

REGISTRATION NO. 333-5276-LA

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 1
TO
FORM SB-2
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

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

<TABLE>			
<S>	WASHINGTON	<C>	3679
	(State or jurisdiction of incorporation or organization)		(Primary Standard Industrial Classification Code Number)
</TABLE>		<C>	91-1600822
			(I.R.S. Employer Identification No.)

2203 AIRPORT WAY SOUTH, SUITE 100, SEATTLE, WASHINGTON 98134
(206) 623-7055
(Address and telephone number of Registrant's principal executive offices and
principal place of business)

RICHARD F. RUTKOWSKI
CHIEF EXECUTIVE OFFICER
2203 AIRPORT WAY SOUTH, SUITE 100
SEATTLE, WASHINGTON 98134
(206) 623-7055
(Name, address, and telephone number of agent for service)

COPIES TO:

- | | |
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| (206) 624-0900 | (503) 221-1440 |

Approximate date of proposed sale to the public:
AS SOON AS PRACTICABLE AFTER THIS REGISTRATION STATEMENT BECOMES EFFECTIVE.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. / / _____

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. / / _____

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. / / _____

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box. /X/ _____

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL

FILE A FURTHER AMENDMENT THAT SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL HEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

 INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY SUCH STATE.

SUBJECT TO COMPLETION, DATED AUGUST 14, 1996

2,000,000 UNITS

[LOGO]

EACH UNIT CONSISTING OF ONE SHARE OF COMMON STOCK
 AND ONE WARRANT TO PURCHASE ONE SHARE OF COMMON STOCK

Microvision, Inc., a Washington corporation ("Microvision" or the "Company"), is hereby offering 2,000,000 units (the "Units"), each Unit consisting of one share of the Company's common stock, no par value (the "Common Stock"), and one warrant to purchase one share of Common Stock (the "Warrants"). It is currently estimated that the initial offering price will be between \$8.00 and \$10.00 per Unit (the "Unit Offering Price"). See "Underwriting" for the factors to be considered in determining the Unit Offering Price. The Common Stock and Warrants that make up the Units will separate immediately upon issuance and will trade only as separate securities. Each Warrant initially entitles the holder thereof to purchase one share of Common Stock at an exercise price of \$ per share (150% of the Unit Offering Price), subject to certain adjustments. The Warrants are exercisable at any time, unless previously redeemed, until the fifth anniversary of the effective date of this offering, subject to certain conditions. The Company may redeem the outstanding Warrants, in whole or in part, at any time upon at least 30 days prior written notice to the registered holders thereof, at a price of \$.25 per Warrant, provided that the closing bid price of the Common Stock has been at least 200% of the exercise price of the Warrants for each of the 20 consecutive trading days immediately preceding the date of the notice of redemption.

Prior to this offering, there has been no public market for the Units, Common Stock or Warrants, and there can be no assurance that an active trading market will develop or be maintained following the offering. The Company has made application to include the Common Stock and Warrants on the Nasdaq National Market under the symbols "MVIS" and "MVISW," respectively. See "Risk Factors -- Possible Illiquidity of Trading Market."

THE SECURITIES OFFERED HEREBY INVOLVE A HIGH DEGREE OF RISK. SEE "RISK FACTORS" BEGINNING AT PAGE 7.

 THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

<TABLE>
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	PRICE TO PUBLIC <C>	UNDERWRITING DISCOUNTS AND COMMISSIONS (1) <C>	PROCEEDS TO COMPANY (2) <C>
<S>			
Per Unit.....	\$	\$	\$
Total (3).....	\$	\$	\$
</TABLE>			

(1) Excludes a nonaccountable expense allowance payable by the Company to Paulson Investment Company, Inc. and marion bass securities corporation, the representatives (the "Representatives") of the several underwriters (the "Underwriters"), equal to 3% of the aggregate Unit Offering Price. The Company also has agreed (i) to issue warrants to the Representatives (the "Representatives' Warrants") to purchase in the aggregate up to 10% of the number of Units sold to the public, exercisable at \$ per Unit (120% of the Unit Offering Price), and (ii) to register for resale the securities underlying the Representatives' Warrants. The Company has agreed to indemnify the Underwriters against certain liabilities, including

liabilities under the Securities Act of 1933, as amended (the "Securities Act"). See "Underwriting."

- (2) Before deducting expenses of this offering payable by the Company estimated at \$1,065,000 , including the Representatives' nonaccountable expense allowance.
- (3) The Company has granted the Representatives a 45-day option (the "Overallocation Option") to purchase up to 300,000 Units on the same terms and conditions as set forth above, solely for the purpose of covering overallocations, if any. If the Overallocation Option is exercised in full, the total Price to Public, Underwriting Discounts and Commissions and Proceeds to Company will be \$, \$ and \$, respectively. See "Underwriting."

The Units offered by this Prospectus are offered by the several Underwriters subject to prior sale, when and if delivered to and accepted by the Underwriters, and subject to the right to reject any order in whole or in part and to certain other conditions. It is expected that delivery of the Units will be made in New York, New York on or about , 1996.

PAULSON INVESTMENT COMPANY, INC.

MARION BASS SECURITIES CORPORATION

THE DATE OF THIS PROSPECTUS IS , 1996.
[LOGO]

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Microvision's patented display technology allows electronically generated images to be projected directly onto the viewer's eye.

The Company's objective is to be a leading provider of personal display products in a broad range of professional and consumer applications.

The Company expects that its technology will permit the use of highly miniaturized, lightweight, battery-operated, viewing devices that can be comfortably held or worn as "headphones for the eyes."

</TABLE>

Augmented Vision Systems

AUGMENTED VISION APPLICATIONS SUPERIMPOSE HIGH CONTRAST, MONOCHROMATIC IMAGES OR INFORMATION ON THE VIEWER'S FIELD OF VISION AS A MEANS OF ENHANCING THE SAFETY, PRECISION AND SPEED OF THE USER'S PERFORMANCE OF TASKS. FOR EXAMPLE, A HEAD-MOUNTED DISPLAY COULD SUPERIMPOSE CRITICAL PATIENT INFORMATION IN A SURGEON'S FIELD OF VISION. VITAL SIGNS, EKG TRACES, REFERENCE MATERIALS, X-RAYS OR MRI IMAGES COULD BE MONITORED WITHOUT REQUIRING THE SURGEON TO LOOK UP FROM A PROCEDURE. FOR MILITARY APPLICATIONS, TROOPS COULD BE EQUIPPED WITH EYEGLASSES THAT DISPLAY HIGH DEFINITION IMAGERY WHICH COULD BE VIEWED DURING THE DAYTIME WITHOUT BLOCKING NORMAL VISION AND COULD ASSIST IN THREAT DETECTION, RECONNAISSANCE, MAINTENANCE AND OTHER ACTIVITIES.

Visual Simulation and Entertainment Displays

MANUFACTURERS OF INTERACTIVE MEDIA PRODUCTS HAVE RECOGNIZED THAT THE VISUAL EXPERIENCE OFFERED BY SIMULATION IS ENHANCED BY HIGH RESOLUTION, THREE-DIMENSIONAL DISPLAYS PROJECTED OVER A WIDE FIELD OF VISION. ALTHOUGH SIMULATED ENVIRONMENTS TRADITIONALLY HAVE BEEN USED AS A TRAINING TOOL FOR PROFESSIONAL USE, THEY ARE INCREASINGLY POPULAR AS A MEANS OF ENTERTAINMENT, PARTICULARLY IN COMPUTER GAMES. IN A THREE-DIMENSIONAL VIDEO GAME, FOR EXAMPLE, AN INEXPENSIVE PAIR OF VIRTUAL RETINAL DISPLAY EYEGLASSES WITH A WIDE FIELD OF VIEW COULD PROVIDE A HIGHLY IMMERSIVE VISUAL EXPERIENCE.

THE ABOVE RENDERING HAS BEEN PREPARED FOR ILLUSTRATION PURPOSES ONLY TO DEMONSTRATE PROPOSED PRODUCTS AND POSSIBLE APPLICATIONS FOR THE COMPANY'S TECHNOLOGY. THIS RENDERING DOES NOT DEPICT AN ACTUAL PRODUCT OR CURRENT APPLICATIONS. THE COMPANY HAS BUILT ONLY PORTABLE AND TABLE-TOP PROTOTYPES TO DATE. SEE "BUSINESS -- PROTOTYPES."

THE COMPANY HAS NOT PREVIOUSLY BEEN SUBJECT TO THE REPORTING REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED (THE "EXCHANGE ACT"). THE COMPANY INTENDS TO FURNISH ITS SHAREHOLDERS WITH ANNUAL REPORTS CONTAINING FINANCIAL STATEMENTS AUDITED BY ITS INDEPENDENT ACCOUNTANTS AND QUARTERLY REPORTS CONTAINING UNAUDITED FINANCIAL INFORMATION FOR EACH OF THE FIRST THREE QUARTERS OF EACH FISCAL YEAR.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE COMPANY'S SECURITIES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN

MARKET. SUCH STABILIZING MAY BE EFFECTED ON THE NASDAQ NATIONAL MARKET OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.
PROSPECTUS SUMMARY

THE FOLLOWING SUMMARY IS QUALIFIED IN ITS ENTIRETY BY, AND SHOULD BE READ IN CONJUNCTION WITH, THE MORE DETAILED INFORMATION AND FINANCIAL STATEMENTS AND RELATED NOTES THERETO APPEARING ELSEWHERE IN THIS PROSPECTUS. EXCEPT AS OTHERWISE NOTED, ALL INFORMATION IN THIS PROSPECTUS ASSUMES NO EXERCISE OF THE OVERALLOTMENT OPTION, THE WARRANTS OR THE REPRESENTATIVES' WARRANTS AND REFLECTS (I) A 1-FOR-3.2 REVERSE SPLIT OF THE CAPITAL STOCK OF THE COMPANY EFFECTED AUGUST 9, 1996; AND (II) THE CONVERSION OF ALL OUTSTANDING SHARES OF SERIES A PREFERRED STOCK OF THE COMPANY INTO AN AGGREGATE OF 859,776 SHARES OF COMMON STOCK UPON THE CLOSING OF THIS OFFERING. SEE "DESCRIPTION OF SECURITIES" AND "UNDERWRITING."

THE COMPANY

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

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

Microvision's VRD is fundamentally different from previously commercialized display technologies. By scanning a low power beam of colored light to "paint" rows of pixels directly on the retina of the viewer's eye, the VRD creates a high resolution, full-motion image without the use of screens or externally projected images. In certain applications, the image appears in the viewer's field of vision as if the viewer were only an arm's length away from a high quality video screen. The VRD also can superimpose an image on the viewer's field of vision, enabling the viewer to see data or other information projected by the device in the context of his or her natural surroundings. In each case, a high resolution, bright image is created.

The Company's objective is to be a leading provider of personal display products and imaging technology in a broad range of professional and consumer applications. The Company intends to achieve this objective and to generate revenues through a combination of the following activities: technology licensing to OEMs of consumer electronics products; provision of engineering services

3

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, wireless communications, computing and commercial and consumer electronics industries. The Company intends to work with certain of these manufacturers to develop or co-develop specific products that the Company

believes to be the most commercially viable. Even if the Company is successful in arranging development or co-development projects, it does not expect commercial sales of products until at least 1998, and commercial sales may not occur until substantially later, if at all.

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

The VRD was developed at the University of Washington's Human Interface Technology Lab (the "HIT Lab") by a team of engineers and technicians under the direction of Thomas A. Furness, III, a leader in the development of visual systems. See "Management -- HIT Lab Personnel." 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"). Currently, the development of the VRD technology is taking place at the HIT Lab pursuant to a research agreement between the University and the Company (the "Research Agreement"). See "Business -- UW License Agreement." The University has received one patent on the VRD technology and has additional patent applications pending, all of the rights to which have been exclusively licensed to the Company.

The Company was incorporated under the laws of the State of Washington in May 1993. Its corporate offices are located at 2203 Airport Way South, Suite 100, Seattle, Washington, and its telephone number at that address is (206) 623-7055.

4
THE OFFERING

<TABLE>	
<S>	<C>
Securities offered.....	2,000,000 Units, each Unit consisting of one share of Common Stock and one Warrant to purchase one share of Common Stock. The Common Stock and Warrants will be separately transferrable immediately upon issuance.
Common Stock to be outstanding after this offering.....	5,461,546 shares (1)
Use of proceeds.....	To fund research and product development, including \$1,604,218 to be paid under the License Agreement, purchase and installation of certain laboratory equipment and facilities, repayment of up to \$750,000 of the Company's 7% Convertible Subordinated Notes due 1997 (the "7% Notes"), unless converted, and for working capital. See "Use of Proceeds."
Risk factors.....	Investment in the Units involves a high degree of risk. See "Risk Factors."
Proposed NASDAQ National Market symbols.....	Common Stock MVIS Warrants MVISW
</TABLE>	

(1) Excludes (i) 1,189,168 shares of Common Stock issuable upon exercise of stock options and warrants outstanding at July 10, 1996 at an approximate weighted average exercise price of \$5.22 per share; (ii) up to 135,000 shares of Common Stock issuable in connection with conversions or redemptions of the Company's 7% Notes; (iii) 400,000 shares of Common Stock issuable upon exercise of the Representatives' Warrants; (iv) 12,000 shares of Common Stock reserved for issuance to Stoel Rives LLP, as a result of its receipt of Units as partial payment for legal services rendered to the Company in connection with this offering (the "Stoel Rives Shares"); and (v) the cash redemption of the fractional shares resulting from the reverse stock split approved by the shareholders on August 9, 1996. An additional 825,000 shares of Common Stock are reserved for issuance under the Company's 1996 Stock Option Plan and 1996 Independent Directors Stock Plan (the "1996 Stock Plans"). See "Capitalization" and "Management -- Benefit Plans."

The following table presents summary historical financial information of the Company. The financial information as of and for the years ended December 31, 1994 and 1995 has been derived from financial statements audited by Price Waterhouse LLP, independent accountants. The audited balance sheets at December 31, 1994 and 1995 and the related statements of operations, of cash flows and of changes in shareholders' equity (deficit) for the two years ended December 31, 1995 and notes thereto (the "Audited Financial Statements") appear elsewhere in this Prospectus. The report of Price Waterhouse LLP, which also appears herein, contains an explanatory paragraph relating to the Company's ability to continue as a going concern. See Note 1 of Notes to the Financial Statements. The financial information presented as of June 30, 1996, for the six month periods ended June 30, 1995 and 1996, and for the period cumulative from inception (May 1993) to June 30, 1996, has been derived from unaudited financial statements of the Company (the "Unaudited Financial Statements," and, together with the Audited Financial Statements, the "Financial Statements"). In the opinion of management, the Unaudited Financial Statements have been prepared on the same basis as the Audited Financial Statements and include all adjustments, consisting only of normal recurring adjustments, that management of the Company considers necessary for a fair presentation of the results of operations and financial position for such periods. The results for the six months ended June 30, 1996 are not necessarily indicative of the results that may be expected for any other interim period or for the full year. This summary financial information should be read in conjunction with the Financial Statements and other financial information included elsewhere in this Prospectus.

<TABLE>
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	YEAR ENDED		SIX MONTHS ENDED		PERIOD FROM
	DECEMBER 31, 1994	DECEMBER 31, 1995	JUNE 30, 1995	JUNE 30, 1996	INCEPTION (MAY 1993) TO JUNE 30, 1996
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
	<C>	<C>	<C>	<C>	<C>
STATEMENT OF OPERATIONS DATA:					
Contract revenue.....	\$ --	\$ 29	\$ --	\$ 27	\$ 56
Operating expenses:					
Research and development.....	1,805	1,931	700	692	5,575
Marketing, general and administrative.....	1,046	1,038	408	670	2,970
Total expenses.....	2,851	2,969	1,108	1,362	8,545
Net loss.....	\$ (2,812)	\$ (2,944)	\$ (1,099)	\$ (1,332)	\$ (8,439)
Pro forma net loss per share (3) (4).....		\$ (0.62)	\$ (0.24)	\$ (0.28)	
Shares used in pro forma net loss per share calculations.....		4,749	4,660	4,839	

</TABLE>

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	AS OF DECEMBER 31,		AS OF JUNE 30, 1996		
	1994	1995	ACTUAL	PRO FORMA (1)	AS
PRO FORMA ADJUSTED (2)					

	(IN THOUSANDS)				
	<C>	<C>	<C>	<C>	<C>
BALANCE SHEET DATA:					
Cash and cash equivalents.....	\$ 68	\$ 99	\$ 462	\$ 1,170	
Working capital.....	(30)	(376)	(251)	(251)	
Total assets.....	138	179	629	1,379	
Total shareholders' equity (deficit).....	(10)	(365)	(144)	(144)	

</TABLE>

(1) Gives effect to the issuance of the 7% Notes. See "Capitalization," "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources," "Certain Transactions" and Note 8 of Notes to the Financial Statements.

- (2) Adjusted to reflect the sale of the Units offered hereby, assuming the receipt of the estimated net proceeds of \$15,495,000 and no repayment of the 7% Notes out of the proceeds of the offering. Excludes (i) 1,189,168 shares of Common Stock issuable upon exercise of stock options and warrants outstanding at July 10, 1996 at an approximate weighted average exercise price of \$5.22 per share; (ii) up to 135,000 shares of Common Stock issuable in connection with conversions or redemptions of the Company's 7% Notes; (iii) 400,000 shares of Common Stock issuable upon exercise of the Representatives' Warrant; (iv) the Stoel Rives Shares; and (v) the cash redemption of the fractional shares resulting from the reverse stock split approved by the shareholders on August 9, 1996. An additional 825,000 shares of Common Stock are reserved for issuance under the Company's 1996 Stock Plans. See "Capitalization" and "Management -- Benefit Plans."
- (3) Pro forma net loss per share is computed after giving retroactive effect to the conversion of all shares of Series A Preferred Stock into an equal number of shares of Common Stock, which will occur upon completion of this offering.
- (4) Supplemental earnings per share reflecting the use of offering proceeds to repay the 7% Notes is not provided due to the issuance of the 7% Notes subsequent to June 30, 1996.

6

RISK FACTORS

THE INFORMATION SET FORTH IN "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS," "USE OF PROCEEDS" AND "BUSINESS" AND ELSEWHERE IN THIS PROSPECTUS INCLUDES CERTAIN FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT AND SECTION 21E OF THE EXCHANGE ACT. ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE PROJECTED IN THE FORWARD-LOOKING STATEMENTS AS A RESULT OF CERTAIN OF THE RISK FACTORS SET FORTH BELOW AND INFORMATION APPEARING ELSEWHERE IN THIS PROSPECTUS. IN ADDITION TO THE OTHER INFORMATION CONTAINED IN THIS PROSPECTUS, INVESTORS SHOULD CAREFULLY CONSIDER THE FOLLOWING RISK FACTORS:

MARKET ACCEPTANCE OF NEW TECHNOLOGY. The Company's success will depend on successful development and commercial acceptance of the VRD technology, a new technology which permits users to view images and data without the use of a screen by projecting an image directly onto the retina of the viewer's eye. To achieve commercial success, this technology and products incorporating this technology must be accepted by OEMs and end-users, and must meet the expectations of a continually changing marketplace. There can be no assurance that the VRD technology will achieve any measure of market acceptance. See "Business."

EARLY STAGE OF PRODUCT DEVELOPMENT. Although the Company has developed prototype VRD displays, further research, development and testing is necessary before any products will be available for commercial sale. There can be no assurance that the Company will be successful in further refining the VRD technology to produce marketable products. In addition, delays in the development of products, or the inability of the Company to procure partners for the development of products, may delay the introduction of products to the marketplace. Any such delay would likely have a material adverse effect on the Company's competitive position, financial condition and results of operations. See "Business."

DEVELOPMENT STAGE ENTERPRISE; EXPECTATION OF LOSSES; NEGATIVE CASH FLOWS. The Company was founded in May 1993 and, as a development stage enterprise, has not yet generated revenues from product sales. The Company does not expect to generate significant revenues in the near future. As of June 30, 1996, the Company had an accumulated deficit since inception of \$8,439,200, and the Company expects to continue to incur substantial losses and negative cash flow at least through mid-1998 and possibly thereafter. There can be no assurance that the Company will become profitable or cash flow positive at any time in the future. Because the Company has experienced significant losses from operations, the Company's ability to continue as a going concern is uncertain. 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 recently begun to develop 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."

LOSS OF EXCLUSIVE LICENSE; DEPENDENCE ON THE UNIVERSITY OF WASHINGTON. The Company's success depends on technology that it has licensed from the University of Washington. The Company relies on the University of Washington to prepare, file and prosecute patent applications relating to the VRD technology. In addition, the University of Washington's HIT Lab currently performs all of the Company's research and development activities under the terms of the Research Agreement and the UW License Agreement. The Company does not currently have the personnel or equipment to carry out research and development of the VRD technology on its own. If the University of Washington were to violate the terms of the Research Agreement or the UW License Agreement, the Company's operations and business prospects could be materially and adversely affected. In addition, if the Company

7

were to breach certain of the terms of the UW License Agreement, the Company could lose the exclusivity of its license or, under certain circumstances, all license rights to the VRD technology. See "Business -- UW License Agreement."

PATENTS AND PROTECTION OF PROPRIETARY TECHNOLOGY. The Company's ability to compete effectively in the information display market will depend, in part, on the ability of the Company and the University of Washington to maintain the proprietary nature of the VRD technology. The University of Washington has been awarded one U.S. patent relating to the VRD technology. Patent No. 5467104 issued in November 1995 has 14 claims, including claims directed to the ability to superimpose images on the user's field of vision. The University also has received notices of allowance from the U.S. Patent and Trademark Office with respect to certain claims under a second and a third U.S. patent application. In addition, the University has filed applications for several additional patents in the United States and in certain foreign countries. There can be no assurance, however, as to the degree of protection offered by these patents, or as to the likelihood that patents will be issued from the pending patent applications. Moreover, these patents may have limited commercial value or may lack sufficient breadth to protect adequately the aspects of the Company's technology to which the patents relate.

There can be no assurance that competitors, in the United States and in foreign countries, many of which have substantially greater resources than the Company and have made substantial investments in competing technologies, will not apply for and obtain patents that will prevent, limit or interfere with the Company's ability to make and sell its products. 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'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 favorable. This is particularly true in foreign countries where the expenses associated with such proceedings can be prohibitive. An adverse outcome in the defense of a patent suit could subject the Company to significant liabilities to third parties, require the Company and others to cease selling products that incorporate VRD technology or cease licensing the VRD technology, or require disputed rights to be licensed from third parties. Such licenses may not be available on satisfactory terms, or at all. Moreover, if claims of infringement are asserted against future co-development partners or customers of the Company, those partners or customers may seek indemnification from the Company for damages or expenses they incur.

The Company also relies on unpatented proprietary technology. Third parties could develop the same or similar technology or otherwise obtain access to the Company's proprietary technology. To protect its rights in these areas, the Company requires all employees and most consultants, advisors and collaborators to enter into confidentiality and noncompetition 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. To date, the Company has had no experience in enforcing such confidentiality agreements. In addition, the University of Washington retains the right to publish information regarding the VRD technology for academic purposes. See "Business -- Intellectual Property and Proprietary Rights."

DEPENDENCE ON FUTURE COLLABORATIONS; DEPENDENCE ON THIRD PARTIES. The Company's strategy for the development, testing, manufacture and commercialization of the VRD technology and products incorporating the VRD technology includes entering into cooperative development, joint venture or licensing arrangements with corporate partners, OEMs, licensors, licensees and others. There can

8

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

COMPETITION AND TECHNOLOGICAL ADVANCES. The information display industry is highly competitive. In some applications, the Company's products and the VRD technology will be competing with established manufacturers of miniaturized CRT and flat panel display devices, most of whom have substantially greater financial, technical and other resources than the Company. 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 products obsolete. The electronic information display industry has been characterized by rapid and significant technological advances. There can be no assurance that the VRD technology or the Company's proposed products will remain competitive with such advances or that the Company will have sufficient funds to invest in new technologies or processes. See "Business -- Competition."

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

CAPITAL REQUIREMENTS. The Company believes that the net proceeds of this offering, combined with cash on hand, will be sufficient to fund its budgeted capital and operating requirements for at least the next twelve months. 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."

CONTROL BY EXISTING SHAREHOLDERS. Upon the closing of this offering, the Company's existing shareholders will own approximately 63% of the Company's outstanding shares of Common Stock. The Company's executive officers, directors and five-percent shareholders and their affiliates will beneficially own approximately 8.0% of the Company's outstanding shares of Common Stock. These

9

shareholders, if they were to act as a group, would be able to elect all of the Company's directors, and otherwise control matters requiring approval by the shareholders of the Company, including approval of significant corporate transactions. Such concentration of ownership and the lack of cumulative voting also may have the effect of delaying or preventing a change in control of the

Company. See "Principal Shareholders."

DEPENDENCE ON KEY PERSONNEL. The Company's success is dependent on certain key management personnel, including Richard F. Rutkowski and Stephen R. Willey, the loss of whose services could significantly delay the achievement of the Company's planned development objectives. Achievement of the Company's business objectives will require substantial additional expertise in the areas of technology, finance, manufacturing and marketing. The Company is actively seeking additional qualified full-time personnel. Competition for qualified personnel is intense, and the loss of key personnel, or the inability to attract and retain the additional highly skilled personnel required for the expansion of the Company's activities, could have a material adverse effect on the Company's business and results of operations. See "Business -- Employees" and "Management."

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 "Business -- Human Factors and Safety."

POSSIBLE ILLIQUIDITY OF TRADING MARKET. Prior to this offering, there has been no public market for the Company's Common Stock or Warrants, and there can be no assurance that an active public market for the Common Stock or Warrants will develop or be sustained after this offering. The Company has made application to include the Common Stock and Warrants on the Nasdaq National Market. If the Company's application is not granted, the Company intends to make application to include the Common Stock and Warrants on the Nasdaq SmallCap Market. If the Company's Common Stock and Warrants are accepted for listing on the Nasdaq National Market, the Company must continue to satisfy certain maintenance standards. If the Company is unable to maintain the standards for continued quotation on the Nasdaq National Market, the Common Stock and the Warrants could be subject to removal from the Nasdaq National Market. Trading, if any, in the Common Stock and the Warrants would thereafter be conducted in the over-the-counter market on an electronic bulletin board established for securities that do not meet the Nasdaq National Market listing requirements or in what are commonly referred to as the "pink sheets." As a result, an investor would find it more difficult to dispose of, or to obtain accurate quotations as to the price of the Company's securities. In addition, depending on several factors, including the future market price of the Common Stock, the Company's securities could become subject to the so-called "penny stock" rules that impose additional sales practice and market making requirements on broker-dealers who sell or make a market in the Company's securities and diminish the ability of the Company's shareholders to sell their securities in the secondary market.

POSSIBLE VOLATILITY OF COMMON STOCK PRICE. The Unit Offering Price will be determined by negotiation between the Company and the Representatives and may not be indicative of future market prices. Factors to be considered in these negotiations, in addition to prevailing market conditions, will be the history and prospects of the industry in which the Company intends to compete, an assessment of the Company's management, prospects and capital structure, and such other factors as the Representatives and the Company deem relevant. The trading price of the Company's Common Stock and Warrants could be subject to significant fluctuations in response to such factors as, among others, variations in the Company's anticipated or actual results of operations, announcements of products utilizing the VRD technology or technological innovations by the Company or its competitors. Moreover, the stock market has from time to time experienced extreme price and volume fluctuations which have particularly affected the market prices for emerging growth companies and which often have been unrelated to the operating performance of such companies. These broad market fluctuations may adversely affect the market price of the Company's Common Stock and

10

Warrants. In the past, following periods of volatility in the market price of a company's securities, class action lawsuits have been filed against the company. There can be no assurance that such litigation will not occur in the future with respect to the Company. Such litigation could result in substantial costs and a diversion of management's attention and resources, which could have a material adverse effect on the Company's business and results of operations. Any adverse determination in such litigation also could subject the Company to significant liabilities.

SHARES ELIGIBLE FOR FUTURE SALE. Sales of substantial amounts of the Company's Common Stock in the public market following the offering may adversely affect, and even the potential for such sales may adversely affect, the market price of the Company's Common Stock. In addition to the shares of Common Stock included in the Units offered hereby and the shares of Common Stock issuable upon exercise of the Warrants included in the Units offered hereby and the Stoel Rives Shares, an additional 210,000 shares of Common Stock are being registered under the Registration Statement of which this Prospectus is a part and will be eligible for resale by the holders of such securities, or securities convertible into such securities, without restriction under the Securities Act 90 days after

the date of this Prospectus. Commencing approximately 12 months after the date of this Prospectus, up to 400,000 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. The remaining 3,386,546 shares of Common Stock outstanding as of the date of this Prospectus will become eligible for sale at various times thereafter. Following this offering, the Company intends to file a registration statement under the Securities Act to register approximately 825,000 shares reserved for issuance under the Company's 1996 Stock Plans and 724,017 shares issuable upon exercise of options granted under the Company's prior stock option plans. See "Management -- Benefit Plans," "Description of Securities," "Shares Eligible for Future Sale" and "Underwriting."

REDEMPTION OF WARRANTS. As described in greater detail elsewhere in this Prospectus, outstanding Warrants are subject to redemption at \$0.25 per Warrant on 30 days written notice provided that the closing bid price of the Common Stock has been at least 200% of the exercise price of the Warrants for each of the 20 consecutive trading days immediately preceding the date of the notice of redemption. In the event the Company exercises the right to redeem the Warrants, a holder will be forced either to exercise the Warrant or accept the redemption price. See "Description of Securities -- Warrants."

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 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. See "Description of Capital Stock - -- Preferred Stock" and "-- Washington Anti-Takeover Statute."

CURRENT PROSPECTUS AND STATE BLUE SKY REGISTRATION REQUIRED TO EXERCISE THE WARRANTS. Purchasers of Units will be able to exercise the Warrants included therein only if a current prospectus relating to the Common Stock underlying such Warrants is then in effect, and only if such Common Stock is qualified for sale or exempt from qualification under applicable state securities laws of the states in which such holders of the Warrants reside. Although the Company has undertaken to maintain the effectiveness of a current prospectus covering the Common Stock underlying the Warrants, there can be no assurance that the Company will be able to do so. The value of the Warrants may be impaired if a current prospectus covering the Common Stock issuable upon exercise of the Warrants is not kept effective, or if such Common Stock is not qualified or exempt from qualification in the states in which the holders of Warrants reside.

11

The Warrants are separately transferable immediately upon issuance. Although the Units will not knowingly be sold to purchasers in jurisdictions in which the Units are not registered or otherwise qualified for sale, purchasers may buy Warrants in the after market in, or may move to, jurisdictions in which the shares underlying the Warrants are not so registered or qualified during the period that the Warrants are exercisable. In this event, the Company would be unable to issue shares to those persons desiring to exercise their Warrants, and holders of Warrants would have no choice but to attempt to sell the Warrants in a jurisdiction where such sale is permissible or allow them to expire unexercised. See "Description of Securities -- Warrants."

DILUTION. Purchasers of the Common Stock offered hereby will suffer immediate and substantial dilution in the net tangible book value of the Common Stock from the Unit Offering Price. Certain events, such as the issuance of Common Stock pursuant to the exercise of outstanding warrants and stock options, or upon conversion or redemption of the 7% Notes, could result in additional dilution. See "Dilution," "Management -- Benefit Plans," "Shares Eligible for Future Sale" and "Underwriting."

USE OF PROCEEDS

The net proceeds of this offering are estimated to be approximately \$15,495,000 (approximately \$17,898,000 if the Overallotment Option is exercised in full), assuming a Unit Offering Price of \$9.00.

