the Company shall deliver to the holder physical certificates representing the Warrant Shares so purchased. Further, the holder may instruct the Company to deliver to the holder physical certificates representing the Warrant Shares so purchased in lieu of delivering such shares by way of DTC Transfer. Any certificates so delivered shall be in such denominations as may be requested by the holder hereof, shall be registered in the name of such holder or such other name as shall be designated by such holder and, following the date on which the Warrant Shares have been registered under the Securities Act pursuant to that certain Registration Rights Agreement, dated as of April 1, 1999, by and between the Company and the other signatories thereto (the "Registration Rights Agreement") or otherwise may be sold by the holder pursuant to Rule 144 promulgated under the Securities Act (or a successor rule), shall not bear any restrictive legend. If this Warrant shall have been exercised only in part, then, unless this Warrant has expired, the Company shall, at its

expense, at the time of delivery of such certificates, deliver to the holder a new Warrant representing the number of shares with respect to which this Warrant shall not then have been exercised.

If, at any time during the Exercise Period, a holder of this Warrant submits this Warrant, an Exercise Agreement and payment to the Company of the Exercise Price for each of the Warrant Shares specified in the Exercise Agreement, and the Company fails for any reason to deliver, on or prior to the third business day following the expiration of the Delivery Period for such exercise, the number of shares of Common Stock to which the holder is entitled upon such exercise (an "Exercise

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Default"), then the Company shall pay to the holder payments ("Exercise Default Payments") for an Exercise Default in the amount of (a) $(N/365)$, multiplied by (b) the amount by which the Market Price (as defined in Section 4(1) hereof) on the date the Exercise Agreement giving rise to the Exercise Default is transmitted in accordance with this Section 1 (the "Exercise Default Date") exceeds the Exercise Price in respect of such Warrant Shares, multiplied by (c) the number of shares of Common Stock the Company failed to so deliver in such Exercise Default, multiplied by (d) .24, where N = the number of days from the Exercise Default Date to the date that the Company effects the full exercise of this Warrant which gave rise to the Exercise Default. The accrued Exercise Default Payment for each calendar month shall be paid in cash or shall be convertible into Common Stock (subject to the limitations on the Company's ability to issue such shares set forth in Rule 4460(i) of the National Association of Securities Dealers or any successor rule), at the holder's option, as follows:

(a) In the event the holder elects to take such payment in cash, cash payment shall be made to holder by the fifth day of the month following the month in which it has accrued; and

(b) In the event the holder elects to take such payment in Common Stock, the holder may convert such payment amount into Common Stock at a conversion price equal to the lower of the Exercise Price or the Market Price (as defined in Section 4(1)) (as in effect at the time of conversion) at any time after the fifth day of the month following the month in which it has accrued, which shares of Common Stock shall be delivered within two (2) business days thereafter.

Nothing herein shall limit the holder's right to pursue actual damages for the Company's failure to maintain a sufficient number of authorized shares of Common Stock as required pursuant to the terms of Section 3(b) hereof or to otherwise issue shares of Common Stock upon exercise of this Warrant in accordance with the terms hereof, and the holder shall have the right to pursue all remedies available at law or in equity (including a decree of specific performance and/or injunctive relief).

2. Period of Exercise. This Warrant may be exercised at any time or from time to time during the period (the "Exercise Period") beginning on (a) the date hereof and ending (b) at 5:00 p.m., New York City time, on the fifth annual anniversary of the date of original issuance hereof.

3. Certain Agreements of the Company. The Company hereby covenants and agrees as follows:

(a) Shares to be Fully Paid. All Warrant Shares will, upon issuance in accordance with the terms of this Warrant, be validly issued, fully paid and nonassessable and free from all taxes, liens, claims and encumbrances.

(b) Reservation of Shares. During the period (the "Investment Period") beginning on the Closing Date and ending upon the expiration of the Exercise Period, the Company shall at all times have authorized, and reserved for the purpose of issuance upon exercise of this

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Warrant, a sufficient number of shares of Common Stock to provide for the exercise in full of this Warrant (without giving effect to the limitations on exercise set forth in Section 7(g) hereof).

(c) Listing. The Company has secured the listing of the shares of Common Stock issuable upon exercise of this Warrant upon each national securities exchange or automated quotation system, if any, upon which shares of Common Stock are then listed or become listed (subject to official notice of issuance upon exercise of this Warrant) and shall maintain, so long as any other shares of Common Stock shall be so listed, such listing of all shares of Common Stock from time to time issuable upon the exercise of this Warrant; and the Company shall so list on each national securities exchange or automated quotation system, as the case may be, and shall maintain such listing of, any other shares of capital stock of the Company issuable upon the exercise of this Warrant if and so long as any shares of the same class shall be listed on such national securities exchange or automated quotation system.

(d) Certain Actions Prohibited. The Company will not, by amendment of its charter or through any reorganization, transfer of assets, consolidation, merger, dissolution, issuance or sale of securities, or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed by it hereunder, but will at all times in good faith assist in the carrying out of all the provisions of this Warrant and in the taking of all such action as may reasonably be requested by the holder of this Warrant in order to protect the economic benefit inuring to the holder hereof and the exercise privilege of the holder of this Warrant against dilution or other impairment, consistent with the tenor and purpose of this Warrant. Without limiting the generality of the foregoing, the Company (i) will not increase the par value of any shares of Common Stock receivable upon the exercise of this Warrant above the Exercise Price then in effect, and (ii) will take all such actions as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable shares of Common Stock upon the exercise of this Warrant.

(e) Successors and Assigns. This Warrant will be binding upon any entity succeeding to the Company by merger, consolidation, or acquisition of all or substantially all of the Company's assets.

(f) Blue Sky Laws. The Company shall, on or before the date of issuance of any Warrant Shares, take such actions as the Company shall reasonably determine are necessary to qualify the Warrant Shares for, or obtain exemption for the Warrant Shares for, sale to the holder of this Warrant upon the exercise hereof under applicable securities or "blue sky" laws of the states of the United States, and shall provide evidence of any such action so taken to the holder of this Warrant prior to such date; provided, however, that the Company shall not be required to qualify as a foreign corporation or file a general consent to service of process in any such jurisdiction.

4. Antidilution Provisions. During the Investment Period, the Exercise Price and the number of Warrant Shares issuable hereunder shall be subject to adjustment from time to time as provided in this Section 4.

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In the event that any adjustment of the Exercise Price as required herein results in a fraction of a cent, such Exercise Price shall be rounded up or down to the nearest cent.

(a) Adjustment of Exercise Price. Except as otherwise provided in Sections 4(b)(vi), 4(c) and 4(e) hereof, if and whenever during the Investment Period the Company issues or sells, or in accordance with Section 4(b) hereof is deemed to have issued or sold, any shares of Common Stock for no consideration or for a consideration per share less than the Market Price (as hereinafter defined) on the date of issuance (a "Dilutive Issuance"), then effective immediately upon the Dilutive Issuance, the Exercise Price will be adjusted in accordance with the following formula:

$$E' = \frac{E \times O + P/M}{\text{CSDO}}$$

where:

E' = the adjusted Exercise Price;
E = the then current Exercise Price;
M = the then current Market Price (as defined in Section 4(1)(ii));
O = the number of shares of Common Stock outstanding immediately prior to the Dilutive Issuance;
P = the aggregate consideration, calculated as set forth in Section 4(b) hereof, received by the Company upon such Dilutive Issuance; and
CSDO = the total number of shares of Common Stock Deemed Outstanding (as defined in Section 4(1)(i)) immediately after the Dilutive Issuance.

(b) Effect on Exercise Price of Certain Events. For purposes of determining the adjusted Exercise Price under Section 4(a) hereof, the following will be applicable:

(i) Issuance of Rights or Options. If the Company in any manner issues or grants any warrants, rights or options, whether or not immediately exercisable, to subscribe for or to purchase Common Stock or other securities exercisable, convertible into or exchangeable for Common Stock ("Convertible Securities") (such warrants, rights and options to purchase Common Stock or Convertible Securities are hereinafter referred to as "Options") and the price per share for which Common Stock is issuable upon the exercise of such Options is less than the Market Price in effect on the date of issuance of such Options ("Below Market Options"), then the maximum total number of shares of Common Stock issuable upon the exercise of all such Below Market Options (assuming full exercise, conversion or exchange of Convertible Securities, if applicable) will, as of the date of the issuance or grant of such Below Market Options, be deemed to be outstanding and to have been issued and sold by the Company for such price

per share. For purposes of the preceding sentence, the "price per share for which Common Stock is issuable upon the exercise of such Below Market Options" is determined by dividing (i) the total amount, if any, received or receivable by the Company as consideration for the issuance or granting of all such Below Market Options, plus the minimum aggregate amount of additional consideration, if any, payable to the Company upon the exercise of all such Below Market Options, plus, in the case of Convertible Securities issuable upon the exercise of such Below Market Options, the minimum

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aggregate amount of additional consideration payable upon the exercise, conversion or exchange thereof at the time such Convertible Securities first become exercisable, convertible or exchangeable, by (ii) the maximum total number of shares of Common Stock issuable upon the exercise of all such Below Market Options (assuming full conversion of Convertible Securities, if applicable). No further adjustment to the Exercise Price will be made upon the actual issuance of such Common Stock upon the exercise of such Below Market Options or upon the exercise, conversion or exchange of Convertible Securities issuable upon exercise of such Below Market Options.

(ii) Issuance of Convertible Securities.

(A) If the Company in any manner issues or sells any Convertible Securities, whether or not immediately exercisable, convertible or exchangeable (other than where the same are issuable upon the exercise of Options) and the price per share for which Common Stock is issuable upon such exercise, conversion or exchange (as determined pursuant to Section 4(b)(ii)(B) if applicable) is less than the Market Price in effect on the date of issuance of such Convertible Securities, then the maximum total number of shares of Common Stock issuable upon the exercise, conversion or exchange of all such Convertible Securities will, as of the date of the issuance of such Convertible Securities, be deemed to be outstanding and to have been issued and sold by the Company for such price per share. For the purposes of the preceding sentence, the "price per share for which Common Stock is issuable upon such exercise, conversion or exchange" is determined by dividing (i) the total amount, if any, received or receivable by the Company as consideration for the issuance or sale of all such Convertible Securities, plus the minimum aggregate amount of additional consideration, if any, payable to the Company upon the exercise, conversion or exchange thereof at the time such Convertible Securities first become exercisable, convertible or exchangeable, by (ii) the maximum total number of shares of Common Stock issuable upon the exercise, conversion or exchange of all such Convertible Securities. No further adjustment to the Exercise Price will be made upon the actual issuance of such Common Stock upon exercise, conversion or exchange of such Convertible Securities.

(B) If the Company in any manner issues or sells any Convertible Securities with a fluctuating conversion or exercise price or exchange ratio (a "Variable Rate Convertible Security"), then the "price per share for which Common Stock is issuable upon such exercise, conversion or exchange" for purposes of the calculation contemplated by Section 4(b)(ii)(A) shall be deemed to be the lowest price per share which would be applicable (assuming all holding period and other conditions to any discounts contained in such Convertible Security have been satisfied) if the Market Price on the date of issuance of such Convertible Security was 75% of the Market Price on such date (the "Assumed Variable Market Price"). Further, if the Market Price at any time or times thereafter is less than or equal to the Assumed Variable Market Price last used for making any adjustment under this Section 4 with respect to any Variable Rate Convertible Security, the Exercise Price in effect at such time shall be readjusted to equal the Exercise Price which would have resulted if the Assumed Variable Market Price at the time of issuance of the Variable Rate Convertible Security had been 75% of the Market Price existing at the time of the adjustment required by this sentence.

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(iii) Change in Option Price or Conversion Rate. If there is a change at any time in (i) the amount of additional consideration payable to the Company upon the exercise of any Options; (ii) the amount of additional consideration, if any, payable to the Company upon the exercise, conversion or exchange of any Convertible Securities; or (iii) the rate at which any Convertible Securities are convertible into, or exercisable or exchangeable for, Common Stock (in each such case, other than under or by reason of provisions designed to protect against dilution), the Exercise Price in effect at the time of such change will be readjusted to the Exercise Price which would have been in effect at such time had such Options or Convertible Securities still outstanding provided for such changed additional consideration or changed conversion rate, as the case may be, at the time initially granted, issued or sold.

(iv) Treatment of Expired Options and Unexercised Convertible Securities. If, in any case, the total number of shares of Common Stock issuable upon exercise of any Option or upon exercise, conversion or exchange of any Convertible Securities is not, in fact, issued and the rights to exercise such Option or to exercise, convert or exchange such Convertible Securities shall have expired or terminated, the Exercise Price then in effect will be readjusted to the Exercise Price which would have been in effect at the time of such expiration or termination had such Option or Convertible Securities, to the

extent outstanding immediately prior to such expiration or termination (other than in respect of the actual number of shares of Common Stock issued upon exercise or conversion thereof), never been issued.

(v) Calculation of Consideration Received. If any Common Stock, Options or Convertible Securities are issued, granted or sold for cash, the consideration received therefor for purposes of this Warrant will be the amount received by the Company therefor, before deduction of reasonable commissions, underwriting discounts or allowances or other reasonable expenses paid or incurred by the Company in connection with such issuance, grant or sale. In case any Common Stock, Options or Convertible Securities are issued or sold for a consideration part or all of which shall be other than cash, the amount of the consideration other than cash received by the Company will be the fair market value of such consideration, except where such consideration consists of securities, in which case the amount of consideration received by the Company will be the Market Price thereof as of the date of receipt. In case any Common Stock, Options or Convertible Securities are issued in connection with any merger or consolidation in which the Company is the surviving corporation, the amount of consideration therefor will be deemed to be the fair market value of such portion of the net assets and business of the non-surviving corporation as is attributable to such Common Stock, Options or Convertible Securities, as the case may be. The fair market value of any consideration other than cash or securities will be determined in good faith by an investment banker or other appropriate expert of national reputation selected by the Company and reasonably acceptable to the holder hereof, with the costs of such appraisal to be borne by the Company.

(vi) Exceptions to Adjustment of Exercise Price. No adjustment to the Exercise Price will be made (i) upon the exercise of any warrants, options or convertible securities issued and outstanding on the Closing Date and set forth on Schedule 4(c) of the Securities Purchase Agreement in accordance with the terms of such securities as of such date; provided, however, that an adjustment to the Exercise Price will be made if, and to the extent that, the exercise price or

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conversion price of such outstanding warrants, options or convertible securities is reduced by the Company in accordance with the terms of such securities (other than a reduction in connection with a recapitalization, reclassification, stock split, stock dividend or the like as provided therein) or otherwise; (ii) upon the issuance of any securities reserved for contingent issuance as set forth on Schedule 4(c) of the Securities Purchase Agreement, and upon the exercise or conversion of such securities in accordance with the terms thereof; (iii) upon the grant or exercise of any stock or options which may hereafter be granted or exercised under any employee benefit plan, stock option plan or stock purchase plan of the Company now existing or to be implemented in the future, so long as the grant of such stock or options is approved in accordance with the terms of any such plan and the Company's usual and customary approval procedures with respect thereto; (iv) upon the issuance of any Common Stock or Warrants in accordance with the terms of the Securities Purchase Agreement; (v) upon exercise of the Warrants; (vi) upon the issuance or exercise of any Common Stock, warrants, options, convertible securities or any combination of the foregoing, which are issued in connection with an underwritten primary public offering for the account of the Company, so long as the underwriting agreement with respect thereto contains only usual and customary terms and provisions and so long as the underwriting discounts and commissions in connection with such public offering are not in excess of what is usual and customary in connection with a public offering of comparable size with respect to like securities of a company, the common stock of which is registered under the Securities Exchange Act of 1934, as amended; provided, however, that the exception to the adjustment of the Exercise Price set forth in this clause (vi) shall not be applicable if a Variable Rate Convertible Security is issued in connection with such underwritten primary public offering; or (vii) upon the issuance or exercise of any Common Stock, warrants, options, convertible securities or any combination of the foregoing, which are issued on or after the six (6) month anniversary of the Closing Date in connection with the Company's receipt of an aggregate of up to five million dollars (\$5,000,000) of private financing during any twelve month period, so long as the Deemed Discount (as defined below) associated with the securities, assets and other consideration, if any, issued or granted by the Company in connection with such financing is not greater than 15% of the gross proceeds to the Company of such financing (an "Excepted Financing"); provided, however, that any financing in which a Variable Rate Convertible Security is issued or in which the Deemed Discount is in excess of 15% shall not be an Excepted Financing. For purposes of this Section 4(b)(vi), "Deemed Discount" shall mean the quotient obtained by dividing (I) the amount by which (A) the sum of (x) the value of the securities, assets and any other consideration, if any, issued or granted by the Company in connection with the Excepted Financing, taking into account, with respect to securities, stated discounts, liquidation preferences, conversion features, look-back mechanisms, warrant coverage and any other feature representing value, plus (y) the amount of any cash consideration from the Company to an investor in such Excepted Financing or such investor's affiliates in connection with the provision of such Excepted Financing exceeds (B) the gross proceeds to the Company of the Excepted Financing, by (II) the gross proceeds to the Company of the Excepted Financing. The Company shall calculate, using commercial valuation methods appropriate for valuing such

securities, assets or other items of consideration, the Deemed Discount within five (5) business days after the closing of the Excepted Financing; provided, however, that if the holder of this Warrant does not agree to such calculation within three (3) business days after receipt thereof (and the details in respect thereto), then the Deemed Discount shall be determined in good faith by an investment banker or other appropriate expert of national reputation selected by the Company and reasonably acceptable to the holder of

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this Warrant, with the costs of such determination to be borne by the Company. For the avoidance of doubt, if the gross proceeds to the Company in an Excepted Financing exceed five million dollars (\$5,000,000), then the Exercise Price shall be adjusted pursuant to this Section 4 based on the issuance of the pro-rata amount and type of securities issued in such Excepted Financing in respect of such excess.