The Company intends to use the net proceeds from this offering to fund research and product development, including \$1,604,218 to be paid under the License Agreement, the purchase and installation of certain laboratory equipment and facilities, the repayment of up to \$750,000 in aggregate principal amount of its 7% Notes due July 10, 1997, unless converted, and for working capital. The amounts actually expended for each purpose may vary significantly depending upon various factors, including the progress of the Company's research and product development programs, determinations as to the commercial potential of each of the Company's anticipated products, the Company's ability to attract third parties to co-fund the research and development of, or to purchase, such

products and the aggregate principal amount of the 7% Notes outstanding after completion of this offering. Pending such use, the net proceeds will be invested in short-term, investment grade, interest-bearing securities or interest-bearing accounts. The net proceeds from the 7% Notes, approximately 707,500, were used to fund operating expenses, fees and expenses related to this offering and required to be paid in advance of the offering, and to make a payment of approximately \$320,000 under the Research Agreement. The Company believes that the net proceeds from this offering, combined with cash on hand, will be sufficient to fund budgeted capital and operating requirements for at least the next twelve months. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

DIVIDEND POLICY

The Company has not paid cash dividends since its inception. The Company currently intends to retain all of its earnings, if any, for use in its business and does not anticipate paying any cash dividends in the foreseeable future. The payment of dividends is subject to the discretion of the Company's Board of Directors.

12
CAPITALIZATION

The following table sets forth the capitalization of the Company as of June 30, 1996; the pro forma capitalization of the Company as of June 30, 1996 giving effect to (i) the conversion of 866,026 shares of Preferred Stock into equal shares of Common Stock (ii) the issuance of the 7% Notes in July 1996; and the pro forma capitalization as adjusted to give effect to the issuance of 2,000,000 Units (at an assumed Unit Offering Price of \$9.00 per Unit) and receipt of the net proceeds therefrom. See Note 8 of Notes to the Financial Statements.

<TABLE>
<CAPTION>

	JUNE 30, 1996 (1)		
	<C> ACTUAL	<C> PRO FORMA	<C> PRO FORMA AS ADJUSTED
<S>			
<CAPTION>			
		(IN THOUSANDS)	
<S>	<C>	<C>	<C>
7% Convertible Subordinated Notes due 1997 (current).....	--	\$ 750	\$ 750
Shareholders' equity			
Preferred Stock, no par value, 31,250,000 shares authorized, 859,776, none and none issued and outstanding.....	\$ 3,533	\$ --	\$ --
Common Stock, no par value, 31,250,000 shares authorized, 2,601,770, 3,461,546 and 5,461,546 shares issued and outstanding.....	4,794	8,327	23,822
Deferred compensation.....	(21)	(21)	(21)
Subscription receivable.....	(10)	(10)	(10)
Accumulated deficit.....	(8,440)	(8,440)	(8,440)
Total shareholders' equity.....	(144)	(144)	15,351
Total capitalization.....	\$ (144)	\$ (144)	\$ 15,351

</TABLE>

(1) Excludes (i) 1,189,168 of Common Stock issuable upon exercise of stock options and warrants outstanding at July 10, 1996 at an approximate weighted average exercise price of \$5.22 per share; (ii) up to 135,000 shares of Common Stock issuable in connection with conversions or redemptions of the 7% Notes; (iii) 400,000 shares of Common Stock issuable upon exercise of the Representatives' Warrants; (iv) the Stoel Rives Shares; and (v) the cash redemption of the fractional shares resulting from the reverse stock split approved by the shareholders on August 9, 1996. An additional 825,000 shares of Common Stock are reserved for issuance under the Company's 1996 Stock

13
DILUTION

The pro forma net tangible book value of the Company, prior to any adjustments, as of June 30, 1996 was \$(144,000), or \$(0.04) per share. Pro forma net tangible book value per share represents the amount of total tangible assets of the Company reduced by the amount of its total liabilities, divided by the total number of shares of Common Stock after conversion of preferred stock to common stock.

Pro forma net tangible book value dilution per share represents the difference between the amount per share paid by new investors who purchase Units in this offering and the pro forma net tangible book value per share of Common Stock immediately after completion of this offering. After giving effect to the sale by the Company of 2,000,000 Units in this offering at an estimated Unit Offering Price of \$9.00 per Unit and the receipt of the estimated proceeds therefrom (after deduction of estimated underwriting discounts and offering expenses and attributing no portion of the value of a Unit to a Warrant), the pro forma net tangible book value of the Company as of June 30, 1996 would have been approximately \$15,351,400, or \$2.81 per share. This represents an immediate increase in pro forma net tangible book value of \$2.85 per share to existing shareholders and an immediate dilution in pro forma net tangible book value of \$6.19 per share to new investors purchasing Units in this offering, as illustrated in the following table:

<TABLE>			
<S>		<C>	<C>
Assumed initial public offering price per share.....			\$ 9.00
Pro forma net tangible book value per share at June 30, 1996.....	\$	(0.04)	
Increase per share attributable to new investors.....		2.85	
Pro forma net tangible book value per share after this offering.....			2.81
Pro forma net tangible book value dilution per share to new investors.....			\$ 6.19

</TABLE>

The following table summarizes, on a pro forma basis as of July 10, 1996 to reflect the same adjustments described above, the number of shares of Common Stock purchased from the Company, the total consideration paid and the average price per share paid by (i) the existing holders of Common Stock; and (ii) the new investors in this offering, assuming the sale of 2,000,000 Units by the Company hereby at a Unit Offering Price of \$9.00 per Unit. The calculations are based upon total consideration given by new and existing shareholders.

<TABLE>					
<CAPTION>					
		SHARES PURCHASED		TOTAL CONSIDERATION	
AVERAGE					
PRICE					
PER SHARE		NUMBER	PERCENT	AMOUNT	PERCENT

<S>	<C>	<C>	<C>	<C>	<C>
Existing shareholders.....	2.25	3,461,546	63%	\$ 7,777,528	30%
New investors.....	9.00	2,000,000	37%	18,000,000	70%
		-----	---	-----	---
TOTAL.....		5,461,546	100%	\$ 25,777,528	100%
			---	-----	---

</TABLE>

The above computations exclude (i) 1,189,168 shares of Common Stock issuable upon exercise of stock options and warrants outstanding at July 10, 1996 at an approximate weighted average exercise price of \$5.22 per share; (ii) up to 135,000 shares of Common Stock issuable in connection with conversions or redemptions of the Company's 7% Notes; (iii) 400,000 shares of Common Stock issuable upon exercise of the Representatives' Warrants; (iv) the Stoel Rives Shares; and (v) the cash redemption of the fractional shares resulting from the

reverse stock split approved by the shareholders on August 9, 1996. An additional 825,000 shares of Common Stock are reserved for issuance under the Company's 1996 Stock Plans. To the extent that any outstanding warrants and options are exercised, including the Representatives' Warrants, or the 7% Notes are converted or redeemed, or additional shares are issued, there will be further dilution to investors in this offering. See "Description of Securities," "Certain Transactions," "Management -- Benefit Plans," "Shares Eligible for Future Sale" and "Underwriting."

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 directly onto the retina of the eye. Since its formation, the Company has been in the development stage, with its principal activities consisting of assembling a qualified technical and executive management team, working with the HIT Lab in the development of the VRD technology and prototype products and raising capital. The Company has generated no significant revenues and has incurred substantial losses since its inception. The Company expects to continue to incur significant operating losses over the next several years.

The Company expects revenues to be derived from licensing its technology to OEMs of consumer electronic products; providing engineering services associated with cooperative development arrangements, including research contracts; and the manufacturing and sale of high-performance personal display products to certain professional users, directly or through joint ventures. The Company does not expect to have any significant revenues until late 1997 at the earliest. Revenues in late 1997, if any, are expected to be derived from cooperative development projects. Revenues from sales of products may not occur until substantially later, if at all. The Company expects to continue funding prototype and demonstration versions of products incorporating the VRD technology throughout 1996 and 1997. Future revenues, profits and cash flow will depend on acceptance of the VRD technology by various industries and OEMs, market acceptance of products incorporating the VRD technology and the technical performance of such products. Additionally, the Company must be able to attract, retain and motivate qualified technical and management personnel and both anticipate and adapt to a rapidly changing, competitive market for information display technologies. See "Risk Factors."

PLAN OF OPERATION

The Company intends to invest over the next year in ongoing innovation and improvements to the VRD technology, including the development of component technology and prototypes as well as the design of subsystems and products. The Company intends that soon after the completion of this offering it will purchase and install certain laboratory equipment and facilities in support of this work. The Company also intends to continue to add to its technical and business staff in pursuit of its technology development and marketing objectives and, in particular, intends to augment substantially its engineering staff. The operating plan also provides for the completion of the Research Agreement with the University of Washington and the development of strategic relationships with systems and equipment manufacturers.

RESULTS OF OPERATIONS

The Company is in the development stage and has not generated any significant revenues. As of June 30, 1996, the Company had an accumulated deficit since inception of \$8,439,200. The Company expects continuing and increasing expenditures in research and development as it focuses its efforts on further development and refinement of its VRD technology and begins commercialization efforts for its anticipated future products.

CONTRACT REVENUES. The Company has completed two research agreements with Fujitsu Research Institute ("FRI"). The FRI agreements provided for the Company to carry out research with respect to potential applications for the VRD. Contract revenues were \$29,300, \$27,200 and \$56,500 for the year ended December 31, 1995, the six months ended June 30, 1996 and for the period cumulative from inception through June 30, 1996, respectively. The Company recently received a \$74,980 purchase order from Lockheed Martin Corp. for a prototype display model of the VRD for a military trade show in October 1996.

RESEARCH AND DEVELOPMENT EXPENSES. Currently, research and development expenses consist primarily of payments due under the Research Agreement with the University of Washington, as well as payroll and related costs of employees and consultants engaged in development activities, and fees

15

related to patent applications. To date, the Company has expensed all such costs. See Note 2 of Notes to the Financial Statements. Research and development expenses during the year ended December 31, 1995, the six months ended June 30, 1996 and the period cumulative from inception through June 30, 1996, were \$1,931,200, \$692,100 and \$5,574,500, respectively. The Company believes that a significant level of continuing research and development expenses will be required to commercialize the VRD technology and to develop products incorporating VRD technology. Accordingly, the Company anticipates that it will devote substantial resources to research and development, including hiring additional personnel, and that these costs will continue to increase in future periods.

MARKETING, GENERAL AND ADMINISTRATIVE EXPENSES. Marketing, general and administrative expenses include payroll and related costs for the Company's administrative and executive personnel, costs related to the Company's marketing and promotional efforts, office lease expenses and other overhead costs, including legal and accounting costs and fees of consultants and professionals. In 1993 and 1994, the Company used consultants extensively to evaluate the potential for commercialization of the VRD technology and to develop its business plan. Marketing, general and administrative expenses during the year ended December 31, 1995, the six months ended June 30, 1996 and the period cumulative from inception through June 30, 1996, were approximately \$1,037,700, \$670,000 and \$2,970,300, respectively. The Company expects marketing, general and administrative expenses to increase substantially in future periods as the Company invests in marketing activities to promote and launch its VRD technology and anticipated products and as it increases its number of employees and level of corporate and administrative activity.

INCOME TAXES. At December 31, 1995, the Company had net operating loss carry-forwards of approximately \$2,812,000 for federal income tax reporting purposes. The net operating loss carry-forwards will expire beginning in 2005 if not utilized. In addition, due to changes in ownership, as defined by Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"), resulting from the sale of common stock, convertible preferred stock and the Common Stock offered hereby, the annual deductibility of the net operating loss carry-forwards is limited to approximately \$761,000. A further change in ownership is likely to occur upon completion of this offering, which will result in further limitations to the annual deductibility of the net operating loss carry-forwards. A valuation allowance has been recorded against total deferred tax assets of \$2,346,000 because realization is primarily dependent on generating sufficient taxable income prior to expiration of net operating loss carry-forwards. See Note 7 of Notes to the Financial Statements.

LIQUIDITY AND CAPITAL RESOURCES

To date, the Company has financed its operations primarily through private placements of common stock, convertible preferred stock and convertible notes. As of June 30, 1996, amounts raised in private equity transactions, net of issuance costs, totaled \$6,920,800. Through June 30, 1996, the Company had incurred an accumulated deficit of \$8,439,200, of which \$3,529,200 represented payments made to the University of Washington to fund the research and development of its VRD technology pursuant to the terms of the Research Agreement, and \$1,146,000 represented non-cash expenses associated with the issuances of stock, warrants and options. The Company had cash and cash equivalents of \$462,400 at June 30, 1996.

In early July 1996, the Company raised \$707,500 in a private placement of its 7% Notes, net of debt issuance costs. The 7% Notes bear interest at the rate of 7% per annum, payable semi-annually in arrears on December 15 and June 15, and will mature on July 10, 1997. The Notes are subordinate to all future senior indebtedness of the Company. The 7% Notes may be converted or redeemed at the option of the holder at any time following 90 days after the effective date of a registration statement with respect to an initial public offering of the Company's securities with aggregate proceeds to the Company of \$5,000,000 (a "qualifying IPO"). Upon any conversion, the holder of a 7% Note is entitled to receive 18,000 shares of Common Stock for every \$100,000 principal amount so converted. The 7% Notes are redeemable at par (plus accrued and unpaid interest), plus 6,000 shares of Common Stock for every \$100,000 principal so redeemed. See "Shares Eligible for Future Sale."

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 additional quarterly research payments through 1997 aggregating \$1,604,200 and, thereafter, to make additional payments in respect of royalties on the VRD. See "Business -- University of Washington License Agreement." If the Company is successful in establishing OEM co-development and joint venture arrangements, it is expected that the Company's partners would fund certain non-recurring engineering costs for product development. Nevertheless, the Company expects its cash requirements to increase significantly each year as it expands its activities and operations. There can be no assurance that the Company will ever be able to generate revenues or achieve or sustain profitability.

The Company believes that the estimated net proceeds from this offering together with its existing cash and cash equivalent balances will satisfy its budgeted capital and operating requirements for at least the next twelve months, which are estimated to be approximately \$5,300,000 based upon the Company's current operating plan. Actual expenses, however, may exceed the amount 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, the addition of technical and business staff, including a chief financial officer and engineering staff. The operating plan also provides for the completion of the Research Agreement with the University of Washington and the development of strategic relationships with systems and equipment manufacturers. See "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 "Risk Factors -- Capital Requirements."

BUSINESS

OVERVIEW

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

INDUSTRY BACKGROUND

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

For decades, the CRT has been the dominant display device. A CRT creates an image by scanning a beam of electrons across a phosphor-coated screen, causing

the phosphors to emit visible light. The beam is generated by an electron gun and is passed through a deflection system that scans the beam rapidly left to right and top to bottom. A magnetic lens focuses the beam into a small glowing dot on the phosphor screen. It is these rapidly moving spots of light ("pixels") that "paint" the image on the surface of the viewing screen. The next generation of imaging technology, flat panel displays, is now in widespread use in portable computers, calculators, and other personal display devices. The most prevalent flat panel technology is the liquid crystal display ("LCD"), which can consist of hundreds of thousands of pixels, each of which is formed by a single transistor acting on a crystalline material.

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

MICROVISION'S RETINAL DISPLAY TECHNOLOGY

The Company's VRD is fundamentally different from previously commercialized display technologies. The VRD creates an image directly on the retina like a miniaturized video projector focused on

18

the "projection screen" at the back of the viewer's eye. In certain applications, the image appears in the viewer's field of vision as if the viewer were only an arm's length away from a high quality video screen. The VRD technology also can superimpose an image on the viewer's field of vision, enabling the viewer to see data or other information projected by the device in the context of his or her natural surroundings. In each case, a high resolution, bright image is created.

By scanning a low-power beam of colored light to "paint" rows of pixels directly on the retina of the viewer's eye, the VRD technology creates a high resolution, full-motion image without the use of screens or externally projected images. The light source acts on the retina in much the same way as other natural light sources. The VRD is composed of four basic components: (1) drive electronics; (2) photon sources; (3) horizontal and vertical scanners; and (4) optics.

VIRTUAL RETINAL DISPLAY SYSTEM

[LOGO]

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

STRATEGY

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

CUSTOM DESIGN, MANUFACTURE AND SALE OF HIGH PERFORMANCE PRODUCTS. The Company anticipates providing high performance products to professional end-users in markets with lower product volume requirements. The Company expects that end-users in this category will include professionals in the defense, law enforcement, industrial process controls and health care industries. As a result of the potential for professionals in these industries to realize productivity or performance gains and associated economic benefit from the use of personal display products, the Company believes that customers in these industries will be less sensitive to the cost of VRD products than customers in the consumer electronics markets. The Company also believes that, because the unit volume requirements for such

end-users are generally lower, demand for such products may be more predictable and the risks associated with production and inventory more easily managed. Depending upon the circumstances, the Company may manufacture these products, using standard component suppliers and contract manufacturers as required, or may seek to form one or more joint ventures to manufacture the products. The Company expects that early production of specially designed products will enhance its ability to provide more fully integrated solutions and support for the development of similar products by manufacturers in high volume consumer markets.

SUPPLY OF DISPLAY AND IMAGING SOLUTIONS AND LICENSING OF PROPRIETARY TECHNOLOGY TO OEMS FOR VOLUME MANUFACTURE OF PRODUCTS. The Company believes that in consumer markets the ability of personal display products to compete effectively is largely driven by the ability to price aggressively for maximum market penetration. Significant economies of scale in purchasing, volume manufacturing and distribution are important factors in driving costs downward to achieve pricing objectives and profitability. Additionally, certain types of products, such as pagers or cellular phones, may require the integration of the VRD with other unrelated electronic technologies. In markets requiring volume production of personal display products, the Company intends to provide components, subsystems and systems design technology to OEMs under licensing agreements. Microvision anticipates realizing both initial license fees from such arrangements as well as ongoing per unit royalties.

The Company expects such relationships will typically involve a period of co-development during which engineering and marketing professionals from OEMs will work with Microvision's technical staff to specify, design and develop a product appropriate to the targeted market and application. Microvision intends to charge fees to such OEMs to cover 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 to the consumer market.

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

APPLICATIONS, MARKETS AND PRODUCTS

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

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

VISUAL SIMULATION AND ENTERTAINMENT DISPLAYS. Manufacturers of interactive media products have recognized that the visual experience offered by simulation is enhanced by high resolution,

three-dimensional displays projected over a wide field of vision. Although simulated environments traditionally have been used as a training tool for professional use, they are increasingly popular as a means of entertainment, particularly in computer games. In a three-dimensional video game, an inexpensive pair of VRD eyeglasses with a wide field of view could provide a highly immersive visual experience.

AUGMENTED VISION DISPLAYS. Augmented vision applications superimpose high contrast, monochromatic (or color) images and information on the viewer's field of vision as a means of enhancing the safety, precision and speed of the user's performance of tasks. For example, a head-mounted display could superimpose critical patient information such as vital signs, EKG traces, reference materials, X-rays or MRI images in a surgeon's field of vision. For military applications, troops could be equipped with eyeglasses that display high definition imagery that could be viewed without blocking normal vision and could assist in threat detection, reconnaissance and other activities.

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

[CHART]

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

21

Microvision is in discussions with systems and equipment manufacturers in the defense, wireless communications, computing and commercial and consumer electronics industries. The Company intends to work with certain of these manufacturers to develop or co-develop specific products which the Company believes to be the most commercially viable. The Company has identified specifications for several products which it believes may address the particular needs of development programs sponsored by the U.S. military and which can be priced competitively. These products include a high performance, full-color helmet-mounted display for use in interactive simulations, and a medium priced, helmet-mounted augmented vision device that superimposes information in a monochromatic format on the user's natural field of vision and can be worn by technicians and other military personnel to provide easy access to real-time data. In addition, the Company expects to develop moderately priced eyeglasses or goggles that can be fitted for augmented vision display and would be suitable for a variety of uses. Even if the Company is successful in arranging development or co-development projects, it does not expect commercial sales of products until at least 1998, and commercial sales may not occur until substantially later, if at all.

PROTOTYPES

To date the Company has developed two prototypes to demonstrate the feasibility of the VRD technology. These prototypes are not incorporated into specific commercial products or applications, but rather are demonstration models of the technology. The first prototype developed was a table-top model that receives output from a personal computer. The prototype generates a full color picture and is capable of superimposing images over the viewer's natural field of vision. The second prototype fits into a briefcase and is portable. It also connects to a personal computer. At present it generates only a monochromatic image. The portable prototype can be hand-held or mounted to a stand.

TECHNOLOGY DEVELOPMENT

The Company's existing prototypes have demonstrated the technological feasibility of the VRD and the Company's ability to miniaturize key components. Additional work is in progress to achieve full color capability in miniaturized versions, to expand the exit pupil of the VRD and to design products for specific applications.

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

television. For interfaces with emerging video standards, additional development of the drive electronics technology may be required.

PHOTON SOURCES. The photon generator is the source of the light beam that creates the image on the retina. In a full-color VRD, red, green and blue photon generators will be used, each with its own modulator, to generate a mix yielding the desired color and brightness. Low- power solid state lasers, laser diodes and light-emitting diodes ("LEDs") are suitable photon generators for the VRD. Red, blue and green solid state lasers are currently available, but are useful only for VRD applications where cost and size are not critical. Miniaturized visible laser diodes are currently available only in red, although a number of companies are developing laser diodes in green and blue. Miniaturized LEDs are less expensive than laser diodes and the Company has developed LEDs that can be made to respond quickly enough to be effective in the VRD system. Microvision anticipates using red, blue and green LEDs in certain applications as a replacement for laser diodes. The Company intends to rely on others to complete development of the materials and processes necessary to produce blue and green LEDs

22

and laser diodes. This development is not expected prior to the introduction of the Company's initial products, and as a result the Company's initial full color VRD products are likely to use solid state lasers.

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

The continued development of the scanning subsystem of the VRD will involve improvements in scanning capability to all current standard video formats, including high definition television, as well as new digital video standards. Existing designs for scanner and scanner electronics may prove ineffective at higher resolutions and may need to be replaced with alternative scanning methods. As a result, achievement of future video standards may necessitate additional development of both the scanner and the scanner electronics.

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 at least 10 millimeters. The Company has recently developed an expanded exit pupil of approximately this size and the University of Washington has filed a U.S. patent application to seek to protect this feature. Continued design and engineering of this expanded exit pupil is required to develop commercial applications. The Company's ongoing optics development is directed at the creation of optical systems that are lightweight and cost-effective to manufacture.

UNIVERSITY OF WASHINGTON LICENSE AGREEMENT

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

Microvision may lose the exclusivity of its license if it fails to satisfy certain requirements with respect to the commercialization of the VRD, including, without limitation, having the VRD technology or VRD applications available for commercial use, sale or licensing within two years of the termination of the Research Agreement, failing to use its best efforts to commercialize the VRD technology, failing to provide reports to the University from time to time as provided in the License Agreement or failing to respond to any infringement action within 90 days of learning of such action. In the event of the termination of Microvision's exclusivity, Microvision would lose its rights to grant sublicenses and would no longer have the first right to take

action against any alleged infringement. In addition, each of Microvision and the University of Washington has the right to terminate the License Agreement in the event that the other party fails to cure a material breach of the Agreement

23

within 30 days of written notice of the breach. Microvision 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 Microvision would terminate.

Under the terms of the UW License Agreement, Microvision agreed to pay a non-refundable fee of \$5,133,500 (the "License Fee") and to issue to the University and to the inventors of the VRD technology, including Dr. Furness, shares of Microvision's Common Stock. In addition, the University of Washington is entitled to receive certain ongoing royalties. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources." If Microvision were to terminate the UW License Agreement, it believes that further payments of the License Fee would not be required and, accordingly, has not booked the balance of payments due as an accrued expense. However, the language of the UW License Agreement is unclear on this point and a contrary interpretation suggests that the Company may be obligated to pay any remaining balance of the license fee. In any event, the Company considers the exclusive license to be an essential element of its business plan and fully intends to pay the balance of the License Fee, most probably through continued payments under the Research Agreement.

At the same time it entered into the License Agreement, Microvision contracted with the HIT Lab and the Washington Technology Center, an agency of the State of Washington created to foster the development of the technology industry within the state (the "WTC"), to fund the research and development of the VRD technology pursuant to the Research Agreement. The VRD technology research undertaken by the HIT Lab is under the direction of Dr. Furness. Any intellectual property developed by the HIT Lab pursuant to this Agreement is included in the exclusive license granted to Microvision under the UW License Agreement. Microvision pays the University \$320,844 per quarter for the research performed by the HIT Lab. To date, Microvision has paid \$3,529,282 to the University of Washington under the Research Agreement. Payments made pursuant to the Research Agreement are credited against the License Fee. See Note 5 of Notes to the Financial Statements.

In the event that Microvision defaults in its obligations, including payment obligations, under the Research Agreement, the University may terminate the License Agreement. The Research Agreement currently is scheduled to expire in late 1997, but may be continued by agreement of the parties. In an effort to match more closely the timing of the Company's funding obligations under the Research Agreement with the research performed by the HIT Lab, the Company and the University are currently discussing rescheduling payments under the Research Agreement and extending the term of the Research Agreement. The HIT Lab and the Company work together closely, and Stephen R. Willey, the Company's Executive Vice President and Technical Liaison, acts as liaison between the HIT Lab, WTC and the Company. In addition, the HIT Lab provides the Company with quarterly reports on each functional area of the research and development activities it conducts, such as optics, mechanics, electronics and photonics, and Microvision employees and personnel at the HIT Lab jointly determine the direction of future research and development activities.

INTELLECTUAL PROPERTY AND PROPRIETARY RIGHTS

The Company's ability to compete effectively in the information display market will depend, in part, on the ability of the Company and the University of Washington to maintain the proprietary nature of the VRD technology. The University of Washington has been awarded one U.S. patent with claims relating to the function, design, and application of the VRD system. Patent No. 5467104 issued in November 1995 has 14 claims, including claims directed to the ability to superimpose images on the user's field of vision. The University also has received notices of allowance from the U.S. Patent and Trademark Office for a novel scanning device, a key component for effective commercialization of the VRD system, and for a fiber optic pixel source. A notice of allowance indicates that the U.S. Patent and Trademark Office has completed its examination of the application and determined that the application meets the statutory requirements for patentability. Although a notice of allowance does not in itself afford patent protection, once a notice of allowance is issued it is expected that a patent will issue upon completion of the U.S. Patent and Trademark Office publication formalities. In addition, the

24

University has filed applications for patents in the United States and in certain foreign countries. The inventions covered by such applications generally

address and accommodate component miniaturization, specific implementation of various system components and design elements to facilitate mass production.

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

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

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 concluded that, assuming use of a VRD device for eight continuous hours, laser

25

exposure to the retina would be approximately 100,000 times below the maximum permissible exposure levels established by ANSI. If the horizontal and vertical scanners were to fail such that the photon output were continuous, a user would experience laser exposure approximately 1,000 times below the ANSI limits before the user would likely look away from the VRD or avert his or her eyes. In the event that the user did not avert his or her eyes from the VRD, the user would have to remain perfectly still and focus on the VRD for several hours to reach the ANSI maximum permissible exposure level.

COMPETITION

The information display industry is highly competitive. The Company's products and the VRD technology will be competing with established manufacturers

of miniaturized CRT and flat panel display devices, most of whom have substantially greater financial, technical and other resources than the Company. The Company also will compete with other developers of miniaturized display devices. There can be no assurance that the Company's competitors will not succeed in developing technologies and products that would render the VRD technology or the Company's products obsolete and non-competitive.

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

OTHER TECHNOLOGY INVESTMENT

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

In March 1994, the Company entered into a second exclusive license agreement with the University of Washington to commercialize imaging technology unrelated to the VRD 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 \$200,000 to the University, and to issue 93,750 shares of Common Stock to the University and the inventors of the technology, upon the achievement of certain milestones, including, among other things, the receipt by the University of a patent covering the technology. See Note 5 of Notes to the Financial Statements.

LEGAL PROCEEDINGS

During the period March 1994 through June 1995, warrants to purchase an aggregate of 343,750 shares of Common Stock at prices ranging from \$0.80 to \$6.40 per share were approved by the Company's Board of Directors for issuance to a then-current director. The director resigned his position in August 1995. Subsequent to December 31, 1995, the Board of Directors concluded that the grant of the warrants to the former director had neither been properly authorized under the Washington Business Corporation Act nor supported by adequate consideration. The former director disputes the Company's view of the circumstances surrounding the approval of the Warrants, has engaged counsel with respect to the matter and has informed the Company that if settlement of the parties' differences with respect to the warrants is not reached, he intends to commence legal action seeking damages for breach of contract and a declaration that the warrants are in full force and effect. Although the Company believes its position with respect to the warrants is correct, if the former director were to commence legal action against the Company, there is no assurance that he would not prevail on some or all of such claims.

26

EMPLOYEES

As of July 10, 1996 Microvision had eight full-time employees. Microvision is actively seeking additional qualified full-time personnel where appropriate, and has reached agreements to hire three new employees, including a chief financial officer and two research engineers, following completion of this offering. The Company's employees are not subject to any collective bargaining agreements and management regards its relations with employees to be good. See "Risk Factors -- Dependence on Key Personnel" and "Management."

FACILITIES

Microvision currently leases approximately 5,600 square feet of combined use office and laboratory space at 2203 Airport Way South in Seattle, Washington. In addition, the VRD research facility occupies approximately 1,500 square feet of laboratory space at the HIT Lab located on the University of Washington campus in Seattle, Washington. The laboratory space is provided in connection with the research activities performed by the HIT Lab. See "-- University of Washington License Agreement." The Company believes that the current facilities are adequate and anticipates that additional space will be available on reasonable terms if needed.

EXECUTIVE OFFICERS AND DIRECTORS

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

<TABLE>
<CAPTION>

NAME	AGE	POSITION
Richard F. Rutkowski (1)	40	Chief Executive Officer, President and Director
Stephen R. Willey	42	Executive Vice President, Technical Liaison and Director
Richard A. Raisig (1)	49	Director
Walter J. Lack (1)(2)	48	Director
Robert A. Ratliffe	40	Director
Jacob Brouwer (2)	70	Director
Richard A. Cowell	49	Director

</TABLE>

(1) Member of the Compensation and Finance Committees

(2) Member of the Audit Committee

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

STEPHEN R. WILLEY has served as Executive Vice President of the Company since October 1995 and as a director since June 1995. Mr. Willey also serves as the Company's technical liaison to the University of Washington's HIT Lab. Between January 1994 and April 1996, Mr. Willey served as an outside consultant to the Company through DGI The Development Group, Inc. ("DGI"), a business and technology consulting firm that Mr. Willey founded in 1982 and CSI Connection Systems, Inc., also a business and technology consulting firm founded by Mr. Willey. As principal of DGI, Mr. Willey provided technology consulting services to CREO Products, Inc., an electro-optics equipment manufacturer, between June 1989 and December 1992. Mr. Willey also co-founded PRO. NET Communications, Inc., an Internet services company. Mr. Willey has served as a director of PRO. NET since 1994.

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

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

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

Inc., Mr. Ratliffe was a Vice President with Seafirst Bank.

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

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

Directors of the Company hold office until the next annual meeting of shareholders or until their successors have been elected and duly qualified. Pursuant to the 1996 Independent Director Stock Plan, non-employee directors receive an initial award of 500 shares of Common Stock and an annual award of Common Stock. See "-- Benefit Plans -- 1996 Independent Director Stock Plan." Non-employee directors receive no salary for their services and receive no fee from the Company other than as described above for their participation at Board meetings. All directors are reimbursed for reasonable travel and other out-of-pocket expenses incurred in attending meetings of the Board of Directors.

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

SIGNIFICANT EMPLOYEES

TODD R. MCINTYRE joined the Company in January 1996 and currently serves as Vice President of Business Development and Director of Marketing. Mr. McIntyre is responsible for establishing relationships for the development of products incorporating the VRD technology. Over the past eight years, Mr. McIntyre has held business development and marketing positions with several development stage companies, including Southern Limited Partnership, a magazine and book publisher; Sasquatch Publishing Company, Inc., a magazine and book publisher; SPRY Inc., an Internet software products publisher; and Notable Technologies, Inc., a wireless telecommunications products manufacturer.

YOJI D. YASKAWA joined the Company in March 1996 as Director of Business Development for Asia. Between January 1995 and February 1996, Mr. Yaskawa was a consultant to AZCA, Inc., a management consulting firm, and from August 1989 through July 1994, Mr. Yaskawa was Vice President and

29

Managing Director of Communication Intelligence Corporation ("CIC"), a personal computer software vendor and operating system provider. Mr. Yaskawa also served as a director of CIC's Japanese affiliate.