(c) Subdivision or Combination of Common Stock. If the Company, at any time during the Investment Period, subdivides (by any stock split, stock dividend, recapitalization, reorganization, reclassification or otherwise) its shares of Common Stock into a greater number of shares, then, after the date of record for effecting such subdivision, the Exercise Price in effect immediately prior to such subdivision will be proportionately reduced. If the Company, at any time during the Investment Period, combines (by reverse stock split, recapitalization, reorganization, reclassification or otherwise) its shares of Common Stock into a smaller number of shares, then, after the date of record for effecting such combination, the Exercise Price in effect immediately prior to such combination will be proportionately increased.

(d) Adjustment in Number of Shares. Upon each adjustment of the Exercise Price pursuant to the provisions of this Section 4, the number of shares of Common Stock issuable upon exercise of this Warrant shall be increased or decreased to equal the quotient obtained by dividing (i) the product of (A) the Exercise Price in effect immediately prior to such adjustment, multiplied by (B) the number of shares of Common Stock issuable upon exercise of this Warrant immediately prior to such adjustment, by (ii) the adjusted Exercise Price.

(e) Consolidation, Merger or Sale. In case of any consolidation of the Company with, or merger of the Company into, any other entity, or in case of any sale or conveyance of all or substantially all of the assets of the Company other than in connection with a plan of complete liquidation of the Company at any time during the Investment Period, then as a condition of such consolidation, merger or sale or conveyance, adequate provision will be made whereby the holder of this Warrant will have the right to acquire and receive upon exercise of this Warrant in lieu of the shares of Common Stock immediately theretofore acquirable upon the exercise of this Warrant, such shares of stock, securities, cash or assets as may be issued or payable with respect to or in exchange for the number of shares of Common Stock immediately theretofore acquirable and receivable upon exercise of this Warrant had such consolidation, merger or sale or conveyance not taken place. In any such case, the Company will make appropriate provision to insure that the provisions of this Section 4 will thereafter be applicable as nearly as may be in relation to any shares of stock or securities thereafter deliverable upon the exercise of this Warrant. The Company will not effect any consolidation, merger or sale or conveyance unless prior to the consummation thereof, the successor entity (if other than the Company) assumes by written instrument the obligations under this Warrant and the obligations to deliver to the holder of this Warrant such shares of stock, securities or assets as, in accordance with the foregoing provisions, the holder may be entitled to acquire. Notwithstanding the foregoing, in the event of any consolidation of the Company with, or merger of the Company into, any other entity, or the sale or conveyance of all or substantially all of the assets of the Company, at any time during the Investment Period, the holder of the Warrant shall, at its option, have the right to receive, in connection with such transaction, cash consideration equal

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to the fair value of this Warrant as determined in accordance with customary valuation methodology used in the investment banking industry.

(f) Distribution of Assets. In case the Company shall declare or make any distribution of its assets (or rights to acquire its assets) to holders of Common Stock as a partial liquidating dividend, stock repurchase, by way of return of capital or otherwise (including any dividend or distribution to the Company's shareholders of cash or shares (or rights to acquire shares) of capital stock of a subsidiary) (a "Distribution"), at any time during the Investment Period, then, upon exercise of this Warrant for the purchase of any or all of the shares of Common Stock subject hereto, the holder of this Warrant shall be entitled to receive its pro-rata amount of such assets (or such rights) as would have been payable to the holder had such holder been the holder of such shares of Common Stock on the record date for the determination of shareholders entitled to such Distribution.

(g) Notice of Adjustment. Upon the occurrence of any event which requires any adjustment of the Exercise Price, then, and in each such case, the Company shall give notice thereof to the holder of this Warrant, which notice shall state the Exercise Price resulting from such adjustment and the increase

or decrease in the number of Warrant Shares issuable upon exercise of this Warrant, setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based. Such calculation shall be certified by the chief financial officer of the Company.

(h) Minimum Adjustment of Exercise Price. No adjustment of the Exercise Price shall be made in an amount of less than 1% of the Exercise Price in effect at the time such adjustment is otherwise required to be made, but any such lesser adjustment shall be carried forward and shall be made at the time and together with the next subsequent adjustment which, together with any adjustments so carried forward, shall amount to not less than 1% of such Exercise Price.

(i) No Fractional Shares. No fractional shares of Common Stock are to be issued upon the exercise of this Warrant, but the Company shall pay a cash adjustment in respect of any fractional share which would otherwise be issuable in an amount equal to the same fraction of the Market Price of a share of Common Stock on the date of such exercise.

(j) Other Notices. In case at any time:

(i) the Company shall declare any dividend upon the Common Stock payable in shares of stock of any class or make any other distribution (other than dividends or distributions payable in cash out of retained earnings consistent with the Company's past practices with respect to declaring dividends and making distributions) to the holders of the Common Stock;

(ii) the Company shall offer for subscription pro rata to the holders of the Common Stock any additional shares of stock of any class or other rights;

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(iii) there shall be any capital reorganization of the Company, or reclassification of the Common Stock, or consolidation or merger of the Company with or into, or sale of all or substantially all of its assets to, another corporation or entity; or

(iv) there shall be a voluntary or involuntary dissolution, liquidation or winding-up of the Company;

then, in each such case, the Company shall give to the holder of this Warrant (a) notice of the date or estimated date on which the books of the Company shall close or a record shall be taken for determining the holders of Common Stock entitled to receive any such dividend, distribution, or subscription rights or for determining the holders of Common Stock entitled to vote in respect of any such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up and (b) in the case of any such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up, notice of the date (or, if not then known, a reasonable estimate thereof by the Company) when the same shall take place. Such notice shall also specify the date on which the holders of Common Stock shall be entitled to receive such dividend, distribution, or subscription rights or to exchange their Common Stock for stock or other securities or property deliverable upon such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation, or winding-up, as the case may be. Such notice shall be given at least thirty (30) days prior to the record date or the date on which the Company's books are closed in respect thereto. Failure to give any such notice or any defect therein shall not affect the validity of the proceedings referred to in clauses (i), (ii), (iii) and (iv) above. Notwithstanding the foregoing, the Company shall publicly disclose the substance of any notice delivered hereunder prior to delivery of such notice to the holder of this Warrant.

(k) Certain Events. If, at any time during the Investment Period, any event occurs of the type contemplated by the adjustment provisions of this Section 4 but not expressly provided for by such provisions, the Company will give notice of such event as provided in Section 4(g) hereof, and the Company's Board of Directors will make an appropriate adjustment in the Exercise Price and the number of shares of Common Stock acquirable upon exercise of this Warrant so that the rights of the holder shall be neither enhanced nor diminished by such event.

(l) Certain Definitions.

(i) "Common Stock Deemed Outstanding" shall mean the number of shares of Common Stock actually outstanding, plus (x) in the case of any adjustment required by Section 4(a) resulting from the issuance of any Options, the maximum total number of shares of Common Stock issuable upon the exercise of the Options for which the adjustment is required (including any Common Stock issuable upon the conversion of Convertible Securities issuable upon the exercise of such Options), and (y) in the case of any adjustment required by Section 4(a) resulting from the issuance of any Convertible Securities, the maximum total number of shares of Common Stock issuable upon the exercise, conversion or exchange of the Convertible Securities for which the adjustment is required, as of the date of issuance of such Convertible Securities, if any.

(ii) "Market Price," as of any date, (i) means the average of the closing bid prices for the shares of Common Stock as reported on The Nasdaq National Market ("Nasdaq") by Bloomberg Financial Markets ("Bloomberg") for the five consecutive trading days immediately preceding such date, or (ii) if Nasdaq is not the principal trading market for the shares of Common Stock, the average of the last reported bid prices as reported by Bloomberg on the principal trading market for the Common Stock during the same period, or, if there is no bid price for such period, the last reported sales price as reported by Bloomberg for such period, or (iii) if market value cannot be calculated as of such date on any of the foregoing bases, the Market Price shall be the average fair market value as reasonably determined by an investment banking firm selected by the Company and reasonably acceptable to the holder, with the costs of the appraisal to be borne by the Company. The manner of determining the Market Price of the Common Stock set forth in the foregoing definition shall apply with respect to any other security in respect of which a determination as to market value must be made hereunder.

(iii) "Common Stock," for purposes of this Section 4, includes the Common Stock and any additional class of stock of the Company having no preference as to dividends or distributions on liquidation, provided that the shares purchasable pursuant to this Warrant shall include only Common Stock in respect of which this Warrant is exercisable, or shares resulting from any subdivision or combination of such Common Stock, or in the case of any reorganization, reclassification, consolidation, merger, or sale of the character referred to in Section 4(e) hereof, the stock or other securities or property provided for in such Section.

5. Issue Tax. The issuance of certificates for Warrant Shares upon the exercise of this Warrant shall be made without charge to the holder of this Warrant or such shares for any issuance tax or other costs in respect thereof, provided that the Company shall not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of any certificate in a name other than the holder of this Warrant.

6. No Rights or Liabilities as a Shareholder. This Warrant shall not entitle the holder hereof to any voting rights or other rights as a shareholder of the Company. No provision of this Warrant, in the absence of affirmative action by the holder hereof to purchase Warrant Shares, and no mere enumeration herein of the rights or privileges of the holder hereof, shall give rise to any liability of such holder for the Exercise Price or as a shareholder of the Company, whether such liability is asserted by the Company or by creditors of the Company.

7. Transfer, Exchange, Redemption and Replacement of Warrant.

(a) Restriction on Transfer. This Warrant and the rights granted to the holder hereof are transferable, in whole or in part, upon surrender of this Warrant, together with a properly executed assignment in the form attached hereto, at the office or agency of the Company referred to in Section 7(e) below, provided, however, that any transfer or assignment shall be subject to the conditions set forth in Sections 7(f) and 7(g) hereof and to the provisions of Sections 3(e) and 3(f) of the Securities Purchase Agreement. Until due presentment for registration of transfer on the books of the Company, the Company may treat the registered holder hereof as the owner and holder hereof for all purposes, and the Company shall not be affected by any notice to the contrary.

Notwithstanding anything to the contrary contained herein, the registration rights described in Section 8 hereof are assignable only in accordance with the provisions of the Registration Rights Agreement.

(b) Warrant Exchangeable for Different Denominations. This Warrant is exchangeable, upon the surrender hereof by the holder hereof at the office or agency of the Company referred to in Section 7(e) below, for new Series 1 Warrants of like tenor of different denominations representing in the aggregate the right to purchase the number of shares of Common Stock which may be purchased hereunder, each of such new Series 1 Warrants to represent the right to purchase such number of shares as shall be designated by the holder hereof at the time of such surrender.

(c) Replacement of Warrant. Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction, or mutilation of this Warrant and, in the case of any such loss, theft, or destruction, upon delivery of an indemnity agreement reasonably satisfactory in form and amount to the Company, or, in the case of any such mutilation, upon surrender and cancellation of this Warrant, the Company, at its expense, will execute and deliver, in lieu thereof, a new Warrant of like tenor.

(d) Cancellation; Payment of Expenses. Upon the surrender of this Warrant in connection with any transfer, exchange, or replacement as provided in this Section 7, this Warrant shall be promptly canceled by the Company. The Company shall pay all taxes (other than securities transfer taxes) and all other expenses (other than legal expenses, if any, incurred by the Holder or

transferees) and charges payable in connection with the preparation, execution, and delivery of Series 1 Warrants pursuant to this Section 7. The Company shall indemnify and reimburse the holder of this Warrant for all losses and damages arising as a result of or related to any breach by the Company of the terms of this Warrant, including costs and expenses (including legal fees) incurred by such holder in connection with the enforcement of its rights hereunder.

(e) Warrant Register. The Company shall maintain, at its principal executive offices (or such other office or agency of the Company as it may designate by notice to the holder hereof), a register for this Warrant, in which the Company shall record the name and address of the person in whose name this Warrant has been issued, as well as the name and address of each transferee and each prior owner of this Warrant.

(f) Exercise or Transfer Without Registration. If, at the time of the surrender of this Warrant in connection with any exercise, transfer, or exchange of this Warrant (or, in the case of any exercise, the Warrant Shares issuable hereunder), shall not be registered under the Securities Act and under applicable state securities or blue sky laws, the Company may require, as a condition of allowing such exercise, transfer, or exchange, (i) that the holder or transferee of this Warrant, as the case may be, furnish to the Company a written opinion of counsel (which opinion shall be in form, substance and scope customary for opinions of counsel in comparable transactions) to the effect that such exercise, transfer, or exchange may be made without registration under the Securities Act and under applicable state securities or blue sky laws, (ii) that the holder or transferee execute and deliver to the Company an investment letter in form and substance reasonably acceptable to the Company and (iii) that the transferee be an "accredited investor" as defined in

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Rule 501(a) promulgated under the Securities Act; provided that no such opinion, letter, or status as an "accredited investor" shall be required in connection with a transfer pursuant to Rule 144 under the Securities Act.

(g) Additional Restrictions on Exercise or Transfer. Notwithstanding anything contained herein to the contrary, this Warrant shall not be exercisable by a holder hereof to the extent (but only to the extent) that (a) the number of shares of Common Stock beneficially owned by such holder and its affiliates (other than shares of Common Stock which may be deemed beneficially owned through the ownership of the unexercised portion of the Warrants or the unexercised or unconverted portion of any other securities of the Company subject to a limitation on conversion or exercise analogous to the limitation contained herein) and (b) the number of shares of Common Stock issuable upon exercise of the Warrants (or portion thereof) with respect to which the determination described herein is being made, would result in beneficial ownership by such holder and its affiliates of more than 9.99% of the outstanding shares of Common Stock. To the extent the above limitation applies, the determination of whether and to what extent this Warrant shall be exercisable with respect to other securities owned by such holder shall be in the sole discretion of the holder and submission of this Warrant for full or partial exercise shall be deemed to be the holder's determination of whether and the extent to which this Warrant is exercisable, in each case subject to such aggregate percentage limitation. No prior inability to exercise the Warrants pursuant to this Section shall have any effect on the applicability of the provisions of this Section with respect to any subsequent determination of exercisability. For purposes of the immediately preceding sentence, beneficial ownership shall be determined in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended, and Regulation 13D-G thereunder, except as otherwise provided in clause (a) hereof. The restrictions contained in this Section 7(g) may not be amended without the consent of the holder of this Warrant and the holders of a majority of the Company's then outstanding Common Stock.

8. Registration Rights. The initial holder of this Warrant (and certain assignees thereof) is entitled to the benefit of such registration rights in respect of the Warrant Shares as are set forth in the Registration Rights Agreement, including the right to assign such rights to certain assignees, as set forth therein.

9. Notices. Any notices required or permitted to be given under the terms of this Warrant shall be sent by certified or registered mail (return receipt requested) or delivered personally or by courier or by confirmed telecopy, and shall be effective five days after being placed in the mail, if mailed, or upon receipt or refusal of receipt, if delivered personally or by courier, or by confirmed telecopy, in each case addressed to a party. The addresses for such communications shall be:

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If to the Company:

Microvision, Inc.
2203 Airport Way South, Suite 100
Seattle, Washington 98134
Telephone No.: (206) 623-7055
Facsimile No.: (206) 623-5961

Attention: Richard Raisig

If to the holder, at such address as such holder shall have provided in writing to the Company, or at such other address as such holder furnishes by notice given in accordance with this Section 9.

10. Governing Law; Jurisdiction. This Warrant shall be governed by and construed in accordance with the laws of the State of New York applicable to contracts made and to be performed in the State of New York. The Company irrevocably consents to the jurisdiction of the United States federal courts and state courts located in New York, New York in any suit or proceeding based on or arising under this Warrant and irrevocably agrees that all claims in respect of such suit or proceeding may be determined in such courts. The Company irrevocably waives any objection to the laying of venue and the defense of an inconvenient forum to the maintenance of such suit or proceeding. The Company further agrees that service of process upon the Company mailed by certified or registered mail to the address set forth in Section 9 shall be deemed in every respect effective service of process upon the Company in any such suit or proceeding. Nothing herein shall affect the holder's right to serve process in any other manner permitted by law. The Company agrees that a final non-appealable judgment in any such suit or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on such judgment or in any other lawful manner.

11. Miscellaneous.

(a) Amendments. Except as provided in Section 7(g) hereof, this Warrant and any provision hereof may only be amended by an instrument in writing signed by the Company and the holder hereof.

(b) Descriptive Headings. The descriptive headings of the several Sections of this Warrant are inserted for purposes of reference only, and shall not affect the meaning or construction of any of the provisions hereof.

(c) Cashless Exercise. Notwithstanding anything to the contrary contained in this Warrant, if the resale of the Warrant Shares by the holder is not then registered pursuant to an effective registration statement under the Securities Act, this Warrant may be exercised at any time or from time to time during the Exercise Period, by presentation and surrender of this Warrant to the Company at its principal executive offices with a written notice of the holder's intention to effect a cashless exercise, including a calculation of the number of shares of Common Stock to be issued upon such exercise in accordance with the terms hereof (a "Cashless Exercise"). In the event of a Cashless Exercise, in lieu of paying the Exercise Price in cash, the holder shall surrender this Warrant for that number of shares of Common Stock determined by multiplying (i) the number of

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Warrant Shares to which it would otherwise be entitled by (ii) a fraction, the numerator of which shall be the difference between the last reported sale price per share of the Common Stock on the date of exercise (as reported on the Nasdaq National Market, or if not so reported, as reported on the principle United States securities market on which the Common Stock is then traded) and the Exercise Price, and the denominator of which shall be such last reported sale price per share of Common Stock.

(d) Business Day. For purposes of this Warrant, the term "business day" means any day, other than a Saturday or Sunday or a day on which banking institutions in the State of New York are authorized or obligated by law, regulation or executive order to close.

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IN WITNESS WHEREOF, the Company has caused this Warrant to be signed by its duly authorized officer.

MICROVISION, INC.