ALEXANDER J. YARMIE joined the Company in March 1996 as Marketing Manager/Defense and Aerospace, and is responsible for developing and implementing the Company's military products strategy. From July 1992 to March 1996, Mr. Yarmie was a principal of Janan International, a business consulting and product representation firm that advised clients in the electronics, environmental technologies, automotive, aerospace, and computer industries on business development, sales and marketing strategies. Between August 1988 and July 1992, Mr. Yarmie was a marketing and sales manager for Sundstrand Aerospace, an aerospace avionics and electronics company. Mr. Yarmie currently holds the rank of Major in the U.S. Army reserves, and is a Master Army Aviator and a former military helicopter instructor.

DAVID MELVILLE has agreed to join the Company as Senior Research Engineer in September 1996. Mr. Melville currently is employed by the HIT Lab, where he has been involved in developing the VRD technology, and is the inventor of the MRS. Prior to joining the HIT Lab in 1994, Mr. Melville spent 12 years in engineering positions with California State University, Fresno, School of Engineering. Mr. Melville has over 20 years of experience in electronics design and development. Mr. Melville holds a B.S. in Physics from California State University, Fresno.

DANIEL C. BERTOLET has agreed to join the Company as Research Engineer in September 1996. Mr. Bertolet currently is employed by the University of

Washington as a Research Associate. Prior to joining the HIT Lab in November 1994, Mr. Bertolet was a Research Associate with the University of Washington, Department of Chemical Engineering, and as Senior Processing Engineering with United Epitaxial Technologies, where he worked on the commercialization of semiconductor technologies. Mr. Bertolet holds a B.S. in Electrical Engineering and a Ph.D. in Electrical and Computer Engineering from the University of Massachusetts.

HIT LAB PERSONNEL

DR. THOMAS A. FURNESS, III has served as Director of the HIT Lab and as a professor of industrial engineering at the University of Washington since 1989. Dr. Furness has substantial experience in visual imaging systems, including 18 years as Chief of the Visual Display Systems Branch of the Human Engineering Division of the U.S. Air Force's Armstrong Aerospace Medical Research Laboratory. While with the Air Force, Dr. Furness worked extensively on the Super Cockpit Program to develop and evaluate visual imaging systems designed to deliver "heads-up" targeting, navigation, threat and other information to pilots. Dr. Furness holds a B.S. in Electrical Engineering from Duke University and a Ph.D. in Engineering and Applied Science from the University of Southampton, England.

RICHARD S. JOHNSTON has more than 16 years of experience in the development and commercialization of imaging technology and has served as Director of Engineering at the HIT Lab since 1993. From December 1992 to October 1993, Mr. Johnston was Vice-President of Engineering for Virtual Vision, Inc., a manufacturer of consumer and industrial display products. Between March 1989 and December 1992, Mr. Johnston was Director of Engineering for NeoPath, Inc., a developer of medical analytical software, and prior to 1989 he served as Chief Engineer for Delta Graphics, Inc., a producer of image generation systems. Mr. Johnston also spent six years at The Boeing Company designing electronics and software for digital signal processing and computer image generation projects. Mr. Johnston holds B.S. and M.S. degrees in Electrical Engineering from Georgia Institute of Technology.

EXECUTIVE COMPENSATION

The following table sets forth the compensation received for services in all capacities to the Company for the last three fiscal years by Richard F. Rutkowski, the Company's Chief Executive Officer and President ("Named Executive"). No other officer of the Company received annual salary and bonuses exceeding \$100,000 in the fiscal year ended December 31, 1995.

<TABLE>
<CAPTION>

NAME AND PRINCIPAL POSITION	FISCAL YEAR	ANNUAL COMPENSATION			LONG-TERM COMPENSATION AWARDS
		SALARY (\$)	BONUS (\$)	OTHER ANNUAL COMPENSATION (\$)(1)	SECURITIES UNDERLYING
Richard F. Rutkowski (2)	1995	92,500	30,000	--	--
Chief Executive Officer	1994	18,750	--	3,790	311,517
and President	1993	--	--	--	--

</TABLE>

(1) Represents payments in consideration of consulting services rendered to the Company prior to Mr. Rutkowski's employment with the Company.

(2) Mr. Rutkowski joined the Company as an employee on October 1, 1994. Pursuant to his Amended and Restated Employment Agreement with the Company, Mr. Rutkowski was granted options to purchase up to an aggregate of 311,517 shares of Common Stock as partial compensation for calendar years 1995, 1996, and 1997. See "-- Employment Agreements." On December 31, 1995, options with respect to 115,814 shares of Common Stock had vested. Prior to his employment with the Company, Mr. Rutkowski served as a consultant to the Company.

OPTION GRANTS. No stock options or other similar rights were granted by the Company during 1995 to the Named Executive.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES. The following table sets forth information concerning exercise of stock options during 1995 by the Named Executive and the fiscal year-end value of unexercised options:

<TABLE>
<CAPTION>

OF UNEXERCISED MONEY DECEMBER (1)	NUMBER OF SECURITIES UNDERLYING UNEXERCISED		OPTIONS AT		VALUE
	OPTIONS AT DECEMBER 31, 1995 (#)		31, 1995 (\$)		
<S>	<C>	<C>	<C>	<C>	<C>
NAME	SHARES ACQUIRED ON EXERCISE (#)	VALUE REALIZED	EXERCISABLE	UNEXERCISABLE	

<CAPTION>

<S>	<C>	<C>	<C>	<C>	<C>
Richard F. Rutkowski..... 949,675	--	--	115,814	195,703	\$

<CAPTION>

<S>	<C>
NAME	UNEXERCISABLE
Richard F. Rutkowski.....	\$ 821,953

(1) Calculated based on an assumed initial offering price of \$9.00 per Unit (attributing no portion of the value of a Unit to a Warrant) less the exercise price.

EMPLOYMENT AGREEMENTS. Pursuant to his Amended and Restated Employment Agreement with the Company, Mr. Rutkowski receives an annual base salary of \$120,000, subject to increases as determined by the Board of Directors, and an annual cash bonus of \$20,000. In addition, Mr. Rutkowski received options to purchase up to an aggregate of 311,517 shares of Common Stock for his service to the Company during the period 1995 through 1997. These options have five-year terms and vest quarterly and will immediately vest and become exercisable upon the occurrence of certain significant business events, including a sale of a majority of the Company's assets to a third party. Mr. Rutkowski is entitled to all benefits offered generally to the Company's employees. Upon any termination by the Company without cause, certain of Mr. Rutkowski's stock options will vest and Mr. Rutkowski will be entitled to a severance payment. The Amended and Restated Employment Agreement expires, unless previously terminated, on December 31, 1997.

The Company entered into an employment agreement with Stephen R. Willey, the Company's Executive Vice President and a director of the Company, effective May 1, 1996. Pursuant to this

31

agreement, Mr. Willey receives an annual base salary of \$110,000, adjusted annually for the cost of living and subject to increases as determined by the Board of Directors. In addition, Mr. Willey is entitled to receive an annual cash performance bonus in an amount determined by the Board of Directors, and has received options to purchase an aggregate of 296,875 shares of Common Stock for his services during the period 1995 through 1998. Upon any termination by the Company without cause, certain of Mr. Willey's stock options will vest and Mr. Willey will be entitled to a severance payment. Mr. Willey's employment agreement expires, unless previously terminated, on September 30, 1998.

BENEFIT PLANS

1996 STOCK OPTION PLAN. The Company's 1996 Stock Option Plan (the "1996 Plan"), which was adopted by the Company's Board of Directors on July 10, 1996 and approved by the shareholders on August 9, 1996, provides for the grant of options to acquire a maximum of 750,000 shares of Common Stock, subject to adjustments in the event of certain changes in the Company's capitalization. Unless sooner terminated by the Board of Directors, the 1996 Plan will terminate

ten years after its adoption by the Board of Directors of the Company.

The 1996 Plan permits the granting of incentive stock options ("ISOs") and nonqualified stock options ("NSOs") at the discretion of a plan administrator (the "Plan Administrator"). The Plan Administrator is comprised of "disinterested directors" and "outside directors" for purposes of Rule 16b-3 under the Exchange Act and Section 162(m) of the Internal Revenue Code, respectively. Subject to the terms of the 1996 Plan, the Plan Administrator determines the terms and conditions of any options granted, including the exercise price. Eligible optionees include any current or future employee, officer, or agent of the Company or its subsidiaries. The 1996 Plan provides that the Plan Administrator must establish an exercise price for ISOs that is not less than the fair market value of the shares at the date of grant. If ISOs are granted to persons owning more than 10% of the voting stock of the Company, however, the 1996 Plan provides that the exercise price must be not less than 110% of the fair market value of the shares at the date of grant and that the term of the ISOs may not exceed five years. The term of all other options granted under the 1996 Plan may not exceed ten years. Although the Plan Administrator determines when options become exercisable, options granted under the 1996 Plan generally become exercisable at a rate of 33% per year over a three-year period, so that options are fully vested after three years. Options are not transferable other than by will or the laws of descent and distribution, and each option is exercisable during the lifetime of the optionee only by such optionee. In the event of a merger, consolidation or plan of exchange to which the Company is a party or a sale of all or substantially all of the Company's assets, the Board of Directors may elect one of the following alternatives: (i) outstanding options remain in effect in accordance with their terms; (ii) outstanding options may be converted into options to purchase stock in the surviving or acquiring corporation in the transaction; or (iii) outstanding options may be exercised with a 30-day period prior to the consummation of the transaction, at which time they will automatically expire, and the Board may accelerate the time frame for exercise of all options in full. Shares subject to options granted under the 1996 Plan that have lapsed or terminated may again be made subject to options granted under the 1996 Plan. Following termination of employment by the Company other than for cause, resignation, retirement, disability or death, an option holder has three months within which to exercise his options before the options will automatically expire.

1996 INDEPENDENT DIRECTOR STOCK PLAN. The 1996 Independent Director Stock Plan (the "Director Plan") was adopted by the Board of Directors on July 10, 1996, and approved by the shareholders on August 9, 1996. A total of 75,000 shares of Common Stock have been reserved for issuance under the Director Plan. The Director Plan provides for the grant of shares of Common Stock to non-employee directors ("Independent Directors") of the Company. The Director Plan is designed to work automatically without administration; however, to the extent administration is necessary, it will be performed by the Board of Directors or a committee thereof. The Director Plan is administered in accordance with Rule 16b-3 adopted under the Exchange Act.

32

Each Independent Director will receive 500 shares of Common Stock upon such Independent Director's first election or appointment to the Board. Each Independent Director also will be awarded additional shares (the "Annual Award") on an annual basis each time he or she is elected to the Board (or, if directors are elected to serve terms longer than one year, as of the date of each annual shareholders' meeting during that term). The number of shares awarded in the Annual Award will be equivalent to the result of \$15,000 divided by the fair market value of a share on the date of the award, rounded to the nearest 100 shares (or a fraction thereof if the Independent Director is elected or appointed to the Board at any time other than at the annual meeting of shareholders). If any share awarded under the Director Plan is forfeited, such share will again be available for purposes of the Director Plan. Unless earlier suspended or terminated by the Board, the Director Plan will continue in effect until the earlier of: (i) ten years from the date on which it is adopted by the Board, and (ii) the date on which all shares available for issuance under the Director Plan have been issued.

PRIOR PLANS. The Company's 1993 Stock Option Plan, 1994 Combined Incentive and Nonqualified Stock Option Plan, and 1995 Combined Incentive and Nonqualified Stock Option Plan (the "Prior Plans"), provided for the award of ISOs to key employees and the award of NSOs to employees and certain non-employees who have important relationships with the Company. The Company reserved 228,938, 435,000, and 1,060,000 authorized but unissued shares for issuance under each of the 1993, 1994, and 1995 plans, respectively, and as of July 10, 1996, options to purchase an aggregate of 724,017 shares of Common Stock remained outstanding under the respective plans. The Company does not intend to grant any additional options to purchase shares of Common Stock under the Prior Plans, and expects to terminate the Prior Plans effective immediately following the issuance of the shares of Common Stock subject to the outstanding grants thereunder.

33
PRINCIPAL SHAREHOLDERS

The following table sets forth certain information regarding the beneficial ownership of the Common Stock as of July 10, 1996 by (i) each person known by the Company to own beneficially more than 5% of the Company's outstanding Common Stock ("Principal Shareholder"); (ii) each of the Company's directors; (iii) the Named Executive; and (iv) all executive officers and directors of the Company as a group.

<TABLE>
<CAPTION>

		PERCENTAGE OF COMMON STOCK	
(2) ----- <S> AFTER NAME AND ADDRESS OF BENEFICIAL OWNER OFFERING	<C> AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP (1)	<C> BEFORE OFFERING	<C>
-----	-----	-----	-----
<CAPTION> <S>	<C>	<C>	<C>
Richard F. Rutkowski (3)	191,077	5.5%	
3.5% c/o Microvision, Inc. 2203 Airport Way South, Suite 100 Seattle, WA 98134			
Stephen R. Willey (4)	145,104	4.2%	
2.7% c/o Microvision, Inc. 2203 Airport Way South, Suite 100 Seattle, WA 98134			
Walter J. Lack (5)	120,938	3.5%	
2.2% 10100 Santa Monica Blvd., 16th Floor Los Angeles, CA 90067			
Robert A. Ratliffe	6,250	*	
* 2300 Carillon Point Kirkland, WA 98033			
Richard A. Raisig	625	*	
* 515 East 72nd Street, #26J New York, NY 10021			
Jacob Brouwer	--	--	--
1200 West Pender Street, Suite 1200 Vancouver, B.C. VGE 259 Canada			
Richard A. Cowell	--	--	--
c/o Booz, Allen & Hamilton 4301 N. Fairfax Drive, Suite 200 Arlington, VA 22203			
All executive officers and directors as a group (7 persons) 8.5%	463,994	13.4%	

</TABLE>

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

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

(2) Rounded to the nearest 1/10th of one percent, based on 3,461,546 shares of Common Stock outstanding before this offering and 5,461,546 shares of Common Stock outstanding after this offering, assuming no exercise of the Overallotment Option, the Warrants, the Representatives' Warrants, or any other outstanding options or warrants, assuming no conversions or redemptions of any of the 7% Notes, and excluding the Stoel Rives Shares.

(3) Includes options to purchase up to 189,203 shares of Common Stock.

(4) Includes options to purchase up to 136,719 shares of Common Stock.

(5) Excludes shares of Common Stock that may be received upon conversion or redemption of any 7% Notes.

CERTAIN TRANSACTIONS

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

SECURITIES ISSUANCES

From November 1995 through June 1996, the Company sold an aggregate of 859,776 shares of the Company's Series A Preferred Stock to 58 entities and individuals for an aggregate purchase price of \$4,127,000 in cash. In February 1996, Walter J. Lack, a director of the Company, purchased 15,625 shares of Series A Preferred Stock for \$75,000 in cash.

In early July 1996, the Company issued \$750,000 in aggregate principal amount of its 7% Notes to six investors raising \$750,000 for the Company's immediate operating requirements. The 7% Notes may be converted or redeemed at the option of the holder at any time 90 days after the date of this Prospectus. The 7% Notes bear interest at the rate of 7% per annum, payable semiannually in arrears on December 15 and June 15, and will mature on July 10, 1997. The 7% Notes are subordinate to all future senior indebtedness of the Company. The shares of Common Stock issuable upon any conversion or redemption of the 7% Notes are being registered for resale pursuant to the Registration Statement of which this Prospectus is a part. Walter J. Lack, a director of the Company, purchased \$250,000 in principal amount of the 7% Notes.

PROMOTERS' TRANSACTIONS

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

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

CONSULTING ARRANGEMENTS

Effective January 1, 1994, the Company entered into a consulting agreement with Dr. Thomas A. Furness, III, who at the time was chairman of a scientific advisory board to the Company. Pursuant to the agreement, Dr. Furness provided strategic planning and technical advice to the Company. Dr. Furness was paid \$55,000 and received warrants to purchase 31,250 shares of Common Stock under the agreement, which terminated in June 1995. At the time Dr. Furness resigned from the advisory board, the advisory board of the Company had become inactive. The Company and Dr. Furness are in discussions with respect to a consulting agreement that would provide for a continuing level of involvement by Dr. Furness as a technical advisor to the Company. In consideration for such services, Dr. Furness has proposed a compensation arrangement that would include additional equity participation in the Company. The Company is considering Dr. Furness' proposal.

In December 1993, the Company authorized a consulting agreement with Walter J. Lack, a director of the Company, pursuant to which Mr. Lack provided business consulting services to the

Company. As compensation for these services, the Company issued Mr. Lack warrants to purchase 3,125 shares of Common Stock at an exercise price of \$3.52 per share. In June 1996, Mr. Lack received 833 shares of common stock upon the exercise of such warrants. The consulting agreement between the Company and Mr. Lack terminated on December 31, 1994.

Between December 1993 and October 1995, two entities with which Stephen R. Willey is affiliated provided strategic planning and technical consulting services to the Company. As compensation for these services, the Company paid an aggregate of \$137,092 to these entities. The consulting relationship between the Company and the affiliates terminated in October 1995, at which time Mr. Willey became an employee of the Company.

DESCRIPTION OF SECURITIES

The authorized capital stock of the Company consists of 31,250,000 shares of Common Stock, no par value per share, and 31,250,000 shares of Preferred Stock, no par value per share.

UNITS

The Common Stock and the Warrants offered hereby will be sold only in Units. Each Unit consists of one share of Common Stock and one Warrant. The Common Stock and Warrants that comprise the Units will separate immediately upon issuance and will trade only as separate securities.

COMMON STOCK

As of July 10, 1996, there were 2,601,770 shares of Common Stock outstanding held of record by 120 shareholders. Holders of Common Stock are entitled to one vote per share on all matters submitted to a vote of shareholders and may not cumulate votes for the election of directors. Holders of Common Stock also are entitled to receive ratably such dividends as may be declared by the Board of Directors out of funds legally available therefor, subject to preferences that may be applicable to any outstanding Preferred Stock. In the event of the liquidation, dissolution or winding up of the Company, holders of Common Stock are entitled to share ratably in all assets remaining after payment of liabilities and the liquidation preference of any outstanding Preferred Stock. Holders of Common Stock have no preemptive, subscription, redemption or conversion rights. All the outstanding shares of Common Stock are, and all shares of Common Stock to be outstanding upon completion of this offering will be, fully paid and nonassessable.

PREFERRED STOCK

The Board of Directors has the authority, without further action by the shareholders, to issue up to 31,250,000 shares of Preferred Stock in one or more series and to fix the powers, designations, preferences and relative, participating, optional or other rights thereof, including dividend rights, conversion rights, voting rights, redemption terms, liquidation preferences, sinking fund terms and the number of shares constituting any series. The issuance of Preferred Stock in certain circumstances may have the effect of delaying, deferring or preventing a change of control of the Company, may discourage bids for the Company's Common Stock at a premium over the market price of the Common Stock, and may adversely affect the market price of, and the voting and other rights of the holders of, the Common Stock.

Upon the consummation of this offering, the 859,776 shares of Series A Convertible Preferred Stock outstanding as of July 10, 1996, will be converted automatically into an equal number of shares of Common Stock. No Preferred Stock will remain outstanding immediately after this offering. At present, the Company has no plans to issue any additional shares of Preferred Stock.

WARRANTS

REPRESENTATIVES' WARRANTS. In connection with this offering, the Company has authorized the issuance of the Representatives' Warrants and has reserved for issuance and registered for resale 400,000 shares of Common Stock issuable upon exercise of such warrants (including the Warrants issuable upon exercise of the Representatives' Warrants). The Representatives' Warrants will entitle the holders to acquire 200,000 Units at an exercise price of \$ per Unit. The Representatives' Warrants will be exercisable at any time from the first anniversary of the date of this Prospectus until the fifth anniversary of the date of this Prospectus. The Company has agreed that during the period between the first anniversary and fifth anniversary after the date of this Prospectus it will maintain an effective registration statement with respect to such securities so as to permit their public resale without restriction. This obligation could result in substantial future expense to the Company and could adversely affect the Company's ability to complete future equity or debt

financings. Furthermore, the sale of Common Stock of the Company held by or issuable to the Representatives or even the potential of such sales, could have an adverse effect on the market price of the securities offered hereby.

37

UNIT WARRANTS. Each Warrant will entitle the holder to purchase one share of Common Stock at a price of \$ _____ per share, subject to certain adjustments. The Warrants will, subject to certain conditions, be exercisable at any time until the fifth anniversary of the date of this Prospectus, unless earlier redeemed. The outstanding Warrants are redeemable by the Company, at \$.25 per Warrant, upon at least 30 days prior written notice to the registered holders, if the closing bid price (as defined in the Warrant Agreement described below) per share of Common Stock for each of the 20 consecutive trading days immediately preceding the date notice of redemption is given equals or exceeds 200% of the exercise price of a Warrant. If the Company gives notice of its intention to redeem, a holder would be forced either to exercise his or her Warrants before the date specified in the redemption notice or accept the redemption price.

The Warrants will be issued in registered form under a Warrant Agreement (the "Warrant Agreement") between the Company and American Stock Transfer & Trust Company, as warrant agent (the "Warrant Agent"). The shares of Common Stock underlying the Warrants, when issued upon exercise of a Warrant, will be fully paid and nonassessable, and the Company will pay any transfer tax incurred as a result of the issuance of Common Stock to the holder upon its exercise.

The Warrants and the Representatives' Warrants contain provisions that protect the holders against dilution by adjustment of the exercise price. Such adjustment will occur in the event, among others, that the Company makes certain distributions to holders of its Common Stock. The Company is not required to issue fractional shares upon the exercise of a Warrant or Representatives' Warrants. The holder of a Warrant or Representatives' Warrant will not possess any rights as a shareholder of the Company until such holder exercises the Warrant or Representatives' Warrant.

A Warrant may be exercised upon surrender of the Warrant Certificate on or before the expiration date of the Warrant at the offices of the Warrant Agent, with the form of "Election To Purchase" on the reverse side of the Warrant Certificate completed and executed as indicated, accompanied by payment of the exercise price (by certified or bank check payable to the order of the Company) for the number of shares with respect to which the Warrant is being exercised.

For a holder to exercise the Warrants, there must be a current registration statement in effect with the Commission and qualification in effect under applicable state securities laws (or applicable exemptions from state qualification requirements) with respect to the issuance of shares or other securities underlying the Warrants. The Company has agreed to use all commercially reasonable efforts to cause a registration statement with respect to such securities to be filed under the Securities Act and to become and remain effective in anticipation of and prior to the exercise of the Warrants and to take such other actions under the laws of various states as may be required to cause the sale of Common Stock (or other securities) upon exercise of Warrants to be lawful. If a current registration statement is not in effect at the time a Warrant is exercised, the Company may at its option redeem the Warrant by paying to the holder cash equal to the difference between the market price of the Common Stock on the exercise date and the exercise price of the Warrant. The Company will not be required to honor the exercise of Warrants if, in the opinion of the Company's Board of Directors upon advice of counsel, the sale of securities upon exercise would be unlawful.

The foregoing discussion of certain terms and provisions of the Warrants and Representatives' Warrants is qualified in its entirety by reference to the detailed provisions of the Warrant Agreement and Representatives' Warrants, the form of each of which has been filed as an exhibit to the Registration Statement of which this Prospectus is a part.

For the life of the Warrants and Representatives' Warrants, the holders thereof have the opportunity to profit from a rise in the market price of the Common Stock without assuming the risk of ownership of the shares of Common Stock issuable upon the exercise of the Warrants. The Warrant holders may be expected to exercise their Warrants at a time when the Company would, in all likelihood, be able to obtain any needed capital by an offering of Common Stock on terms more favorable than those provided for by the Warrants. Further, the terms on which the Company could obtain additional capital during the life of the Warrants may be adversely affected.

38

OTHER WARRANTS. As of July 10, 1996, the Company had outstanding warrants to purchase 217,963 shares of Common Stock. Warrants to purchase 4,063 shares are immediately exercisable at an exercise price of \$4.80 per share and will expire in 2001. Warrants to purchase 190,463 shares are immediately exercisable at an exercise price of \$6.40 per share and will expire at various times between

2000 and 2001.

STOCK OPTIONS

The Company has reserved 825,000 shares for issuance upon the exercise of options granted under the 1996 Stock Option Plan and 1996 Independent Director Stock Plan. As of July 10, 1996, the Company had stock options outstanding to purchase up to 971,205 shares of Common Stock at exercise prices ranging from \$0.80 to \$8.80 per share. These options were granted under the 1996 Stock Option Plan and the Company's prior Stock Option Plans. As of July 10, 1996, options to purchase 368,812 shares were exercisable, of which 216,855 will expire on January 1, 2001. The remaining outstanding options will vest, if at all, through 1999 and will expire during the period between January 1, 2002 and January 1, 2005.

CERTAIN FEDERAL INCOME TAX CONSIDERATIONS

The following discussion sets forth certain U.S. federal income tax consequences, under current law, relating to the purchase and ownership of the Units and the Common Stock and Warrants constituting the Units. The discussion is a summary and does not purport to deal with all aspects of federal taxation that may be applicable to an investor, nor does it consider specific facts and circumstances that may be relevant to a particular investor's tax position. Certain holders (such as dealers in securities, insurance companies, tax exempt organizations, and those holding Common Stock or Warrants as part of a straddle or hedge transaction) may be subject to special rules that are not addressed in this discussion. This discussion is based on current provisions of the Code and on administrative and judicial interpretations as of the date hereof, all of which are subject to change retroactively and prospectively. ALL INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE SPECIFIC TAX CONSEQUENCES TO THEM OF THIS OFFERING, INCLUDING THE APPLICABILITY OF FEDERAL, STATE, LOCAL AND FOREIGN TAX LAWS.

ALLOCATION OF PURCHASE PRICE. Each Unit as a whole will have a tax basis equal to the cost of the Unit. The measure of income or loss from certain transactions described below depends upon the tax basis in each of the Warrant and the Common Stock comprising each Unit. The tax basis for each of the Warrant and the Common Stock will be determined by allocating the cost of the Unit among the securities which comprise the Unit in proportion to the relative fair market values of those elements at the time of acquisition.

U.S. HOLDERS OF COMMON STOCK OR WARRANTS

The following discussion concerns the material U.S. federal income tax consequences of the ownership and disposition of Common Stock or Warrants applicable to a U.S. Holder of such Common Stock or Warrants. In general, a "U.S. Holder" is (i) a citizen or resident of the U.S., (ii) a corporation or partnership created or organized in the U.S. or under the laws of the U.S. or any state, or (iii) an estate or trust whose income is includable in gross income for U.S. federal income tax purposes regardless of its source.

DIVIDENDS. Dividends, if any, paid to a U.S. Holder generally will be includable in the gross income of such U.S. Holder as ordinary income to the extent of such U.S. Holder's share of the Company's current or accumulated earnings and profits. See "Dividend Policy."

SALE OF COMMON STOCK. The sale of Common Stock should generally result in the recognition of gain or loss to a U.S. Holder thereof in an amount equal to the difference between the amount realized and such U.S. Holder's tax basis in the Common Stock. If the Common Stock constitutes a capital asset in the hands of a U.S. Holder, gain or loss upon the sale of the Common Stock will be characterized as long-term or short-term capital gain or loss, depending on whether the Common Stock has been held for more than one year.

39

EXERCISE AND SALE OF WARRANTS. No gain or loss will be recognized by a U.S. Holder of a Warrant on the purchase of shares of Common Stock for cash pursuant to an exercise of a Warrant (except that gain will be recognized to the extent cash is received in lieu of fractional shares). The tax basis of Common Stock received upon the exercise of a Warrant will equal the sum of the U.S. Holder's tax basis for the exercised Warrant and the exercise price. The holding period of the Common Stock acquired upon the exercise of the Warrant will begin on the date the Warrant is exercised and the Common Stock is purchased (i.e., it does not include the period during which the Warrant was held).

Gain or loss from the sale or other disposition of a Warrant (or loss in the event that the Warrant expires unexercised as discussed below), other than pursuant to a redemption by the Company, will be capital gain or loss to its U.S. Holder if the Common Stock to which the Warrant relates would have been a

capital asset in the hands of such holder. Such capital gain or loss will be long-term capital gain or loss if the U.S. Holder has held the Warrant for more than one year at the time of the sale, disposition or lapse. It is unclear whether the redemption of a Warrant by the Company would generate ordinary or capital income or loss.

EXPIRATION OF WARRANTS WITHOUT EXERCISE. If a holder of a Warrant allows it to expire without exercise, the expiration will be treated as a sale or exchange of the Warrant on the expiration date. The U.S. Holder will have a taxable loss equal to the amount of such U.S. Holder's tax basis in the lapsed Warrant. If the Warrant constitutes a capital asset in the hands of the U.S. Holder, such taxable loss will be characterized as long-term or short-term capital loss depending upon whether the Warrant was held for the required long-term holding period.

BACKUP WITHHOLDING. A shareholder who is a U.S. Holder may be subject to backup withholding at the rate of 31% in connection with distributions received with respect to his or her shares, unless the shareholder (i) is a corporation or comes within certain other exempt categories and, when required, demonstrates this fact or (ii) provides a correct taxpayer identification number, certifies as to no loss of exemption for backup withholding and otherwise complies with applicable requirements of the backup withholding rules. Any amount paid as backup withholding will be creditable against such shareholder's income tax liability. The Company will report to the shareholders and the I.R.S. the amount of any "reportable payments" distributed and the amount of tax withheld, if any, with respect to the shares.

NON-U.S. HOLDERS OF COMMON STOCK OR WARRANTS

The following discussion concerns the material U.S. federal income and estate tax consequences of the ownership and disposition of shares of Common Stock or Warrants applicable to Non-U.S. Holders of such shares of Common Stock or Warrants. In general, a "Non-U.S. Holder" is any holder other than a U.S. Holder, as defined in the preceding section.

DIVIDENDS. Dividends, if any, paid to a Non-U.S. Holder generally will be subject to U.S. withholding tax at a 30% rate (or a lower rate as may be prescribed by an applicable tax treaty) unless the dividends are effectively connected with a trade or business of the Non-U.S. Holder within the United States. See "Dividend Policy." Dividends effectively connected with such a trade or business will generally not be subject to withholding (if the Non-U.S. Holder properly files an executed IRS Form 4224 with the payor of the dividend) and generally will be subject to federal income tax on a net income basis at regular graduated rates. In the case of a Non-U.S. Holder which is a corporation, such effectively connected income also may be subject to the branch profits tax (which is generally imposed on a foreign corporation on the repatriation from the U.S. of effectively connected earnings and profits). The branch profits tax may not apply if the recipient is a qualified resident of certain countries with which the U.S. has an income tax treaty. To determine the applicability of a tax treaty providing for a lower rate of withholding, dividends paid to an address in a foreign country are presumed, under the current I.R.S. position, to be paid to a resident of that country, unless the payor had definite knowledge that such presumption is not warranted or an applicable tax treaty (or U.S. Treasury Regulations thereunder) requires some other method for determining a Non-U.S. Holder's treaty status. The Company must report annually to the I.R.S. and to each Non-U.S. Holder the

40

amount of dividends paid to, and the tax withheld with respect to, each Non-U.S. Holder. These reporting requirements apply regardless of whether withholding was reduced or eliminated by an applicable tax treaty. Copies of these information returns also may be made available under the provisions of a specific treaty or agreement to the tax authorities in the country in which the Non-U.S. Holder resides.

SALE OF COMMON STOCK. Generally, a Non-U.S. Holder will not be subject to federal income tax on any gain realized upon the disposition of such holder's shares of Common Stock unless (i) the gain is effectively connected with a trade or business carried on by the Non-U.S. Holder within the U.S. (in which case the branch profits tax may apply); (ii) the Non-U.S. Holder is an individual who holds the shares of Common Stock as a capital asset and is present in the U.S. for 183 days or more in the taxable year of the disposition and to whom such gain is U.S. source; (iii) the Non-U.S. Holder is subject to tax pursuant to the provisions of U.S. tax law applicable to certain former U.S. citizens or residents; or (iv) the Company is or has been a "U.S. real property holding corporation" for federal income tax purposes (which the Company does not believe that it is or is likely to become) at any time during the five-year period ending on the date of disposition (or such shorter period that such shares were held) and, subject to certain exceptions, the Non-U.S. Holder held, directly or indirectly, more than 5% of the Common Stock.