By: /s/ RICHARD A. RAISIG

Name: Richard A. Raisig

Title: CFO/VP Operations

FORM OF EXERCISE AGREEMENT

(To be Executed by the Holder in order to Exercise the Warrant)

To: MICROVISION, INC.
2203 Airport Way South, Suite 100
Seattle, Washington 98134
Facsimile No.: (206) 623-5961
Attn: Richard Raisig

The undersigned hereby irrevocably exercises the right to purchase _____ shares of the Common Stock of MICROVISION, INC., a corporation organized under the laws of the State of Washington (the "Company"), evidenced by the attached Warrant and herewith makes payment of the Exercise Price with respect to such shares in full, all in accordance with the conditions and provisions of said Warrant.

The undersigned agrees not to offer, sell, transfer or otherwise dispose of any Common Stock obtained on exercise of the Warrant, except under circumstances that will not result in a violation of the Securities Act of 1933, as amended, or any state securities laws.

- o The undersigned requests that the Company cause its transfer agent to electronically transmit the Common Stock issuable pursuant to this Exercise Agreement to the account of the undersigned or its nominee (which is _____) with DTC through its Deposit Withdrawal Agent Commission System ("DTC Transfer").
- o In lieu of receiving the shares of Common Stock issuable pursuant to this Exercise Agreement by way of DTC Transfer, the undersigned hereby requests that the Company cause its transfer agent to issue and deliver to the undersigned physical certificates representing such shares of Common Stock.

The undersigned requests that a Warrant representing any unexercised portion hereof be issued, pursuant to the Warrant, in the name of the Holder and delivered to the undersigned at the address set forth below:

Dated: _____

Signature of Holder

Name of Holder (Print)

Address:

FORM OF ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sells, assigns, and transfers all the rights of the undersigned under the attached Warrant, with respect to the number of shares of Common Stock covered thereby set forth hereinbelow, to:

Name of Assignee	Address	No of Shares
-----	-----	-----

, and hereby irrevocably constitutes and appoints _____ as agent and attorney-in-fact to transfer said Warrant on the books of the within-named corporation, with full power of substitution in the premises.

Dated: _____, ----

In the presence of

Name: _____

Signature: _____

Title of Signing Officer or Agent
(if any): _____

Address: _____

Note: The above signature should correspond exactly with the name on the face of the within Warrant.

VOID AFTER 11:59 P.M., NEW YORK CITY TIME, ON
APRIL 1, 2000, OR NEXT SUCCEEDING TRADING DAY
AS PROVIDED HEREIN

THIS WARRANT AND THE SHARES ISSUABLE UPON EXERCISE OF THIS WARRANT
HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED
(THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE
UNITED STATES OR ANY OTHER JURISDICTION. THE SECURITIES REPRESENTED
HEREBY MAY NOT BE OFFERED OR SOLD IN THE ABSENCE OF AN EFFECTIVE
REGISTRATION STATEMENT FOR THE SECURITIES UNDER APPLICABLE SECURITIES
LAWS UNLESS OFFERED, SOLD OR TRANSFERRED PURSUANT TO AN AVAILABLE
EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THOSE LAWS.

Right to Purchase 418,848 shares
of Common Stock, no par value per share

Date: April 1, 1999

MICROVISION, INC.
SERIES 2 STOCK PURCHASE WARRANT

THIS CERTIFIES THAT, for value received, Capital Ventures International, or
its registered assigns, is entitled to purchase from MICROVISION, INC., a
corporation organized under the laws of the State of Washington (the "Company"),
at any time or from time to time on the date specified in Section 2 hereof, Four
Hundred and Eighteen Thousand Eight Hundred and Forty Eight (418,848) fully paid
and nonassessable shares of the Company's common stock, no par value per share
(the "Common Stock"), at an exercise price per share (the "Exercise Price")
equal to \$17.90625. The number of shares of Common Stock purchasable hereunder
(the "Warrant Shares") and the Exercise Price are subject to adjustment as
provided in Section 4 hereof. The term "Warrants" means this Warrant, the other
Series 2 Warrants (the "Series 2 Warrants") and the Series 1 Warrants of the
Company issued pursuant to that certain Securities Purchase Agreement, dated as
of April 1, 1999, by and among the Company and the other signatories thereto
(the "Securities Purchase Agreement").

This Warrant is subject to the following terms, provisions and conditions:

1. Manner of Exercise; Issuance of Certificates; Payment for Shares.

Subject to the provisions hereof, including, without limitation, the limitations
contained in Section 7 hereof, this

Warrant may be exercised at any time on the Exercise Date (as defined below) by
the holder hereof, in whole or in part, in accordance with the procedures set
forth in this Section 1. In order to exercise this Warrant, the holder shall (i)
fax (or otherwise deliver) a copy of the fully executed exercise agreement in
the form attached hereto (the "Exercise Agreement"), to the Company by 11:59
p.m. New York time on the Exercise Date, (ii) surrender or cause to be
surrendered this Warrant along with a copy of the Exercise Agreement as soon as
practicable thereafter (using its best efforts to satisfy this condition within
five (5) business days after the Exercise Date) to the Company at the Company's
principal executive offices (or such other office or agency of the Company as it
may designate by notice to the holder hereof) and (iii) make payment to the
Company in cash, by certified or official bank check or by wire transfer for the
account of the Company, of the Exercise Price for the Warrant Shares specified
in the Exercise Agreement as soon as practicable thereafter (using its best
efforts to satisfy this condition within five (5) business days after the
Exercise Date). Notwithstanding anything in this Warrant to the contrary, this
Warrant shall be deemed to be exercised (an "Automatic Exercise") for all of the
Warrant Shares without any action on the part of the holder hereof if the
Closing Price (as defined in the Securities Purchase Agreement) on the Exercise
Date is at least 25(cent) higher than the Exercise Price; provided, however,
that such Automatic Exercise shall be deemed not to have occurred if the holder
hereof notifies the Company by 11:59 p.m. New York time on the Exercise Date
that the Automatic Exercise shall not be in effect. The Warrant Shares so
purchased shall be deemed to be issued to the holder hereof or such holder's
designee, as the record owner of such shares, as of the close of business on the
date on which this Warrant shall have been surrendered and the completed
Exercise Agreement shall have been delivered and payment shall have been made
for such shares as set forth above or, if such day is not a business day, on the
next succeeding business day. The Warrant Shares so purchased, representing the
aggregate number of shares specified in the Exercise Agreement, shall be
delivered to the holder hereof within a reasonable time, not exceeding two
business days, after this Warrant shall have been so exercised (the "Delivery
Period"). If the Company's transfer agent is participating in the Depository
Trust Company ("DTC") Fast Automated Securities Transfer program, and so long as
the certificates therefor do not bear a legend and the holder is not obligated
to return such certificate for the placement of a legend thereon, the Company
shall cause its transfer agent to electronically transmit the Warrant Shares so
purchased to the holder by crediting the account of the holder or its nominee
with DTC through its Deposit Withdrawal Agent Commission system ("DTC
Transfer"). If the aforementioned conditions to a DTC Transfer are not
satisfied, the Company shall deliver to the holder physical certificates

representing the Warrant Shares so purchased. Further, the holder may instruct the Company to deliver to the holder physical certificates representing the Warrant Shares so purchased in lieu of delivering such shares by way of DTC Transfer. Any certificates so delivered shall be in such denominations as may be requested by the holder hereof, shall be registered in the name of such holder or such other name as shall be designated by such holder and, following the date on which the Warrant Shares have been registered under the Securities Act pursuant to that certain Registration Rights Agreement, dated as of April 1, 1999, by and between the Company and the other signatories thereto (the "Registration Rights Agreement") or otherwise may be sold by the holder pursuant to Rule 144 promulgated under the Securities Act (or a successor rule), shall not bear any restrictive legend.

If, on the Exercise Date, a holder of this Warrant submits this Warrant, an Exercise Agreement and payment to the Company of the Exercise Price for each of the Warrant Shares

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specified in the Exercise Agreement, and the Company fails for any reason to deliver, on or prior to the third business day following the expiration of the Delivery Period for such exercise, the number of shares of Common Stock to which the holder is entitled upon such exercise (an "Exercise Default"), then the Company shall pay to the holder payments ("Exercise Default Payments") for an Exercise Default in the amount of (a) $(N/365)$, multiplied by (b) the amount by which the Market Price (as defined in Section 4(1) hereof) on the date the Exercise Agreement giving rise to the Exercise Default is transmitted in accordance with this Section 1 (the "Exercise Default Date") exceeds the Exercise Price in respect of such Warrant Shares, multiplied by (c) the number of shares of Common Stock the Company failed to so deliver in such Exercise Default, multiplied by (d) .24, where N = the number of days from the Exercise Default Date to the date that the Company effects the full exercise of this Warrant which gave rise to the Exercise Default. The accrued Exercise Default Payment for each calendar month shall be paid in cash or shall be convertible into Common Stock (subject to the limitations on the Company's ability to issue such shares set forth in Rule 4460(i) of the National Association of Securities Dealers or any successor rule) at the holder's option, as follows:

(a) In the event the holder elects to take such payment in cash, cash payment shall be made to holder by the fifth day of the month following the month in which it has accrued; and

(b) In the event the holder elects to take such payment in Common Stock, the holder may convert such payment amount into Common Stock at a conversion price equal to the lower of the Exercise Price or the Market Price (as defined in Section 4(1)) (as in effect at the time of conversion) at any time after the fifth day of the month following the month in which it has accrued, which shares of Common Stock shall be delivered within two (2) business days thereafter.

Nothing herein shall limit the holder's right to pursue actual damages for the Company's failure to maintain a sufficient number of authorized shares of Common Stock as required pursuant to the terms of Section 3(b) hereof or to otherwise issue shares of Common Stock upon exercise of this Warrant in accordance with the terms hereof, and the holder shall have the right to pursue all remedies available at law or in equity (including a decree of specific performance and/or injunctive relief).

2. Period of Exercise. This Warrant may be exercised on April 1, 2000, or, if such date is not a Trading Day (as defined in the Securities Purchase Agreement), the next succeeding Trading Day (the "Exercise Date"), beginning at 12:01 a.m. New York City time on the relevant date until 11:59 p.m., New York City time, on the relevant date.

3. Certain Agreements of the Company. The Company hereby covenants and agrees as follows:

(a) Shares to be Fully Paid. All Warrant Shares will, upon issuance in accordance with the terms of this Warrant, be validly issued, fully paid and nonassessable and free from all taxes, liens, claims and encumbrances.

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(b) Reservation of Shares. During the period (the "Investment Period") beginning on the Closing Date and ending on the Exercise Date, the Company shall at all times have authorized, and reserved for the purpose of issuance upon exercise of this Warrant, a sufficient number of shares of Common Stock to provide for the exercise in full of this Warrant.

(c) Listing. The Company has secured the listing of the shares of Common Stock issuable upon exercise of this Warrant upon each national securities exchange or automated quotation system, if any, upon which shares of Common Stock are then listed or become listed (subject to official notice of issuance upon exercise of this Warrant) and shall maintain, so long as any other shares of Common Stock shall be so listed, such listing of all shares of Common Stock from time to time issuable upon the exercise of this Warrant; and the Company shall so list on each national securities exchange or automated

quotation system, as the case may be, and shall maintain such listing of, any other shares of capital stock of the Company issuable upon the exercise of this Warrant if and so long as any shares of the same class shall be listed on such national securities exchange or automated quotation system.

(d) Certain Actions Prohibited. The Company will not, by amendment of its charter or through any reorganization, transfer of assets, consolidation, merger, dissolution, issuance or sale of securities, or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed by it hereunder, but will at all times in good faith assist in the carrying out of all the provisions of this Warrant and in the taking of all such action as may reasonably be requested by the holder of this Warrant in order to protect the economic benefit inuring to the holder hereof and the exercise privilege of the holder of this Warrant against dilution or other impairment, consistent with the tenor and purpose of this Warrant. Without limiting the generality of the foregoing, the Company (i) will not increase the par value of any shares of Common Stock receivable upon the exercise of this Warrant above the Exercise Price then in effect, and (ii) will take all such actions as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable shares of Common Stock upon the exercise of this Warrant.

(e) Successors and Assigns. This Warrant will be binding upon any entity succeeding to the Company by merger, consolidation, or acquisition of all or substantially all of the Company's assets.

(f) Blue Sky Laws. The Company shall, on or before the date of issuance of any Warrant Shares, take such actions as the Company shall reasonably determine are necessary to qualify the Warrant Shares for, or obtain exemption for the Warrant Shares for, sale to the holder of this Warrant upon the exercise hereof under applicable securities or "blue sky" laws of the states of the United States, and shall provide evidence of any such action so taken to the holder of this Warrant prior to such date; provided, however, that the Company shall not be required to qualify as a foreign corporation or file a general consent to service of process in any such jurisdiction.

4. Antidilution Provisions. During the Investment Period, the Exercise Price and the number of Warrant Shares issuable hereunder shall be subject to adjustment from time to time as provided in this Section 4.

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In the event that any adjustment of the Exercise Price as required herein results in a fraction of a cent, such Exercise Price shall be rounded up or down to the nearest cent.

(a) Adjustment of Exercise Price. Except as otherwise provided in Sections 4(b) (vi), 4(c) and 4(e) hereof, if and whenever during the Investment Period the Company issues or sells, or in accordance with Section 4(b) hereof is deemed to have issued or sold, any shares of Common Stock for no consideration or for a consideration per share less than the Market Price (as hereinafter defined) on the date of issuance (a "Dilutive Issuance"), then effective immediately upon the Dilutive Issuance, the Exercise Price will be adjusted in accordance with the following formula:

$$E' = \frac{E \times O + P/M}{CSDO}$$

where:

E' = the adjusted Exercise Price;
E = the then current Exercise Price;
M = the then current Market Price (as defined in Section 4(1)(ii));
O = the number of shares of Common Stock outstanding immediately prior to the Dilutive Issuance;
P = the aggregate consideration, calculated as set forth in Section 4(b) hereof, received by the Company upon such Dilutive Issuance; and
CSDO = the total number of shares of Common Stock Deemed Outstanding (as defined in Section 4(1)(i)) immediately after the Dilutive Issuance.

(b) Effect on Exercise Price of Certain Events. For purposes of determining the adjusted Exercise Price under Section 4(a) hereof, the following will be applicable:

(i) Issuance of Rights or Options. If the Company in any manner issues or grants any warrants, rights or options, whether or not immediately exercisable, to subscribe for or to purchase Common Stock or other securities exercisable, convertible into or exchangeable for Common Stock ("Convertible Securities") (such warrants, rights and options to purchase Common Stock or Convertible Securities are hereinafter referred to as "Options") and the price per share for which Common Stock is issuable upon the exercise of such Options is less than the Market Price in effect on the date of issuance of such Options

("Below Market Options"), then the maximum total number of shares of Common Stock issuable upon the exercise of all such Below Market Options (assuming full exercise, conversion or exchange of Convertible Securities, if applicable) will, as of the date of the issuance or grant of such Below Market Options, be deemed to be outstanding and to have been issued and sold by the Company for such price per share. For purposes of the preceding sentence, the "price per share for which Common Stock is issuable upon the exercise of such Below Market Options" is determined by dividing (i) the total amount, if any, received or receivable by the Company as consideration for the issuance or granting of all such Below Market Options, plus the minimum aggregate amount of additional consideration, if any, payable to the Company upon the exercise of all such Below Market Options, plus, in the case of Convertible Securities issuable upon the exercise of such Below Market Options, the minimum

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aggregate amount of additional consideration payable upon the exercise, conversion or exchange thereof at the time such Convertible Securities first become exercisable, convertible or exchangeable, by (ii) the maximum total number of shares of Common Stock issuable upon the exercise of all such Below Market Options (assuming full conversion of Convertible Securities, if applicable). No further adjustment to the Exercise Price will be made upon the actual issuance of such Common Stock upon the exercise of such Below Market Options or upon the exercise, conversion or exchange of Convertible Securities issuable upon exercise of such Below Market Options.

(ii) Issuance of Convertible Securities.

(A) If the Company in any manner issues or sells any Convertible Securities, whether or not immediately exercisable, convertible or exchangeable (other than where the same are issuable upon the exercise of Options) and the price per share for which Common Stock is issuable upon such exercise, conversion or exchange (as determined pursuant to Section 4(b)(ii)(B) if applicable) is less than the Market Price in effect on the date of issuance of such Convertible Securities, then the maximum total number of shares of Common Stock issuable upon the exercise, conversion or exchange of all such Convertible Securities will, as of the date of the issuance of such Convertible Securities, be deemed to be outstanding and to have been issued and sold by the Company for such price per share. For the purposes of the preceding sentence, the "price per share for which Common Stock is issuable upon such exercise, conversion or exchange" is determined by dividing (i) the total amount, if any, received or receivable by the Company as consideration for the issuance or sale of all such Convertible Securities, plus the minimum aggregate amount of additional consideration, if any, payable to the Company upon the exercise, conversion or exchange thereof at the time such Convertible Securities first become exercisable, convertible or exchangeable, by (ii) the maximum total number of shares of Common Stock issuable upon the exercise, conversion or exchange of all such Convertible Securities. No further adjustment to the Exercise Price will be made upon the actual issuance of such Common Stock upon exercise, conversion or exchange of such Convertible Securities.

(B) If the Company in any manner issues or sells any Convertible Securities with a fluctuating conversion or exercise price or exchange ratio (a "Variable Rate Convertible Security"), then the "price per share for which Common Stock is issuable upon such exercise, conversion or exchange" for purposes of the calculation contemplated by Section 4(b)(ii)(A) shall be deemed to be the lowest price per share which would be applicable (assuming all holding period and other conditions to any discounts contained in such Convertible Security have been satisfied) if the Market Price on the date of issuance of such Convertible Security was 75% of the Market Price on such date (the "Assumed Variable Market Price"). Further, if the Market Price at any time or times thereafter is less than or equal to the Assumed Variable Market Price last used for making any adjustment under this Section 4 with respect to any Variable Rate Convertible Security, the Exercise Price in effect at such time shall be readjusted to equal the Exercise Price which would have resulted if the Assumed Variable Market Price at the time of issuance of the Variable Rate Convertible Security had been 75% of the Market Price existing at the time of the adjustment required by this sentence.

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(iii) Change in Option Price or Conversion Rate. If there is a change at any time in (i) the amount of additional consideration payable to the Company upon the exercise of any Options; (ii) the amount of additional consideration, if any, payable to the Company upon the exercise, conversion or exchange of any Convertible Securities; or (iii) the rate at which any Convertible Securities are convertible into, or exercisable or exchangeable for, Common Stock (in each such case, other than under or by reason of provisions designed to protect against dilution), the Exercise Price in effect at the time of such change will be readjusted to the Exercise Price which would have been in effect at such time had such Options or Convertible Securities still outstanding provided for such changed additional consideration or changed conversion rate, as the case may be, at the time initially granted, issued or sold.

(iv) Treatment of Expired Options and Unexercised Convertible Securities. If, in any case, the total number of shares of Common Stock issuable upon exercise of any Option or upon exercise, conversion or exchange of any

Convertible Securities is not, in fact, issued and the rights to exercise such Option or to exercise, convert or exchange such Convertible Securities shall have expired or terminated, the Exercise Price then in effect will be readjusted to the Exercise Price which would have been in effect at the time of such expiration or termination had such Option or Convertible Securities, to the extent outstanding immediately prior to such expiration or termination (other than in respect of the actual number of shares of Common Stock issued upon exercise or conversion thereof), never been issued.

(v) Calculation of Consideration Received. If any Common Stock, Options or Convertible Securities are issued, granted or sold for cash, the consideration received therefor for purposes of this Warrant will be the amount received by the Company therefor, before deduction of reasonable commissions, underwriting discounts or allowances or other reasonable expenses paid or incurred by the Company in connection with such issuance, grant or sale. In case any Common Stock, Options or Convertible Securities are issued or sold for a consideration part or all of which shall be other than cash, the amount of the consideration other than cash received by the Company will be the fair market value of such consideration, except where such consideration consists of securities, in which case the amount of consideration received by the Company will be the Market Price thereof as of the date of receipt. In case any Common Stock, Options or Convertible Securities are issued in connection with any merger or consolidation in which the Company is the surviving corporation, the amount of consideration therefor will be deemed to be the fair market value of such portion of the net assets and business of the non-surviving corporation as is attributable to such Common Stock, Options or Convertible Securities, as the case may be. The fair market value of any consideration other than cash or securities will be determined in good faith by an investment banker or other appropriate expert of national reputation selected by the Company and reasonably acceptable to the holder hereof, with the costs of such appraisal to be borne by the Company.

(vi) Exceptions to Adjustment of Exercise Price. No adjustment to the Exercise Price will be made (i) upon the exercise of any warrants, options or convertible securities issued and outstanding on the Closing Date and set forth on Schedule 4(c) of the Securities Purchase Agreement in accordance with the terms of such securities as of such date; provided, however, that an adjustment to the Exercise Price will be made if, and to the extent that, the exercise price or

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conversion price of such outstanding warrants, options or convertible securities is reduced by the Company in accordance with the terms of such securities (other than a reduction in connection with a recapitalization, reclassification, stock split, stock dividend or the like as provided therein) or otherwise; (ii) upon the issuance of any securities reserved for contingent issuance as set forth on Schedule 4(c) of the Securities Purchase Agreement, and upon the exercise or conversion of such securities in accordance with the terms thereof; (iii) upon the grant or exercise of any stock or options which may hereafter be granted or exercised under any employee benefit plan, stock option plan or stock purchase plan of the Company now existing or to be implemented in the future, so long as the grant of such stock or options is approved in accordance with the terms of any such plan and the Company's usual and customary approval procedures with respect thereto; (iv) upon the issuance of any Common Stock or Warrants in accordance with the terms of the Securities Purchase Agreement; (v) upon exercise of the Warrants; (vi) upon the issuance or exercise of any Common Stock, warrants, options, convertible securities or any combination of the foregoing, which are issued in connection with an underwritten primary public offering for the account of the Company, so long as the underwriting agreement with respect thereto contains only usual and customary terms and provisions and so long as the underwriting discounts and commissions in connection with such public offering are not in excess of what is usual and customary in connection with a public offering of comparable size with respect to like securities of a company, the common stock of which is registered under the Securities Exchange Act of 1934, as amended; provided, however, that the exception to the adjustment of the Exercise Price set forth in this clause; (vi) shall not be applicable if a Variable Rate Convertible Security is issued in connection with such underwritten primary public offering; or (vii) upon the issuance or exercise of any Common Stock, warrants, options, convertible securities or any combination of the foregoing, which are issued on or after the six (6) month anniversary of the Closing Date in connection with the Company's receipt of an aggregate of up to five million dollars (\$5,000,000) of private financing during any twelve month period, so long as the Deemed Discount (as defined below) associated with the securities, assets and other consideration, if any, issued or granted by the Company in connection with such financing is not greater than 15% of the gross proceeds to the Company of such financing (an "Excepted Financing"); provided, however, that any financing in which a Variable Rate Convertible Security is issued or in which the Deemed Discount is in excess of 15% shall not be an Excepted Financing. For purposes of this Section 4(b) (vi), "Deemed Discount" shall mean the quotient obtained by dividing (I) the amount by which (A) the sum of (x) the value of the securities, assets and any other consideration, if any, issued or granted by the Company in connection with the Excepted Financing, taking into account, with respect to securities, stated discounts, liquidation preferences, conversion features, look-back mechanisms, warrant coverage and any other feature representing value, plus (y) the amount of any cash consideration

from the Company to an investor in such Excepted Financing or such investor's affiliates in connection with the provision of such Excepted Financing exceeds (B) the gross proceeds to the Company of the Excepted Financing, by (II) the gross proceeds to the Company of the Excepted Financing. The Company shall calculate, using commercial valuation methods appropriate for valuing such securities, assets or other items of consideration, the Deemed Discount within five (5) business days after the closing of the Excepted Financing; provided, however, that if the holder of this Warrant does not agree to such calculation within three (3) business days after receipt thereof (and the details in respect thereto), then the Deemed Discount shall be determined in good faith by an investment banker or other appropriate expert of national reputation selected by the Company and reasonably acceptable to the holder of

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this Warrant, with the costs of such determination to be borne by the Company. For the avoidance of doubt, if the gross proceeds to the Company in an Excepted Financing exceed five million dollars (\$5,000,000), then the Exercise Price shall be adjusted pursuant to this Section 4 based on the issuance of the pro-rata amount and type of securities issued in such Excepted Financing in respect of such excess.

(c) Subdivision or Combination of Common Stock. If the Company, at any time during the Investment Period, subdivides (by any stock split, stock dividend, recapitalization, reorganization, reclassification or otherwise) its shares of Common Stock into a greater number of shares, then, after the date of record for effecting such subdivision, the Exercise Price in effect immediately prior to such subdivision will be proportionately reduced. If the Company, at any time during the Investment Period, combines (by reverse stock split, recapitalization, reorganization, reclassification or otherwise) its shares of Common Stock into a smaller number of shares, then, after the date of record for effecting such combination, the Exercise Price in effect immediately prior to such combination will be proportionately increased.

(d) Adjustment in Number of Shares. Upon each adjustment of the Exercise Price pursuant to the provisions of this Section 4, the number of shares of Common Stock issuable upon exercise of this Warrant shall be increased or decreased to equal the quotient obtained by dividing (i) the product of (A) the Exercise Price in effect immediately prior to such adjustment, multiplied by (B) the number of shares of Common Stock issuable upon exercise of this Warrant immediately prior to such adjustment, by (ii) the adjusted Exercise Price.

(e) Consolidation, Merger or Sale. In case of any consolidation of the Company with, or merger of the Company into, any other entity, or in case of any sale or conveyance of all or substantially all of the assets of the Company other than in connection with a plan of complete liquidation of the Company at any time during the Investment Period, then as a condition of such consolidation, merger or sale or conveyance, adequate provision will be made whereby the holder of this Warrant will have the right to acquire and receive upon exercise of this Warrant in lieu of the shares of Common Stock immediately theretofore acquirable upon the exercise of this Warrant, such shares of stock, securities, cash or assets as may be issued or payable with respect to or in exchange for the number of shares of Common Stock immediately theretofore acquirable and receivable upon exercise of this Warrant had such consolidation, merger or sale or conveyance not taken place. In any such case, the Company will make appropriate provision to insure that the provisions of this Section 4 will thereafter be applicable as nearly as may be in relation to any shares of stock or securities thereafter deliverable upon the exercise of this Warrant. The Company will not effect any consolidation, merger or sale or conveyance unless prior to the consummation thereof, the successor entity (if other than the Company) assumes by written instrument the obligations under this Warrant and the obligations to deliver to the holder of this Warrant such shares of stock, securities or assets as, in accordance with the foregoing provisions, the holder may be entitled to acquire. Notwithstanding the foregoing, in the event of any consolidation of the Company with, or merger of the Company into, any other entity, or the sale or conveyance of all or substantially all of the assets of the Company, at any time during the Investment Period, the holder of the Warrant shall, at its option, have the right to receive, in connection with such transaction, cash consideration equal

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to the fair value of this Warrant as determined in accordance with customary valuation methodology used in the investment banking industry.

(f) Distribution of Assets. In case the Company shall declare or make any distribution of its assets (or rights to acquire its assets) to holders of Common Stock as a partial liquidating dividend, stock repurchase, by way of return of capital or otherwise (including any dividend or distribution to the Company's shareholders of cash or shares (or rights to acquire shares) of capital stock of a subsidiary) (a "Distribution"), at any time during the Investment Period, then, upon exercise of this Warrant for the purchase of any or all of the shares of Common Stock subject hereto, the holder of this Warrant shall be entitled to receive its pro-rata amount of such assets (or rights) as would have been payable to the holder had such holder been the holder of such shares of Common Stock on the record date for the determination of shareholders entitled to such Distribution.

(g) Notice of Adjustment. Upon the occurrence of any event which requires any adjustment of the Exercise Price, then, and in each such case, the Company shall give notice thereof to the holder of this Warrant, which notice shall state the Exercise Price resulting from such adjustment and the increase or decrease in the number of Warrant Shares issuable upon exercise of this Warrant, setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based. Such calculation shall be certified by the chief financial officer of the Company.

(h) Minimum Adjustment of Exercise Price. No adjustment of the Exercise Price shall be made in an amount of less than 1% of the Exercise Price in effect at the time such adjustment is otherwise required to be made, but any such lesser adjustment shall be carried forward and shall be made at the time and together with the next subsequent adjustment which, together with any adjustments so carried forward, shall amount to not less than 1% of such Exercise Price.

(i) No Fractional Shares. No fractional shares of Common Stock are to be issued upon the exercise of this Warrant, but the Company shall pay a cash adjustment in respect of any fractional share which would otherwise be issuable in an amount equal to the same fraction of the Market Price of a share of Common Stock on the date of such exercise.

(j) Other Notices. In case at any time:

(i) the Company shall declare any dividend upon the Common Stock payable in shares of stock of any class or make any other distribution (other than dividends or distributions payable in cash out of retained earnings consistent with the Company's past practices with respect to declaring dividends and making distributions) to the holders of the Common Stock;

(ii) the Company shall offer for subscription pro rata to the holders of the Common Stock any additional shares of stock of any class or other rights;

(iii) there shall be any capital reorganization of the Company, or reclassification of the Common Stock, or consolidation or merger of the Company with or into, or sale of all or substantially all of its assets to, another corporation or entity; or

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(iv) there shall be a voluntary or involuntary dissolution, liquidation or winding-up of the Company;

then, in each such case, the Company shall give to the holder of this Warrant (a) notice of the date or estimated date on which the books of the Company shall close or a record shall be taken for determining the holders of Common Stock entitled to receive any such dividend, distribution, or subscription rights or for determining the holders of Common Stock entitled to vote in respect of any such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up and (b) in the case of any such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up, notice of the date (or, if not then known, a reasonable estimate thereof by the Company) when the same shall take place. Such notice shall also specify the date on which the holders of Common Stock shall be entitled to receive such dividend, distribution, or subscription rights or to exchange their Common Stock for stock or other securities or property deliverable upon such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation, or winding-up, as the case may be. Such notice shall be given at least thirty (30) days prior to the record date or the date on which the Company's books are closed in respect thereto. Failure to give any such notice or any defect therein shall not affect the validity of the proceedings referred to in clauses (i), (ii), (iii) and (iv) above. Notwithstanding the foregoing, the Company shall publicly disclose the substance of any notice delivered hereunder prior to delivery of such notice to the holder of this Warrant.

(k) Certain Events. If, at any time during the Investment Period, any event occurs of the type contemplated by the adjustment provisions of this Section 4 but not expressly provided for by such provisions, the Company will give notice of such event as provided in Section 4(g) hereof, and the Company's Board of Directors will make an appropriate adjustment in the Exercise Price and the number of shares of Common Stock acquirable upon exercise of this Warrant so that the rights of the holder shall be neither enhanced nor diminished by such event.

(l) Certain Definitions.

(i) "Common Stock Deemed Outstanding" shall mean the number of shares of Common Stock actually outstanding, plus (x) in the case of any adjustment required by Section 4(a) resulting from the issuance of any Options, the maximum total number of shares of Common Stock issuable upon the exercise of the Options for which the adjustment is required (including any Common Stock issuable upon the conversion of Convertible Securities issuable upon the exercise of such Options), and (y) in the case of any adjustment required by

Section 4(a) resulting from the issuance of any Convertible Securities, the maximum total number of shares of Common Stock issuable upon the exercise, conversion or exchange of the Convertible Securities for which the adjustment is required, as of the date of issuance of such Convertible Securities, if any.

(ii) "Market Price," as of any date, (i) means the average of the closing bid prices for the shares of Common Stock as reported on The Nasdaq National Market ("Nasdaq") by Bloomberg Financial Markets ("Bloomberg") for the five consecutive trading days immediately preceding such date, or (ii) if Nasdaq is not the principal trading market for the shares of Common

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Stock, the average of the last reported bid prices as reported by Bloomberg on the principal trading market for the Common Stock during the same period, or, if there is no bid price for such period, the last reported sales price as reported by Bloomberg for such period, or (iii) if market value cannot be calculated as of such date on any of the foregoing bases, the Market Price shall be the average fair market value as reasonably determined by an investment banking firm selected by the Company and reasonably acceptable to the holder, with the costs of the appraisal to be borne by the Company. The manner of determining the Market Price of the Common Stock set forth in the foregoing definition shall apply with respect to any other security in respect of which a determination as to market value must be made hereunder.

(iii) "Common Stock," for purposes of this Section 4, includes the Common Stock and any additional class of stock of the Company having no preference as to dividends or distributions on liquidation, provided that the shares purchasable pursuant to this Warrant shall include only Common Stock in respect of which this Warrant is exercisable, or shares resulting from any subdivision or combination of such Common Stock, or in the case of any reorganization, reclassification, consolidation, merger, or sale of the character referred to in Section 4(e) hereof, the stock or other securities or property provided for in such Section.

5. Issue Tax. The issuance of certificates for Warrant Shares upon the exercise of this Warrant shall be made without charge to the holder of this Warrant or such shares for any issuance tax or other costs in respect thereof, provided that the Company shall not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of any certificate in a name other than the holder of this Warrant.

6. No Rights or Liabilities as a Shareholder. This Warrant shall not entitle the holder hereof to any voting rights or other rights as a shareholder of the Company. No provision of this Warrant, in the absence of affirmative action by the holder hereof to purchase Warrant Shares, and no mere enumeration herein of the rights or privileges of the holder hereof, shall give rise to any liability of such holder for the Exercise Price or as a shareholder of the Company, whether such liability is asserted by the Company or by creditors of the Company.

7. Transfer, Exchange, Redemption and Replacement of Warrant.

(a) Restriction on Transfer. This Warrant and the rights granted to the holder hereof are transferable, in whole or in part, upon surrender of this Warrant, together with a properly executed assignment in the form attached hereto, at the office or agency of the Company referred to in Section 7(e) below, provided, however, that any transfer or assignment shall be subject to the conditions set forth in Section 7(f) hereof and to the provisions of Sections 3(e) and 3(f) of the Securities Purchase Agreement. Until due presentment for registration of transfer on the books of the Company, the Company may treat the registered holder hereof as the owner and holder hereof for all purposes, and the Company shall not be affected by any notice to the contrary. Notwithstanding anything to the contrary contained herein, the registration rights described in Section 8 hereof are assignable only in accordance with the provisions of the Registration Rights Agreement.

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(b) Warrant Exchangeable for Different Denominations. This Warrant is exchangeable, upon the surrender hereof by the holder hereof at the office or agency of the Company referred to in Section 7(e) below, for new Series 2 Warrants of like tenor of different denominations representing in the aggregate the right to purchase the number of shares of Common Stock which may be purchased hereunder, each of such new Series 2 Warrants to represent the right to purchase such number of shares as shall be designated by the holder hereof at the time of such surrender.

(c) Replacement of Warrant. Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction, or mutilation of this Warrant and, in the case of any such loss, theft, or destruction, upon delivery of an indemnity agreement reasonably satisfactory in form and amount to the Company, or, in the case of any such mutilation, upon surrender and cancellation of this Warrant, the Company, at its expense, will execute and deliver, in lieu thereof, a new Warrant of like tenor.

(d) Cancellation; Payment of Expenses. Upon the surrender of this

Warrant in connection with any transfer, exchange, or replacement as provided in this Section 7, this Warrant shall be promptly canceled by the Company. The Company shall pay all taxes (other than securities transfer taxes) and all other expenses (other than legal expenses, if any, incurred by the Holder or transferees) and charges payable in connection with the preparation, execution, and delivery of Series 2 Warrants pursuant to this Section 7. The Company shall indemnify and reimburse the holder of this Warrant for all losses and damages arising as a result of or related to any breach by the Company of the terms of this Warrant, including costs and expenses (including legal fees) incurred by such holder in connection with the enforcement of its rights hereunder.