EXERCISE AND SALE OF WARRANTS. Generally, a Non-U.S. Holder who recognizes capital gain from the sale of a Warrant, other than pursuant to a redemption by the Company, will not be subject to U.S. federal income tax unless (i) the gain is effectively connected with a trade or business carried on by the Non-U.S. Holder within the United States (in which case the branch profits tax may apply); (ii) the Non-U.S. Holder is an individual who is present in the U.S. for 183 days or more in the taxable year of sale and to where the gain is U.S. Source; (iii) the Non-U.S. Holder is subject to tax pursuant to the provisions of U.S. law applicable to certain former U.S. citizens or residents; or (iv) the Company is or has been a "U.S. real property holding corporation" for federal income tax purposes (which the Company does not believe it is or is likely to become) at any time during the five-year period ending on the date of sale (or such shorter period such Warrants were held) and, subject to certain exceptions, the Non-U.S. Holder held, directly or indirectly more than 5% of the Warrants.

ESTATE TAX. Shares of Common Stock and Warrants owned or treated as owned by an individual who is not a citizen or resident (as specially defined for U.S. federal estate tax purposes) of the U.S. at the time of death will be includable in the individual's gross estate for U.S. federal estate tax purposes, unless an applicable tax treaty provides otherwise, and may be subject to U.S. federal estate tax.

BACKUP WITHHOLDING AND INFORMATION REPORTING. Under current U.S. federal income tax law, backup withholding tax (which generally is a withholding tax imposed at the rate of 31% on certain payments to persons that fail to furnish certain required information) and information reporting apply to payments of dividends (actual and constructive) made to certain non-corporate U.S. persons. The backup withholding tax and information reporting requirements applicable to U.S. persons will generally not apply to dividends paid on Common Stock to a Non-U.S. Holder at an address outside the U.S., although dividends paid to Non-U.S. Holders will be reported and taxed as described above under "Dividends."

The payment of the proceeds from the disposition of shares of Common Stock or Warrants through the U.S. office of a broker will be subject to information reporting and backup withholding unless the holder, under penalties of perjury, certifies, among other things, its status as a Non-U.S. Holder or otherwise establishes an exemption. Generally, the payment of the proceeds from the disposition of shares of Common Stock or Warrants to or through a non-U.S. office of a broker will not be subject to backup withholding and will not be subject to information reporting. In the case of the payment of proceeds from the disposition of shares of Common Stock or Warrants through a non-U.S. office of a broker that is a U.S. person or a "U.S.-related person," existing regulations require information reporting (but not backup withholding) on the payment unless the broker receives a statement from the owner, signed under penalties of perjury, certifying, among other things, its status

41

as a non-U.S. Holder or the broker has documentary evidence in its files that the owner is a Non-U.S. Holder and the broker has no actual knowledge to the contrary. For this purpose, a "U.S.-related person" is (i) a "controlled foreign corporation" for U.S. federal income tax purposes or (ii) a foreign person 50% or more of whose gross income from all sources for the three-year period ending with the close of its taxable year preceding the payment (or for such part of the period that the broker has been in existence) is derived from activities that are effectively connected with the conduct of a U.S. trade or business.

Any amounts withheld from a payment to a Non-U.S. Holder under the backup withholding rules will be allowed as a credit against such holder's U.S. federal income tax liability and may entitle such holder to a refund, provided that the required information is furnished to the U.S. Internal Revenue Service. Non-U.S. Holders should consult their tax advisors regarding the application of these rules to their particular situations, the availability of an exemption therefrom and the procedure for obtaining such an exemption, if available.

REGISTRATION RIGHTS

The Company has agreed to register an additional 210,000 shares of Common Stock pursuant to the Registration Statement of which this Prospectus forms a part, for sale by certain holders of the Company's Common Stock and the 7% Notes (the "Selling Shareholders"). Of the additional 210,000 shares of Common Stock being registered, 135,000 shares are issuable in connection with conversions or redemptions of the 7% Notes. The 7% Notes may be converted or redeemed, and shares of Common Stock issuable upon any such conversion or redemption may be sold, commencing 90 days after the date of this Prospectus. The remaining 75,000 shares of Common Stock are being registered on behalf of certain of the Promoters of the Company and are subject to lock-up agreements with the Underwriters pursuant to which the holders of such shares of Common Stock have agreed not to sell the shares until 90 days after the date of this Prospectus. The Company will not receive any proceeds from the market sales of the Common

Stock by the Selling Shareholders and the sale of such shares will not be included in the offering of the Units by the Underwriters. See "Risk Factors -- Shares Eligible for Future Sale."

WASHINGTON ANTI-TAKEOVER STATUTE

Washington's "Significant Business Transactions Statute" (Chapter 23B.19 of the Washington Business Corporation Act) applies to all Washington corporations that have a class of voting shares registered pursuant to section 12 or 15 of the Exchange Act. The Company plans to register the Common Stock under the Exchange Act as of the effective date of the Registration Statement of which this Prospectus is a part. Subject to certain exceptions, the Washington statute prohibits a corporation from entering into any "significant business transactions" with an "Acquiring Person" (defined generally as a person or affiliated group that beneficially owns 10% or more of the outstanding voting securities of a corporation) for a period of five years after such person or affiliated group becomes an Acquiring Person unless a majority of the target corporation's directors approves, prior to the acquisition of shares that establishes the purchaser as an Acquiring Person, the transaction or the share acquisition. In addition, Chapter 23B.19 prohibits a corporation subject thereto from entering into a significant business transaction with an Acquiring Person unless the consideration to be received by the corporation's shareholders in connection with such transaction satisfies the statute's "fair price" provisions.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Company's securities is American Stock Transfer & Trust Company.

42

SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, there has been no public market for the Units, Common Stock or Warrants. No prediction can be made of the effect, if any, that future market sales of shares of Common Stock or the availability of such shares for sale will have on the prevailing market price of the Common Stock following this offering. The Company is unable to estimate the number of such shares that may be sold in the public market, because such amount will depend on the trading volume in, and the market price for, the Common Stock, the Warrants and other factors. Nevertheless, sales of substantial amounts of such shares in the open market following this offering could adversely affect the prevailing market price of the Common Stock and the Warrants.

Upon completion of this offering, the Company will have outstanding 5,461,546 shares of Common Stock (assuming no exercise of the Overallotment Option, the Warrants, the Representatives' Warrants, any other outstanding options or warrants, and no conversion or redemption of any of the 7% Notes, issuance of the Stoel Rives Shares or redemption of fractional shares to occur following the reverse stock split). The 2,000,000 shares of Common Stock that are included in the Units and sold in this offering (plus up to 300,000 shares that may be sold as a result of exercise of the Overallotment Option), and the 2,000,000 shares of Common Stock issuable upon exercise of the Warrants (plus up to 300,000 shares issuable upon the exercise of Warrants subject to the Overallotment Option) and the Stoel Rives Shares will be freely tradeable without restriction under the Securities Act immediately upon completion of this offering. An additional 210,000 shares of Common Stock being registered on behalf of the Selling Shareholders will be eligible for resale by the Selling Shareholders without restriction under the Securities Act 90 days after the date of this Prospectus. However, any shares purchased by an "affiliate" of the Company (as that term is defined in Rule 144 under the Securities Act), subject to certain conditions, will be subject to the resale limitations of Rule 144.

The remaining 3,386,546 shares of Common Stock are "restricted" shares subject to restrictions upon resale under Rule 144 under the Securities Act (the "Restricted Shares"). Of this number, 463,994 shares of Common Stock are subject to an agreement between the Underwriters and certain shareholders not to sell such shares until 12 months after the date of this Prospectus.

In general under Rule 144 as currently in effect, any person (or persons whose shares are aggregated) who has beneficially owned Restricted Shares for at least two years, is entitled to sell, within any three-month period, a number of shares that does not exceed the greater of (i) 1% of the then outstanding shares of the Company's Common Stock (approximately 54,272 shares immediately after this offering) or (ii) the average weekly trading volume of the Company's Common Stock during the four calendar weeks immediately preceding the date on which notice of the sale is filed with the Securities and Exchange Commission. Sales pursuant to Rule 144 also are subject to certain requirements relating to manner of sale, notice and availability of current public information about the Company. A person who is not deemed to have been an affiliate of the Company at

any time during the three months immediately preceding the sale and whose Restricted Shares have been fully paid for three years since the later of the date on which they were acquired from the Company or from an affiliate of the Company may sell such Restricted Shares under Rule 144(k) without regard to the limitations and requirements described above.

Commencing approximately 12 months after the date of this Prospectus, up to 400,000 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. Following this offering, the Company intends to file a registration statement under the Securities Act to register approximately 825,000 shares reserved for issuance under the Company's 1996 Stock Plans and 724,017 shares issuable upon exercise of options granted under the Company's prior stock option plans. See "Management -- Benefit Plans," "Description of Securities" and "Underwriting."

43
UNDERWRITING

The Underwriters named below, acting through Paulson Investment Company, Inc. and marion bass securities corporation, as Representatives, have agreed, severally and not jointly, subject to the terms and conditions contained in an Underwriting Agreement to be dated the date of this Prospectus, to purchase the Units offered hereby from the Company in the amounts set forth below:

<TABLE> <CAPTION> UNDERWRITER	NUMBER OF UNITS

<S>	<C>
Paulson Investment Company, Inc.....	
marion bass securities corporation.....	

Total.....	2,000,000

</TABLE>

The Underwriting Agreement provides that the Underwriters are obligated to purchase all of the Units offered hereby, other than the Units subject to the Overallotment Option, if any are purchased, subject to certain conditions.

The Representatives have advised the Company that the Underwriters propose to offer the Units to the public at the Unit Offering Price set forth on the cover page of this Prospectus and to selected dealers at such price less a concession within the discretion of the Representatives and that the Underwriters and such dealers may reallocate a concession to other dealers, including the Underwriters, within the discretion of the Representatives. After the initial public offering of the Units, the Unit Offering Price, the concessions to selected dealers and the reallocation to other dealers may be changed by the Representatives.

The Company has granted the Representatives the Overallotment Option, exercisable during the 45-day period after the date of this Prospectus, to purchase up to a maximum of an additional 300,000 Units on the same terms as the Units being purchased by the Underwriters from the Company. The Representatives may exercise the Overallotment Option only to cover overallotments made in connection with this offering.

The Company has agreed to sell and issue to the Representatives the Representatives' Warrants. The Representatives' Warrants are exercisable for a period of four years beginning one year from the date of this Prospectus. The Representatives' Warrants are exercisable to purchase up to 200,000 Units at a price of \$ per Unit (120% of the Unit Offering Price). The Representatives' Warrants are not redeemable by the Company. The Representatives' Warrants are nontransferable except to one of the Underwriters or to any individual who is either a partner or an officer of an Underwriter, or by will or the laws of descent and distribution. The holders of the Representatives' Warrants will have, in that capacity, no voting, dividend, or other shareholder rights. Any profit realized by the Representatives on the sale of the securities issuable upon exercise of the Representatives' Warrants may be deemed to be additional underwriting compensation.

The securities underlying the Representatives' Warrants are being registered on the Registration Statement of which this Prospectus is a part. The Company has agreed to maintain an effective registration statement at its expense with respect to the issuance of the securities underlying the Representatives' Warrants (and, if necessary, to allow their public resale without restriction) at all times during the period in which the Representatives' Warrants are exercisable.

By virtue of holding the Representatives' Warrants, the Representatives have the opportunity to profit, at a nominal cost, from an increase in the market price of the Company's securities. Furthermore, the exercise of the Representatives' Warrants could dilute the interests of the holders of Common Stock and the existence of the Representatives' Warrants may make it more difficult for the Company to raise additional equity capital. Although the Company will obtain additional equity capital upon exercise of the Representatives' Warrants, it is likely that the Company could then raise additional capital on more favorable terms than those of the Representatives' Warrants.

The Representatives also will receive at closing a nonaccountable expense allowance equal to three percent (3%) of the aggregate initial public offering price of the Units sold in this offering, reduced by \$35,000 previously paid by the Company as an advance against this allowance.

A person associated with one of the Representatives has entered into a consulting agreement with the Company pursuant to which the Company has issued options to such person for the purchase of 31,250 shares of Common Stock at an exercise price of \$6.40 per share. Such options vest monthly through October 1, 1996 and are exercisable for a period of five years from the date of vesting.

The Representatives have informed the Company that they do not expect the Underwriters to confirm sales of Units offered by this Prospectus to any account on a discretionary basis.

The Underwriting Agreement provides for reciprocal indemnification and contribution between the Company and its controlling persons, on the one hand, and the Underwriters and their respective controlling persons, on the other hand, against certain liabilities in connection with the Registration Statement of which this Prospectus is a part, including liabilities under the Securities Act.

The Company's officers and directors and certain other shareholders have agreed that for a period of one year after the date of this Prospectus, and the Promoters have agreed that for a period of 90 days after the date of this Prospectus, they will not offer, sell, contract to sell, grant any option for the sale of or otherwise dispose of any securities of the Company (other than intra-family transfers or transfers to trusts for estate planning purposes), without the prior written consent of Paulson Investment Company, Inc.

Prior to this offering, there has been no public market for the Units, Common Stock or Warrants. Accordingly, the Unit Offering Price will be determined by negotiation between the Company and the Representatives. Among the factors to be considered in determining the Unit Offering Price, in addition to prevailing market conditions, will be the history and prospects of the industry in which the Company intends to compete, an assessment of the Company's management, prospects and capital structure, and such other factors as the Representatives and the Company deem relevant.

LEGAL MATTERS

Certain legal matters related to this offering will be passed upon for the Company by Stoel Rives LLP, Seattle, Washington. Certain legal matters related to this offering will be passed upon for the Underwriters by Tonkon, Torp, Galen, Marmaduke & Booth, Portland, Oregon. Stoel Rives LLP may receive up to 6,000 Units in partial consideration of services rendered to the Company in connection with this offering.

EXPERTS

The financial statements of the Company as of December 31, 1994 and 1995 and for the years then ended and for the period from inception (May 1993) to December 31, 1995 included in this Prospectus have been so included in reliance on the report (which contains an explanatory paragraph relating to the Company's ability to continue as a going concern as described in Note 1 of Notes to the Financial Statements) of Price Waterhouse LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

ADDITIONAL INFORMATION

The Company has filed with the Securities and Exchange Commission (the "Commission") in Los Angeles, California a Registration Statement on Form SB-2 under the Securities Act with respect to the securities offered hereby. This Prospectus, filed as part of the Registration Statement, does not contain all the information set forth in the Registration Statement and the exhibits and schedules thereto, certain portions of which have been omitted in accordance with the rules and regulations of the Commission. For further information with

respect to the Company and the securities offered hereby, reference is made to the Registration Statement and to the exhibits and schedules thereto, which may be inspected at the Commission's offices without charge, or copies of which may be obtained from the Commission upon payment of the prescribed fees. Statements made in this Prospectus as to the contents of any contract, agreement, or document referred to are not necessarily complete, and in each instance, reference is made to the copy of such contract or other document filed as an exhibit to the Registration Statement, and each such statement is qualified in its entirety by such reference. The Registration Statement and the exhibits and schedules thereto may be inspected without charge at the Commission's principal office at Room 1024, Judiciary Plaza Building, 450 Fifth Street, N.W., Washington, D. C. 20549 and the regional offices of the Commission located at 75 Park Place, 14th Floor, New York, New York 10007 and 500 West Madison Street, 14th Floor, Chicago, Illinois 60661. Copies of such material may be obtained at prescribed rates from the public Reference Section of the Commission at Room 1024, Judiciary Plaza Building, 450 Fifth Street, N.W., Washington, D.C. 20549.

46
INDEX TO FINANCIAL STATEMENTS

<TABLE>
<CAPTION>

PAGE	--

<S>	<C>
Report of Independent Accountants.....	F-2
Balance Sheet as of December 31, 1994 and 1995 and as of June 30, 1996 (unaudited).....	F-3
Statement of Operations for the years ended December 31, 1994 and 1995, for the period from inception (May 1993) through December 31, 1995, for the six month periods ended June 30, 1995 and 1996 (unaudited), and for the period from inception (May 1993) through June 30, 1996 (unaudited).....	F-4
Statement of Shareholders' Equity (Deficit) for the years ended December 31, 1994 and 1995 and for the six month period ended June 30, 1996 (unaudited).....	F-5
Statement of Cash Flows for the years ended December 31, 1994 and 1995, for the period from inception (May 1993) through December 31, 1995, for the six month periods ended June 30, 1995 and 1996 (unaudited), and for the period from inception (May 1993) through June 30, 1996 (unaudited).....	F-6
Notes to the Financial Statements.....	F-7

F-1
REPORT OF INDEPENDENT ACCOUNTANTS

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

In our opinion, the accompanying balance sheet and the related statement of operations, of shareholders' equity (deficit) and of cash flows present fairly, in all material respects, the financial position of Microvision, Inc., a development stage enterprise, at December 31, 1994 and 1995, and the results of its operations and its cash flows for the years then ended and for the period from inception (May 1993) to December 31, 1995 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.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company is a development stage enterprise which has

experienced significant losses from operations and has a net capital deficiency that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

PRICE WATERHOUSE LLP

Seattle, Washington
 July 10, 1996, except as to the reverse stock split described on Note 8, which is as of August 9, 1996.

F-2
 MICROVISION, INC.
 (A DEVELOPMENT STAGE ENTERPRISE)
 BALANCE SHEET
 ASSETS

<TABLE>
 <CAPTION>

	DECEMBER 31, 1994	DECEMBER 31, 1995	JUNE 30, 1996	PRO FORMA JUNE 30, 1996 (NOTE 8)
			(UNAUDITED)	(UNAUDITED)
<S>	<C>	<C>	<C>	<C>
Current assets				
Cash and cash equivalents.....	\$ 67,700	\$ 98,500	\$ 462,400	\$ 1,169,900
Receivables from former employees.....	50,000	69,400	2,800	2,800
Prepaid expenses.....	--	--	56,100	98,600
	-----	-----	-----	-----
Total current assets.....	117,700	167,900	521,300	1,271,300
Equipment, net.....	11,700	9,100	54,800	54,800
Other assets.....	8,400	2,000	52,400	52,400
	-----	-----	-----	-----
Total assets.....	\$ 137,800	\$ 179,000	\$ 628,500	\$ 1,378,500
	-----	-----	-----	-----

LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)

Current liabilities				
Accounts payable.....	\$ 147,500	\$ 207,500	\$ 409,900	\$ 409,900
Accrued compensation and related liabilities.....	--	336,400	362,600	362,600
7% Convertible Subordinated Notes due 1997..	--	--	--	750,000
	-----	-----	-----	-----
Total current liabilities.....	147,500	543,900	772,500	1,522,500
Commitments and contingencies (Notes 5 and 6)				
Shareholders' (deficit):				
Preferred stock, no par value, 31,250,000 shares authorized, none, 499,478, 859,776 (unaudited) and none (Pro forma) issued and outstanding.....	--	2,038,900	3,532,800	--
Common stock, no par value, 31,250,000 shares authorized, 3,033,203, 3,098,828, 2,601,770 (unaudited) and 3,461,546 (Pro forma) shares issued and outstanding.....	4,488,800	4,745,900	4,793,700	8,326,500
Deferred compensation.....	(335,200)	(42,800)	(21,300)	(21,300)
Subscription receivable.....	--	--	(10,000)	(10,000)
Deficit accumulated during development stage.....	(4,163,300)	(7,106,900)	(8,439,200)	(8,439,200)
	-----	-----	-----	-----
Total shareholders' (deficit).....	(9,700)	(364,900)	(144,000)	(144,000)
	-----	-----	-----	-----
Total liabilities and shareholders' equity (deficit).....	\$ 137,800	\$ 179,000	\$ 628,500	\$ 1,378,500
	-----	-----	-----	-----

</TABLE>

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

F-3
 MICROVISION, INC.
 (A DEVELOPMENT STAGE ENTERPRISE)
 STATEMENT OF OPERATIONS

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31, 1994	YEAR ENDED DECEMBER 31, 1995	INCEPTION (MAY 1993) TO DECEMBER 31, 1995	SIX MONTHS ENDED JUNE 30, 1995	SIX MONTHS ENDED JUNE 30, 1996	INCEPTION (MAY 1993) TO JUNE 30, 1996
				(UNAUDITED)	(UNAUDITED)	(UNAUDITED)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Contract revenue.....	\$ --	\$ 29,300	\$ 29,300	\$ --	\$ 27,200	\$ 56,500
Research and development expense.....	1,804,400	1,931,200	4,882,400	700,000	692,100	5,574,500
Marketing, general and administrative expense.....	1,046,300	1,037,700	2,300,300	407,900	670,000	2,970,300
Total expenses.....	2,850,700	2,968,900	7,182,700	1,107,900	1,362,100	8,544,800
Loss from operations.....	(2,850,700)	(2,939,600)	(7,153,400)	(1,107,900)	(1,334,900)	(8,488,300)
Interest income.....	39,000	31,800	82,300	9,000	5,000	87,300
Interest expense.....	--	35,800	35,800	--	2,400	38,200
Net loss.....	\$ (2,811,700)	\$ (2,943,600)	\$ (7,106,900)	\$ (1,098,900)	\$ (1,332,300)	\$ (8,439,200)
Pro forma net loss per share (unaudited).....		\$ (0.62)		\$ (0.24)	\$ (0.28)	
Pro forma weighted average shares and share equivalents outstanding (unaudited).....		4,749,087		4,659,852	4,838,693	

</TABLE>

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

F-4
MICROVISION, INC.
(A DEVELOPMENT STAGE ENTERPRISE)
STATEMENT OF SHAREHOLDERS' EQUITY (DEFICIT)

<TABLE>
<CAPTION>

SUBSCRIPTION RECEIVABLE	PREFERRED STOCK		COMMON STOCK		DEFERRED
	SHARES	AMOUNT	SHARES	AMOUNT	COMPENSATION
<S>	<C>	<C>	<C>	<C>	<C>
Issuance of founders' shares, net.....	--	--	1,893,750	\$ 212,100	--
Issuance of stock in exchange for Exclusive License Agreement (at \$3.52/share).....	--	--	187,500	660,000	--
Issuance of stock for cash (at \$3.52/share), net of costs.....	--	--	937,500	3,077,400	--
Net loss for period ended December 31, 1993.....	--	--	--	--	--
Balance at December 31, 1993.....	--	--	3,018,750	3,949,500	--
Issuance of stock for cash (at \$6.40/share).....	--	--	14,453	92,500	--
Issuance of warrants and options for common stock.....	--	--	--	446,800	\$ (335,200)
Net loss for year ended December 31, 1994.....	--	--	--	--	--

Balance at December 31, 1994.....	--	--	3,033,203	4,488,800	(335,200)	
--						
Issuance of stock upon exercise of warrants.....	--	--	62,500	6,000	--	
--						
Issuance of stock to Board members for services.....	--	--	3,125	11,000	--	
--						
Issuance of warrants and options for common stock.....	--	--	--	325,100	--	
--						
Issuance of preferred stock for cash, net of costs (at \$4.80/share).....	499,478	\$ 2,038,900	--	--	--	
--						
Amortization of deferred compensation, net.....	--	--	--	--	220,150	
--						
Cancellation of stock options.....	--	--	--	(85,000)	72,250	
--						
Net loss for year ended December 31, 1995.....	--	--	--	--	--	
--						

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 (unaudited).....	--	--	6,250	30,000	--	
--						
Issuance of warrants and options for common stock (unaudited).....	--	--	--	23,400	--	
--						
Issuance of preferred stock for cash, net of costs (at \$4.80/share) (unaudited).....	360,298	1,493,900	--	--	--	
--						
Issuance of common stock for services (unaudited).....	--	--	4,375	21,000	--	
--						
Issuance of common stock to shareholders who had originally purchased common stock at \$6.40/share (unaudited).....	--	--	4,817	--	--	
--						
Exercise of warrants for common stock (unaudited).....	--	--	50,000	40,000	--	\$
(10,000)						
Cashless exercise of warrants for common stock (unaudited).....	--	--	296,875	--	--	
--						
Cancellation of founder's common stock (unaudited).....	--	--	(859,375)	(66,600)	--	
--						
Amortization of deferred compensation (unaudited).....	--	--	--	--	21,500	
--						
Net loss for the six months ended June 30, 1996 (unaudited).....	--	--	--	--	--	
--						

Balance at June 30, 1996 (unaudited)...	859,776	\$ 3,532,800	2,601,770	\$ 4,793,700	\$ (21,300)	\$
(10,000)						

<CAPTION>

	DEFICIT ACCUMULATED DURING DEVELOPMENT STAGE	SHAREHOLDERS' EQUITY (DEFICIT)
<S>	<C>	<C>
Issuance of founders' shares, net.....	--	\$ 212,100
Issuance of stock in exchange for Exclusive License Agreement (at \$3.52/share).....	--	660,000
Issuance of stock for cash (at \$3.52/share), net of costs.....	--	3,077,400
Net loss for period ended December 31, 1993.....	\$ (1,351,600)	(1,351,600)

Balance at December 31, 1993.....	(1,351,600)	2,597,900
Issuance of stock for cash (at \$6.40/share).....	--	92,500
Issuance of warrants and options for common stock.....	--	111,600
Net loss for year ended December 31, 1994.....	(2,811,700)	(2,811,700)
Balance at December 31, 1994.....	(4,163,300)	(9,700)
Issuance of stock upon exercise of warrants.....	--	6,000
Issuance of stock to Board members for services.....	--	11,000
Issuance of warrants and options for common stock.....	--	325,100
Issuance of preferred stock for cash, net of costs (at \$4.80/share).....	--	2,038,900
Amortization of deferred compensation, net.....	--	220,150
Cancellation of stock options.....	--	(12,750)
Net loss for year ended December 31, 1995.....	(2,943,600)	(2,943,600)
Balance at December 31, 1995.....	(7,106,900)	(364,900)
Issuance of stock to Board members for services (unaudited).....	--	30,000
Issuance of warrants and options for common stock (unaudited).....	--	23,400
Issuance of preferred stock for cash, net of costs (at \$4.80/share) (unaudited).....	--	1,493,900
Issuance of common stock for services (unaudited).....	--	21,000
Issuance of common stock to shareholders who had originally purchased common stock at \$6.40/share (unaudited).....	--	--
Exercise of warrants for common stock (unaudited).....	--	30,000
Cashless exercise of warrants for common stock (unaudited).....	--	--
Cancellation of founder's common stock (unaudited).....	--	(66,600)
Amortization of deferred compensation (unaudited).....	--	21,500
Net loss for the six months ended June 30, 1996 (unaudited).....	(1,332,300)	(1,332,300)
Balance at June 30, 1996 (unaudited)...	\$ (8,439,200)	\$ (144,000)

</TABLE>

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

F-5
MICROVISION, INC.
(A DEVELOPMENT STAGE ENTERPRISE)
STATEMENT OF CASH FLOWS

<TABLE>
<CAPTION>

	YEAR ENDED	YEAR ENDED	INCEPTION			
	DECEMBER 31, 1994	DECEMBER 31, 1995	(MAY 1993) TO DECEMBER 31, 1995	SIX MONTHS ENDED JUNE 30, 1995	SIX MONTHS ENDED JUNE 30, 1996	(MAY JUNE JUNE)
INCEPTION						
1993) TO						
30, 1996						

(UNAUDITED)				(UNAUDITED)	(UNAUDITED)	
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Cash flows from operating activities:						
Net loss.....	\$ (2,811,700)	\$ (2,943,600)	\$ (7,106,900)	\$ (1,098,900)	\$ (1,332,300)	
\$ (8,439,200)						
Adjustments to reconcile net loss to net cash used in operations:						

Amortization of deferred compensation.....	--	207,400	207,400	1,500	21,500	
228,900						
Depreciation and write-off of equipment.....	33,100	2,600	35,700	--	5,200	
40,900						
Non-cash expenses related to issuance of stock, warrants and options.....	111,600	336,100	1,107,700	145,600	74,400	
1,182,100						
Change in:						
Receivables from former employees..	(109,600)	47,200	(69,400)	47,200		
(69,400)						
Allowance for doubtful accounts....	66,600	(66,600)	--	(66,600)	--	
--						
Prepaid expenses.....	--	--	--	--	(56,100)	
(56,100)						
Other assets.....	(2,300)	6,400	(2,000)	8,100	(50,400)	
(52,400)						
Accounts payable.....	(39,500)	60,000	207,500	18,500	185,600	
393,100						
Accrued compensation and related liabilities.....	--	336,400	336,400	13,200	26,200	
362,600						

Net cash used in operating activities.....	(2,751,800)	(2,014,100)	(5,283,600)	(931,400)	(1,125,900)	
(6,409,500)						

Cash flows from investing activities:						
Purchases of equipment.....	(30,200)	--	(44,800)	(4,100)	(34,100)	
(78,900)						

Net cash used in investing activities.....	(30,200)	--	(44,800)	(4,100)	(34,100)	
(78,900)						

Cash flows from financing activities:						
Net proceeds from issuance of common stock.....	92,500	6,000	3,388,000	--	30,000	
3,418,000						
Net proceeds from issuance of preferred stock.....	--	2,038,900	2,038,900	899,200	1,493,900	
3,532,800						

Net cash provided by financing activities.....	92,500	2,044,900	5,426,900	899,200	1,523,900	
6,950,800						

Net increase (decrease) in cash and cash equivalents.....	(2,689,500)	30,800	98,500	(36,300)	363,900	
462,400						
Cash and cash equivalents at beginning of period.....	2,757,200	67,700	--	67,700	98,500	-
-						

Cash and cash equivalents at end of period.....	\$ 67,700	\$ 98,500	\$ 98,500	\$ 31,400	\$ 462,400	\$
462,400						

Cash paid for interest.....	\$ --	\$ 35,800	\$ 35,800	\$ --	\$ 2,400	\$
38,200						

Supplemental disclosure of non-cash transactions						
Cancellation of Founders' shares in exchange for forgiveness of note....					\$ 66,600	\$
66,600						

Capital lease of equipment.....	\$	16,800	\$
16,800			

</TABLE>

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

F-6

MICROVISION, INC.
(A DEVELOPMENT STAGE ENTERPRISE)
NOTES TO THE FINANCIAL STATEMENTS

1. THE COMPANY

Microvision, Inc. (the Company), a Washington corporation, was incorporated May 31, 1993. The Company was established to develop, manufacture and market Virtual Retinal Display (VRD) technology, which projects images directly onto the eye's retina. The Company is working closely with the University of Washington's Human Interface Technology Lab to develop the VRD for potential defense, healthcare, business, industrial and consumer applications.

The Company is a development stage enterprise which has incurred significant net losses since inception. The ability of the Company to continue its operations is dependent upon its ability to obtain financing, which to date has been principally from the sale of stock. The Company intends to file a Registration Statement for an initial public offering (IPO) of units including common stock and warrants from which it expects to generate net proceeds of approximately \$15,495,000. Management believes proceeds from the IPO together with proceeds from future corporate partnerships, offerings and/or other financing sources will enable the Company to continue research and development activities and develop products pursuant to its long-term growth plan.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CASH AND CASH EQUIVALENTS

Cash equivalents consist of highly liquid investments with original maturities of 90 days or less. The Company had no short-term investments at December 31, 1994 or 1995.

EQUIPMENT

Equipment is stated at cost and depreciated over the estimated useful lives of the assets (five years) using the straight-line method.

CONTRACT REVENUE

Contract revenue has been recorded on the completed contract method of revenue recognition.

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.

PRO FORMA NET LOSS PER SHARE (UNAUDITED)

Pro forma net loss per share is computed on the basis of the weighted average number of shares of common stock outstanding during the period after giving retroactive adjustment for the conversion of all Series A preferred stock into an equal number of shares of common stock, which will occur upon completion of the IPO, and after consideration of the dilutive effect, if any, of stock options and warrants. Pursuant to the requirements of the Securities and Exchange Commission, common equivalent shares relating to preferred stock and convertible debt (using the if-converted method) and stock options (using the treasury stock method and assuming an initial public offering price of \$9.00 per share) issued subsequent to June 30, 1995 have been included in the computations for all periods presented. Historical net loss per share is not presented because such amounts are not deemed meaningful due to the changes in capital structure that will occur in connection with the IPO.