(e) Warrant Register. The Company shall maintain, at its principal executive offices (or such other office or agency of the Company as it may designate by notice to the holder hereof), a register for this Warrant, in which the Company shall record the name and address of the person in whose name this Warrant has been issued, as well as the name and address of each transferee and each prior owner of this Warrant.

(f) Exercise or Transfer Without Registration. If, at the time of the surrender of this Warrant in connection with any exercise, transfer, or exchange of this Warrant, this Warrant (or, in the case of any exercise, the Warrant Shares issuable hereunder), shall not be registered under the Securities Act and under applicable state securities or blue sky laws, the Company may require, as a condition of allowing such exercise, transfer, or exchange, (i) that the holder or transferee of this Warrant, as the case may be, furnish to the Company a written opinion of counsel (which opinion shall be in form, substance and scope customary for opinions of counsel in comparable transactions) to the effect that such exercise, transfer, or exchange may be made without registration under the Securities Act and under applicable state securities or blue sky laws, (ii) that the holder or transferee execute and deliver to the Company an investment letter in form and substance reasonably acceptable to the Company and (iii) that the transferee be an "accredited investor" as defined in Rule 501(a) promulgated under the Securities Act; provided that no such opinion, letter, or status as an "accredited investor" shall be required in connection with a transfer pursuant to Rule 144 under the Securities Act.

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8. Registration Rights. The initial holder of this Warrant (and certain assignees thereof) is entitled to the benefit of such registration rights in respect of the Warrant Shares as are set forth in the Registration Rights Agreement, including the right to assign such rights to certain assignees, as set forth therein.

9. Notices. Any notices required or permitted to be given under the terms of this Warrant shall be sent by certified or registered mail (return receipt requested) or delivered personally or by courier or by confirmed telecopy, and shall be effective five days after being placed in the mail, if mailed, or upon receipt or refusal of receipt, if delivered personally or by courier, or by confirmed telecopy, in each case addressed to a party. The addresses for such communications shall be:

If to the Company:

Microvision, Inc.
2203 Airport Way South, Suite 100
Seattle, Washington 98134
Telephone No.: (206) 623-7055
Facsimile No.: (206) 623-5961
Attention: Richard Raisig

If to the holder, at such address as such holder shall have provided in writing to the Company, or at such other address as such holder furnishes by notice given in accordance with this Section 9.

10. Governing Law; Jurisdiction. This Warrant shall be governed by and construed in accordance with the laws of the State of New York applicable to contracts made and to be performed in the State of New York. The Company irrevocably consents to the jurisdiction of the United States federal courts and state courts located in New York, New York in any suit or proceeding based on or arising under this Warrant and irrevocably agrees that all claims in respect of such suit or proceeding may be determined in such courts. The Company irrevocably waives any objection to the laying of venue and the defense of an inconvenient forum to the maintenance of such suit or proceeding. The Company further agrees that service of process upon the Company mailed by certified or registered mail to the address set forth in Section 9 shall be deemed in every respect effective service of process upon the Company in any such suit or proceeding. Nothing herein shall affect the holder's right to serve process in any other manner permitted by law. The Company agrees that a final non-appealable judgment in any such suit or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on such judgment or in any other lawful manner.

11. Miscellaneous.

(a) Amendments. This Warrant and any provision hereof may only be

amended by an instrument in writing signed by the Company and the holder hereof.

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(b) Descriptive Headings. The descriptive headings of the several Sections of this Warrant are inserted for purposes of reference only, and shall not affect the meaning or construction of any of the provisions hereof.

(c) Business Day. For purposes of this Warrant, the term "business day" means any day, other than a Saturday or Sunday or a day on which banking institutions in the State of New York are authorized or obligated by law, regulation or executive order to close.

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IN WITNESS WHEREOF, the Company has caused this Warrant to be signed by its duly authorized officer.

MICROVISION, INC.

By: /s/ RICHARD A. RAISIG

Name: Richard A. Raisig

Title: CFO/VP Operations

FORM OF EXERCISE AGREEMENT

(To be Executed by the Holder in order to Exercise the Warrant)

To: MICROVISION, INC.
2203 Airport Way South, Suite 100
Seattle, Washington 98134
Facsimile No.: (206) 623-5961
Attn: Richard Raisig

The undersigned hereby irrevocably exercises the right to purchase _____ shares of the Common Stock of MICROVISION, INC., a corporation organized under the laws of the State of Washington (the "Company"), evidenced by the attached Warrant and herewith makes payment of the Exercise Price with respect to such shares in full, all in accordance with the conditions and provisions of said Warrant.

The undersigned agrees not to offer, sell, transfer or otherwise dispose of any Common Stock obtained on exercise of the Warrant, except under circumstances that will not result in a violation of the Securities Act of 1933, as amended, or any state securities laws.

- o The undersigned requests that the Company cause its transfer agent to electronically transmit the Common Stock issuable pursuant to this Exercise Agreement to the account of the undersigned or its nominee (which is _____) with DTC through its Deposit Withdrawal Agent Commission System ("DTC Transfer").
- o In lieu of receiving the shares of Common Stock issuable pursuant to this Exercise Agreement by way of DTC Transfer, the undersigned hereby requests that the Company cause its transfer agent to issue and deliver to the undersigned physical certificates representing such shares of Common Stock.

Dated: _____

Signature of Holder

Name of Holder (Print)

Address:

FORM OF ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sells, assigns, and transfers all the rights of the undersigned under the attached Warrant, with respect to

the number of shares of Common Stock covered thereby set forth hereinbelow, to:

Name of Assignee	Address	No of Shares
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, and hereby irrevocably constitutes and appoints _____ as agent and attorney-in-fact to transfer said Warrant on the books of the within-named corporation, with full power of substitution in the premises.

Dated: _____, ----

In the presence of

Name: _____

Signature: _____

Title of Signing Officer or Agent
(if any):

Address: _____

Note: The above signature should correspond exactly with the name on the face of the within Warrant.

EMPLOYMENT AGREEMENT
FOR
STEPHEN R. WILLEY

AGREEMENT, effective as of October 1, 1998 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 Stephen R. Willey, (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 Executive Vice President (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, 2002, 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 \$150,000, 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.

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

- 4.1 An option to purchase up to 56,000 shares at a price of \$14.00. These options shall vest in four equal quarterly installments, commencing on October 1, 1998.
- 4.2 An option to purchase up to 56,000 shares at a price of \$17.50. These options shall vest in four equal quarterly installments commencing on October 1, 1999.
- 4.3 An option to purchase up to 56,000 shares at a price of \$21.88. These options shall vest in four equal quarterly installments commencing on October 1, 2000.
- 4.4 An option to purchase up to 56,000 shares at a price of \$27.34. These options shall vest in four equal quarterly installments commencing on October 1, 2001.
- 4.5 An option to purchase up to 14,000 shares at a price of \$34.18. These options shall vest in one quarterly installment commencing on October 1, 2002.

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.

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

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- 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.
- 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 of 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:

- 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.
- 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.

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.

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: Stephen R. Willey
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 /s/ RICHARD F. RUTKOWSKI

/s/ RICHARD A. RAISIG

Witness

EXECUTIVE

/s/ STEPHEN R. WILLEY

/s/ RICHARD A. RAISIG

Witness

[logo]
Silicon Valley Financial Services
A Division of Silicon Valley Bank
3003 Tasman Drive
Santa Clara, CA 95054
(408) 654-1000 - Fax (408) 980-6410

This NON-RECOURSE RECEIVABLES PURCHASE AGREEMENT (the "Agreement"), dated as of September 30, 1998, is between Silicon Valley Financial Services, a division of Silicon Valley Bank, ("Buyer") and MICROVISION INC., a Washington corporation, ("Seller"), with its chief executive office at:

Street Address: 2203 Airport Way South, Suite 100
City: Seattle
County: King
State: Washington
Zip code: 98134
Phone: (206) 515-0037

1. Definitions. In this Agreement:

1.1 "Payment" is when Buyer has received payments equal to the Total Purchased Receivables.

1.2 "Purchased Receivables" is all accounts, receivables, chattel paper, instruments, contract rights, documents, general intangibles, letters of credit, drafts, bankers acceptances other rights to payment and all proceeds arising from the invoices and other agreements on the Schedule. "Purchased Receivables" also includes returned or rejected goods connected with the Purchased Receivables, books and records about the Purchased Receivables or returned or rejected goods; and proceeds from voluntary or involuntary dispositions, including insurance proceeds.

1.3 "Related Property" is all returned or rejected goods connected with the Purchased Receivables or books and records about the Purchased Receivables or returned or rejected goods; or proceeds from voluntary or involuntary dispositions, including insurance proceeds.

1.4 "Schedule" is the attached schedule showing the: Purchase Date, Due Date, Total Purchased Receivables, Discount Rate, Purchase Price, Administrative Fee and Interest Reserve amount.

2. Purchase and Sale of Receivables.

2.1 Sale and Purchase. On the Purchase Date, Seller sells and Buyer buys Seller's right, title, and interest (but none of Seller's obligations) to payment from any person liable on a Purchased Receivable, ("Account Debtors").

Each purchase and sale is at Buyer's and Seller's discretion. Buyer will not (i) pay Seller an aggregate outstanding amount exceeding Two Million Five Hundred Thousand and No/100****(\$2,500,000.00) or (ii) buy any Purchased Receivable after September 24, 1999 (the "Maturity Date"). Each purchase and sale will be on an assignment form acceptable to Buyer.

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2.2 Payment of Purchase Price and Late Payment.

(a) Payment of Purchase Price. For each Purchased Receivable, Buyer will pay Seller, on the Purchase Date, the Purchase Price, less the Administrative Fee and legal fees (if any).

(b) Late Payment. If Payment is made after the Due Date, as listed on the Schedule, then on the earlier of Payment or 90 days after the scheduled payment date, Seller will also pay Buyer the product of the Discount Rate and the average daily balance of the unpaid Purchased Receivable multiplied by the number of days between the scheduled payment date or the earlier of the date of actual payment or 90 days after the scheduled payment date, divided by 360; provided, however, that with respect to Purchased Receivables as to which payment is to be made directly to Buyer, Seller shall not be liable for making any such payment to Buyer until five (5) business days after receipt by Seller from Buyer of the information reasonably required to calculate the amount thereof.

(c) Late Payment Reserve. Buyer will maintain a reserve as listed on the Schedule against any late payments on any Purchased Receivables, if any late payment arises out of circumstances that are a breach of Seller's representations. Buyer will retain an amount equal to the product of the Discount Rate and the average daily balance of the unpaid Purchased Receivables multiplied by the number of days between the scheduled payment date or the earlier of the date of actual payment or 90 days after the scheduled payment

date, divided by 360 days. If the late payment arises under any other circumstances, Buyer will return the reserve to Seller.

2.3 Seller may not sell or convey any interest in Related Property without Buyer's prior written consent. Seller will sign UCC financing statements and any other instruments or documents to evidence, perfect or protect Buyer's interests in the Purchased Receivables and Related Property. Seller will deliver to Buyer all original instruments, chattel paper and documents about Purchased Receivables and Related Property.

3. Collections, Payments and Remittances.

3.1 Application of Payments. All payments for any Purchased Receivable, received by Seller or Buyer, are Buyer's property.

3.2 Collection by Buyer. Buyer is appointed Seller's attorney-in-fact and may:

- (a) demand, sue for and receive all payments for the Purchased Receivables; and
- (b) enforce payment of each Purchased Receivable in Seller's name; and
- (c) endorse Seller's name on checks or other instruments; and
- (d) notify Account Debtors of the purchase and sale and require all payments be made directly to Buyer, provided that Buyer shall use its best efforts contemporaneously to provide Seller a copy of any such notification; and
- (e) compromise, prosecute or defend any action or claim involving a Purchased Receivable including filing or voting a claim in a bankruptcy case; and
- (f) require Seller, at its expense, to notify the Account Debtors to pay Buyer directly; and
- (g) require Seller reasonably to assist collecting and enforcing claims and execute any documents in connection therewith that Buyer reasonably requests; and
- (h) do anything reasonably necessary or expedient in connection with a Purchased Receivable.

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4. Non-Recourse; Repurchase Obligations.

4.1 Non-Recourse and Seller's Agreement to Repurchase. Buyer acquires Purchased Receivables without recourse, except Seller will, at Buyer's option, repurchase from Buyer any Purchased Receivable for a purchase price equal to the unpaid portion of any Purchased Receivable:

- (a) For which there has been any breach of warranty, representation or covenant in this Agreement; or
- (b) For which the Account Debtor asserts any discount, allowance, return, dispute, defense, right of recoupment, right of return, warranty claim, or short payment.

4.2 Payment to Buyer. Seller will pay Buyer in immediately available funds.

5. Representations, Warranties and Covenants.

5.1 Purchased Receivables - Warranties, Representations and Covenants. Seller represents, warrants and covenants for each Purchased Receivable:

- (a) It is the owner with legal right to sell, transfer and assign it, subject only to compliance with the Federal Assignment of Claims Act;
- (b) The correct amount is on the Schedule and is not disputed;
- (c) No payment is contingent on any obligation or contract, and it has fulfilled all its obligations as of the Purchase Date;
- (d) It is based on actual sale and delivery of goods and/or services rendered, due no later than its Due Date and owing to Seller, it is not past due or in default, has not been previously sold, assigned, transferred, or pledged, and is free of any liens, security interests and encumbrances;
- (e) There are no defenses, offsets, counterclaims or agreements in which the Account Debtor may claim any deduction or discount;

(f) It reasonably believes no Account Debtor is insolvent as defined in the United States Bankruptcy Code ("US Code") or the California Uniform Commercial Code ("UCC") and no Account Debtor has filed or had filed against it a voluntary or involuntary petition for relief under the US Code; and

(g) No Account Debtor has objected to payment for or the quality or quantity of the subject of the Purchased Receivable.

5.2 Additional Warranties, Representations and Covenants. Seller represents, warrants and covenants:

(a) Its name, form of organization, chief executive office, and the place where the records about all Purchased Receivables are kept is shown at the beginning of this Agreement and it will give Buyer at least 10 days prior written notice of changes to its name, organization, chief executive office or location of records.

(b) It has not filed a voluntary petition or had filed against it an involuntary petition under the US Code and does not anticipate any filing.

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(c) If Payment of any Purchased Receivable does not occur by its Due Date then, upon Buyer's request, Seller will provide a written report, within 10 days, of the reasons for the delay.

(d) While any Purchased Receivable is outstanding, Seller will give Buyer copies of all Forms 10-K, 10-Q and 8-K (or equivalents) within 5 days of its filing with the Securities and Exchange Commission.

6. Adjustments. If any Account Debtor asserts to Seller a discount, allowance, return, offset, defense, warranty claim, or the like (an "Adjustment") Seller will promptly advise Buyer and, with Buyer's approval, resolve the dispute. Seller will resell any rejected, returned, or recovered personal property for Buyer, at Seller's expense, with the proceeds payable to Buyer. While Seller has returned goods that are Buyer's property, Seller will segregate and mark them "property of Silicon Valley Financial Services." Buyer owns the Purchased Receivables and until Payment has the right to take possession of any rejected, returned, or recovered personal property.

7. Indemnification.

(a) If any Account Debtor is released from any payment obligation for any Purchased Receivable because of: (i) Seller's act or omission; or (ii) any of the documentation about the Purchased Receivables which results in termination of any part of the Account Debtor's obligation for the Purchased Receivables, then Seller will pay Buyer the lesser of the amount of the Purchased Receivable not payable or the unpaid portion of the Purchased Receivable.

(b) Seller indemnifies and holds Buyer harmless from any taxes from this transaction (except Buyer's income taxes) and costs, expenses and reasonable attorney fees if Buyer promptly notifies it of any taxes of which Buyer has notice.

8. Repurchase Events. Each of the following is an Event of Repurchase:

(a) Seller fails to pay Buyer any amount when due under Section 2.2(b), 4.1, 7, 9 or 10 and such amount is not paid within five (5) business days of written demand therefor by Buyer (including, and not in addition to, any notice given under the applicable Section); and

(b) Seller breaches a material covenant, agreement, warranty, or representation in this Agreement and the breach is not cured to Buyer's reasonable satisfaction within 10 days after Buyer gives Seller oral or written notice thereof, provided, however, that any such oral notice shall promptly be followed by a written notice. A breach that cannot be cured is an immediate default.

9. Repurchase Option. When an Event of Repurchase occurs Buyer shall have a right to require Seller, on three (3) business days' oral or written notice, to repurchase all of the affected Purchased Receivables for a purchase price equal to the amount(s) specified in Section 4.1. Buyer shall also have all rights and remedies under this Agreement and the law, including those of a secured party under the UCC, and the right to collect, dispose of, sell, lease or use all Purchased Receivables and Related Property.

10. Fees, Costs and Expenses. Immediately on demand Seller will pay all reasonable fees, costs and expenses (including attorney and professional fees) that Buyer incurs from (a) preparing, negotiating, administering and enforcing this Agreement or any other agreement, including amendments, waivers or consents, (b) litigation or disputes relating to the Purchased Receivables the Related Property, this Agreement or any other agreement, (c) enforcing rights

against Seller, (d) protecting or enforcing its title to the Purchased Receivables or its security interest in the Related Property, (e) collecting any amounts due from Seller or for a Purchased Receivable under a breach of Seller's representation, warranty or covenant and (f) any bankruptcy case or insolvency

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proceeding involving Seller. Reimbursement for fees, costs, and expenses through the initial Purchase Date will be limited to Three Thousand Five Hundred and No/100****(\$3,500.00).

11. Choice of Law, Venue and Jury Trial Waiver. California law governs this Agreement. Seller and Buyer each submit to the exclusive jurisdiction of the State and Federal courts in King County, Washington.

SELLER AND BUYER EACH WAIVE ITS RIGHT TO A JURY TRIAL FROM ANY CAUSE OF ACTION RELATED TO AGREEMENT, INCLUDING CONTRACT, TORT, BREACH OF DUTY OR OTHER CLAIM. THIS WAIVER IS A MATERIAL INDUCEMENT FOR BOTH PARTIES TO ENTER THIS AGREEMENT. EACH PARTY HAS REVIEWED THIS WAIVER WITH ITS COUNSEL.