RESEARCH AND DEVELOPMENT

Research and development costs, net of reimbursements, are expensed as

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

F-7

MICROVISION, INC.
 (A DEVELOPMENT STAGE ENTERPRISE)
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
 FINANCIAL INSTRUMENTS

The Company's financial instruments consist primarily of cash and cash equivalents, receivables from former employees, accounts payable and accrued compensation and related liabilities. These financial instruments are stated at their respective carrying values in the December 31, 1995 financial statements, which approximates their fair values. The Company places its cash in high credit quality financial institutions.

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.

RECENT ACCOUNTING PRONOUNCEMENTS

In December 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation" (FAS 123). This pronouncement requires the Company to elect to account for stock-based compensation on a fair value based model or an intrinsic value based model. The intrinsic value based model is currently used by the Company and is the accounting principle prescribed by Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" (APB 25). Under this model, compensation cost is the excess, if any, of the quoted market price of the stock at the date of grant or other measurement date over the amount an employee must pay to acquire the stock. The fair value based model prescribed by FAS 123 would require the Company to value stock-based compensation using an accepted valuation model. Compensation cost is measured at the grant date based on the value of the award and is recognized over the service period which is usually the vesting period. The Company plans to continue to account for stock-based compensation using APB 25 and is required to implement the disclosure requirements of FAS 123 during the year ending December 31, 1996. Implementation will not have a significant impact on the financial statements.

UNAUDITED INTERIM FINANCIAL STATEMENTS

The information presented as of June 30, 1996 and for the six months ended June 30, 1995 and 1996 has not been audited. In the opinion of management, the unaudited interim financial statements include all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the Company's financial position as of June 30, 1996 and the results of its operations and cash flows for the six months ended June 30, 1995 and 1996. The interim results of operations are not necessarily indicative of results which may occur for the full fiscal year.

F-8

MICROVISION, INC.
 (A DEVELOPMENT STAGE ENTERPRISE)
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. COMPOSITION OF CERTAIN FINANCIAL STATEMENT CAPTIONS

<TABLE>
 <CAPTION>

	DECEMBER 31,	
	1994	1995
<S>	<C>	<C>
Receivables from former employees		
Receivables.....	\$ 50,000	\$ 2,800
Notes.....	66,600	66,600

Allowance for doubtful accounts.....	116,600	69,400
	(66,600)	--
	-----	-----
	\$ 50,000	\$ 69,400
	-----	-----
Equipment, net		
Equipment.....	\$ 12,800	\$ 12,800
Accumulated depreciation.....	(1,100)	(3,700)
	-----	-----
	\$ 11,700	\$ 9,100
	-----	-----

</TABLE>

4. SHAREHOLDERS' EQUITY (DEFICIT)

COMMON STOCK

In July 1993, the Company issued 1,893,750 initial shares of its common stock to the founders for \$212,100, net of issuance costs. Subscribers to the initial offering received warrants to purchase an additional 1,893,750 shares of common stock at an exercise price of \$.80 per share and warrants to purchase an additional 946,875 common shares at an exercise price of \$2.40 per share. The warrants are exercisable through July 24, 2003. Warrants for 1,893,750 and 625,000 shares were canceled during 1994 and 1995, respectively.

In September 1993, the Company completed a private placement of common stock in which 375,000 shares of common stock were issued for \$3.52 per share. A warrant for the purchase of an additional share for \$4.80 was issued with each share of common stock. All of the warrants expired, unexercised, in April 1995.

In October 1993, the Company issued 187,500 shares of common stock valued at \$660,000 to acquire a technology license as described in Note 5.

In November 1993, the Company completed an additional private placement of common stock in which 562,500 shares of common stock were issued for \$3.52 per share.

In October 1994, the Company completed its third private placement of common stock in which 14,453 shares of common stock were issued for \$6.40 per share.

PREFERRED STOCK

In November 1994, the Company authorized the issuance of 1,875,000 Series A Preferred Stock per share which has liquidation and dividend preferences over common stock. Dividends accrue when and if declared by the Board of Directors. The Series A Preferred Stock is convertible into an equal number of shares of common stock. As of December 31, 1995, 499,478 shares had been issued, generating gross proceeds of \$2,397,500.

WARRANTS

On December 1, 1993, warrants to purchase 125,000 shares of common stock of the Company at an exercise price of \$3.52 per share were issued to persons who performed services relating to raising equity capital. These warrants were exercised subsequent to December 31, 1995.

F-9

MICROVISION, INC.
(A DEVELOPMENT STAGE ENTERPRISE)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. SHAREHOLDERS' EQUITY (DEFICIT) (CONTINUED)

During 1993, warrants to purchase a total of 468,750 shares of common stock were issued in two separate issuances to an investment banker who raised capital for the Company. The first issuance was of warrants to purchase 156,250 common shares at an exercise price of \$4.00 per share and the second was for warrants to purchase 312,500 common shares at an exercise price of \$4.80 per share. During 1995, the Company extended the exercise period and reduced the number of shares associated with the warrants issued such that warrants to purchase 359,375 shares of common stock at an exercise price of \$4.80 per share remained outstanding. Subsequent to December 31, 1995, the exercise period was extended and the number of common shares associated with these warrants was again reduced, such that warrants to purchase 125,000 shares at \$6.40 per share remain outstanding and expire in November 1998.

During 1994, two separate issuances of warrants were made to persons who performed capital raising services. The first issuance was for warrants to purchase 62,500 shares of common stock of the Company at an exercise price of

\$.10 per share. The second issuance was for warrants to purchase 62,500 shares of common stock of the Company at an exercise price of \$3.20 per share with an expiration date of March 31, 1999. Warrants granted under the first issuance were exercised during 1995 for proceeds of \$6,000. The remaining warrants were exercised subsequent to December 31, 1995.

In September 1995, the Company granted warrants to purchase 31,250 shares of common stock at an exercise price of \$4.80 per share to a consultant who performed capital raising services. The warrants were granted at their estimated fair value as determined by the Company. The warrants vest ratably over one year and expire five years following the date of issue. Subsequent to December 31, 1995, the exercise price of the warrants was increased to \$6.40 per share.

In December 1995, the Company issued warrants to purchase 31,250 shares of common stock at an exercise price of \$4.80 per share to two consultants involved in research and capital raising activities. The warrants were granted at their estimated fair value as determined by the Company. The warrants vest ratably over one year and expire five years following the date of issue. Subsequent to December 31, 1995, the exercise price of the warrants was increased to \$6.40 per share.

In December 1995, the Company granted a warrant to purchase 1,563 shares of common stock at an exercise price of \$4.80 per share for rent expense to be incurred in January 1996. These warrants vested in January 1996 and expire five years from the date of issue.

OPTIONS

During 1993, the Company adopted the 1993 Stock Option Plan which provided for granting incentive stock options (ISOs) and nonqualified options 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.

During 1994, the Company adopted the 1994 Combined Incentive and Nonqualified Stock Option Plan which provided for the granting of incentive stock options 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, subject to adjustment by the Plan Administrator. The date of grant, option price, vesting terms and other terms specific to options granted under such plan were determined by the Plan Administrator.

F-10

MICROVISION, INC.
(A DEVELOPMENT STAGE ENTERPRISE)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. SHAREHOLDERS' EQUITY (DEFICIT) (CONTINUED)

In 1994, a consultant of the Company was granted warrants to purchase 31,250 shares of common stock at an exercise price of \$.80 per share. Research and development expense of \$85,000 related to the fair value of the warrant, as determined by the Company, was recorded during the year ended December 31, 1994. During 1995, this consultant became the Executive Vice President of the Company and these warrants were canceled and replaced with options to purchase 296,875 shares of common stock. The options were recorded at \$237,500, the fair value as determined by the Company, and compensation expense of \$225,000 was recorded during the year ended December 31, 1995. Options for 97,656 shares of common stock at an exercise price of \$.80-\$3.20 per share were vested as of December 31, 1995. The remainder vest in quarterly increments beginning January 1, 1996 at exercise prices of \$3.20-\$7.20 per share. These options expire five years from their vesting date.

In 1994, the Company granted options to purchase 241,845 shares of common stock to the Chief Executive Officer of the Company in three separate issuances. During 1995, the officer's employment agreement was renegotiated and the number of options were increased. Under the employment agreement, the Company granted options to purchase a total of 311,517 shares of common stock to the officer in three separate issuances. The first issuance comprised options for 115,813 shares of common stock at an exercise price of \$.80. These options were fully vested at December 31, 1995. The second and third issuance each comprised options to purchase 97,852 shares of common stock at a price of \$3.20 and \$6.40, respectively, and vest over one year in quarterly increments beginning March 31, 1996 and March 31, 1997, respectively. The options expire five years from the grant. The options were valued at \$346,000 based upon the difference between the exercise price and fair value of the underlying shares, as determined by the Company, and compensation expense of \$331,000 was recorded during the year ended December 31, 1995.

In 1994, the Company granted to consultants acting in advisory capacities

options to purchase a total of 12,500 shares of common stock at an exercise price of \$6.40 per share. Compensation expense associated with this grant was not material. Such options have vested and expire five years from the date of issue.

In November 1995, the Company issued options to purchase 25,000 shares of common stock at exercise prices ranging from \$4.80 to \$7.20 per share to employees under the employees' compensation agreements. The options were granted at no less than their estimated fair value as determined by the Company. These options vest quarterly beginning in 1996 and expire five years from the date of issue.

Subsequent to December 31, 1995, the Company's Board of Directors adopted the 1996 Stock Option Plan (the "1996 Plan") and the 1996 Independent Director Stock Plan (the "Director Plan"). The 1996 Plan provides for granting ISOs and non qualified options (NSOs) to employees, officers and agents of the Company as determined by the Plan Administrator, for the purchase of up to 750,000 shares of the Company's authorized but unissued common stock. The terms and conditions of any options granted, including the exercise price and vesting period are to be determined by the Plan Administrator. The Director Plan provides for granting up to a total of 75,000 shares of common stock to nonemployee directors of the Company as determined by the Board of Directors or a committee thereof. The Company expects to terminate the prior plans effective immediately following the issuance of the shares of common stock subject to the outstanding grants thereunder.

F-11

MICROVISION, INC.
(A DEVELOPMENT STAGE ENTERPRISE)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. SHAREHOLDERS' EQUITY (DEFICIT) (CONTINUED)

The following summarizes activity with respect to options and warrants through December 31, 1995:

<TABLE>
<CAPTION>

	WARRANTS		OPTIONS	
	SHARES	EXERCISE PRICE	SHARES	EXERCISE PRICE
<S>	<C>	<C>	<C>	<C>
Granted.....	3,809,375	\$.80-4.80	--	--
Outstanding at December 31, 1993.....	3,809,375	.80-4.80	--	--
Granted.....	187,500	.10-3.52	254,345	\$.80-6.40
Canceled/expired.....	(1,893,750)	.80-2.40	--	--
Outstanding at December 31, 1994.....	2,103,125	.10-4.80	254,345	.80-6.40
Granted.....	64,063	4.80-6.40	391,547	.80-7.20
Exercised.....	(62,500)	.10	--	--
Canceled/expired.....	(1,171,875)	.80-4.80	--	--
Outstanding at December 31, 1995.....	932,813	\$.80-6.40	645,892	\$.80-7.20
Exercisable at December 31, 1995.....	894,271	\$.80-6.40	213,471	\$.80-3.20

</TABLE>

5. COMMITMENTS AND CONTINGENCIES

In October 1993, the Company concurrently entered into a Research Agreement and Exclusive License Agreement (License Agreement) with the University of Washington (UW). The Research Agreement provides for the Company to pay \$5,133,500 to fund agreed-upon VRD research and development activities to be carried out by UW. The research funding is required to be paid in sixteen quarterly instalments of \$320,800 and is payable at the beginning of each quarter. Should the Company determine that for any reason it would not be beneficial to continue funding the Research Agreement, the terms of the Research Agreement permit the Company to terminate the agreement and discontinue future payments. Total payments made for the years ended December 31, 1994 and 1995 and the period from inception to December 31, 1995 are \$1,283,400, \$1,283,400 and \$2,887,600, respectively.

In an effort to match more closely the timing of the Company's funding obligations under the Research Agreement with the actual research work performed

by the HIT Lab, the Company and UW are currently discussing rescheduling payments and extending the term of the Research Agreement. Future commitments under the Agreement in effect at December 31, 1995 are as follows:

<TABLE>
 <CAPTION>
 YEAR ENDING DECEMBER 31,

 <S> <C>
 1996..... \$ 1,283,400
 1997..... 962,500

 \$ 2,245,900

</TABLE>

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 are credited to the license fee. In the event the Research Agreement is terminated and the Company elects to continue the License Agreement, the

F-12

MICROVISION, INC.
 (A DEVELOPMENT STAGE ENTERPRISE)
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. COMMITMENTS AND CONTINGENCIES (CONTINUED)

remaining license fee becomes due and payable. If Microvision were to terminate the License Agreement, it believes that further payments would not be required and, accordingly, has not booked the balance of payments due as an accrued expense.

Under the Research Agreement, the Company is required to pay certain costs related to filing and processing of any patents and copyrights it chooses to support or fund in accordance with the agreement.

During 1993, the Company issued 187,500 shares of common stock with a fair value of \$660,000, as estimated by the Company, to UW and certain affiliates as additional consideration under the License Agreement. Additionally, the Company will pay certain ongoing royalties.

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 HALO Agreement the Company paid \$25,000 in 1994 to fund research relating to the development of certain technical information relating to HALO Display technology. In addition to the initial payment, the Company has committed to pay to UW the following:

<TABLE>
 <S> <C>
 Upon filing for first patent..... \$75,000 and 31,250 common shares
 Upon issuance of the first patent..... \$100,000 and 62,500 common shares
 </TABLE>

In September 1995, the Company reserved 31,250 shares of common stock for issuance upon exercise of options to be granted to members of the research staff at UW. During July 1996, these options were granted with an exercise price of \$6.40 per share.

During the period March 1994 through June 1995, warrants to purchase an aggregate of 343,750 shares of common stock at prices ranging from \$0.80 to \$6.40 per share were approved by the Company's Board of Directors for issuance to a then-current director. The director resigned his position in August 1995. Subsequent to December 31, 1995, the Board of Directors concluded that the grant of the warrants to the former director had neither been properly authorized under the Washington Business Corporation Act nor supported by adequate consideration. The former director disputes the Company's view of the circumstances surrounding the approval of the Warrants, has engaged counsel with respect to the matter and has informed the Company that if settlement of the parties' differences with respect to the warrants is not reached, he intends to

commence legal action seeking damages for breach of contract and a declaration that the warrants are in full force and effect. Although the Company believes its position with respect to the warrants is correct, if the former director were to commence legal action against the Company, there is no assurance that he would not prevail on some or all of such claims.

6. LEASE COMMITMENTS

During late 1995 and early 1996, the Company entered into leases for its current office space and certain equipment under noncancelable capital and operating leases with initial or remaining terms in excess of one year. Under the operating lease for office space, the Company may elect to occupy additional space at greater cost and has the option to make payment in the form of preferred shares in lieu of paying cash through July 1996.

F-13

MICROVISION, INC.
(A DEVELOPMENT STAGE ENTERPRISE)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. LEASE COMMITMENTS (CONTINUED)

The Company has exercised this option and issued 7,693 preferred shares and warrants to purchase 1,563 shares of common stock to the landlord. Rent expense of approximately \$36,900 will be recorded for the share issuance and warrants granted in December 1995. 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>
1996.....	\$ 5,600	\$ 49,300
1997.....	5,600	59,600
1998.....	5,600	59,600
	\$ 16,800	\$ 168,500
	-----	-----

</TABLE>

7. INCOME TAXES

A current provision for income taxes has not been recorded for the years ended December 31, 1994 or 1995 or the period inception to date 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, 1995, the Company had net operating loss carry-forwards of approximately \$2,812,000 for federal income tax reporting purposes. The net operating losses will expire beginning in 2005 if not previously utilized. In certain circumstances, as specified in the Internal Revenue Code, a 50% or more ownership change by certain combinations of the Company's stockholders during any three-year period would result in limitations on the Company's ability to utilize its net operating loss carry-forwards. The Company has determined that such a change occurred during 1995 and the annual utilization of loss carry-forwards will be limited to approximately \$761,000.

Deferred tax assets are summarized as follows:

<TABLE>
<CAPTION>

	DECEMBER 31, 1994	DECEMBER 31, 1995
<S>	<C>	<C>
Net operating loss carry-forward.....	\$ 556,000	\$ 956,000
Capitalized research and development.....	830,000	1,143,000
Other.....	(30,000)	247,000
	1,356,000	2,346,000
Valuation allowance.....	(1,356,000)	(2,346,000)
	\$ --	\$ --
Deferred taxes.....	-----	-----

</TABLE>

8. SUBSEQUENT EVENTS

The Company intends to file a Registration Statement for an initial public offering (IPO) of 2,000,000 units, each consisting of one share of common stock and one warrant to purchase one share of common stock. In anticipation of the IPO, on July 10, 1996, subject to shareholder approval, the Company's Board of Directors approved a 1-for-3.2 reverse stock split of the Company's common and preferred stock. The reverse stock split was approved by the shareholders on August 9, 1996. All information in these financial statements pertaining to shares of capital stock and per share amounts have been adjusted to give retroactive effect to the reverse split. It is anticipated a minor number of fractional shares will be redeemed in connection with this action. Upon completion of the IPO, the preferred stock will convert to common stock on a one-for-one basis. This conversion is reflected in the pro forma balance sheet as of June 30, 1996.

F-14

MICROVISION, INC.
(A DEVELOPMENT STAGE ENTERPRISE)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. SUBSEQUENT EVENTS (CONTINUED)

On July 10, 1996, the Company issued 7% Convertible Subordinated Notes in the amount of \$750,000. The Notes bear interest at 7% payable in arrears on December 15 and June 15 and are due July 10, 1997. The Notes are 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 may 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. Debt issuance costs amounted to \$42,500. The effect of the transaction is included in the pro forma balance sheet as of June 30, 1996.

During the period from January 1, 1996 to August 9, 1996 the Company issued options and warrants to purchase approximately 350,000 shares of common stock at exercise prices ranging from \$0.80 to \$8.80 per share.

F-15

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Hand-Held
Communications
Devices

MANUFACTURERS OF
PORTABLE COMMUNICATIONS
DEVICES HAVE IDENTIFIED
A NEED FOR PRODUCTS
THAT INCORPORATE
PERSONAL DISPLAY UNITS
FOR VIEWING FAX,
ELECTRONIC MAIL AND
GRAPHIC IMAGES ON
HIGHLY MINIATURIZED
DEVICES.

MICROVISION EXPECTS THAT THE RANGE OF PRODUCTS IN THE HAND-HELD COMMUNICATIONS DEVICES CATEGORY MAY INCLUDE CELLULAR PHONES AND PAGERS THAT PROJECT INTO VIEW DATA OR OTHER INFORMATION IN A BRIGHT, SHARP DISPLAY.

THE ABOVE RENDERINGS HAVE BEEN PREPARED FOR ILLUSTRATION PURPOSES ONLY TO DEMONSTRATE PROPOSED PRODUCTS AND POSSIBLE APPLICATIONS FOR THE COMPANY'S TECHNOLOGY. THESE RENDERINGS DO NOT DEPICT ACTUAL PRODUCTS OR CURRENT APPLICATIONS. THE COMPANY HAS BUILT ONLY PORTABLE AND TABLE-TOP PROTOTYPES TO DATE. SEE "BUSINESS -- PROTOTYPES."

NO PERSON IS AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION, OTHER THAN AS CONTAINED IN THIS PROSPECTUS, IN CONNECTION WITH

THE OFFERING CONTAINED HEREIN, AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR ANY UNDERWRITER. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY ANY SECURITIES IN ANY JURISDICTION TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO THE DATE HEREOF.

TABLE OF CONTENTS

<TABLE>
<CAPTION>

	PAGE

<S>	<C>
Prospectus Summary.....	3
Risk Factors.....	7
Use of Proceeds.....	12
Dividend Policy.....	12
Capitalization.....	13
Dilution.....	14
Management's Discussion and Analysis of Financial Condition and Results of Operations.....	15
Business.....	18
Management.....	28
Principal Shareholders.....	34
Certain Transactions.....	35
Description of Securities.....	37
Shares Eligible for Future Sale.....	43
Underwriting.....	44
Legal Matters.....	45
Experts.....	45
Additional Information.....	46
Index to Financial Statements.....	F-1

</TABLE>

UNTIL _____, 1996 (25 DAYS AFTER THE DATE OF THIS PROSPECTUS), ALL DEALERS EFFECTING TRANSACTIONS IN THE UNITS OFFERED HEREBY, WHETHER OR NOT PARTICIPATING IN THIS DISTRIBUTION, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS IS IN ADDITION TO THE OBLIGATION OF DEALERS TO DELIVER A PROSPECTUS WHEN ACTING AS UNDERWRITERS AND WITH RESPECT TO THEIR UNSOLD ALLOTMENTS OR SUBSCRIPTIONS.

2,000,000 UNITS

[LOGO]

EACH UNIT CONSISTING OF ONE SHARE
OF COMMON STOCK AND ONE WARRANT
TO PURCHASE ONE SHARE OF COMMON STOCK

PROSPECTUS

PAULSON INVESTMENT
COMPANY, INC.

MARION BASS SECURITIES CORPORATION

, 1996

PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 24. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Article 7 of the Company's Amended and Restated Articles of Incorporation authorizes the Company to indemnify its directors to the fullest extent permitted by the Washington Business Corporation through the adoption of Bylaws, approval of agreements, or by any other manner approved by the Board of Directors. In accordance therewith, Section 10 of the Company's Amended and

Restated Bylaws ("Bylaws") requires indemnification of present and past directors, as well as any person who, while a director, also was serving at the request of the Company as an officer, employee or agent of the Company or as a director, officer, employee or agent of another entity (an "Indemnitee"), who was or is made a party or is threatened to be made a party to or is involved in any threatened, pending, or completed action, suit or proceeding, whether formal or informal, civil, criminal, administrative or investigative (a "Proceeding"), by reason of the fact that he or she is or was a director. Section 10 of the Bylaws also provides that any Indemnitee who was or is made a party or is threatened to be made a party to any threatened, pending, or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the Indemnitee's status as such, will be indemnified and held harmless by the Company to the fullest extent permitted by applicable law against all expense actually and reasonably incurred or suffered by such person in connection therewith if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the corporation and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation. Notwithstanding these indemnification obligations, no indemnification will be provided to any Indemnitee to the extent that such indemnification would be prohibited by the Washington Business Corporation Act or other applicable law as then in effect, nor, except with respect to proceedings seeking to enforce rights to indemnification, will the Corporation indemnify any such person seeking indemnification in connection with a Proceeding initiated by such person except where such Proceeding was authorized by the Board of Directors.

Section 10 of the Bylaws also provides that expenses incurred in defending any Proceeding in advance of its final disposition may be advanced by the Company to the Indemnitee upon receipt of an undertaking by or on behalf of such person to repay such amount if it is ultimately determined that such person is not entitled to be indemnified by the Company, except where the Board of Directors adopts a resolution expressly disapproving such advancement.

Article 10 of the Bylaws also authorizes the Board to indemnify and advance expenses to officers, employees, and agents of the Company on the same terms and with the same scope and effect as the provisions thereof with respect to the indemnification and advancement of expenses of directors.

The Company also has a policy of entering into indemnification agreements with each member of its Board of Directors. In the agreements, the Company agrees to hold harmless and indemnify the Director in the event the Director is successful in the defense of any proceeding to which the Director is or was a party against reasonable expenses incurred by the Director in connection with the proceeding. The Company also agrees to indemnify the Director if the Director acted in good faith and the Director reasonably believed (i) in the case of conduct in the Director's official capacity with the Company, that the Director's conduct was in the Company's best interests; (ii) in all other cases, that the Director's conduct was at least not opposed to the Company's best interests; and (iii) in the case of any criminal proceeding, the Director had no reasonable cause to believe the Director's conduct was unlawful.

The Company has agreed to indemnify the Underwriters, and the Underwriters have agreed to indemnify the Company, against certain liabilities under the Securities Act.

II-1

ITEM 25. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The following table sets forth the expenses incurred in connection with the sale and distribution of the securities being registered, other than underwriting discounts and commissions. All of the amounts shown are estimated except the Securities and Exchange Commission registration fee and the NASD filing fee.

<TABLE> <S>	<C>
SEC registration fee.....	\$ 22,478
NASD filing fee.....	2,786
NASDAQ initial fee.....	42,212
Blue sky fees and expenses, including legal fees.....	60,000
Other legal fees and expenses.....	200,000
Accounting fees and expenses.....	100,000
Transfer agent and registrar fee.....	3,500
Printing expenses.....	75,000
Miscellaneous.....	19,024

TOTAL.....	\$ 525,000

</TABLE>

ITEM 26. RECENT SALES OF UNREGISTERED SECURITIES.

Since inception (May 1993), the Company has sold and issued the following

unregistered securities:

1. In July 1993, the Company issued 1,893,750 shares of Common Stock and warrants to purchase 2,840,625 shares of Common Stock to the founders of the Company for aggregate cash consideration of \$212,100.

2. In September 1993, the Company issued 375,000 shares of Common Stock and warrants to purchase an equal number of shares of Common Stock to 15 accredited investors for aggregate cash consideration of \$1,320,000.

3. In October 1993, the Company issued 187,500 shares of Common Stock to the University of Washington and certain affiliates thereof as partial consideration for a technology license.

4. In November 1993, the Company issued 562,500 shares of Common Stock to 12 accredited investors for aggregate cash consideration of \$1,980,000.

5. In October 1994, the Company issued 14,453 shares of Common Stock to five accredited investors for aggregate cash consideration of \$92,499.

6. Between November 1994 and June 1996, the Company issued 853,527 shares of Series A Convertible Preferred Stock to 48 accredited investors for aggregate cash consideration of approximately \$4,096,930.

7. In July 1996, the Company issued \$750,000 principal amount of 7% convertible subordinated notes to six accredited investors.

8. From May 1993 to December 1995, the Company issued to individuals warrants to purchase an aggregate of 1,126,563 shares of Common Stock at exercise prices ranging from \$0.10 to \$4.80 per share, in consideration of capital raising and other services provided to the Company.

The sales of securities described above were exempt from registration under the Securities Act by virtue of Section 4(2) thereof as transactions by an issuer not involving any public offering or in reliance on Rule 506 of Regulation D promulgated under the Securities Act. The purchasers in each of these transactions represented their intention to acquire the securities for investment only and not with a view to the distribution thereof. Appropriate legends concerning the restricted nature of such securities were affixed to the certificates issued in such transactions. All purchasers either received adequate information about the Company or had adequate access, through employment or other relationships, to such information.

II-2

ITEM 27. EXHIBITS.

<TABLE>

<C>

<S>

- 1.1 Underwriting Agreement
- 3.1 Amended and Restated Articles of Incorporation of Microvision, Inc., as filed on August 14, 1996, with the Secretary of State of the State of Washington*
- 3.2 Amended and Restated Bylaws of Microvision, Inc.*
- 4.1 Form of specimen certificate for Common Stock
- 4.2 Form of Warrant for purchase of Common Stock
- 4.3 Warrant Agreement
- 4.4 Form of Representatives' Warrant for purchase of Units
- 4.5 Form of 7% Convertible Subordinated Note due 1997*
- 5.1 Opinion of Stoel Rives LLP
- 10.1 Project I Research Agreement between The University of Washington and the Washington Technology Center and the H. Group, dated June 10, 1993*
- 10.2 Assignment of License and Other Rights between The University of Washington and the Washington Technology Center and the H. Group, dated July 25, 1993*
- 10.3 Project II Research Agreement between The University of Washington and the Washington Technology Center and Microvision, Inc., dated October 28, 1993 *+
- 10.4 Exclusive License Agreement between The University of Washington and Microvision, Inc., dated October 28, 1993 *+
- 10.5 Amended and Restated Employment Agreement between Microvision, Inc., and Richard F. Rutkowski, effective October 1, 1994*
- 10.6 Employment Agreement between Microvision, Inc., and Stephen R. Willey, dated May 1, 1996*
- 10.7 1993 Stock Option Plan*
- 10.8 1994 Combined Incentive and Nonqualified Stock Option Plan*
- 10.9 1995 Combined Incentive and Nonqualified Stock Option Plan*
- 10.10 1996 Stock Option Plan*
- 10.11 1996 Independent Director Stock Plan*
- 10.12 Office Lease Agreement by and between David A. Sabey and Sandra L. Sabey and Microvision, Inc., dated December 22, 1995, as amended*
- 10.13 Form of Director Indemnification Agreement*
- 10.14 Exclusive License Agreement between the University of Washington and Microvision, Inc. dated March 3, 1994
- 11.1 Computation of Pro Forma Loss Per Share*
- 23.1 Consent of Price Waterhouse LLP
- 23.2 Consent of Stoel Rives LLP (included in Exhibit 5.1)

- -----
* Previously filed.

+ Confidential treatment requested.

II-3

ITEM 28. UNDERTAKINGS.

The undersigned Registrant hereby undertakes that it will:

(1) For purposes of determining any liability under the Securities Act, treat the information omitted from the form of Prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of Prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act as a part of this Registration Statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, treat each post-effective amendment that contains a form of Prospectus as a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) File, during any period in which it offers or sells securities, a post-effective amendment to this registration statement to:

(i) include any prospectus required by Section 10(a)(3) of the Securities Act;

(ii) reflect in the prospectus any facts or events which, individually or together, represent a fundamental change in the information in the registration statement; and

(iii) include any additional or changed material information on the plan of distribution.

(4) For determining liability under the Securities Act, treat each post-effective amendment as a new registration statement of the securities offered, and the offering of the securities at that time to be the initial bona fide offering.

(5) File a post-effective amendment to remove from registration any of the securities that remain unsold at the end of the offering.

(6) Provide to the Underwriters at the closing specified in the Underwriting Agreement certificates in such denominations and registered in such names as required by the Underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the provisions described in Item 24, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

II-4

SIGNATURES

In accordance with the requirements of the Securities Act of 1933, as amended, MICROVISION, INC. certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form SB-2 and authorized this Amendment to the Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Seattle, Washington on August 9, 1996.

MICROVISION, INC.

By /s/ RICHARD F. RUTKOWSKI

Richard F. Rutkowski, PRESIDENT

In accordance with the requirements of the Securities Act of 1933, as amended, this Amendment to the Registration Statement has been signed by the following persons in the capacities indicated on August 9, 1996.

SIGNATURE	TITLE
----- /s/ RICHARD F. RUTKOWSKI ----- Richard F. Rutkowski	Chief Executive Officer, President, and Director (Principal Executive Officer and Principal Financial and Accounting Officer)
----- /s/ STEPHEN R. WILLEY ----- Stephen R. Willey	Executive Vice President and Director
----- /s/ RICHARD A. RAISIG ----- Richard A. Raisig	Director
----- /s/ WALTER J. LACK ----- Walter J. Lack	Director
----- /s/ ROBERT A. RATLIFFE ----- Robert A. Ratliffe	Director
----- /s/ JACOB BROUWER ----- Jacob Brouwer	Director
----- Richard A. Cowell	Director
*By: /s/ RICHARD F. RUTKOWSKI ----- Richard F. Rutkowski (Attorney-in-Fact)	

II-5

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JULY 12, 1996

REGISTRATION NO. 333-5276-LA

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

EXHIBITS
TO
FORM SB-2
AMENDMENT NO. 1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

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

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JULY , 1996

REGISTRATION NO. 333-5276-LA

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

EXHIBITS
TO
FORM SB-2
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

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

VOLUME II

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JULY , 1996

REGISTRATION NO. 333-5276-LA

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

EXHIBITS TO
FORM SB-2
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

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

VOLUME III

EXHIBIT INDEX

<TABLE>

<C>

<S>

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10.13	Form of Director Indemnification Agreement*
10.14	Exclusive License Agreement between the University of Washington and Microvision, Inc. dated March 3, 1994
11.1	Computation of Pro Forma Loss Per Share*
23.1	Consent of Price Waterhouse LLP
23.2	Consent of Stoel Rives LLP (included in Exhibit 5.1)
24.1	Power of Attorney (included on signature page)*

</TABLE>

- -----
* Previously filed.

+ Confidential treatment requested.

Form of
2,000,000 Units

MICROVISION, INC.

UNDERWRITING AGREEMENT

_____, 1996

Paulson Investment Company, Inc.
marion bass securities corporation
As Representatives of the
Several Underwriters
c/o Paulson Investment Company, Inc.
811 SW Front Avenue
Portland, Oregon 97204

Gentlemen:

Microvision, Inc., a Washington corporation (the "Company"), proposes to sell to the several underwriters (the "Underwriters") named in Schedule I hereto for whom you are acting as Representatives (the "Representatives") an aggregate of 2,000,000 Units (the "Firm Units"). Each Unit will consist of one share of the Company's Common Stock, no par value (the "Common Stock"), and one Warrant to purchase one share of Common Stock, substantially in the form filed as an exhibit to the Registration Statement (hereinafter defined) (the "Warrants"). The respective amounts of the Firm Units to be so purchased by the several Underwriters are set forth opposite their names in Schedule I hereto. The Company also proposes to grant to the Representatives an option to purchase in the aggregate up to 300,000 additional Units, identical to the Firm Units (the "Option Units"), as set forth below. The offer and sale of the Firm Units and the Option Units pursuant to this Underwriting Agreement (the "Agreement") is referred to herein as the "Offering."

As the Representatives, you have advised the Company that (a) you are authorized to enter into this Agreement for yourselves as Representatives and on behalf of the several Underwriters, (b) the several Underwriters are willing, acting severally and not jointly, to purchase the numbers of Firm Units set forth opposite their respective names in Schedule I, and (c) you may purchase the Option Units, as set forth below. The Firm Units and the Option Units (to the extent the aforementioned option is exercised) are herein collectively called the "Units."

In consideration of the mutual agreements contained herein and of the interests of the parties in the transactions contemplated hereby, the parties hereto agree as follows:

1. REPRESENTATIONS AND WARRANTIES OF THE COMPANY.

The company represents and warrants to each of the Underwriters as follows:

(a) A registration statement on Form SB-2 (File No. 333-5276-LA) with respect to the Units has been prepared by the Company in conformity with the requirements of the Securities Act of 1933, as amended (the "Act"), and the Rules and Regulations (the "Rules and Regulations") of the Securities and Exchange Commission (the "Commission") thereunder and has been filed with the Commission. Copies of such registration statement, including any amendments thereto, the preliminary prospectuses (meeting the requirements of the Rules and Regulations) contained therein and the exhibits, financial statements and schedules, as finally amended and revised, have heretofore been delivered by the Company to you. Such registration statement, together with any registration statement filed by the Company pursuant to Rule 462(b) of the Act, herein referred to as the "Registration Statement," which shall be deemed to include all information omitted therefrom in reliance upon Rule 430A and contained in the Prospectus referred to below, has become effective under the Act and no post-effective amendment to the Registration Statement has been filed as of the date of this Agreement. "Prospectus" means (a) the form of prospectus first filed with the Commission pursuant to Rule 424(b), or (b) the last preliminary prospectus included in the Registration Statement filed prior to the time it becomes effective or filed pursuant to Rule 424(a) under the Act that is delivered by the Company to the Underwriters for delivery to purchasers of the Units, together with the term sheet or abbreviated term sheet filed with the

Commission pursuant to Rule 424(b)(7) under the Act. Each preliminary prospectus included in the Registration Statement prior to the time it becomes effective is herein referred to as a "Preliminary Prospectus."

(b) The Company has been duly organized and is validly existing as a corporation in good standing under the laws of the State of Washington, with corporate power and authority to own or lease its properties and conduct its business as described in the Prospectus. Except as described in the Prospectus, the Company does not own and never has owned any interest in any corporation or other business entity. The Company is duly qualified to transact business in all jurisdictions in which the failure to be so qualified would have a material adverse effect on the earnings, business, management, properties, assets, rights, operations or condition (financial or otherwise) or prospects ("Business and Properties") of the Company.

2

(c) The outstanding shares of Common Stock of the Company have been duly authorized and validly issued and are fully paid and non-assessable and have been issued and sold by the Company in compliance in all material respects with applicable Federal and state securities laws; the Common Stock to be included in the Units has been duly authorized and when issued and paid for as contemplated herein will be validly issued, fully paid and non-assessable; and no preemptive rights of shareholders exist with respect to any security of the Company or the issue and sale thereof. Other than as described in the Registration Statement, neither the filing of the Registration Statement nor the offering or sale of the Units as contemplated by this Agreement gives rise to any rights, other than those which have been waived or satisfied, for or relating to the registration of any shares of Common Stock or other securities of the Company.

(d) The information set forth under the caption "Capitalization" in the Prospectus is true and correct. The Common Stock and the Warrants conform to the description thereof contained in the Registration Statement. The form of certificates for the Common Stock and Warrants conform to the corporate law of the State of Washington. Except as disclosed in the Prospectus, there are no outstanding rights, options or warrants for the purchase of any securities of the Company, and the Company is not a party to any agreement pursuant to which any person has the right to purchase any securities of the Company. Effective immediately following the Closing Date (hereinafter defined), there will be no person holding any anti-dilution rights with respect to the securities of the Company.

(e) Except as described in the Registration Statement, the Company has not (i) issued any capital stock or any options, warrants, convertible securities or other rights to purchase its capital stock, (ii) increased its long-term or short-term debt, or (iii) declared or paid any dividends on its capital stock.

(f) The Commission has not issued an order preventing or suspending the use of any Prospectus relating to the proposed offering of the Units nor instituted proceedings for that purpose. The Registration Statement contains, and the Prospectus and any amendments or supplements thereto will contain, all statements which are required to be stated therein by, and will conform to, the requirements of the Act and the Rules and Regulations. The Registration Statement and any amendments thereto do not contain, and will not contain, any untrue statement of a material fact and do not omit, and will not omit, to state any material fact required to be stated therein or necessary to make the statements therein not misleading; provided, however, that the Company makes no representations or warranties as to information contained in or omitted from the Registration Statement or the Prospectus, or any such amendment

3

or supplement, in reliance upon, and in conformity with, written information furnished to the Company by or on behalf of any Underwriter through either of the Representatives, specifically for use in the preparation thereof.

(g) The financial statements of the Company, together with related notes and schedules as set forth in the Registration Statement, present fairly the financial position and the results of operations and cash flows of the Company as of the indicated dates and for the indicated periods. Such financial statements and related schedules have been prepared in accordance with generally accepted accounting principles, consistently applied through the periods involved, except as disclosed therein, and all adjustments necessary for a fair presentation of results for such periods have been made. The summary financial and statistical data of the Company included in the Registration Statement present fairly the information shown therein and such data have been compiled on a basis consistent with the financial statements presented therein.

(h) Price Waterhouse LLP, who have certified certain of the financial statements filed with the Commission as part of the Registration Statement, are

independent public accountants as required by the Act and the Rules and Regulations.

(i) There is no action, suit, claim or proceeding pending or, to the knowledge of the Company, threatened against the Company before any court or administrative agency or otherwise which if determined adversely to the Company might result in any material adverse change in the Business and Properties of the Company or prevent the consummation of the transactions contemplated hereby.

(j) The Company has good and marketable title to all of the properties and assets reflected in the financial statements (or as described in the Registration Statement), subject to no lien, mortgage, pledge, charge or encumbrance of any kind except those reflected in such financial statements (or as described in the Registration Statement) or which are not material in amount. The Company occupies its leased properties under valid and binding leases conforming in all material respects to the description thereof set forth in the Registration Statement.

(k) The Company has filed all Federal, state and foreign income tax returns which have been required to be filed and has paid all taxes indicated by said returns and all assessments received by it to the extent that such taxes have become due and are not being contested in good faith. All tax liabilities have been adequately provided for in the financial statements of the Company.

4

(l) Since the respective dates as of which information is given in the Registration Statement, as it may be amended or supplemented, there has not been any material adverse change or any development involving a prospective material adverse change in or affecting the Business and Properties of the Company, whether or not occurring in the ordinary course of business, and there has not been any material transaction entered into or any material transaction that is probable of being entered into by the Company, other than transactions in the ordinary course of business and changes and transactions described in the Registration Statement, as it may be amended or supplemented. The Company has no material contingent obligations which are not disclosed in the Company's financial statements included in the Registration Statement or elsewhere in the Prospectus, as it may be amended or supplemented.

(m) The Company is not, nor, with the giving of notice or lapse of time or both, will it be, in violation of or in default under its articles of incorporation or bylaws or under any agreement, lease, contract, indenture or other instrument or obligation to which it is a party or by which it, or any of its properties, is bound and which default is material in respect of the Business and Properties of the Company. The execution and delivery of this Agreement and the consummation of the transactions contemplated herein and the fulfillment of the terms hereof will not conflict with or result in a breach of any of the terms or provisions of, or constitute a default under, any indenture, mortgage, deed of trust or other agreement or instrument to which the Company is a party, or of the articles of incorporation or bylaws of the Company or any order, rule or regulation applicable to the Company of any court or of any regulatory body or administrative agency or other governmental body having jurisdiction over the Company or its assets.

(n) Each approval, consent, order, authorization, designation, declaration or filing by or with any regulatory, administrative or other governmental body necessary in connection with the execution and delivery by the Company of this Agreement and the consummation of the transactions herein contemplated (except such additional steps as may be required by the Commission, the National Association of Securities Dealers, Inc. (the "NASD") or such additional steps as may be necessary to qualify the Units for public offering by the Underwriters under state securities or Blue Sky laws) has been obtained or made and is in full force and effect.

(o) The Company holds or has licensed the rights to all material patents, patent rights, trademarks, trade names, copyrights, trade secrets and licenses of any of the foregoing (collectively, "Intellectual Property Rights") that are necessary for the conduct of its business as conducted and as proposed to be conducted in accordance with the description contained in the

5

Prospectus; there is no claim pending or, to the knowledge of the Company, threatened against the Company alleging any infringement of Intellectual Property Rights, or any material violation of the terms of any license relating to Intellectual Property Rights, nor does the Company know of any basis for any such claim. The Company knows of no material infringement by others of Intellectual Property Rights owned by or licensed to the Company.

(p) The Company has obtained, is in compliance in all material respects with and maintains in full force and effect, all material licenses, certificates, permits, orders or other, similar authorizations granted or issued by any governmental agency (collectively "Government Permits") required to conduct its business as it is presently conducted. No proceeding to revoke, limit or otherwise materially change any Government Permit has been commenced

or, to the Company's knowledge, is threatened against the Company, the Human Interface Technology Lab (the "HITL") or any supplier to the Company with respect to materials supplied to the Company, and the Company has no reason to anticipate that any such proceeding will be commenced against the Company, the HITL or any such supplier. Except as disclosed or contemplated in the Prospectus, the Company has no reason to believe that any pending application for a Government Permit will be denied or limited in a manner inconsistent with the Company's business plan as described in the Prospectus.

(q) The Company is in compliance with all laws, rules, regulations, orders of any court or administrative agency, operating licenses or other requirements imposed by any governmental body applicable to it, including, to its knowledge and without limitation, all applicable laws, rules, regulations, licenses or other governmental standards relating to the protection of the environment or applicable to the industry in which the Company operates; and the conduct of the business of the Company, as described in the Prospectus, will not cause the Company to be in violation of any such requirements.

(r) Neither the Company nor, to the Company's best knowledge, any of its affiliates has taken or intends to take, directly or indirectly, any action designed to cause or result in, or which has constituted or which might reasonably be expected to constitute, the stabilization or manipulation of the price of the shares of Common Stock to facilitate the sale or resale of the Units.

(s) The Company is not an "investment company" within the meaning of such term under the Investment Company Act of 1940 (the "1940 Act") and the rules and regulations of the Commission thereunder.

6

(t) The Company maintains a system of internal accounting controls sufficient to provide reasonable assurances that (i) transactions are executed in accordance with management's general or specific authorization; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain accountability for assets; (iii) access to assets is permitted only in accordance with management's general or specific authorization; and (iv) the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(u) The Company carries, or is covered by, insurance in such amounts and covering such risks as is adequate for the conduct of its business and the value of its properties and as is customary for companies engaged in similar industries.

(v) The Company is not a party to, and the Company (including any predecessor) has not, within five years of the effective date of the Registration Statement, been a party to any pension plan governed by the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

(w) The Company is in compliance with all provisions of Section 1 of Laws of Florida, Chapter 92-198, AN ACT RELATING TO DISCLOSURE OF DOING BUSINESS WITH CUBA.

(x) The Warrants have been duly authorized for issuance to the various purchasers of the Units and will, when issued, possess rights, privileges and characteristics as represented in the most recent form of Warrants filed as an exhibit to the Registration Statement; the securities to be issued upon exercise of the Warrants, when issued and delivered against payment therefor in accordance with the terms of the Warrants, will be duly and validly issued, fully paid, non-assessable and free of preemptive rights, and all corporate action required to be taken for the authorization and issuance of the Warrants, and the securities to be issued upon their exercise, have been validly and sufficiently taken.

(y) The Representatives' Warrants (as defined in paragraph (d) of Section 2 hereof) have been duly authorized for issuance to the Representatives and will, when issued, possess rights, privileges, and characteristics as represented in the most recent form of Representatives' Warrants filed as an exhibit to the Registration Statement; the securities to be issued upon exercise of the Representatives' Warrants, when issued and delivered against payment therefor in accordance with the terms of the Representatives' Warrants, will be duly and validly issued, fully paid, non-assessable and free of preemptive rights, and all corporate action required to be taken for the

7

authorization and issuance of the Representatives' Warrants, and the securities to be issued upon their exercise, have been validly and sufficiently taken.

(z) The Company has caused each officer and director and each person who owns, beneficially or of record, 5% or more of the Common Stock outstanding

immediately prior to this offering to furnish to the Representatives, on or prior to the date of this Agreement, a letter or letters, in form and substance satisfactory to the Underwriters ("Lockup Agreements"), pursuant to which each such person shall agree (A) not to offer to sell, sell, contract to sell, sell short or otherwise dispose of any shares of Common Stock or other capital stock of the Company, or any other securities convertible, exchangeable or exercisable for Common Stock or derivatives of Common Stock owned by such person, or request the registration for the offer or sale of any of the foregoing for a period of one year after the date of this Agreement, directly or indirectly, except with the prior written consent of Paulson Investment Company, Inc. and (B) to provide prior written notice to the Representatives of any offers to sell, sales, contracts to sell, short sales or other dispositions of Common Stock pursuant to Rule 144 under the Act or any similar provisions enacted subsequent to the date of this Agreement, for a period of one year from the date of this Agreement.

(aa) The Company has not at any time during the last five years (i) made any unlawful contribution to any candidate for foreign office, or failed to disclose fully any contribution in violation of law, or (ii) made any payment to any federal or state governmental officer or official, or other person charged with similar public or quasi-public duties, other than payments required or permitted by the laws of the United States or any jurisdiction thereof.

(ab) Except as disclosed in the Prospectus and to the Underwriters, neither the Company nor any of its officers, directors or affiliates have caused any person, other than the Underwriters, to be entitled to reimbursement or compensation of any kind, including, without limitation, any compensation that would be includable as underwriter compensation under the NASD's Corporate Financing Rule with respect to the offering of the Units, as a result of the consummation of such offering based on any activity of such person as a finder, agent, broker, investment adviser or other financial service provider.

(ac) The Common Stock and the Warrants have been approved for inclusion, subject to official notice of issuance, in the Nasdaq National Market.

(ad) The Company took all action necessary in accordance with Washington law, its Articles of Incorporation and

8

its Amended and Restated Bylaws to convene its 1996 Annual Meeting of Shareholders held on August 9, 1996, at which meeting all action required under Washington law was taken to approve (a) the Restated Articles of Incorporation of the Company, (b) the 1996 Stock Option Plan and the 1996 Independent Director Stock Plan, (c) the 1-for-3.2 reverse split of the capital stock of the Company, and to elect the number of directors authorized by the Restated Articles of Incorporation, the Amended and Restated Bylaws or resolution adopted pursuant to such articles or bylaws.

2. PURCHASE, SALE AND DELIVERY OF THE UNITS.

(a) On the basis of the representations, warranties and covenants herein contained, and subject to the conditions herein set forth, the Company agrees to sell to the Underwriters and each Underwriter agrees, severally and not jointly, to purchase, at a price of \$_____ per Unit, the number of Firm Units set forth opposite the name of each underwriter in Schedule I hereof, subject to adjustment in accordance with Section 9 hereof.

(b) Payment for the Firm Units to be sold hereunder is to be made in New York Clearing House funds and, at the option of the Representatives, by certified or bank cashier's checks drawn to the order of the Company or bank wire to an account specified by the Company against either uncertificated or certificated delivery of the Firm Units to the Representatives for the several accounts of the Underwriters, which delivery, if certificated, shall take place in such location in New York, New York as may be specified by the Representatives. Such payment is to be made at the offices of Tonkon, Torp, Galen, Marmaduke & Booth, 888 S.W. Fifth Avenue, Portland, Oregon 97204-2099, at 7:00 a.m., Pacific time, on the third business day after the date of this Agreement or at such other time and date not later than five business days thereafter as the Representatives and the Company shall agree, such time and date being herein referred to as the "Closing Date." (As used herein, "business day" means a day on which the New York Stock Exchange is open for trading and on which banks in New York are open for business and not permitted by law or executive order to be closed.) Except to the extent uncertificated Firm Units are delivered at closing, the certificates for the Firm Units will be delivered in such denominations and in such registrations as the Representatives shall request in writing not later than the second full business day prior to the Closing Date, and will be made available for inspection by the Representatives at least one business day prior to the Closing Date.

(c) On the basis of the representations and warranties herein contained and subject to the terms and conditions herein set forth, the Company hereby grants an option to the

9

Representatives to purchase the Option Units at the price per Unit as set forth in paragraph (a) of this Section 2. The option granted hereby may be exercised in whole or in part by giving written notice (i) at any time before the Closing Date and (ii) only once thereafter within 45 days after the date of this Agreement, by the Representatives to the Company setting forth the number of Option Units as to which the Representatives are exercising the option, the names and denominations in which the Option Units are to be registered and the time and date at which certificates representing such Units are to be delivered. The time and date at which certificates for Option Units are to be delivered shall be determined by the Representatives but shall not be earlier than three nor later than ten full business days after the exercise of such option, nor in any event prior to the Closing Date (such time and date being herein referred to as the "Option Closing Date"). If the date of exercise of the option is three or more days before the Closing Date, the notice of exercise shall set the Closing Date as the Option Closing Date. The option with respect to the Option Units granted hereunder may be exercised only to cover over-allotments in the sale of the Firm Units by the Underwriters. The Representatives may cancel such option at any time prior to its expiration by giving written notice of such cancellation to the Company. To the extent, if any, that the option is exercised, payment for the Option Units shall be made on the Option Closing Date in New York Clearing House funds and, at the option of the Representatives, by certified or bank cashier's check drawn to the order of the Company or by bank wire to an account specified by the Company against delivery of certificates therefor at such location in New York, New York as may be specified by the Representatives.

(d) In addition to the sums payable to the Representatives as provided elsewhere herein, the Representatives shall be entitled to receive at the closing, for themselves alone and not as representatives of the Underwriters, as additional compensation for their services, purchase warrants (the "Representatives' Warrants") for the purchase of up to 200,000 Units at a price of \$_____ per Unit, upon the terms and subject to adjustment as described in the form of Representatives' Warrants filed as an exhibit to the Registration Statement.

3. OFFERING BY THE UNDERWRITERS.

It is understood that the several Underwriters are to make a public offering of the Firm Units as soon as the Representatives deem it advisable to do so. The Firm Units are to be initially offered to the public at the initial public offering price set forth in the Prospectus. The Representatives may from time to time thereafter change the public offering price and other selling terms. To the extent, if at all, that any Option Units are purchased pursuant to Section 2 hereof, the

10

Representatives will offer them to the public on the foregoing terms.

It is further understood that the Representatives will act as representatives of the Underwriters in the offering and sale of the Units in accordance with an Agreement Among Underwriters entered into by the Representatives and the several other Underwriters.

4. COVENANTS OF THE COMPANY.

The Company covenants and agrees with the several Underwriters that:

(a) The Company will (A) prepare and timely file with the Commission under Rule 424(b) of the Rules and Regulations a Prospectus in a form approved by the Representatives containing information previously omitted at the time of effectiveness of the Registration Statement in reliance on Rule 430A of the Rules and Regulations, and (B) not file any amendment to the Registration Statement or supplement to the Prospectus of which the Representatives shall not previously have been advised and furnished with a copy or to which the Representatives shall have reasonably objected in writing or which is not in compliance with the Rules and Regulations.

(b) The Company will advise the Representatives promptly (A) when any post-effective amendment to the Registration Statement shall have become effective, (B) of receipt of any comments from the Commission, (C) of any request of the Commission for amendment of the Registration Statement or for supplement to the Prospectus or for any additional information, and (D) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or the use of the Prospectus or of the institution of any proceedings for that purpose. The Company will use its best efforts to prevent the issuance of any such stop order preventing or suspending the use of the Prospectus and to obtain as soon as possible the lifting thereof, if any is issued.

(c) The Company will cooperate with the Representatives in endeavoring to qualify the Units for sale under the securities laws of such jurisdictions as the Representatives may reasonably have designated in writing

and will make such applications, file such documents, and furnish such information as may be reasonably required for that purpose, provided the Company shall not be required to qualify as a foreign corporation or to file a general consent to service of process in any jurisdiction where it is not now so qualified or required to file such a consent. The Company will, from time to time, prepare and file such statements, reports, and other documents as are or may be required to continue such

11

qualifications in effect for so long a period as the Representatives may reasonably request for distribution of the Units.

(d) The Company will deliver to, or upon the order of, the Representatives, from time to time, as many copies of any Preliminary Prospectus as the Representatives may reasonably request. The Company will deliver to, or upon the order of, the Representatives during the period when delivery of a Prospectus is required under the Act, as many copies of the Prospectus in final form, or as thereafter amended or supplemented, as the Representatives may reasonably request. The Company will deliver to the Representatives at or before the Closing Date, three signed copies of the Registration Statement and all amendments thereto including all exhibits filed therewith, and will deliver to the Representatives such number of copies of the Registration Statement (including such number of copies of the exhibits filed therewith that may reasonably be requested), and of all amendments thereto, as the Representatives may reasonably request.

(e) The Company will comply with the Act and the Rules and Regulations, and the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules and regulations of the Commission thereunder, so as to permit the completion of the distribution of the Units as contemplated in this Agreement and the Prospectus. If during the period in which a prospectus is required by law to be delivered by an Underwriter or dealer, any event shall occur as a result of which, in the judgment of the Company or in the reasonable opinion of the Underwriters, it becomes necessary to amend or supplement the Prospectus in order to make the statements therein, in light of the circumstances existing at the time the Prospectus is delivered to a purchaser, not misleading, or if it is necessary at any time to amend or supplement the Prospectus to comply with any law, the Company promptly will prepare and file with the Commission an appropriate amendment to the Registration Statement or supplement to the Prospectus so that the Prospectus as so amended or supplemented will not, in light of the circumstances when it is so delivered, be misleading, or so that the Prospectus will comply with the law.

(f) The Company will make generally available to its security holders, as soon as it is practicable to do so, but in any event not later than 15 months after the effective date of the Registration Statement, an earnings statement (which need not be audited) in reasonable detail, covering a period of at least 12 consecutive months beginning after the effective date of the Registration Statement, which earnings statement shall satisfy the requirements of the Act and Rule 158 of the Rules and Regulations and will advise the Representatives in writing when such statement has been so made available.

12

(g) The Company will (i) deliver to its shareholders annual reports containing financial statements audited by its independent accountants and quarterly reports concerning unaudited financial information for each of the first three quarters of each fiscal year, and (ii) for a period of five years from the Closing Date, deliver to the Representatives copies of annual reports and copies of all other documents, reports and information furnished by the Company to its shareholders or filed with any securities exchange or the NASD pursuant to the requirements of such exchange or association or with the Commission pursuant to the Act or the Exchange Act. The Company will deliver to the Representatives similar reports with respect to significant subsidiaries, as that term is defined in the Rules and Regulations, which are not consolidated in the Company's financial statements.

(h) Except with the prior written consent of the Representatives, which consent will not be unreasonably withheld, no offering, sale, short sale or other disposition of any shares of Common Stock of the Company or other securities convertible into or exchangeable or exercisable for shares of Common Stock or derivative of Common Stock (or any agreement for such, other than pursuant to the Company's 1996 Stock Option Plan and 1996 Independent Director Stock Plan) will be made for a period of one year after the date of this Agreement, directly or indirectly, by the Company otherwise than hereunder.

(i) The Company will use its best efforts to maintain the listing of the Common Stock and the Warrants on the Nasdaq National Market.

(j) The Company will apply the net proceeds of its sale of the Units as set forth in the Prospectus and will file such reports with the Commission with respect to the sale of the Units and the application of the proceeds therefrom as may be required in accordance with Rule 463 under the Act.

(k) The Company will not invest, or otherwise use the proceeds received by the Company from its sale of the Units in such a manner as would require the Company or any of its subsidiaries to register as an investment company under the 1940 Act.

(l) The Company will maintain the currency of the prospectus forming a part of an effective registration statement filed with respect to the Common Stock issuable upon exercise of the Warrants and the Representatives' Warrants at all times during which any of the Warrants or Representatives' Warrants remain outstanding.

13

(m) The Company will, if it commences to engage in any business with the government of Cuba or with any person or affiliate located in Cuba after the date the Registration Statement becomes or has become effective with the Commission or with the Florida Department of Banking and Finance (the "Department"), whichever date is later, or if the information reported or incorporated by reference in the Prospectus, if any, concerning the Company's business with Cuba or with any person or affiliate located in Cuba changes in any material way, provide the Department notice of such business or change, as appropriate, in a form acceptable to the Department.

(n) The Company will maintain a transfer agent and, if necessary under the jurisdiction of incorporation of the Company, a registrar for the Common Stock.

(o) The Company will not take, directly or indirectly, any action designed to cause or result in, or that has constituted or might reasonably be expected to constitute, the stabilization or manipulation of the price of any securities of the Company.

5. COSTS AND EXPENSES.

(a) The Representatives shall be entitled to receive from the Company, for themselves alone and not as representatives of the Underwriters, a nonaccountable expense allowance equal to 3% of the aggregate public offering price of Units sold to the Underwriters in connection with the Offering. The Representatives shall be entitled to withhold this allowance on the Closing Date (less the \$35,000 advance against such amount that has been paid by the Company) with respect to Units delivered on the Closing Date and to require the Company to make payment of this allowance on the Option Closing Date with respect to Units delivered on the Option Closing Date.

(b) In addition to the payment described in paragraph (a) of this Section 5, the Company will pay all costs, expenses and fees incident to the performance of the obligations of the Company under this Agreement, including, without limitation, the following: accounting fees of the Company; the fees and disbursements of counsel for the Company; the cost of printing and delivering to, or as requested by, the Underwriters copies of the Registration Statement, Preliminary Prospectuses, the Prospectus, this Agreement, the Underwriters' Selling Memorandum, the Underwriters' Invitation Letter, the Listing Application, the Blue Sky Survey and any supplements or amendments thereto; the filing fees of the Commission; the filing fees and expenses (including legal fees and disbursements) incident to securing any required review by the NASD of the terms of the sale of the Units; the Listing Fee of the Nasdaq National Market; and the expenses, including the fees and disbursements

14

of counsel for the Underwriters, incurred in connection with the qualification of the Units under State securities or Blue Sky laws. Any transfer taxes imposed on the sale of the Units to the several Underwriters will be paid by the Company. The Company shall not, however, be required to pay for any other of the Underwriters' expenses (other than those related to qualification under NASD regulations and state securities or Blue Sky laws), except that if this Agreement shall not be consummated, then the Company shall reimburse the several Underwriters for reasonable accountable out-of-pocket expenses, including fees and disbursements of counsel, incurred in connection with investigating, marketing and preparing to market the Units or in contemplation of performing their obligations hereunder (less the \$35,000 advance that has been paid by the Company); but the Company shall not in any event be liable to any of the several Underwriters for damages on account of loss of anticipated profits from the sale by them of the Units.

6. CONDITIONS OF THE OBLIGATIONS OF THE UNDERWRITERS.

The several obligations of the Underwriters to purchase the Firm Units on the Closing Date and the Option Units, if any, on the Option Closing Date are subject to the accuracy, as of the Closing Date or the Option Closing Date, as the case may be, of the representations and warranties of the Company contained herein, and to the performance by the Company of its covenants and obligations hereunder and to the following additional conditions:

(a) All post-effective amendments to the Registration Statement and

any subsequent registration statement filed pursuant to Rule 462(b) of the Rules and Regulations shall have become effective and any and all filings required by Rule 424 and Rule 430A of the Rules and Regulations shall have been made, and any request of the Commission for additional information (to be included in the Registration Statement or otherwise) shall have been disclosed to the Representatives and complied with to their reasonable satisfaction. No stop order suspending the effectiveness of the Registration Statement, as amended from time to time, shall have been issued and no proceedings for that purpose shall have been taken or, to the knowledge of the Company, shall be contemplated by the Commission and no injunction, restraining order, or order of any nature by a Federal or state court of competent jurisdiction shall have been issued as of the Closing Date which would prevent the issuance of the Units.

(b) The Representatives shall have received on the Closing Date or the Option Closing Date, as the case may be, the opinion of Stoel Rives LLP, counsel for the Company, dated the Closing Date or the Option Closing Date, as the case may be,

15

addressed to the Underwriters (and stating that it may be relied upon by counsel to the Underwriters) to the effect that:

(i) The Company has been duly organized and is validly existing as a corporation under the laws of the State of Washington, with corporate power and authority to own or lease its properties and conduct its business as described in the Registration Statement; the Company is duly qualified to transact business in all jurisdictions in which the conduct of its business requires such qualification or in which the failure to qualify would have a materially adverse effect upon the business of the Company.

(ii) The Company has authorized and outstanding capital stock as set forth under the caption "Capitalization" in the Prospectus; the authorized shares of the Common Stock have been duly authorized; the outstanding shares of the Common Stock have been duly authorized and validly issued and are fully paid and non-assessable; all of the securities of the Company conform to the description thereof in the Prospectus; the certificates for the Common Stock and Warrants, assuming they are in the form filed with the Commission, are in due and proper form; the shares of Common Stock included in the Units to be sold by the Company pursuant to this Agreement, including shares of Common Stock to be sold as a part of the Option Units, have been duly authorized and, upon issuance and delivery thereof and payment therefor as contemplated in this Agreement and the Registration Statement, will be validly issued, fully paid and non-assessable; no preemptive rights of shareholders exist with respect to any of the Common Stock of the Company or the issuance or sale thereof pursuant to any applicable statute or the provisions of the Company's charter documents or, to such counsel's knowledge, pursuant to any contractual obligation.

(iii) The Warrants and the Representatives' Warrants have been authorized for issuance to the purchasers of Units or the Representatives, as the case may be, and will, when issued, possess rights, privileges, and characteristics as represented in the most recent form of Warrants or Representatives' Warrants, as the case may be, filed as an exhibit to the Registration Statement; the securities to be issued upon exercise of the Warrants or Representatives' Warrants, as the case may be, when issued and delivered against payment therefor in accordance with the terms of the Warrants or Representatives' Warrants, will be duly and validly issued, fully paid, non-assessable and free of preemptive rights, and all corporate action required to be taken for the authorization and issuance of the Warrants, the Representatives' Warrants, and the securities to be issued upon their exercise, has been validly and sufficiently taken.