12. Notices. Notices or demands by either party about this Agreement must be in writing and personally delivered or sent by an overnight delivery service, by certified mail postage prepaid return receipt requested, or by FAX to the addresses below:

Seller: MICROVISION INC.
2203 Airport Way South, Suite 100
Seattle, WA 98134
Attn: Chief Financial Officer
FAX: (206) 623-5961

Buyer: Silicon Valley Financial Services, A Division of
Silicon Valley Bank
3003 Tasman Drive/NC 481
Santa Clara, CA 95054
Attn: Credit Manager
FAX: (408) 980-6410

A party may change notice address by written notice to the other party.

13. General Provisions.

13.1 Successors and Assigns. This Agreement binds and is for the benefit of successors and permitted assigns of each party. Seller may not assign this Agreement or any rights under it without Buyer's prior written consent which may be granted or withheld in Buyer's discretion. Buyer may, without the consent of or notice to Seller, sell, transfer, or grant participation in any part of Buyer's obligations, rights or benefits under this Agreement.

13.2 Indemnification. Seller will indemnify, defend and hold harmless Buyer and its officers, employees, and agents against: (a) obligations, demands, claims, and liabilities asserted by any other party in connection with the transactions contemplated by this Agreement; and (b) losses or expenses incurred, or paid by Borrower from or consequential to transactions between Buyer and Seller (including reasonable attorneys fees and expenses), except in either such case for losses caused by Buyer's gross negligence or willful misconduct.

13.3 Time of Essence. Time is of the essence for performance of all obligations in this Agreement.

13.4 Severability of Provision. Each provision of this Agreement is severable from every other provision in determining the enforceability of any provision.

13.5 Amendments in Writing, Integration. All amendments to this Agreement must be in writing. This Agreement is the entire agreement about this subject matter and supersedes all prior negotiations or agreements, including without limitation the version of this Agreement executed on September 30, 1998, pending resolution of certain open issues identified therein.

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13.6 Counterparts. This Agreement may be executed in any number of counterparts and by different parties on separate counterparts and when executed and delivered are one Agreement.

13.7 Survival. All covenants, representations and warranties made in this Agreement continue in full force while any Purchased Receivable amount remains outstanding. Seller's indemnification obligations survive until all statutes of limitations for actions that may be brought against Buyer have run.

13.8 Confidential Information. Buyer will use the same degree of care in handling Seller's confidential information that it uses for its own proprietary information, but may disclose information; (i) to its subsidiaries or affiliates in connection with their business with Seller, (ii) to prospective

transferees or purchasers of any interest in the Agreement, (iii) as required by law, regulation, subpoena, or other order, (iv) as required in connection with an examination or audit and (v) as it considers appropriate exercising the remedies under this Agreement. Confidential information does not include information that is either: (a) in the public domain or in Buyer's possession when disclosed, or becomes part of the public domain after disclosure to Buyer; or (b) disclosed to Buyer by a third party, if Buyer does not know that the third party is prohibited from disclosing the information.

SELLER: MICROVISION INC.,
 a Washington corporation

By /s/ RICHARD A. RAISIG

Title CFO/VP Operations

BUYER: SILICON VALLEY FINANCIAL SERVICES
 A division of Silicon Valley Bank

By /s/ G. MICHAEL WALSH

Title SVP

SECURITIES PURCHASE AGREEMENT

SECURITIES PURCHASE AGREEMENT (this "Agreement"), dated as of April 1, 1999, by and among MICROVISION, INC., a corporation organized under the laws of the State of Washington (the "Company"), and the purchasers (the "Purchasers") set forth on the execution pages hereof (the "Execution Pages").

WHEREAS:

A. The Company and each Purchaser are executing and delivering this Agreement in reliance upon the exemption from securities registration afforded by the provisions of Regulation D ("Regulation D"), as promulgated by the United States Securities and Exchange Commission (the "SEC") under the Securities Act of 1933, as amended (the "Securities Act").

B. Each Purchaser desires to purchase, severally and not jointly, subject to the terms and conditions stated in this Agreement, (i) shares of the Company's common stock, no par value per share (the "Common Stock"), (ii) warrants in the form attached hereto as Exhibit A (including any warrants issued in replacement thereof, the "Series 1 Warrants"), to acquire shares of Common Stock and (iii) warrants in the form attached hereto as Exhibit B (including any warrants issued in replacement thereof, the "Series 2 Warrants", and, together with the Series 1 Warrants, the "Warrants"), to acquire shares of Common Stock. The shares of Common Stock issuable upon exercise of or otherwise pursuant to the Warrants are referred to herein as the "Warrant Shares."

C. Contemporaneous with the execution and delivery of this Agreement, the parties hereto are executing and delivering a Registration Rights Agreement in the form attached hereto as Exhibit C (the "Registration Rights Agreement"), pursuant to which the Company has agreed to provide certain registration rights under the Securities Act and the rules and regulations promulgated thereunder, and applicable state securities laws.

NOW, THEREFORE, the Company and the Purchasers hereby agree as follows:

1. CERTAIN DEFINITIONS.

For purposes of this Agreement, the following terms shall have the meanings ascribed to them as provided below:

"Adjustment Date" shall mean the earlier of (i) the date a registration statement filed by the Company pursuant to Section 2(a) of the Registration Rights Agreement is declared effective by the SEC; or (ii) in the event such registration statement is not declared effective by the SEC within one hundred eighty days following the Closing Date (as defined below), any single date selected by the Purchasers, in their sole discretion, following such one hundred eighty days.

"Adjustment Date Market Price" shall mean the lower of (i) the average Closing Price during the ten (10) Trading Days ending on the Trading Day immediately preceding the Adjustment Date or (ii) the Closing Price on the Trading Day immediately preceding the Adjustment Date, and in each case, appropriately adjusted to reflect any stock dividend, stock split or similar transaction during either such period.

"Business Day" shall mean any day on which the principal United States securities exchange or trading market on which the Common Stock is listed or traded as reported by Bloomberg (as defined below) is open for trading.

"Closing Price" shall mean for the Common Stock as of any date, the closing bid price of such security on the principal United States securities exchange or trading market on which such security is listed or traded as reported by Bloomberg Financial Markets (or a comparable reporting service of national reputation selected by the Purchaser and reasonably acceptable to the Company if Bloomberg Financial Markets is not then reporting closing bid prices of such security) (collectively, "Bloomberg"), or if the foregoing does not apply, the last reported sale price of such security in the over-the-counter market on the electronic bulletin board for such security as reported by Bloomberg, or, if no sale price is reported for such security by Bloomberg, the average of the bid prices of any market makers for such security as reported in the "pink sheets" by the National Quotation Bureau, Inc., in each case for such date or, if such date was not a Trading Day (as defined below) for such security, on the next preceding day which was a Trading Day. If the Closing Price cannot be calculated for a share of Common Stock as of either of such dates on any of the foregoing bases, the Closing Price of such security on such date shall be the fair market value as reasonably determined by an investment banking firm selected by the Purchaser and reasonably acceptable to the Company, with the costs of such appraisal to be borne by the Company.

"Closing Shares" shall mean the shares of Common Stock to be issued and sold by the Company and purchased by the Purchaser at the Closing (as defined below).

"Investment Amount" shall mean the dollar amount to be invested in the Company at the Closing pursuant to this Agreement by any Purchaser, as set forth on the Execution Page hereto executed by such Purchaser.

"Market Price" shall mean, with respect to any date of determination, the lower of (i) the average Closing Price during the ten (10) Trading Days ending on the Trading Day immediately preceding such date of determination or (ii) the Closing Price on the Trading Day immediately preceding such date of determination, and in each case appropriately adjusted to reflect any stock dividend, stock split or similar transaction during either such relevant period.

"Material Adverse Effect" shall mean any material adverse effect on (i) the Securities, (ii) the ability of the Company to perform its obligations hereunder (including the issuance of the Shares and the Warrants), under the Warrants (including the issuance of the Warrant Shares) or under the Registration Rights Agreement or (iii) the business, operations, properties, prospects or financial condition of the Company and its subsidiaries, if any, taken as a whole.

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"Pro Rata Percentage" shall mean, with respect to any Purchaser, a percentage computed by dividing such Purchaser's Investment Amount by the aggregate Investment Amount of all Purchasers.

"SEC" means the United States Securities and Exchange Commission.

"Securities" shall mean the Shares, the Warrants and the Warrant Shares.

"Share Limit" shall mean 666,667 shares of Common Stock.

"Shares" shall mean the Closing Shares and the Adjustment Shares (as defined in Section 2(c) below).

"Trading Day" shall mean a Business Day on which the Common Stock trades on the principal United States securities exchange or trading market on which such security is listed or traded as reported by Bloomberg.

2. PURCHASE AND SALE OF SHARES AND WARRANTS.

a. Generally. Except as otherwise provided in this Section 2 and subject to the satisfaction (or waiver) of the conditions set forth in Section 6 and Section 7 below, each Purchaser shall purchase the number of Shares and Warrants determined as provided in this Section 2, and the Company shall issue and sell such number of Shares and Warrants to each Purchaser for such Purchaser's Investment Amount as provided below.

b. Number of Closing Shares and Warrants; Form of Payment; Closing Date.

i. On the Closing Date (as defined below), the Company shall sell and each Purchaser shall buy (A) the number of Closing Shares as is equal to the quotient of (I) such Purchaser's Investment Amount divided by (II) \$13.60875, (B) Series 1 Warrants exercisable for such Purchaser's Pro Rata Percentage of the aggregate number of shares of Common Stock for which Series 1 Warrants are exercisable and (C) Series 2 Warrants exercisable for such Purchaser's Pro Rata Percentage of the aggregate number of shares of Common Stock for which Series 2 Warrants are exercisable. On the Closing Date, each Purchaser shall pay the Company an amount equal to such Purchaser's Investment Amount.

ii. On the Closing Date, each Purchaser shall pay its Investment Amount by wire transfer to the Company, in accordance with the Company's written wiring instructions against delivery of certificates representing the Closing Shares and duly executed Warrants being purchased by such Purchaser, and the Company shall deliver such Closing Shares and Warrants against delivery of the such Purchaser's Investment Amount.

iii. Subject to the satisfaction (or waiver) of the conditions thereto set forth in Section 6 and Section 7 below, the date and time of the sale of the Closing Shares and the Closing Warrants pursuant to this Agreement (the "Closing") shall be 2:00 p.m. New York City Time on April 1, 1999 or such other date or time as the parties may mutually agree ("Closing Date"). The Closing shall occur at the offices of Klehr, Harrison, Harvey, Branzburg & Ellers

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LLP, 1401 Walnut Street, Philadelphia, PA 19102, or at such other place as the parties may otherwise agree.

c. Adjustment Shares. If, on the Adjustment Date, the Adjustment Date Market Price is less than \$14.325, then, within three Business Days of the Adjustment Date, the Company shall issue to each Purchaser a number of additional whole shares of Common Stock (the "Adjustment Shares") equal to the amount by which (I) the quotient of (x) such Purchaser's Investment Amount divided by (y) ninety five percent (95%) of the Adjustment Date Market Price exceeds (II) the number of Closing Shares purchased by such Purchaser on the Closing Date; provided, however, that the Company shall not be required to issue

to any Purchaser a number of Adjustment Shares which, when aggregated with the Closing Shares previously issued to such Purchaser, would exceed the product of the Share Limit multiplied by such Purchaser's Pro Rata Percentage. The Adjustment Shares shall be deemed to be outstanding as of the Adjustment Date.

3. PURCHASER'S REPRESENTATIONS AND WARRANTIES.

Each Purchaser severally and not jointly represents and warrants to the Company as follows:

a. Purchase for Own Account. The Purchaser is purchasing the Securities for the Purchaser's own account and not with a present view towards the distribution thereof. Notwithstanding anything in this Section 3(a) to the contrary, by making the foregoing representation, the Purchaser does not agree to hold the Securities for any minimum or other specific term and reserves the right to dispose of the Securities at any time in accordance with or pursuant to a registration statement or an exemption from registration under the Securities Act and any applicable state securities laws.

b. Information. The Purchaser has been furnished all materials relating to the business, finances and operations of the Company and materials relating to the offer and sale of the Securities which have been requested by the Purchaser. The Purchaser has been afforded the opportunity to ask questions of the Company and has received what the Purchaser believes to be satisfactory answers to any such inquiries. The Purchaser understands that its investment in the Securities involves a high degree of risk. Neither such inquiries nor any other due diligence investigation conducted by the Purchaser or its counsel or any of its representatives shall modify, amend or affect the Purchaser's right to rely on the Company's representations and warranties contained in Section 4 below.

c. Governmental Review. The Purchaser understands that no United States federal or state agency or any other government or governmental agency has passed upon or made any recommendation or endorsement of the Securities.

d. Authorization; Enforcement. The Purchaser has the requisite power and authority to enter into and perform its obligations under this Agreement and to purchase the Shares and the Warrants in accordance with the terms hereof. This Agreement has been duly and validly authorized, executed and delivered on behalf of the Purchaser and is a valid and binding agreement of the Purchaser enforceable against the Purchaser in accordance with its terms, subject

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to applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer and other laws affecting creditors' rights and remedies generally and to general principles of equity (regardless of whether enforcement is sought in a proceeding at law or in equity).

e. Transfer or Resale. The Purchaser understands that (i) except as provided in the Registration Rights Agreement, the Securities have not been and are not being registered under the Securities Act or any state securities laws, and may not be transferred unless (a) subsequently registered thereunder, or (b) the Purchaser shall have delivered to the Company an opinion of counsel reasonably acceptable to the Company (which opinion shall be in form, substance and scope customary for opinions of counsel in comparable transactions) to the effect that the Securities to be sold or transferred may be sold or transferred under an exemption from such registration, or (c) sold under Rule 144 promulgated under the Securities Act (or a successor rule), or (d) sold or transferred to an affiliate of the Purchaser pursuant to an exemption under the Securities Act; and (ii) neither the Company nor any other person is under any obligation to register such Securities under the Securities Act or any state securities laws or to comply with the terms and conditions of any exemption thereunder, in each case, other than pursuant to the Registration Rights Agreement.

f. Legends. Purchaser understands that the Shares and the Warrants and, until such time as the Shares and Warrant Shares have been registered under the Securities Act (including registration pursuant to Rule 416 thereunder) as contemplated by the Registration Rights Agreement or otherwise may be sold by Purchaser under Rule 144, the certificates for the Shares and Warrant Shares may bear a restrictive legend in substantially the following form:

The securities represented by this certificate have not been registered under the Securities Act of 1933, as amended, or the securities laws of any state of the United States. The securities represented hereby may not be offered or sold in the absence of an effective registration statement for the securities under applicable securities laws unless offered, sold or transferred under an available exemption from the registration requirements of those laws.

The legend set forth above shall be removed and the Company shall issue a certificate without such legend to the holder of any Security upon which it is stamped, if, unless otherwise required by state securities laws, (a) the sale of such Security is registered under the Securities Act (including registration

pursuant to Rule 416 thereunder), or (b) such holder provides the Company with an opinion of counsel, in form, substance and scope customary for opinions of counsel in comparable transactions, to the effect that a public sale or transfer of such Security may be made without registration under the Securities Act or (c) such holder provides the Company with reasonable assurances that such Security can be sold under Rule 144(k). Purchaser agrees to sell all Securities, including those represented by a certificate(s) from which the legend has been removed, pursuant to an effective registration statement or under an exemption from the registration requirements of the Securities Act. In the event the above legend is removed from any Security and thereafter the effectiveness of a registration statement covering such Security is suspended or the Company determines that a supplement or amendment thereto is required by applicable securities laws, then upon reasonable advance notice to Purchaser the Company may require that the above

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legend be placed on any such Security and Purchaser shall cooperate in the prompt replacement of such legend.

g. Accredited Investor Status. Purchaser is an "accredited investor" as that term is defined in Rule 501(a) of Regulation D. The Purchaser is not registered as a broker or dealer under Section 15(a) of the Securities Exchange Act of 1934, as amended, or a member of the NASD (as defined below).

h. Company Reliance. The Purchaser understands that the Closing Shares are being offered and sold, the Warrants are being issued, and the Adjustment Shares are being offered, to it in reliance on specific exemptions from the registration requirements of United States federal and state securities laws and that the Company is relying upon the truth and accuracy of, and the Purchaser's compliance with, the representations, warranties, agreements, acknowledgments, and understandings of the Purchaser set forth herein in order to determine the availability of such exemptions and the eligibility of the Purchaser to acquire the Closing Shares and the Warrants and to receive an offer of the Adjustment Shares.

i. Authorization. This Agreement has been duly and validly authorized, executed, and delivered on behalf of the Purchaser and is a valid and binding agreement of the Purchaser enforceable in accordance with its terms, subject to general principles of equity and to bankruptcy, insolvency, moratorium and other similar laws affecting the enforcement of creditors' rights generally.

4. REPRESENTATIONS AND WARRANTIES OF THE COMPANY.

The Company represents and warrants to each Purchaser as follows:

a. Organization and Qualification. The Company is a corporation duly organized and existing under the laws of the State of Washington, and has the requisite corporate power to own its properties and to carry on its business as now being conducted. The Company is duly qualified as a foreign corporation to do business and is in good standing in every jurisdiction in which the nature of the business conducted by it makes such qualification necessary and where the failure so to qualify would have a Material Adverse Effect. The Company does not have any subsidiaries.

b. Authorization; Enforcement. (i) The Company has the requisite corporate power and authority to enter into and perform its obligations under this Agreement, the Warrants and the Registration Rights Agreement, to issue and sell the Shares and the Warrants in accordance with the terms hereof and to issue the Warrant Shares upon exercise of the Warrants in accordance with the terms of the Warrants; (ii) the execution, delivery and performance of this Agreement, the Warrants and the Registration Rights Agreement by the Company and the consummation by it of the transactions contemplated hereby and thereby (including, without limitation, the reservation for issuance and issuance of the Shares and the issuance of the Warrants, and the reservation for issuance and issuance of the Warrant Shares) have been duly authorized by the Company's Board of Directors and no further consent or authorization of the Company, its Board of Directors or, except as set forth in Schedule 4(b), its shareholders is required; (iii) this Agreement has been duly executed and delivered by the Company; and (iv)

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this Agreement constitutes, and, upon execution and delivery by the Company of the Registration Rights Agreement and the Warrants, such agreements will constitute, valid and binding obligations of the Company enforceable against the Company in accordance with their respective terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer and other laws affecting creditors' rights and remedies generally and to general principles of equity (regardless of whether enforcement is sought in a proceeding at law or in equity).

c. Capitalization. The capitalization of the Company as of the date hereof is set forth on Schedule 4(c), including the authorized capital stock, the number of shares issued and outstanding, the number of shares issuable and reserved for issuance pursuant to the Company's stock option plans, the number

of shares issuable and reserved for issuance pursuant to securities exercisable for, or convertible into or exchangeable for any shares of capital stock. Schedule 4(c) also sets forth the number of Shares to be issued pursuant to the terms hereof and the number of Warrant Shares to be issued upon the exercise of the Warrants. All of such outstanding shares of capital stock have been, or upon issuance will be, validly issued, fully paid and nonassessable. Except as set forth on Schedule 4(c), no shares of capital stock of the Company (including the Shares and the Warrant Shares) are subject to preemptive rights or any other similar rights of the shareholders of the Company or any liens or encumbrances. Except for the Securities and as disclosed in Schedule 4(c), as of the date of this Agreement, (i) there are no outstanding options, warrants, scrip, rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities or rights convertible into or exercisable or exchangeable for, any shares of capital stock of the Company, or arrangements by which the Company is or may become bound to issue additional shares of capital stock of the Company, and (ii) there are no agreements or arrangements under which the Company is obligated to register the sale of any of its or their securities under the Securities Act (except the Registration Rights Agreement). Except as set forth on Schedule 4(c), there are no securities or instruments containing antidilution or similar provisions that may be triggered by the issuance of the Securities in accordance with the terms of this Agreement or the Warrants and the holders of the securities and instruments listed on such Schedule 4(c) have waived any rights they may have under such antidilution or similar provisions in connection with the issuance of the Securities in accordance with the terms of this Agreement or the Warrants. The Company has made available to each Purchaser true and correct copies of the Company's Articles of Incorporation as in effect on the date hereof ("Articles of Incorporation"), the Company's By-laws as in effect on the date hereof (the "By-laws") and all other instruments and agreements governing securities convertible into or exercisable or exchangeable for capital stock of the Company, except for stock options granted under any employee benefit plan or director stock option plan of the Company.

d. Issuance of Shares. The Shares are duly authorized and when issued and paid for in accordance with the terms hereof, will be validly issued, fully paid and non-assessable, and free from all taxes, liens, claims and encumbrances, and will not be subject to preemptive rights or other similar rights of shareholders of the Company and will not impose personal liability upon the holder thereof. The Warrant Shares are duly authorized and reserved for issuance, and, upon exercise of the Warrants in accordance with the terms thereof, will be validly issued, fully paid and non-assessable and free from all taxes and liens, claims and encumbrances and will not be subject to preemptive rights or other similar rights of shareholders of the Company and will not impose personal liability upon the holder thereof.

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e. No Conflicts. The execution, delivery and performance of this Agreement, the Registration Rights Agreement and the Warrants by the Company, and the consummation by the Company of the transactions contemplated hereby and thereby (including, without limitation, the reservation for issuance and issuance of the Shares and the Warrant Shares and the issuance of the Warrants) will not (i) conflict with or result in a violation of the Articles of Incorporation or By-laws or (ii) conflict with, or constitute a default (or an event which, with notice or lapse of time or both, would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of any agreement, indenture or instrument to which the Company is a party, or result in a violation of any law, rule, regulation, order, judgment or decree (including United States federal and state securities laws and regulations) applicable to the Company or by which any property or asset of the Company is bound or affected (except, with respect to clause (ii), for such conflicts, defaults, terminations, amendments, accelerations, cancellations and violations as would not, individually or in the aggregate, have a Material Adverse Effect). The Company is in compliance with its Articles of Incorporation, By-laws and other organizational documents and is not in default (and no event has occurred which, with notice or lapse of time or both, would put the Company in default) under, nor has there occurred any event giving others (with notice or lapse of time or both) any rights of termination, amendment, acceleration or cancellation of, any agreement, indenture or instrument to which the Company is a party, except for actual or possible violations, defaults or rights as would not, individually or in the aggregate, have a Material Adverse Effect. The business of the Company is not being conducted in violation of any law, ordinance or regulation of any governmental entity, except for actual or possible violations, if any, the sanctions for which either singly or in the aggregate would not have a Material Adverse Effect. Except as specifically contemplated by this Agreement and as required under the Securities Act and any applicable state securities laws, the Company is not required to obtain any consent, approval, authorization or order of, or make any filing or registration with, any court or governmental agency or any regulatory or self regulatory agency in order for it to execute, deliver or perform any of its obligations under this Agreement (including, without limitation, the issuance and sale of the Shares and Warrants as provided hereby), or the Warrants (including the issuance of the Warrant Shares), in each case in accordance with the terms hereof or thereof. The Company is not in violation of the listing requirements of the Nasdaq National Market ("NASDAQ") and does not reasonably anticipate that the Common Stock will be delisted by NASDAQ in the foreseeable future based on its rules (and interpretations thereof) as currently in effect.

f. SEC Documents; Financial Statements. Since August 27, 1996, the Company has timely filed all reports, schedules, forms, statements and other documents required to be filed by it with the SEC pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and has filed all registration statements and other documents required to be filed by it with the SEC pursuant to the Securities Act (all of the foregoing filed prior to the date hereof, and all exhibits included therein and financial statements and schedules thereto and documents incorporated by reference therein, being hereinafter referred to herein as the "SEC Documents"). The Company has made available to each Purchaser true and complete copies of the SEC Documents, except for the exhibits and schedules thereto and the documents incorporated therein. As of their respective dates, the SEC Documents complied in all material respects with the requirements of the Exchange Act or the Securities Act, as the case may be, and the rules and regulations of the SEC promulgated thereunder applicable to the SEC Documents, and none of the SEC Documents, at the time they were filed with the SEC, contained any untrue statement

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of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. Except as set forth on Schedule 4(f), any statements made in any such SEC Documents that are or were required to be updated or amended under applicable law have been so updated or amended. As of their respective dates, the financial statements of the Company included in the SEC Documents complied in all material respects with applicable accounting requirements and the published rules and regulations of the SEC applicable with respect thereto. Such financial statements have been prepared in accordance with United States generally accepted accounting principles, consistently applied, during the periods involved (except (i) as may be otherwise indicated in such financial statements or the notes thereto, or (ii) in the case of unaudited interim statements, to the extent they may not include footnotes or may be condensed or summary statements) and fairly present in all material respects the financial position of the Company as of the dates thereof and the results of its operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to normal and recurring year-end audit adjustments). Except as set forth in the SEC Documents, the Company has no liabilities, contingent or otherwise, other than (i) liabilities incurred in the ordinary course of business subsequent to the date of such SEC Documents and (ii) obligations under contracts and commitments incurred in the ordinary course of business and not required under generally accepted accounting principles to be reflected in such SEC Documents, which liabilities and obligations referred to in clauses (i) and (ii), individually or in the aggregate, would not have a Material Adverse Effect. The Company has made available to each Purchaser a draft of its Form 10-K for its fiscal year ended December 31, 1998, including the exhibits included therein and financial statements and schedules thereto and documents incorporated by reference therein (the "Draft 10-K"). The Draft 10-K shall be deemed to be an SEC Document hereunder. The Company's Form 10-K for the fiscal year ended December 31, 1998, which will be filed by the Company with the SEC pursuant to the Exchange Act, will not differ in any material respect from the Draft 10-K.

g. Absence of Certain Changes. Except as disclosed in the SEC Documents, since December 31, 1998, there has been no change or development which individually or in the aggregate has had or would have a Material Adverse Effect.

h. Absence of Litigation. Except as disclosed in the SEC Documents, there is no action, suit, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending or, to the Company's knowledge, threatened against or affecting the Company, or any of its directors or officers in their capacities as such which would have a Material Adverse Effect or which would adversely affect the validity, enforceability of, or the authority or ability of the Company to perform its obligations under this Agreement (including the issuance of the Shares and the Warrants), the Registration Rights Agreement, the Warrants (including the issuance of the Warrant Shares) or any other agreement or document delivered pursuant hereto or thereto.

i. Intellectual Property. The Company owns or is licensed to use all patents, patent applications, trademarks, trademark applications, trade names, service marks, copyrights, copyright applications, licenses, permits, know-how (including trade secrets and other unpatented and/or unpatentable proprietary or confidential information, systems or procedures) and other similar rights and proprietary knowledge (collectively, "Intangibles") necessary for the conduct

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of its business as now being conducted. Except as set forth in Schedule 4(i), the Company is not infringing or in conflict with any other person with respect to any Intangibles which, individually or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would have a Material Adverse Effect. Except as set forth in Schedule 4(i), the Company has not received written notice that it is infringing upon third party Intangibles. The Company has not entered into any consent, indemnification, forbearance to sue or settlement agreements with respect to the validity of the Company's ownership or right to

use its Intangibles and there is no reasonable basis for any such claim to be successful. The Intangibles are valid and enforceable, and no registration relating thereto has lapsed, expired or been abandoned or canceled or is the subject of cancellation or other adversarial proceedings, and all applications therefor are pending and in good standing. The Company has complied, in all material respects, with its contractual obligations relating to the protection of the Intangibles used pursuant to licenses. Except as set forth in Schedule 4(i), to the Company's knowledge, no person is infringing on or violating the Intangibles owned or used by the Company.

j. Foreign Corrupt Practices. Neither the Company, nor any director, officer, agent, employee or other person acting on behalf of the Company has, in the course of such person's actions for, or on behalf of, the Company, used any corporate funds for any unlawful contribution, gift, entertainment or other unlawful expenses relating to political activity; made any direct or indirect unlawful payment to any foreign or domestic government official or employee from corporate funds; violated or is in violation of any provision of the United States Foreign Corrupt Practices Act of 1977; or made any bribe, rebate, payoff, influence payment, kickback or other unlawful payment to any foreign or domestic government official or employee.

k. Environment. Except as disclosed in the SEC Documents (i) there is no environmental liability, nor factors likely to give rise to any environmental liability, affecting any of the properties of the Company that, individually or in the aggregate, would have a Material Adverse Effect and (ii) the Company has not violated or infringed any environmental law applicable to it now or previously in effect, other than such violations or infringements that, individually or in the aggregate, have not had and will not have a Material Adverse Effect.

l. Title. The Company has good title in fee simple to all real property and good title to all personal property owned by it which is material to the business of the Company, in each case free and clear of all liens, encumbrances and defects except for such defects in title that, individually or in the aggregate, could not reasonably be expected to have a Material Adverse Effect. Any real property and facilities held under lease by the Company are held by it under valid, subsisting and enforceable leases with such exceptions which have not had and will not have a Material Adverse Effect.

m. Insurance. The Company has its assets insured against loss or damage as is appropriate to its business and assets, in such amounts and against such risks as are customarily carried and insured against by owners of comparable businesses and assets, and such insurance coverages will be continued in full force and effect to and including the Closing Date other than those insurance coverages in respect of which the failure to continue in full force and effect could not reasonably be expected to have a Material Adverse Effect.

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n. Disclosure. All information relating to or concerning the Company set forth in this Agreement or provided to the Purchaser pursuant to Section 3(b) hereof and otherwise in connection with the transactions contemplated hereby is true and correct in all material respects and the Company has not omitted to state any material fact necessary in order to make the statements made herein or therein, in light of the circumstances under which they were made, not misleading; provided the Purchaser acknowledges that forward-looking information provided to the Purchaser, including, but not limited to, projections of revenues, income, or loss, capital expenditures, plans for product development and cooperative arrangements, future operations, financing needs or plans of the Company, is subject to change as a result of the factors set forth in Item 1. "Considerations Relating to the Company's Business," set forth in the Draft 10-K and in the Company's Annual Report on Form 10-K for the year ended December 31, 1998, to be filed with the SEC within 14 days from the Closing Date. No event or circumstance has occurred or exists with respect to the Company or its business, properties, operations, prospects or financial conditions, which has not been publicly disclosed but, under applicable law, rule or regulation, would be required to be disclosed by the Company in a registration statement filed on the date hereof by the Company under the Securities Act with respect to a primary issuance of the Company's securities. The Company has not provided, and without the Purchaser's consent thereto, will not hereafter provide to the Purchaser, any information which, according to applicable law, rule or regulation, should have been disclosed publicly by the Company but which has not been disclosed.

o. Acknowledgment Regarding the Purchaser's Purchase of the Securities. The Company acknowledges and agrees that the Purchaser is not acting as a financial advisor or fiduciary of the Company (or in any similar capacity) with respect to this Agreement or the transactions contemplated hereby, and the relationship between the Company and the Purchaser is "arms length" and that any statement made by the Purchaser or any of its representatives or agents in connection with this Agreement and the transactions contemplated hereby is not advice or a recommendation and is merely incidental to the Purchaser's purchase of Securities and has not been relied upon by the Company, its officers or directors in any way. The Company further represents to the Purchaser that the Company's decision to enter into this Agreement has been based solely on an independent evaluation by the Company and its representatives.

p. No Brokers. The Company has not engaged any person to which or to whom brokerage commissions, finder's fees, financial advisory fees or similar payments are or will become due in connection with this Agreement or the transactions contemplated hereby except for HCM (as defined below) in accordance with Section 5(e) hereof and Josephthal & Co. Inc. ("Josephthal"), whose commissions and fees will be paid by the Company. The Company has agreed to issue a stock purchase warrant to Josephthal in connection with the execution and delivery of this Agreement (the "Josephthal Warrant") with an exercise price per share greater than the market price of the Common Stock on NASDAQ on the date of issuance thereof and on such other terms as are described in Schedule 4(p).

q. Tax Status. The Company has made or filed all federal, state and local income and all other tax returns, reports and declarations required by any jurisdiction to which it is subject (unless and only to the extent that the Company has set aside on its books provisions reasonably adequate for the payment of all unpaid and unreported taxes) and has paid all taxes and other governmental assessments and charges that are material in amount, shown or

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determined to be due on such returns, reports and declarations, except those being contested in good faith and has set aside on its books provisions reasonably adequate for the payment of all taxes for periods subsequent to the periods to which such returns, reports or declarations apply. There are no unpaid taxes claimed to be due by the taxing authority of any jurisdiction. The Company has not executed a waiver with respect to any statute of limitations relating to the assessment or collection of any federal, state or local tax. Except as set forth in Schedule 4(q), none of the Company's tax returns has been or is being audited by any taxing authority.

r. No General Solicitation. Neither the Company nor any person participating on the Company's behalf in the transactions contemplated hereby has conducted any "general solicitation," as such term is defined in Regulation D, with respect to any of the Securities being offered hereby.

s. No Integrated Offering. Neither the Company, nor any of its affiliates, nor any person acting on its or their behalf, has, directly or indirectly, made any offers or sales of any security or solicited any offers to buy any security under circumstances that would require registration of the Securities being offered hereby under the Securities Act or cause this offering of Securities to be integrated with any prior offering of securities of the Company for purposes of the Securities Act or any applicable stockholder approval provisions, including, without limitation, Rule 4460(i) of the National Association of Securities Dealers ("NASD") or any similar rule.

t. Year 2000. To the best of the Company's knowledge:

(i) All hardware and software products used by the Company in the administration and the business operations of the Company will be able to process date data (including, but not limited to, calculating, comparing and sequencing) in a consistent manner from, into and between the twentieth century (through 1999), the year 2000 and the twenty-first century, including leap year calculations, when used in accordance with the product documentation accompanying such hardware and software products.

(ii) All software developed and sold by the Company (other than third party software) will be able to process date data (including, but not limited to, calculating, comparing and sequencing) in a consistent manner from, into and between the twentieth century (through 1999), the year 2000 and the twenty-first century, including leap year calculations, when used in accordance with the product documentation accompanying such software.