16

(iv) Except as described in the Prospectus, to the knowledge of such counsel, there are no outstanding securities of the Company convertible or exchangeable into or evidencing the right to purchase or subscribe for any shares of capital stock of the Company and there are no outstanding or authorized options, warrants or rights of any character obligating the Company to issue any shares of its capital stock or any securities convertible or exchangeable into or evidencing the right to purchase or subscribe for any shares of such stock; and except as described in the Prospectus, to the knowledge of such counsel, no holder of any securities of the Company or any other person has the right, contractual or otherwise, which has not been satisfied or effectively waived, to cause the Company to sell or otherwise issue to them, or to permit them to underwrite the sale of, any Common Stock, or the right to have any Common Stock or other securities of the Company included in the Registration Statement or the right, as a result of the filing of the Registration Statement, to require registration under the Act of any shares of Common Stock or other securities of the Company.

(v) The Registration Statement has become effective under the Act and, to the best knowledge of such counsel, no stop order proceedings with respect thereto have been instituted or are pending or threatened under the Act.

(vi) The Registration Statement, the Prospectus and each amendment or supplement thereto comply as to form in all material respects with the requirements of the Act and the Rules and Regulations (except that such counsel need not express an opinion as to the financial statements and related schedules therein).

(vii) The statements under the captions "Management-Employment Agreements," "Management-Benefit Plans," "Description of Securities," and "Shares Eligible for Future Sale" in the Prospectus and in Item 24 of the Registration Statement, insofar as such statements constitute a summary of documents referred to therein or matters of law, accurately summarize in all material respects the information called for with respect to such documents and matters.

(viii) Such counsel does not know of any contracts or documents required to be filed as exhibits to the Registration Statement or described in the Registration Statement or the Prospectus which are not so filed or described as required, and such contracts and documents as are summarized in the Registration Statement or the Prospectus are accurately summarized in all material respects.

(ix) Such counsel knows of no legal or governmental proceedings pending or threatened against the Company.

17

(x) such counsel has reviewed the patent, patent prosecution files and patent applications relating to the technology licensed to the Company by the University of Washington as described in the Prospectus and, on the basis of such review and such other investigation as such counsel deems relevant, those portions of the Prospectus that describe the patent and patent applications of the University of Washington accurately describe such patents and patent applications and, to the knowledge of such counsel, there are no pending or threatened actions, suits or proceedings by others (including governmental authorities) relating to claims that either the Company or the University of Washington is infringing or otherwise violating any patent rights of others.

(xi) The execution and delivery of this Agreement and the consummation of the transactions herein contemplated do not and will not conflict with or result in a breach of any of the terms or provisions of, or constitute a default under, the articles of incorporation or bylaws of the Company, or any agreement or instrument known to such counsel to which the Company is a party or by which the Company may be bound.

(xii) This Agreement has been duly authorized, executed and delivered by the Company and is a valid and binding agreement of the Company enforceable in accordance with its terms, except for those provisions relating to indemnity or contribution for liabilities arising under the Act.

(xiii) No approval, consent, order, authorization, designation, declaration or filing by or with any regulatory, administrative or other governmental body is necessary in connection with the execution and delivery of this Agreement and the consummation of the transactions contemplated herein (other than as may be required by the NASD or as required by state securities and Blue Sky laws as to which such counsel need not express an opinion) except such as have been obtained or made, specifying the same.

(xiv) The Company is not, and will not become, as a result of the transactions contemplated by this Agreement and application of the net proceeds therefrom as described in the Prospectus, required to register as an investment company under the 1940 Act.

In rendering such opinion, such counsel may rely, as to matters governed by laws of states other than Washington or Federal laws, on local counsel in such jurisdictions, provided that in each case such counsel shall state that they believe that they and the Underwriters are justified in relying on such other counsel. In addition to the matters set forth above, the opinion of Stoel Rives LLP shall also include a statement to the effect

18

that nothing has come to the attention of such counsel that has caused it to believe that (i) the Registration Statement, at the time it became effective under the Act (but after giving effect to any modifications incorporated therein pursuant to Rule 430A under the Act) and as of the Closing Date or the Option Closing Date, as the case may be, contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, and (ii) the Prospectus, or any supplement thereto, on the date it was filed pursuant to the Rules and Regulations and as of the Closing Date or the Option Closing Date, as the case may be, contained an untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements therein, in light of the circumstances in which they were made, not

misleading (except that such counsel need not express any view as to the financial statements and related schedules therein). With respect to such statement, Stoel Rives LLP may state that its belief is based upon the procedures set forth therein, but is without independent check and verification.

(c) The Representatives shall have received from Tonkon, Torp, Galen, Marmaduke & Booth, counsel for the Underwriters, an opinion dated the Closing Date or the Option Closing Date, as the case may be, substantially to the effect specified in subparagraphs (i), (v) and (vi) of paragraph (b) of this Section 6. In rendering such opinion, Tonkon, Torp, Galen, Marmaduke & Booth may rely as to all matters governed other than by the laws of the State of Oregon or Federal laws on the opinion of counsel referred to in paragraph (b) of this Section 6. In addition to the matters set forth above, such opinion shall also include a statement to the effect that nothing has come to the attention of such counsel that has caused them to believe that (i) the Registration Statement, at the time it became effective under the Act (but after giving effect to any modifications incorporated therein pursuant to Rule 430A under the Act) and as of the Closing Date or the Option Closing Date, as the case may be, contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, and (ii) the Prospectus, or any supplement thereto, on the date it was filed pursuant to the Rules and Regulations and as of the Closing Date or the Option Closing Date, as the case may be, contained an untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements therein, in light of circumstances under which they were made, not misleading (except that such counsel need not express any view as to financial statements and related schedules therein). With respect to such statement, Tonkon, Torp, Galen, Marmaduke & Booth may state that their belief is based upon the procedures set forth therein, but is without independent check and verification.

19

(d) The Representatives shall have received at or prior to the Closing Date from Tonkon, Torp, Galen, Marmaduke & Booth a memorandum or summary, in form and substance satisfactory to the Representatives, with respect to the qualification for offering and sale by Underwriters of the Units under the state securities or Blue Sky laws of such jurisdictions as the Representatives may reasonably have designated to the Company.

(e) The Representatives, on behalf of the several Underwriters, shall have received, on each of the dates hereof, the Closing Date and the Option Closing Date, as the case may be, a letter dated the date hereof, the Closing Date or the Option Closing Date, as the case may be, in form and substance satisfactory to the Representatives, of Price Waterhouse LLP confirming that they are independent public accountants within the meaning of the Act and the applicable published Rules and Regulations thereunder and stating that in their opinion the financial statements and schedules examined by them and included in the Registration Statement comply in form and in all material respects with the applicable accounting requirements of the Act and the related published Rules and Regulations, and containing such other statements and information as are ordinarily included in accountants' "comfort letters" to Underwriters with respect to the financial statements and certain financial and statistical information contained in the Registration Statement and Prospectus.

(f) The Representatives shall have received on the Closing Date or the Option Closing Date, as the case may be, a certificate or certificates of the Chief Executive Officer of the Company to the effect that, as of the Closing Date or the Option Closing Date, as the case may be:

(i) The Registration Statement has become effective under the Act and no stop order suspending the effectiveness of the Registration Statement has been issued, and no proceedings for such purpose have been taken or are, to the best of his knowledge, contemplated by the Commission;

(ii) The representations and warranties of the Company contained in Section 1 hereof are true and correct as of the Closing Date or the Option Closing Date, as the case may be;

(iii) All filings required to have been made pursuant to Rules 424 or 430A under the Act have been made;

(iv) He has carefully examined the Registration Statement and the Prospectus and, in his opinion, as of the effective date of the Registration Statement, the statements contained in the Registration Statement were true and correct, and such Registration Statement and Prospectus did not omit to state a material fact required to be stated therein or necessary

20

in order to make the statements therein not misleading, and since the effective date of the Registration Statement no event has occurred which

should have been set forth in a supplement to or an amendment of the Prospectus which has not been set forth in such supplement or amendment; and

(v) Since the respective dates as of which information is given in the Registration Statement and Prospectus, there has not been any material adverse change or any development involving a prospective material adverse change in or affecting the Business and Properties of the Company, whether or not arising in the ordinary course of business.

(g) The Company shall have furnished to the Representative such further documents confirming the representations and warranties, covenants and conditions contained herein and related matters as the Representatives may reasonably have requested.

(h) The Lockup Agreements described in Section 4(j) shall have been executed and delivered, and shall be in full force and effect.

(i) The Common Stock and Warrants shall have been approved for inclusion, subject to official notice of issuance, in the Nasdaq National Market.

The opinions and certificates mentioned in this Agreement shall be deemed to be in compliance with the provisions hereof only if they are in all material respects satisfactory to the Representatives and to Tonkon, Torp, Galen, Marmaduke & Booth, counsel for the Underwriters.

If any of the conditions hereinabove provided for in this Section 6 shall not have been fulfilled when and as required by this Agreement to be fulfilled, the obligations of the Underwriters hereunder may be terminated by the Representatives by notifying the Company of such termination in writing (including by facsimile transmission) at or prior to the Closing Date or the Option Closing Date, as the case may be. In such event, the Company and the Underwriters shall not be under any obligation to each other (except to the extent provided in Sections 5 and 8 hereof).

7. CONDITIONS OF THE OBLIGATIONS OF THE COMPANY.

The obligations of the Company to sell and deliver the portion of the Units required to be delivered as and when specified in this Agreement are subject to the conditions that at the Closing Date or the Option Closing Date, as the case may be, no stop order suspending the effectiveness of the Registration

21

Statement shall have been issued and in effect or proceedings therefor initiated or threatened.

8. INDEMNIFICATION.

(a) The Company agrees to indemnify and hold harmless each Underwriter and each person, if any, who controls any Underwriter within the meaning of the Act, against any losses, claims, damages or liabilities to which such Underwriter or any such controlling person may become subject under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions or proceedings in respect thereof) arise out of or are based upon (i) any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement, any Preliminary Prospectus, the Prospectus or any amendment or supplement thereto, or (ii) the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances under which they were made; and will reimburse each Underwriter and each such controlling person in accordance with Section 8(c) for any legal or other expenses reasonably incurred by such Underwriter or such controlling person in investigating or defending any such loss, claim, damage or liability, action or proceeding or in responding to a subpoena or governmental inquiry related to the offering of the Units, whether or not such Underwriter or controlling person is a party to any action or proceeding; PROVIDED, HOWEVER, that the Company will not be liable in any such case to the extent that (i) any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement, or omission or alleged omission made in the Registration Statement, any Preliminary Prospectus, the Prospectus, or such amendment or supplement, in reliance upon and in conformity with written information furnished to the Company by or through the Representatives specifically for use in the preparation thereof or, (ii) with respect to the Preliminary Prospectus, any such loss, claim, damage or liability of such Underwriter relates to the failure of such Underwriter to deliver a copy of the Prospectus at, or prior to, the confirmation of the sale of the Units to the person alleging such loss, claim, damage or liability, where the alleged untrue statement or omission of a material fact contained in such Preliminary Prospectus was corrected in the Prospectus. This indemnity agreement will be in addition to any liability which the Company may otherwise have.

(b) Each Underwriter severally and not jointly will indemnify and

hold harmless the Company, each of its directors, each of its officers who have signed the Registration Statement and each person, if any, who controls the Company within the meaning of the Act, against any losses, claims, damages or liabilities to which the Company or any such director, officer or controlling person may become subject under the Act or otherwise,

22

insofar as such losses, claims, damages or liabilities (or actions or proceedings in respect thereof) arise out of or are based upon (i) any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement, any Preliminary Prospectus, the Prospectus or any amendment or supplement thereto, or (ii) the omission or the alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances under which they were made; and will reimburse any legal or other expenses reasonably incurred by the Company or any such director, officer or controlling person in connection with investigating or defending any such loss, claim, damage, liability, action or proceeding; PROVIDED, HOWEVER, that each Underwriter will be liable in each case to the extent, and only to the extent, that (i) such untrue statement or alleged untrue statement or omission or alleged omission has been made in the Registration Statement, any Preliminary Prospectus, the Prospectus or such amendment or supplement, in reliance upon and in conformity with written information furnished to the Company by or through the Representatives specifically for use in the preparation thereof or, (ii) with respect to the Preliminary Prospectus, any such loss, claim, damage or liability relates to the failure of such Underwriter to deliver a copy of the Prospectus at, or prior to, the confirmation of the sale of the Units to the person alleging such loss, claim, damage or liability, where the alleged untrue statement or omission of a material fact contained in such Preliminary Prospectus was corrected in the Prospectus. This indemnity agreement will be in addition to any liability which such Underwriter may otherwise have.

(c) In case any proceeding (including any governmental investigation) shall be instituted involving any person in respect of which indemnity may be sought pursuant to this Section 8, such person (the "indemnified party") shall promptly notify the person against whom such indemnity may be sought (the "indemnifying party") in writing. No indemnification provided for in Section 8(a) or (b) shall be available to any party who shall fail to give notice as provided in this Section 8(c) if the party to whom notice was not given was unaware of the proceeding to which such notice would have related and was materially prejudiced by the failure to give such notice, but the failure to give such notice shall not relieve the indemnifying party or parties from any liability which it or they may have to the indemnified party for contribution or otherwise than on account of the provisions of Section 8(a) or (b). In case any such proceeding shall be brought against any indemnified party and such indemnified party shall notify the indemnifying party of the commencement thereof, the indemnifying party shall be entitled to participate therein and, to the extent that it shall wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel satisfactory to such

23

indemnified party and shall pay as incurred the fees and disbursements of such counsel related to such proceeding. In any such proceeding, any indemnified party shall have the right to retain its own counsel at its own expense. Notwithstanding the foregoing, the indemnifying party shall pay as incurred (or within 30 days of presentation) the fees and expenses of the counsel retained by the indemnified party in the event (i) the indemnifying party and the indemnified party shall have mutually agreed to the retention of such counsel, (ii) the named parties to any such proceeding (including any impleaded parties) include both the indemnifying party and the indemnified party and representation of both parties by the same counsel would be inappropriate due to actual or potential differing interests between them or (iii) the indemnifying party shall have failed to assume the defense and employ counsel acceptable to the indemnified party within a reasonable period of time after notice of commencement of the action. It is understood that the indemnifying party shall not, in connection with any proceeding or related proceedings in the same jurisdiction, be liable for the fees and expenses of more than one separate firm for all such indemnified parties. Such firm shall be designated in writing by Paulson in the case of parties indemnified pursuant to Section 8(a) and by the Company in the case of parties indemnified pursuant to Section 8(b). The indemnifying party shall not be liable for any settlement of any proceeding effected without its written consent, but if settled with such consent or if there be a final judgment for the plaintiff, the indemnifying party agrees to indemnify the indemnified party from and against any loss or liability by reason of such settlement or judgment. In addition, the indemnifying party will not, without the prior written consent of the indemnified party, settle or compromise or consent to the entry of any judgment in any pending or threatened claim, action or proceeding in which indemnification may be sought hereunder unless such settlement, compromise or consent includes an unconditional release of each indemnified party from all liability arising

out of such claim, action or proceeding.

(d) If the indemnification provided for in this Section 8 is unavailable to or insufficient to hold harmless an indemnified party under Section 8(a) or (b) above in respect of any losses, claims, damages or liabilities (or actions or proceedings in respect thereof) referred to therein, then each indemnifying party shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities (or actions or proceedings in respect thereof) in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and the Underwriters on the other from the offering of the Units. If, however, the allocation provided by the immediately preceding sentence is not permitted by applicable law, then each indemnifying party shall contribute to such amount paid or payable by such indemnified party in such proportion as is

24

appropriate to reflect not only such relative benefits but also the relative fault of the Company on the one hand and the Underwriters on the other in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities (or actions or proceedings in respect thereof), as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and the Underwriters on the other shall be deemed to be in the same proportion as the total net proceeds from the Offering (before deducting expenses) received by the Company bears to the total underwriting discounts and commissions received by the Underwriters, in each case as set forth in the table on the cover page of the Prospectus. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company on the one hand or the Underwriters on the other and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

The Company and the Underwriters agree that it would not be just and equitable if contributions pursuant to this Section 8(d) were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to above in this Section 8(d). The amount paid or payable by an indemnified party as a result of the losses, claims, damages or liabilities (or actions or proceedings in respect thereof) referred to above in this Section 8(d) shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this subsection (d), (i) no Underwriter shall be required to contribute any amount in excess of the underwriting discounts and commissions applicable to the Units purchased by such Underwriter, and (ii) no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of fraudulent misrepresentation. The Underwriters' obligations in this Section 8(d) to contribute are several in proportion to their respective underwriting obligations and not joint.

(e) In any proceeding relating to the Registration Statement, any Preliminary Prospectus, the Prospectus or any supplement or amendment thereto, each party against whom contribution may be sought under this Section 8 hereby consents to the jurisdiction of any court having jurisdiction over any other contributing party, agrees that process issuing from such court may be served upon him or it by any other contributing party and consents to the service of such process and agrees that

25

any other contributing party may join him or it as an additional defendant in any such proceeding in which such other contributing party is a party.

(f) Any losses, claims, damages or liabilities for which an indemnified party is entitled to indemnification or contribution under this Section 8 shall be paid by the indemnifying party to the indemnified party as such losses, claims, damages, or expenses are incurred. The indemnity and contribution agreements contained in this Section 8 and the representations and warranties of the Company set forth in this Agreement shall remain operative and in full force and effect, regardless of (i) any investigation made by or on behalf of any Underwriter or any person controlling any Underwriter, the Company, its directors or officers or any persons controlling the Company, (ii) acceptance of any Units and payment therefor hereunder, and (iii) any termination of this Agreement. A successor to any Underwriter, or to the Company, its directors or officers, or any person controlling the Company, shall be bound by and entitled to the benefits of the indemnity, contribution and reimbursement agreements contained in this Section 8.

9. DEFAULT BY UNDERWRITERS.

If on the Closing Date or the Option Closing Date, as the case may be, any Underwriter shall fail to purchase and pay for the portion of the Units

which such Underwriter has agreed to purchase and pay for on such date (otherwise than by reason of any default on the part of the Company), the Representatives shall use their reasonable efforts to procure within 36 hours thereafter one or more of the other Underwriters, or any others, to purchase from the Company upon the terms set forth herein, the Firm Units or Option Units, as the case may be, which the defaulting Underwriter or Underwriters failed to purchase. If during such 36 hours the Representatives shall not have procured such other Underwriters, or any others, to purchase the Firm Units or Option Units, as the case may be, agreed to be purchased by the defaulting Underwriter or Underwriters, then (a) if the aggregate number of Units with respect to which such default shall occur does not exceed 10% of the Firm Units or Option Units, as the case may be, covered hereby, the other Underwriters shall be obligated, severally, in proportion to the respective numbers of Firm Units or Option Units, as the case may be, which they are obligated to purchase hereunder, to purchase the Firm Units or Option Units, as the case may be, which such defaulting Underwriter or Underwriters failed to purchase, or (b) if the aggregate number of Firm Units or Option Units, as the case may be, with respect to which such default shall occur equals or exceeds 10% of the Firm Units or Option Units, as the case may be, covered hereby, the Company or the Representatives shall have the right, by written notice given within the next 36-hour period to the parties to this Agreement, to terminate this Agreement

26

without liability on the part of the non-defaulting Underwriters or of the Company, except for expenses to be paid by the Company under Section 5 hereof and except to the extent provided in Section 8 hereof. In the event of a default by any Underwriter or Underwriters, as set forth in this Section 9, the Closing Date or Option Closing Date, as the case may be, may be postponed for such period, not exceeding seven days, as the Representatives, may determine in order that the required changes in the Registration Statement or in the Prospectus or in any other documents or arrangements may be effected. The term "Underwriter" includes any person substituted for a defaulting Underwriter. Any action taken under this Section 9 shall not relieve any defaulting Underwriter from liability in respect of any default of such Underwriter under this Agreement.

10. NOTICES.

All communications hereunder shall be in writing and, except as otherwise provided herein, shall be mailed, delivered, telecopied or telegraphed and confirmed as follows:

if to the Representatives or the Underwriters:

Paulson Investment Company, Inc.
811 SW Front Avenue
Portland, Oregon 97204
Attention: Chester L.F. Paulson

with a copy to:

Tonkon, Torp, Galen,
Marmaduke & Booth
1600 Pioneer Tower
888 SW Fifth Avenue
Portland, Oregon 97204
Attention: Thomas P. Palmer

if to the Company:

Microvision, Inc.
2203 Airport Way South, Suite 100
Seattle, Washington 98134
Attention: Richard F. Rutkowski

with a copy to:

Stoel Rives LLP
3600 Union Square
600 University Street
Seattle, Washington 98101-3197
Attention: Ronald J. Lone

27

11. TERMINATION.

This Agreement may be terminated by the Representatives by notice to the Company as follows:

(a) at any time prior to the earlier of (i) the time the Units are released by the Representatives for sale by notice to the Underwriters, or (ii)

11:30 a.m. on the first business day following the date of this Agreement;

(b) at any time prior to the Closing Date if any of the following has occurred: (i) since the respective dates as of which information is given in the Registration Statement and the Prospectus, any material adverse change or any development involving a prospective material adverse change in or affecting the Business and Properties of the Company, whether or not arising in the ordinary course of business, (ii) any outbreak or escalation of hostilities or declaration of war or national emergency or other national or international calamity or crisis or change in economic or political conditions if the effect of such outbreak, escalation, declaration, emergency, calamity, crisis or change on the financial markets of the United States would, in the Representatives' reasonable judgment, make it impracticable to market the Units or to enforce contracts for the sale of the Units, (iii) the Dow Jones Industrial Average shall have fallen by 15 percent or more from its closing price on the day immediately preceding the date that the Registration Statement is declared effective by the Commission, (iv) suspension of trading in securities generally on the New York Stock Exchange or the American Stock Exchange or limitation on prices (other than limitations on hours or numbers of days of trading) for securities on either such Exchange, (v) the enactment, publication, decree or other promulgation of any statute, regulation, rule or order of any court or other governmental authority which in the Representatives' opinion materially and adversely or may materially and adversely affect the business or operations of the Company, (vi) declaration of a banking moratorium by United States or New York State authorities; (vii) the suspension of trading of the Common Stock or the Warrants by the Commission or the NASD on the Nasdaq National Market or (viii) the taking of any action by any governmental body or agency in respect of its monetary or fiscal affairs which in the Representatives' reasonable opinion has a material adverse effect on the securities markets in the United States; or

(c) as provided in Sections 6 and 9 of this Agreement.

12. SUCCESSORS.

This Agreement has been and is made solely for the benefit of the Underwriters, the Company and their respective

28

successors, executors, administrators, heirs and assigns, and the officers, directors and controlling persons referred to herein, and no other person will have any right or obligation hereunder. No purchaser of any of the Units from any Underwriter shall be deemed a successor or assign merely because of such purchase.

13. INFORMATION PROVIDED BY UNDERWRITERS.

The Company and the Underwriters acknowledge and agree that the only information furnished or to be furnished by any Underwriter to the Company for inclusion in any Prospectus or the Registration Statement consists of the information set forth in the last paragraph on the front cover page (insofar as such information relates to the Underwriters), the legends required by Item 502(d) of Regulation S-B under the Act and the information under the caption "Underwriting" in the Prospectus.

14. MISCELLANEOUS.

The reimbursement, indemnification and contribution agreements contained in this Agreement and the representations, warranties and covenants in this Agreement shall remain in full force and effect regardless of (a) any termination of this Agreement, (b) any investigation made by or on behalf of any Underwriter or controlling person thereof, or by or on behalf of the Company or its directors or officers and (c) delivery of and payment for the Units under this Agreement.

This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

This Agreement shall be governed by, and construed in accordance with, the laws of the State of Oregon. All disputes relating to this Agreement shall be adjudicated before a court located in Multnomah County, Oregon to the exclusion of all other courts that might have jurisdiction.

If the foregoing letter is in accordance with your understanding of our agreement, please sign and return to us the enclosed duplicates hereof, whereupon it will become a binding agreement among the Company and the several Underwriters in accordance with its terms.

Very truly yours,

MICROVISION, INC.

By

Chief Executive Officer

29

The foregoing Underwriting Agreement is hereby confirmed and accepted as of the date first above written.

PAULSON INVESTMENT COMPANY, INC.

As Representative of the several Underwriters listed on Schedule I

By -----
Authorized Officer

marion bass securities corporation

As Representative of the several Underwriters listed on Schedule I

By -----
Authorized Officer

30

SCHEDULE I

SCHEDULE OF UNDERWRITERS

UNDERWRITER	NUMBER OF FIRM UNITS TO BE PURCHASED
Paulson Investment Company, Inc.	
marian bass securities corporation	

Total -----

31

MICROVISION, INC.

INCORPORATED UNDER THE LAWS OF THE STATE OF WASHINGTON

COMMON STOCK

SEE REVERSE FOR CERTAIN DEFINITIONS

THIS CERTIFIES THAT

IS THE OWNER OF

FULLY-PAID AND NON-ASSESSABLE SHARES OF THE COMMON STOCK, NO PAR VALUE, OF

transferable on the books of the Corporation by the holder hereof, in person or by duly authorized attorney, upon surrender of the Certificate properly endorsed.

This Certificate is not valid until countersigned and registered by the Transfer Agent and Registrar.

Witness the facsimile seal of the Corporation and the facsimile signatures of its duly authorized officers.

Dated:

SECRETARY

Transfer Agent and Registrar

By:

CHIEF EXECUTIVE OFFICER

Authorized Signature

The following abbreviations, when used in the inscription on the face of this certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

- TEN COM - as tenants in common
- TEN ENT - as tenants by the entireties
- JT TEN - as joint tenants with right of survivorship and not as tenants in common
- UNIF GIFT MIN ACT - Uniform Gifts to Minors Act
- UNIF TFAN MIN ACT - Uniform Transfers to Minors Act
- CUST - Custodian

Additional abbreviations may also be used though not in the above list

For Value Received _____ hereby sell, assign and transfer unto

PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNER

----- (PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS, INCLUDING ZIP CODE, OF ASSIGNEE) -----

----- shares of the Common stock represented by the within Certificate, and do hereby irrevocably constitute and appoint

----- Attorney to transfer the said shares on the books of the within named Corporation with, full power of substitution in the premises.

Dated

NOTICE: THE SIGNATURE TO THIS ASSIGNMENT
MUST CORRESPOND WITH THE NAME AS
WRITTEN UPON THE FACE OF THIS
CERTIFICATE, IN EVERY PARTICULAR,
WITHOUT ALTERATION OR
ENLARGEMENT, OR ANY CHANGE
WHATEVER.

EXHIBIT 4.2

FORM OF WARRANT

FORM OF WARRANT

EXHIBIT A

VOID AFTER 5:20 P.M. PACIFIC TIME ON AUGUST _____, 2001

WARRANTS TO PURCHASE COMMON STOCK

W _____ Warrants

MICROVISION, INC.

CUSIP _____

THIS CERTIFIES THAT

or registered assigns, is the registered holder of the number of Warrants ("WARRANTS") set forth above. Each Warrant entitles the holder thereof to purchase from Microvision, Inc., a corporation incorporated under the laws of the State of Washington ("COMPANY"), subject to the terms and conditions set forth hereinafter and in the Warrant Agreement hereinafter more fully described (the "WARRANT AGREEMENT") referred to, one fully paid and non-assessable share of Common Stock, no par value, of the Company ("COMMON STOCK") upon presentation and surrender of this Warrant Certificate with the instructions for the registration and delivery of Common Stock filled in, at any time prior to 5:20 P.M., Pacific time, on August ___, 2001 or, if such Warrant is redeemed as provided in the Warrant Agreement, at any time prior to the effective time of such redemption, at the stock transfer office in New York, NY, of American Stock Transfer & Trust Company, Warrant Agent of the Company ("WARRANT AGENT"), or of its successor warrant agent or, if there be no successor warrant agent, at the corporate offices of the Company, and upon payment of the Exercise Price (as defined in the Warrant Agreement) and any applicable taxes paid either in cash, or by certified or official bank check, payable in lawful currency of the United States of America to the order of the Company. Each Warrant initially entitles the holder to purchase one share of Common Stock for \$_____. The number and kind of securities or other property for which the Warrants are exercisable are subject to further adjustment in certain events, such as mergers, splits, stock dividends, recapitalizations and the like, to prevent dilution. The Company may redeem any or all outstanding and unexercised Warrants at any time if the Daily Price has exceeded \$_____ for 20 consecutive trading days immediately preceding the date of notice of such redemption, upon 30 days' notice, at a price equal to \$0.25 per Warrant. For the purpose of the foregoing sentence, the term "DAILY PRICE" shall mean, for any relevant day, the closing bid price on that day as reported by the principal exchange or quotation system on which prices for the Common Stock are

-i-

reported. All Warrants not theretofore exercised or redeemed will expire on August ___, 2001.

This Warrant Certificate is subject to all of the terms, provisions and conditions of the Warrant Agreement, dated as of _____, 1996 ("Warrant Agreement"), between the Company and the Warrant Agent, to all of which terms, provisions and conditions the registered holder of this Warrant Certificate consents by acceptance hereof. The Warrant Agreement is incorporated herein by reference and made a part hereof and reference is made to the Warrant Agreement for a full description of the rights, limitations of rights, obligations, duties and immunities of the Warrant Agent, the Company and the holders of the Warrant Certificates. Copies of the Warrant Agreement are available for inspection at the stock transfer office of the Warrant Agent or may be obtained upon written request addressed to the Company at 2203 Airport Way South, Suite 100, Seattle, Washington 98134.

The Company shall not be required upon the exercise of the Warrants evidenced by this Warrant Certificate to issue fractions of Warrants, Common Stock or other securities, but shall make adjustment therefor in cash on the basis of the current market value of any fractional interest as provided in the

Warrant Agreement.

In certain cases, the sale of securities by the Company upon exercise of Warrants would violate the securities laws of the United States, certain states thereof or other jurisdictions. The Company has agreed to use its best efforts to cause a registration statement to continue to be effective during the term of the Warrants with respect to such sales under the Securities Act of 1933, and to take such action under the laws of various states as may be required to cause the sale of securities upon exercise to be lawful. However, the Company will not be required to honor the exercise of Warrants if, in the opinion of the Board of Directors, upon advice of counsel, the sale of securities upon such exercise would be unlawful. In certain cases, the Company may, but is not required to, purchase Warrants submitted for exercise for a cash price equal to the difference between the market price of the securities obtainable upon such exercise and the exercise price of such Warrants.

This Warrant Certificate, with or without other Certificates, upon surrender to the Warrant Agent, any successor warrant agent or, in the absence of any successor warrant agent, at the corporate offices of the Company, may be exchanged for another Warrant Certificate or Certificates evidencing in the aggregate the same number of Warrants as the Warrant Certificate or Certificates so surrendered. If the Warrants evidenced by this Warrant Certificate shall be exercised in part, the holder hereof shall be entitled to receive upon surrender hereof another Warrant Certificate or Certificates evidencing the number of Warrants not so exercised.

No holder of this Warrant Certificate, as such, shall be entitled to vote, receive dividends or be deemed the holder of Common Stock or any other securities of the

-ii-

Company which may at any time be issuable on the exercise hereof for any purpose whatever, nor shall anything contained in the Warrant Agreement or herein be construed to confer upon the holder of this Warrant Certificate, as such, any of the rights of a stockholder of the Company or any right to vote for the election of directors or upon any matter submitted to stockholders at any meeting thereof or give or withhold consent to any corporate action (whether upon any matter submitted to stockholders at any meeting thereof, or give or withhold consent to any merger, recapitalization, issuance of stock, reclassification of stock, change of par value or change of stock to no par value, consolidation, conveyance or otherwise) or to receive notice of meetings or other actions affecting stockholders (except as provided in the Warrant Agreement) or to receive dividends or subscription rights or otherwise until the Warrants evidenced by this Warrant Certificate shall have been exercised and the Common Stock purchasable upon the exercise thereof shall have become deliverable as provided in the Warrant Agreement.

If this Warrant Certificate shall be surrendered for exercise within any period during which the transfer books for the Company's Common Stock or other class of stock purchasable upon the exercise of the Warrants evidenced by this Warrant Certificate are closed for any purpose, the Company shall not be required to make delivery of certificates for shares purchasable upon such transfer until the date of the reopening of said transfer books.