5. COVENANTS.

a. Best Efforts. The parties shall use their best efforts timely to satisfy each of the conditions set forth in Section 6 and Section 7 of this Agreement.

b. Form D; Blue Sky Laws. The Company agrees to file a Form D with respect to the Securities as required under Regulation D and to provide a copy thereof to each Purchaser promptly after such filing. The Company shall, on or before the Closing Date, take such action as the Company shall reasonably determine is necessary to qualify the Securities for sale to the

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Purchasers pursuant to this Agreement under applicable securities or "blue sky" laws of the states of the United States or obtain exemption therefrom, and shall provide evidence of any such action so taken to each Purchaser on or prior to the Closing Date.

c. Reporting Status. So long as the Purchaser beneficially owns any Securities or has the right to acquire any Securities pursuant to this Agreement, the Company shall timely file all reports required to be filed with the SEC pursuant to the Exchange Act, and shall not terminate its status as an issuer required to file reports under the Exchange Act even if the Exchange Act

or the rules and regulations thereunder would permit such termination.

d. Use of Proceeds. The Company shall use the net proceeds from the sale of the Shares and the Warrants for the purposes set forth on Schedule 5(d), but in no event shall the Company use such net proceeds to repurchase any outstanding securities of the Company without the Purchasers' prior written consent.

e. Expenses. At the Closing, the Company shall reimburse Heights Capital Management, Inc. ("HCM") for the out-of-pocket expenses reasonably incurred by HCM and its affiliates and advisors in connection with the negotiation, preparation, execution and delivery of this Agreement, the Registration Rights Agreement, the Warrants and the other agreements to be executed in connection herewith, including, without limitation, in conducting HCM's and its affiliates' and advisors' reasonable due diligence and HCM's and its affiliates' reasonable attorneys' fees and expenses (the "Expenses"). Notwithstanding the foregoing, the Company shall not be obligated to reimburse HCM for more than \$50,000 of Expenses pursuant to this Section 5(e). The Company's obligation to reimburse HCM may be satisfied, at the option of HCM, by crediting the amount of such obligation against HCM's Investment Amount and thereby reducing the Investment Amount to be paid (but not the amount of the Investment Amount) by HCM pursuant to Section 2(b)(ii) by an amount equal to such obligation.

f. Financial Information. For a period of two (2) years following the last Closing, the Company agrees to send the following reports to each Purchaser: (i) within ten days after the filing with the SEC, a copy of its Annual Report on Form 10-K, its Quarterly Reports on Form 10-Q, its proxy and information statements and any Current Reports on Form 8-K and (ii) within one day after release, copies of all press releases issued by the Company or any of its subsidiaries, if any.

g. Reservation of Shares. The Company has and shall at all times have authorized and reserved for the purpose of issuance a sufficient number of shares of Common Stock to provide for the issuance of the maximum number of Shares as provided in Section 2 hereof and the full exercise of the Warrants and the issuance of the Warrant Shares in connection therewith and as otherwise required hereby and by the Warrants. The Company shall not reduce the number of shares reserved for issuance hereunder or upon the full exercise of the Warrants (except as a result of any such issuance hereunder or exercise of Warrants) without the consent of the Purchaser.

h. Listing. On the Closing Date, the Company shall have secured the listing of the Shares and Warrant Shares, in each case, upon each national securities exchange or automated quotation system, if any, upon which shares of Common Stock are then listed or quoted (subject

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to official notice of issuance) and shall maintain, so long as any other shares of Common Stock shall be so listed, such listing of all Shares from time to time issuable hereunder and all Warrant Shares from time to time issuable upon exercise of the Warrants. The Company will use its best efforts to continue the listing and trading of its Common Stock on NASDAQ, the New York Stock Exchange ("NYSE") or the American Stock Exchange ("AMEX") and will comply in all respects with the Company's reporting, filing and other obligations under the bylaws or rules of the NYSE or any other exchanges, as applicable, and the NASD.

i. Corporate Existence. So long as any Purchaser beneficially owns any Securities or the right to acquire any Securities pursuant to this Agreement, the Company shall maintain its corporate existence, except in the event of a merger, consolidation or sale of all or substantially all of the Company's assets, as long as the surviving or successor entity in such transaction (i) assumes the Company's obligations hereunder and under the Warrants and under the agreements and instruments entered into in connection herewith and (ii) is a publicly trading Company whose common stock is listed and trades on NASDAQ, the NYSE or AMEX.

j. Additional Equity Capital; Right of First Offer. The Company agrees that during the period beginning on the date hereof and ending on the date which is 180 days following the Closing Date (the "Lock-Up Period"), the Company will not, without the prior written consent of HCM, contract with any party to obtain additional financing in which any equity or equity-linked securities are issued (including any debt financing with an equity component) pursuant to any offering exempt from the registration requirements of the Securities Act which grants any registration rights exercisable within one year of the Closing Date ("Future Offerings"). The Company will not conduct any Future Offering during the period beginning on the day following the expiration of the Lock-Up Period and ending 180 days following the expiration of the Lock-Up Period unless it shall have first delivered to the Purchasers, at least ten business days prior to the closing of such Future Offering, written notice describing the proposed Future Offering, including the terms and conditions thereof, and providing each Purchaser and its affiliates an option during the ten business day period following delivery of such notice to purchase all of the securities being offered in the Future Offering on the same terms as contemplated by such Future Offering (the limitations referred to in this Section 5(j) are collectively referred to as the "Capital Raising Limitations"). The Capital Raising Limitations shall not apply to any transaction involving issuances of securities

as consideration in a merger, consolidation or acquisition of assets, or in connection with any strategic partnership or joint venture (the primary purpose of which is not to raise equity capital), or as consideration for the acquisition of a business, product or license by the Company. The Capital Raising Limitations also shall not apply to (i) the issuance of securities pursuant to an underwritten public offering, (ii) the issuance of securities upon exercise or conversion of the Company's options, warrants or other convertible securities outstanding as of the date hereof or (iii) the grant of additional options or warrants, or the issuance of additional securities, under any duly authorized Company stock option, stock purchase or restricted stock plan for the benefit of the Company's employees, consultants or directors.

k. No Integrated Offerings. The Company shall not make any offers or sales of any security (other than the Securities) under circumstances that would require registration of the Securities being offered or sold hereunder under the Securities Act or cause this offering of

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Securities to be integrated with any other offering of securities by the Company for purposes of any stockholder approval provision applicable to the Company or its securities.

1. Certain Trading Restrictions. So long as the Company is in compliance in all material respects with its obligations to the Purchasers pursuant to this Agreement, the Registration Rights Agreement and the Warrants, each Purchaser agrees that it and its affiliates over which such Purchaser is exercising investment discretion shall not engage in short sales or other hedging transactions relating to the Common Stock prior to the earlier of (i) the Registration Deadline (as defined in the Registration Rights Agreement) or (ii) the Adjustment Date, unless and only while the then highest current bid price of the Common Stock, as reported on NASDAQ, is greater than \$17.90625. To the extent that the foregoing sentence permits short sales or other hedging transactions, then such transactions may only be effected in accordance with Rule 10a-1 under the Exchange Act to the extent applicable.

6. CONDITIONS TO THE COMPANY'S OBLIGATION TO SELL.

The obligation of the Company hereunder to issue and sell Shares and Warrants to a Purchaser at the Closing hereunder is subject to the satisfaction, at or before the Closing Date, of each of the following conditions thereto; provided, however, that these conditions are for the Company's sole benefit and may be waived by the Company at any time in its sole discretion.

a. The applicable Purchaser shall have executed the signature page to this Agreement and the Registration Rights Agreement, and delivered the same to the Company.

b. The applicable Purchaser shall have delivered (i) such Purchaser's Investment Amount in accordance with Section 2(b) above.

c. The representations and warranties of the applicable Purchaser shall be true and correct as of the date when made and as of the Closing Date as though made at that time (except for representations and warranties that speak as of a specific date, which representations and warranties shall be true and correct as of such date), and the applicable Purchaser shall have performed, satisfied and complied in all material respects with the covenants, agreements and conditions required by this Agreement to be performed, satisfied or complied with by the applicable Purchaser at or prior to the Closing Date.

d. No statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by any court or governmental authority of competent jurisdiction or any self-regulatory organization having authority over the matters contemplated hereby which prohibits the consummation of any of the transactions contemplated by this Agreement.

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7. CONDITIONS TO EACH PURCHASER'S OBLIGATION TO PURCHASE SHARES AND WARRANTS.

The obligation of each Purchaser hereunder to purchase Shares and Warrants to be purchased by it hereunder is subject to the satisfaction, at or before the Closing Date, of each of the following conditions, provided that these conditions are for such Purchaser's sole benefit and may be waived by such Purchaser at any time in such Purchaser's sole discretion:

a. The Company shall have executed the signature pages to this Agreement and the Registration Rights Agreement, and delivered the same to the Purchaser.

b. The Company shall have delivered to the Purchaser duly executed certificates representing the number of Closing Shares and duly executed Warrants as provided in Section 2(b) above.

c. The Shares shall be authorized for quotation on NASDAQ and trading in the Common Stock (or NASDAQ generally) shall not have been suspended or be under threat of suspension by the SEC or NASDAQ.

d. The representations and warranties of the Company shall be true and correct as of the date when made and as of the Closing Date as though made at that time (except for representations and warranties that speak as of a specific date, which representations and warranties shall be true and correct as of such date) and the Company shall have performed, satisfied and complied in all material respects with the covenants, agreements and conditions required by this Agreement to be performed, satisfied or complied with by the Company at or prior to the Closing Date. The Purchaser shall have received a certificate, executed on behalf of the Company by its Chief Financial Officer, dated as of the Closing Date, to the foregoing effect.

e. No statute, rule, regulation, executive order, decree, ruling, injunction, action, proceeding or interpretation shall have been enacted, entered, promulgated, endorsed or adopted by any court or governmental authority of competent jurisdiction or any self-regulatory organization, or the staff of any thereof, having authority over the matters contemplated hereby which questions the validity of, or challenges or prohibits the consummation of, any of the transactions contemplated by this Agreement.

f. The Purchaser shall have received an opinion of the Company's counsel, dated as of the Closing Date, in substantially the form of Exhibit D attached hereto.

g. From the date of this Agreement through the Closing Date, there shall not have occurred any Material Adverse Effect.

h. The Company shall have provided advance notice to the NASD of the issuance of the Shares as contemplated by NASD Rule 4310(c)(17) and provided the Purchaser with evidence of the Company's compliance with such Rule, or evidence of the NASD's waiver of the applicable time period.

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8. GOVERNING LAW MISCELLANEOUS.

a. Governing Law; Jurisdiction. This Agreement shall be governed by and construed in accordance with the laws of the State of New York applicable to contracts made and to be performed in the State of New York. The Company irrevocably consents to the jurisdiction of the United States federal courts and the state courts located in New York, New York in any suit or proceeding based on or arising under this Agreement and irrevocably agrees that all claims in respect of such suit or proceeding may be determined in such courts. The Company irrevocably waives the defense of an inconvenient forum to the maintenance of such suit or proceeding. The Company further agrees that service of process upon the Company mailed by first class mail to the address set forth in Section 8(f) shall be deemed in every respect effective service of process upon the Company in any such suit or proceeding. Nothing herein shall affect the right of any Purchaser to serve process in any other manner permitted by law. The Company agrees that a final non-appealable judgment in any such suit or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on such judgment or in any other lawful manner.

b. Counterparts. This Agreement may be executed in two or more counterparts, all of which shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party. This Agreement, once executed by a party, may be delivered to the other parties hereto by facsimile transmission of a copy of this Agreement bearing the signature of the party so delivering this Agreement.

c. Headings. The headings of this Agreement are for convenience of reference and shall not form part of, or affect the interpretation of, this Agreement.

d. Severability. If any provision of this Agreement shall be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect the validity or enforceability of the remainder of this Agreement or the validity or enforceability of this Agreement in any other jurisdiction.

e. Entire Agreement; Amendments; Waiver. This Agreement and the instruments referenced herein contain the entire understanding of the parties with respect to the matters covered herein and therein and, except as specifically set forth herein or therein, neither the Company nor the Purchaser make any representation, warranty, covenant or undertaking with respect to such matters. No provision of this Agreement may be waived other than by an instrument in writing signed by the party to be charged with enforcement and no provision of this Agreement may be amended other than by an instrument in writing signed by the Company and the Purchaser. Any waiver by any party of a breach of any provision of this Agreement shall not operate as or be construed to be a waiver of any other breach of such provision of or any breach of any other provision of this Agreement. The failure of a party to insist upon strict adherence to any term of this Agreement on one or more occasions shall not be considered a waiver

or deprive that party of the right thereafter to insist upon strict adherence to that term or any other term of this Agreement.

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f. Notices. Any notices required or permitted to be given under the terms of this Agreement shall be sent by certified or registered mail (return receipt requested) or delivered personally or by courier or by confirmed telecopy, and shall be effective five days after being placed in the mail, if mailed, or upon receipt or refusal of receipt, if delivered personally or by courier or confirmed telecopy, in each case addressed to a party. The addresses for such communications shall be:

If to the Company:

Microvision, Inc.
2203 Airport Way South, Suite 100
Seattle, Washington 98134
Telephone No.: (206) 623-7055
Facsimile No.: (206) 623-5961
Attention: Richard Raisig

With a copy to:

Stoel Rives LLP
3600 One Union Square
Seattle, Washington 98101
Telephone No.: 206-624-0900
Facsimile No.: 206-386-7500
Attention: Christopher J. Voss, Esq.

If to the Purchaser, to the address set forth under the Purchaser's name on the Execution Page hereto executed by such Purchaser.

Each party shall provide notice to the other parties of any change in address.

g. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties and their successors and assigns. The Company shall not assign this Agreement or any rights or obligations hereunder without the prior written consent of the Purchasers. If any Purchaser endeavors to assign its rights and obligations under this Agreement with respect to the acquisition of the Adjustment Shares to any affiliate or third party, then such assignee, by written instrument duly executed by such assignee, shall assume all obligations of such Purchaser hereunder with respect to the acquisition of the Adjustment Shares so assigned and shall make the same representations and warranties with respect thereto as such Purchaser makes in this Agreement, whereupon such Purchaser shall be relieved of any further obligations, responsibilities, and liabilities with respect to the acquisition of such Adjustment Shares, the right to the acquisition of which has been so assigned.

h. Third Party Beneficiaries. This Agreement is intended for the benefit of the parties hereto and their respective permitted successors and assigns, and is not for the benefit of, nor may any provision hereof be enforced by any other person.

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i. Survival. The representations and warranties of the Company and the agreements and covenants set forth in Sections 4, 5 and 8 shall survive the Closing notwithstanding any due diligence investigation conducted by or on behalf of the Purchasers. Moreover, none of the representations and warranties made by the Company herein shall act as a waiver of any rights or remedies a Purchaser may have under applicable federal or state securities laws. The Company agrees to indemnify and hold harmless each Purchaser and each of such Purchaser's officers, directors, employees, partners, members, agents and affiliates for loss or damage relating to the Securities purchased hereunder arising as a result of or related to any breach by the Company of any of its representations or covenants set forth herein, including advancement of expenses as they are incurred.

j. Publicity. The Company and each Purchaser shall have the right to review and comment upon, before issuance any press releases, SEC, NASDAQ or NASD filings, or any other public statements with respect to the transactions contemplated hereby; provided, however, that the Company shall be entitled, without the prior review of the Purchasers, to make any press release or SEC, NASDAQ or NASD filings with respect to such transactions as is required by applicable law and/or exchange regulations (although the Purchasers shall be entitled to review and comment upon any such press release prior to its release). Within five days after the Closing Date, the Company shall file a Current Report on Form 8-K or other appropriate form with the SEC disclosing the transactions contemplated hereby.

k. Further Assurances. Each party shall do and perform, or cause to be done and performed, all such further acts and things, and shall execute and deliver all such other agreements, certificates, instruments and documents, as the other party may reasonably request in order to carry out the intent and accomplish the

purposes of this Agreement and the consummation of the transactions contemplated hereby.

l. Termination. In the event that the Closing Date shall not have occurred on or before April 1, 1999, unless the parties agree otherwise, this Agreement shall terminate at the close of business on such date. Notwithstanding any termination of this Agreement, any party not in breach of this Agreement shall preserve all rights and remedies it may have against another party hereto for a breach of this Agreement prior to or relating to the termination hereof.

m. Joint Participation in Drafting. Each party to this Agreement has participated in the negotiation and drafting of this Agreement, the Registration Rights Agreement and the Warrants. As such, the language used herein and therein shall be deemed to be the language chosen by the parties hereto to express their mutual intent, and no rule of strict construction will be applied against any party to this Agreement, the Registration Rights Agreement or the Warrants.

n. Equitable Relief. The Company acknowledges that a breach by it of its obligations hereunder will cause irreparable harm to a Purchaser by vitiating the intent and purpose of the transactions contemplated hereby. Accordingly, the Company acknowledges that the remedy at law for a breach of its obligations hereunder will be inadequate and agrees, in the event of a breach or threatened breach by the Company of the provisions of this Agreement, that a Purchaser shall be entitled, in addition to all other available remedies, to an injunction restraining

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any breach and requiring immediate issuance and transfer, without the necessity of showing economic loss and without any bond or other security being required.

o. Single Purchaser. Notwithstanding any references in this Agreement to multiple Purchasers, the parties hereto acknowledge and agree that Capital Ventures International is the sole Purchase hereunder.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

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IN WITNESS WHEREOF, the undersigned Purchaser and the Company have caused this Agreement to be duly executed as of the date first above written.

COMPANY:

MICROVISION, INC.

By: /s/ RICHARD A. RAISIG

Name: Richard A. Raisig

Title: CFO / VP Operations

PURCHASER:

CAPITAL VENTURES INTERNATIONAL

By: Heights Capital Management, Inc.,
its authorized agent

By: /s/ MICHAEL SPOLAN

Name: Michael Spolan

Title: Secretary and General
Counsel

Residence: Cayman Islands
Address: c/o Heights Capital Management,
Inc.
425 California, Suite 1100
San Francisco, CA 94104
Telephone No.: (415) 403-6500
Telecopy No.: (415) 403-6525
Attention: Michael Spolan, Esq.

with copies of all notices to:

Klehr, Harrison, Harvey, Branzburg &
Ellers LLP
1401 Walnut Street
Philadelphia, PA 19102
Telephone No.: (215) 568-6060

Telecopy No.: (215) 568-6603
Attention: Stephen T. Burdumy, Esq.

Investment Amount \$ 6,000,000

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.

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	Year ended December 31,		
	1998	1997	1996
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Weighted-average number of shares outstanding for use in computing loss per share	5,993,500	5,806,200	3,832,000
Weighted-average number of shares outstanding for use in computing loss per share assuming dilution	5,993,500	5,806,200	3,832,000
Net loss	\$ (7,327,500)	\$ (4,945,000)	\$ (3,456,600)
Net loss per common share	\$ (1.22)	\$ (0.85)	\$ (0.90)
Net loss per common share assuming dilution	\$ (1.22)	\$ (0.85)	\$ (0.90)

</TABLE>

Consent of Independent Accountants

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-19011 and No. 333-71373) of Microvision, Inc. of our report dated April 1, 1999 appearing in this Form 10-K.

PricewaterhouseCoopers LLP
Seattle, Washington
April 13, 1999

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5

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This Schedule contains summary financial information extracted from the audited financial statements of Microvision, Inc., for the year ended December 31, 1998 and is qualified in its entirety by reference to such financial statements.

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