Every holder of this Warrant Certificate by accepting the same consents and agrees with the Company, the Warrant Agent, and with every other holder of a Warrant Certificate that:

(a) this Warrant Certificate is transferable on the registry books of the Warrant Agent only upon the terms and conditions set forth in the Warrant Agreement; and

(b) the Company and the Warrant Agent may deem and treat the person in whose name this Warrant Certificate is registered as the absolute owner hereof (notwithstanding any notation of ownership or other writing thereon made by anyone other than the Company or the Warrant Agent) for all purposes whatever and neither the Company nor the Warrant Agent shall be affected by any notice to the contrary.

The Company shall not be required to issue or deliver any certificate for shares of Common Stock or other securities upon the exercise of Warrants evidenced by this Warrant Certificate until any tax which may be payable in respect thereof by the holder of this Warrant Certificate pursuant to the Warrant Agreement shall have been paid, such tax being payable by the holder of this Warrant Certificate at the time of surrender.

This Warrant Certificate shall not be valid or obligatory for any purpose until it shall have been countersigned by the Warrant Agent.

-iii-

WITNESS the facsimile signatures of the proper officers of the Company and its corporate seal.

Dated: _____, 1996.

MICROVISION, INC.

By: _____
Chief Executive Officer
and President

Attest: _____
Secretary

Countersigned

AMERICAN STOCK TRANSFER &
TRUST COMPANY

By: _____
Authorized Officer

EXHIBIT 4.3

WARRANT AGREEMENT

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WARRANT AGREEMENT

between

MICROVISION, INC.

and

AMERICAN STOCK TRANSFER & TRUST COMPANY

Dated as of _____, 1996

This Agreement, dated as of _____, 1996, is between Microvision, Inc., a Washington corporation (the "COMPANY"), and American Stock Transfer & Trust Company, a [New York Corporation] (the "WARRANT AGENT").

The Company, at or about the time that it is entering into this Agreement, proposes to issue and sell to public investors up to 2,300,000 Units ("UNITS"). Each Unit consists of one share of common stock, no par value, of the Company ("COMMON STOCK") and one Warrant (collectively, the "WARRANTS"), each Warrant exercisable to purchase one share of Common Stock for \$ _____, upon the terms and conditions and subject to adjustment in certain circumstances, all as set forth in this Agreement.

The Company proposes to issue to the Representatives of the Underwriters in the public offering of Units referred to above warrants to purchase up to 200,000 additional Units.

The Company wishes to retain the Warrant Agent to act on behalf of the Company, and the Warrant Agent is willing so to act, in connection with the issuance, transfer, exchange and replacement of the certificates evidencing the Warrants to be issued under this Agreement (the "WARRANT CERTIFICATES") and the exercise of the Warrants;

The Company and the Warrant Agent wish to enter into this Agreement to set forth the terms and conditions of the Warrants and the rights of the holders thereof ("WARRANTHOLDERS") and to set forth the respective rights and obligations of the Company and the Warrant Agent. Each Warrantholder is an intended beneficiary of this Agreement with respect to the rights of Warrantholders herein.

NOW, THEREFORE, in consideration of the premises and the mutual agreements herein set forth, the parties hereto agree as follows:

Section 1. APPOINTMENT OF WARRANT AGENT

The Company appoints the Warrant Agent to act as agent for the Company in accordance with the instructions in this Agreement and the Warrant Agent accepts such appointment.

-1-

Section 2. DATE, DENOMINATION AND EXECUTION OF WARRANT CERTIFICATES

The Warrant Certificates (and the Form of Election to Purchase and the Form of Assignment to be printed on the reverse thereof) shall be in registered form only and shall be substantially of the tenor and purport recited in Exhibit A hereto, and may have such letters, numbers or other marks of identification or designation and such legends, summaries or endorsements printed, lithographed or engraved thereon as the Company may deem appropriate and as are not inconsistent with the provisions of this Agreement, or as may be required to comply with any law, or with any rule or regulation made pursuant thereto, or with any rule or regulation of any stock exchange on which the Common Stock or the Warrants may be listed or any automated quotation system, or to conform to usage. Each Warrant Certificate shall entitle the registered holder thereof, subject to the provisions of this Agreement and of the Warrant Certificate, to purchase, on or before the close of business on August __, 2001 (the "EXPIRATION DATE"), one fully paid and non-assessable share of Common Stock for each Warrant evidenced by such Warrant Certificate, subject to adjustments as provided in Sections 6 hereof, for \$_____ (the "EXERCISE PRICE"). Each Warrant Certificate issued as a part of a Unit offered to the public as described in the recitals, above, shall be dated August __, 1996; each other Warrant Certificate shall be dated the date on which the Warrant Agent receives valid issuance instructions from the Company or a transferring holder of a Warrant Certificate or, if such instructions specify another date, such other date.

For purposes of this Agreement, the term "CLOSE OF BUSINESS" on any given date shall mean 5:20 p.m., Pacific time, on such date; provided, however, that if such date is not a business day, it shall mean 5:20 p.m., Pacific time, on the next succeeding business day. For purposes of this Agreement, the term "BUSINESS DAY" shall mean any day other than a Saturday, Sunday, or a day on which banking institutions in New York are authorized or obligated by law to be closed.

Each Warrant Certificate shall be executed on behalf of the Company by the Chairman of the Board or its President or a Vice President, either manually or by facsimile signature printed thereon, and be attested by the Secretary or an Assistant Secretary of the Company, either manually or by facsimile signature. Each Warrant Certificate shall be manually countersigned by the Warrant Agent and shall not be valid for any purpose unless so countersigned. In case any officer of the Company who shall have signed any Warrant Certificate shall cease to be such officer of the Company before countersignature by the Warrant Agent and issue and delivery thereof by the Company, such Warrant Certificate, nevertheless, may be countersigned by the Warrant Agent, issued and delivered with the same force and effect as though the person who signed such Warrant Certificate had not ceased to be such officer of the Company.

-2-

Section 3. SUBSEQUENT ISSUE OF WARRANT CERTIFICATES

Subsequent to their original issuance, no Warrant Certificates shall be reissued except (i) Warrant Certificates issued upon transfer thereof in accordance with Section 4 hereof; (ii) Warrant Certificates issued upon any combination, split-up or exchange of Warrant Certificates pursuant to Section 4 hereof; (iii) Warrant Certificates issued in replacement of mutilated, destroyed, lost or stolen Warrant Certificates pursuant to Section 5 hereof; (iv) Warrant Certificates issued upon the partial exercise of Warrant Certificates pursuant to Section 7 hereof; and (v) Warrant Certificates issued to reflect any adjustment or change in the Exercise Price or the number or kind of shares purchasable thereunder pursuant to Section 22 hereof. The Warrant Agent is hereby irrevocably authorized to countersign and deliver, in accordance with the provisions of said Sections 4, 5, 7 and 22, the new Warrant Certificates required for purposes thereof, and the Company, whenever required by the Warrant Agent, will supply the Warrant Agent with Warrant Certificates duly executed on behalf of the Company for such purposes.

Section 4. TRANSFERS AND EXCHANGES OF WARRANT CERTIFICATES

The Warrant Agent will keep or cause to be kept books for registration of ownership and transfer of the Warrant Certificates issued hereunder. Such registers shall show the names and addresses of the respective holders of the Warrant Certificates and the number of Warrants evidenced by each such Warrant Certificate.

The Warrant Agent shall, from time to time, register the transfer of any outstanding Warrants upon the books to be maintained by the Warrant Agent for that purpose, upon surrender of the Warrant Certificate evidencing such Warrants, with the Form of Assignment duly filled in and executed with such signature guaranteed by a banking institution or NASD member and such supporting documentation as the Warrant Agent or the Company may reasonably require, to the Warrant Agent at its stock transfer office in [New York, NY] at any time on or before the Expiration Date, and upon payment to the Warrant Agent for the account of the Company of an amount equal to any applicable transfer tax.

Payment of the amount of such tax may be made in cash, or by certified or official bank check, payable in lawful currency of the United States of America to the order of the Company.

Upon receipt of a Warrant Certificate, with the Form of Assignment duly filled in and executed, accompanied by payment of an amount equal to any applicable transfer tax, the Warrant Agent shall promptly cancel the surrendered Warrant Certificate and countersign and deliver to the transferee a new Warrant Certificate for the number of full Warrants transferred to such transferee; PROVIDED, HOWEVER, that in case the registered holder of any Warrant Certificate shall elect to transfer fewer than all of the Warrants evidenced by such Warrant Certificate, the Warrant Agent in addition shall promptly countersign and deliver to

-3-

such registered holder a new Warrant Certificate or Certificates for the number of full Warrants not so transferred.

Any Warrant Certificate or Certificates may be exchanged at the option of the holder thereof for another Warrant Certificate or Certificates of different denominations, of like tenor and representing in the aggregate the same number of Warrants, upon surrender of such Warrant Certificate or Certificates, with the Form of Assignment duly filled in and executed, to the Warrant Agent, at any time or from time to time after the close of business on the date hereof and prior to the close of business on the Expiration Date. The Warrant Agent shall promptly cancel the surrendered Warrant Certificate and deliver the new Warrant Certificate pursuant to the provisions of this Section.

Section 5. MUTILATED, DESTROYED, LOST OR STOLEN WARRANT CERTIFICATES

Upon receipt by the Company and the Warrant Agent of evidence reasonably satisfactory to them of the loss, theft, destruction or mutilation of any Warrant Certificate, and in the case of loss, theft or destruction, of indemnity or security reasonably satisfactory to them, and reimbursement to them of all reasonable expenses incidental thereto, and, in the case of mutilation, upon surrender and cancellation of the Warrant Certificate, the Warrant Agent shall countersign and deliver a new Warrant Certificate of like tenor for the same number of Warrants.

Section 6. ADJUSTMENTS OF NUMBER AND KIND OF SHARES PURCHASABLE AND EXERCISE PRICE

The number and kind of securities or other property purchasable upon exercise of a Warrant shall be subject to adjustment from time to time upon the occurrence, after the date hereof, of any of the following events:

A. In case the Company shall (1) pay a dividend in, or make a distribution of, shares of capital stock on its outstanding Common Stock; (2) subdivide its outstanding shares of Common Stock into a greater number of such shares; or (3) combine its outstanding shares of Common Stock into a smaller number of such shares, the total number of shares of Common Stock purchasable upon the exercise of each Warrant outstanding immediately prior thereto shall be adjusted so that the holder of any Warrant Certificate thereafter surrendered for exercise shall be entitled to receive at the same aggregate Exercise Price the number of shares of capital stock (of one or more classes) which such holder would have owned or have been entitled to receive immediately following the happening of any of the events described above had such Warrant been exercised in full immediately prior to the record date with respect to such event. Any adjustment made pursuant to this Subsection shall, in the case of a stock dividend or distribution, become effective as of the record date therefor and, in the case of a subdivision or combination, be made as of the effective date thereof. If, as a result of an adjustment made pursuant to this Subsection, the holder of any Warrant Certificate

-4-

thereafter surrendered for exercise shall become entitled to receive shares of two or more classes of capital stock of the Company, the Board of Directors of the Company (whose determination shall be conclusive and shall be evidenced by a Board resolution filed with the Warrant Agent) shall determine the allocation of the adjusted Exercise Price between or among shares of such classes of capital stock.

B. In the event of a capital reorganization or a reclassification of the Common Stock (except as provided in Subsection A above or Subsection E below), any Warrant holder, upon exercise of Warrants, shall be entitled to receive, in substitution for the Common Stock to which he would have become entitled upon exercise immediately prior to such reorganization or

reclassification, the shares (of any class or classes) or other securities or property of the Company (or cash) that he would have been entitled to receive at the same aggregate Exercise Price upon such reorganization or reclassification if such Warrants had been exercised immediately prior to the record date with respect to such event; and in any such case, appropriate provision (as determined by the Board of Directors of the Company, whose determination shall be conclusive and shall be evidenced by a certified Board resolution filed with the Warrant Agent) shall be made for the application of this Section 6 with respect to the rights and interests thereafter of the Warrantholders (including but not limited to the allocation of the Exercise Price between or among shares of classes of capital stock), to the end that this Section 6 (including the adjustments of the number of shares of Common Stock or other securities purchasable and the Exercise Price thereof) shall thereafter be reflected, as nearly as reasonably practicable, in all subsequent exercises of the Warrants for any shares or securities or other property (or cash) thereafter deliverable upon the exercise of the Warrants.

C. Whenever the number of shares of Common Stock or other securities purchasable upon exercise of a Warrant is adjusted as provided in this Section 6, the Company will promptly file with the Warrant Agent a certificate signed by a Chairman or co-Chairman of the Board or the President or a Vice President of the Company and by the Treasurer or an Assistant Treasurer or the Secretary or an Assistant Secretary of the Company setting forth the number and kind of securities or other property purchasable upon exercise of a Warrant, as so adjusted, stating that such adjustments in the number or kind of shares or other securities or property conform to the requirements of this Section 6, and setting forth a brief statement of the facts accounting for such adjustments. Promptly after receipt of such certificate, the Company, or the Warrant Agent at the Company's request, will deliver, by first-class, postage prepaid mail, a brief summary thereof (to be supplied by the Company) to the registered holders of the outstanding Warrant Certificates; PROVIDED, HOWEVER, that failure to file or to give any notice required under this Subsection, or any defect therein, shall not affect the legality or validity of any such adjustments under this Section 6; and PROVIDED, FURTHER, that, where appropriate, such notice may be given in advance and included as part of the notice required to be given pursuant to Section 12 hereof.

D. In case of any consolidation of the Company with, or merger of the Company into, another corporation (other than a consolidation or merger which does not result in any

-5-

reclassification or change of the outstanding Common Stock), or in case of any sale or conveyance to another corporation of the property of the Company as an entirety or substantially as an entirety, the corporation formed by such consolidation or merger or the corporation which shall have acquired such assets, as the case may be, shall execute and deliver to the Warrant Agent a supplemental warrant agreement providing that the holder of each Warrant then outstanding shall have the right thereafter (until the expiration of such Warrant) to receive, upon exercise of such Warrant, solely the kind and amount of shares of stock and other securities and property (or cash) receivable upon such consolidation, merger, sale or transfer by a holder of the number of shares of Common Stock of the Company for which such Warrant might have been exercised immediately prior to such consolidation, merger, sale or transfer. Such supplemental warrant agreement shall provide for adjustments which shall be as nearly equivalent as may be practicable to the adjustments provided in this Section. The above provision of this Subsection shall similarly apply to successive consolidations, mergers, sales or transfers.

The Warrant Agent shall not be under any responsibility to determine the correctness of any provision contained in any such supplemental warrant agreement relating to either the kind or amount of shares of stock or securities or property (or cash) purchasable by holders of Warrant Certificates upon the exercise of their Warrants after any such consolidation, merger, sale or transfer or of any adjustment to be made with respect thereto, but subject to the provisions of Section 20 hereof, may accept as conclusive evidence of the correctness of any such provisions, and shall be protected in relying upon, a certificate of a firm of independent certified public accountants (who may be the accountants regularly employed by the Company) with respect thereto.

E. Irrespective of any adjustments in the number or kind of shares issuable upon exercise of Warrants, Warrant Certificates theretofore or thereafter issued may continue to express the same price and number and kind of shares as are stated in the similar Warrant Certificates initially issuable pursuant to this Warrant Agreement.

F. The Company may retain a firm of independent public accountants of recognized standing (which may be the firm regularly retained by the Company) selected by the Board of Directors of the Company or any Executive Committee of said Board and not disapproved by the Warrant Agent, to make any computation required under this Section, and a certificate signed by such firm shall, in the absence of fraud or gross negligence, be conclusive evidence of the correctness

of any computation made under this Section.

G. For the purpose of this Section, the term "COMMON STOCK" shall mean (i) the class of stock designated as Common Stock in the Articles of Incorporation of the Company, as amended, at the date of this Agreement; or (ii) any other class of stock resulting from successive changes or reclassification of such Common Stock consisting solely of changes in par value, or from par value to no par value, or from no par value to par value. In the event that at any time as a result of an adjustment made pursuant to this Section, the holder of any Warrant thereafter surrendered for exercise shall become entitled to receive any shares of

-6-

capital stock of the Company other than shares of Common Stock, thereafter the number of such other shares so receivable upon exercise of any Warrant shall be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to the Common Stock contained in this Section, and all other provisions of this Agreement, with respect to the Common Stock, shall apply on like terms to any such other shares.

H. The Company may, from time to time and to the extent permitted by law, reduce the exercise price of the Warrants by any amount for a period of not less than 20 days. If the Company so reduces the exercise price of the Warrants, it will give not less than 15 days' notice of such decrease, which notice may be in the form of a press release, and shall take such other steps as may be required under applicable law in connection with any offers or sales of securities at the reduced price.

Section 7. EXERCISE AND REDEMPTION OF WARRANTS

Unless the Warrants have been redeemed as provided in this Section 7, the registered holder of any Warrant Certificate may exercise the Warrants evidenced thereby, in whole at any time or in part from time to time at or prior to the close of business, on the Expiration Date, subject to the provisions of Section 9, at which time the Warrant Certificates shall be and become wholly void and of no value. Warrants may be exercised by their holders or redeemed by the Company as follows:

A. Exercise of Warrants shall be accomplished upon surrender of the Warrant Certificate evidencing such Warrants, with the Form of Election to Purchase on the reverse side thereof duly filled in and executed, to the Warrant Agent at its stock transfer office in [New York, NY], together with payment to the Company of the Exercise Price (as of the date of such surrender) of the Warrants then being exercised and an amount equal to any applicable transfer tax and, if requested by the Company, any other taxes or governmental charges which the Company may be required by law to collect in respect of such exercise. Payment of the Exercise Price and other amounts may be made by wire transfer of good funds, or by certified or bank cashier's check, payable in lawful currency of the United States of America to the order of the Company. No adjustment shall be made for any cash dividends, whether paid or declared, on any securities issuable upon exercise of a Warrant.

B. Upon receipt of a Warrant Certificate, with the Form of Election to Purchase duly filled in and executed, accompanied by payment of the Exercise Price of the Warrants being exercised (and of an amount equal to any applicable taxes or government charges as aforesaid), the Warrant Agent shall promptly request from the Transfer Agent with respect to the securities to be issued and deliver to or upon the order of the registered holder of such Warrant Certificate, in such name or names as such registered holder may designate, a certificate or certificates for the number of full shares of the securities to be purchased, together with cash made available by the Company pursuant to Section 8 hereof in respect

-7-

of any fraction of a share of such securities otherwise issuable upon such exercise. If the Warrant is then exercisable to purchase property other than securities, the Warrant Agent shall take appropriate steps to cause such property to be delivered to or upon the order of the registered holder of such Warrant Certificate. In addition, if it is required by law and upon instruction by the Company, the Warrant Agent will deliver to each Warrant holder a prospectus which complies with the provisions of Section 9 of the Securities Act of 1933 and the Company agrees to supply Warrant Agent with sufficient number of prospectuses to effectuate that purpose.

C. In case the registered holder of any Warrant Certificate shall exercise fewer than all of the Warrants evidenced by such Warrant Certificate, the Warrant Agent shall promptly countersign and deliver to the registered holder of such Warrant Certificate, or to his duly authorized assigns, a new

Warrant Certificate or Certificates evidencing the number of Warrants that were not so exercised.

D. Each person in whose name any certificate for securities is issued upon the exercise of Warrants shall for all purposes be deemed to have become the holder of record of the securities represented thereby as of, and such certificate shall be dated, the date upon which the Warrant Certificate was duly surrendered in proper form and payment of the Exercise Price (and of any applicable taxes or other governmental charges) was made; PROVIDED, HOWEVER, that if the date of such surrender and payment is a date on which the stock transfer books of the Company are closed, such person shall be deemed to have become the record holder of such shares as of, and the certificate for such shares shall be dated, the next succeeding business day on which the stock transfer books of the Company are open (whether before, on or after the Expiration Date) and the Warrant Agent shall be under no duty to deliver the certificate for such shares until such date. The Company covenants and agrees that it shall not cause its stock transfer books to be closed for a period of more than 20 consecutive business days except upon consolidation, merger, sale of all or substantially all of its assets, dissolution or liquidation or as otherwise provided by law.

E. The Warrants outstanding at the time of a redemption may be redeemed at the option of the Company, in whole or in part on a pro rata basis, at any time if, at the time notice of such redemption is given by the Company as provided in Subsection F below, the Daily Price has exceeded \$_____ for the 20 consecutive trading days immediately preceding the date of such notice, at a price equal to \$0.25 per Warrant (the "REDEMPTION PRICE"). For the purpose of the foregoing sentence, the term "DAILY PRICE" shall mean, for any relevant day, the closing bid price on that day as reported by the principal exchange or quotation system on which prices for the Common Stock are reported. On the redemption date, the holders of record of redeemed Warrants shall be entitled to payment of the Redemption Price upon surrender of such redeemed Warrants to the Company at the principal office of the Warrant Agent in [New York, NY].

F. Notice of redemption of Warrants shall be given at least 30 days prior to the redemption date by mailing, by registered or certified mail, return receipt requested, a copy

-8-

of such notice to the Warrant Agent and to all of the holders of record of Warrants at their respective addresses appearing on the books or transfer records of the Company or such other address designated in writing by the holder of record to the Warrant Agent not less than 40 days prior to the redemption date.

G. From and after the redemption date, all rights of the Warrant holders (except the right to receive the Redemption Price) shall terminate, but only if (a) no later than one day prior to the redemption date the Company shall have irrevocably deposited with the Warrant Agent as paying agent a sufficient amount to pay on the redemption date the Redemption Price for all Warrants called for redemption; and (b) the notice of redemption shall have stated the name and address of the Warrant Agent and the intention of the Company to deposit such amount with the Warrant Agent no later than one day prior to the redemption date.

H. The Warrant Agent shall pay to the holders of record of redeemed Warrants all monies received by the Warrant Agent for the redemption of Warrants to which the holders of record of such redeemed Warrants who shall have surrendered their Warrants are entitled.

I. Any amounts deposited with the Warrant Agent that are not required for redemption of Warrants may be withdrawn by the Company. Any amounts deposited with the Warrant Agent that shall be unclaimed after six months after the redemption date may be withdrawn by the Company, and thereafter the holders of the Warrants called for redemption for which such funds were deposited shall look solely to the Company for payment. The Company shall be entitled to the interest, if any, on funds deposited with the Warrant Agent and the holders of redeemed Warrants shall have no right to any such interest.

J. If the Company fails to make a sufficient deposit with the Warrant Agent as provided above, the holder of any Warrants called for redemption may at the option of the holder (a) by notice to the Company declare the notice of redemption a nullity as to such holder; or (b) maintain an action against the Company for the Redemption Price. If the holder brings such an action, the Company will pay reasonable attorneys' fees of the holder. If the holder fails to bring an action against the Company for the Redemption Price within 60 days after the redemption date, the holder shall be deemed to have elected to declare the notice of redemption to be a nullity as to such holder and such notice shall be without any force or effect as to such holder. Except as otherwise specifically provided in this Subsection J, a notice of redemption, once mailed by the Company as provided in Subsection F shall be irrevocable.

Section 8. FRACTIONAL INTERESTS

The Company shall not be required to issue any Warrant Certificate evidencing a fraction of a Warrant or to issue fractions of shares of securities on the exercise of the Warrants. If any fraction (calculated to the nearest one-hundredth) of a Warrant or a share

-9-

of securities would, except for the provisions of this Section, be issuable on the exercise of any Warrant, the Company shall, at its option, either purchase such fraction for an amount in cash equal to the current value of such fraction computed on the basis of the closing market price (as quoted on NASDAQ) on the trading day immediately preceding the day upon which such Warrant Certificate was surrendered for exercise in accordance with Section 7 hereof or issue the required fractional Warrant or share. By accepting a Warrant Certificate, the holder thereof expressly waives any right to receive a Warrant Certificate evidencing any fraction of a Warrant or to receive any fractional share of securities upon exercise of a Warrant, except as expressly provided in this Section 8.

Section 9. RESERVATION OF EQUITY SECURITIES

The Company covenants that it will at all times reserve and keep available, free from any pre-emptive rights, out of its authorized and unissued equity securities, solely for the purpose of issue upon exercise of the Warrants, such number of shares of equity securities of the Company as shall then be issuable upon the exercise of all outstanding Warrants ("Equity Securities"). The Company covenants that all Equity Securities which shall be so issuable shall, upon such issue, be duly authorized, validly issued, fully paid and non-assessable.

The Company covenants that if any equity securities, required to be reserved for the purpose of issue upon exercise of the Warrants hereunder, require registration with or approval of any governmental authority under any federal or state law before such shares may be issued upon exercise of Warrants, the Company will use all commercially reasonable efforts to cause such securities to be duly registered, or approved, as the case may be, and, to the extent practicable, take all such action in anticipation of and prior to the exercise of the Warrants, including, without limitation, filing any and all post-effective amendments to the Company's Registration Statement on Form SB-2 (Registration No. 333-5276-LA) necessary to permit a public offering of the securities underlying the Warrants at any and all times during the term of this Agreement; PROVIDED, HOWEVER, that in no event shall such securities be issued, and the Company is authorized to refuse to honor the exercise of any Warrant, if such exercise would result in the opinion of the Company's Board of Directors, upon advice of counsel, in the violation of any law; and PROVIDED FURTHER that, in the case of a Warrant exercisable solely for securities listed on a securities exchange or for which there are at least two independent market makers, in lieu of obtaining such registration or approval, the Company may elect to redeem Warrants submitted to the Warrant Agent for exercise for a price equal to the difference between the aggregate low asked price, or closing price, as the case may be, of the securities for which such Warrant is exercisable on the date of such submission and the Exercise Price of such Warrants; in the event of such redemption, the Company will pay to the holder of such Warrants the above-described redemption price in cash within ten business days after receipt of notice from the Warrant Agent that such Warrants have been submitted for exercise.

-10-

Section 10. REDUCTION OF CONVERSION PRICE BELOW PAR VALUE

Before taking any action that would cause an adjustment pursuant to Section 6 hereof reducing the portion of the Exercise Price required to purchase one share of capital stock below the then par value (if any) of a share of such capital stock, the Company will use its best efforts to take any corporate action which, in the opinion of its counsel, may be necessary in order that the Company may validly and legally issue fully paid and non-assessable shares of such capital stock.

Section 11. PAYMENT OF TAXES

The Company covenants and agrees that it will pay when due and payable any and all federal and state documentary stamp and other original issue taxes which may be payable in respect of the original issuance of the Warrant Certificates, or any shares of Common Stock or other securities upon the

exercise of Warrants. The Company shall not, however, be required (i) to pay any tax which may be payable in respect of any transfer involved in the transfer and delivery of Warrant Certificates or the issuance or delivery of certificates for Common Stock or other securities in a name other than that of the registered holder of the Warrant Certificate surrendered for purchase; or (ii) to issue or deliver any certificate for shares of Common Stock or other securities upon the exercise of any Warrant Certificate until any such tax shall have been paid, all such tax being payable by the holder of such Warrant Certificate at the time of surrender.

Section 12. NOTICE OF CERTAIN CORPORATE ACTION

In case the Company after the date hereof shall propose (i) to offer to the holders of Common Stock, generally, rights to subscribe to or purchase any additional shares of any class of its capital stock, any evidences of its indebtedness or assets, or any other rights or options; or (ii) to effect any reclassification of Common Stock (other than a reclassification involving merely the subdivision or combination of outstanding shares of Common Stock) or any capital reorganization, or any consolidation or merger to which the Company is a party and for which approval of any stockholders of the Company is required, or any sale, transfer or other disposition of its property and assets substantially as an entirety, or the liquidation, voluntary or involuntary dissolution or winding-up of the Company, then, in each such case, the Company shall file with the Warrant Agent and the Company, or the Warrant Agent on its behalf, shall mail (by first-class, postage prepaid mail) to all registered holders of the Warrant Certificates notice of such proposed action, which notice shall specify the date on which the books of the Company shall close or a record be taken for such offer of rights or options, or the date on which such reclassification, reorganization, consolidation, merger, sale, transfer, other disposition, liquidation, voluntary or involuntary dissolution or winding-up shall take place or commence, as the case may be, and which shall also specify any record date for determination of holders of Common Stock entitled to vote thereon or participate therein and shall set forth such facts with respect thereto as shall be reasonably

-11-

necessary to indicate any adjustments in the Exercise Price and the number or kind of shares or other securities purchasable upon exercise of Warrants which will be required as a result of such action. Such notice shall be filed and mailed in the case of any action covered by clause (i) above, at least 10 days prior to the record date for determining holders of the Common Stock for purposes of such action or, if a record is not to be taken, the date as of which the holders of shares of Common Stock of record are to be entitled to such offering; and, in the case of any action covered by clause (ii) above, at least 20 days prior to the earlier of the date on which such reclassification, reorganization, consolidation, merger, sale, transfer, other disposition, liquidation, voluntary or involuntary dissolution or winding-up is expected to become effective and the date on which it is expected that holders of shares of Common Stock of record on such date shall be entitled to exchange their shares for securities or other property deliverable upon such reclassification, reorganization, consolidation, merger, sale, transfer, other disposition, liquidation, voluntary or involuntary dissolution or winding-up.

Failure to give any such notice or any defect therein shall not affect the legality or validity of any transaction listed in this Section 12.

Section 13. DISPOSITION OF PROCEEDS ON EXERCISE OF WARRANT CERTIFICATES, ETC.

The Warrant Agent shall account promptly to the Company with respect to Warrants exercised and concurrently pay to the Company all moneys received by the Warrant Agent for the purchase of securities or other property through the exercise of such Warrants.

The Warrant Agent shall keep copies of this Agreement available for inspection by Warrantholders during normal business hours at its stock transfer office. Copies of this Agreement may be obtained upon written request addressed to the Warrant Agent at its stock transfer office in [New York, NY].

Section 14. WARRANTHOLDER NOT DEEMED A STOCKHOLDER

No Warrantholder, as such, shall be entitled to vote, receive dividends or be deemed the holder of Common Stock or any other securities of the Company which may at any time be issuable on the exercise of the Warrants represented thereby for any purpose whatever, nor shall anything contained herein or in any Warrant Certificate be construed to confer upon any Warrantholder, as such, any of the rights of a stockholder of the Company or any right to vote for the election of directors or upon any matter submitted to stockholders at any meeting thereof, or to give or withhold consent to any corporate action (whether upon any recapitalization, issuance of stock, reclassification of stock, change of par value or change of stock to no par

value, consolidation, merger, conveyance or otherwise), or to receive notice of meetings or other actions affecting stockholders (except as provided in Section 12 hereof), or to receive dividends or subscription rights, or otherwise, until such

-12-

Warrant Certificate shall have been exercised in accordance with the provisions hereof and the receipt of the Exercise Price and any other amounts payable upon such exercise by the Warrant Agent.

Section 15. RIGHT OF ACTION

All rights of action in respect to this Agreement are vested in the respective registered holders of the Warrant Certificates; and any registered holder of any Warrant Certificate, without the consent of the Warrant Agent or of any other holder of a Warrant Certificate, may, in his own behalf for his own benefit, enforce, and may institute and maintain any suit, action or proceeding against the Company suitable to enforce, or otherwise in respect of, his right to exercise the Warrants evidenced by such Warrant Certificate, for the purchase of shares of the Common Stock in the manner provided in the Warrant Certificate and in this Agreement.

Section 16. AGREEMENT OF HOLDERS OF WARRANT CERTIFICATES

Every holder of a Warrant Certificate by accepting the same consents and agrees with the Company, the Warrant Agent and with every other holder of a Warrant Certificate that:

A. the Warrant Certificates are transferable on the registry books of the Warrant Agent only upon the terms and conditions set forth in this Agreement; and

B. the Company and the Warrant Agent may deem and treat the person in whose name the Warrant Certificate is registered as the absolute owner of the Warrant (notwithstanding any notation of ownership or other writing thereon made by anyone other than the Company or the Warrant Agent) for all purposes whatever and neither the Company nor the Warrant Agent shall be affected by any notice to the contrary.

Section 17. CANCELLATION OF WARRANT CERTIFICATES

In the event that the Company shall purchase or otherwise acquire any Warrant Certificate or Certificates after the issuance thereof, such Warrant Certificate or Certificates shall thereupon be delivered to the Warrant Agent and be canceled by it and retired. The Warrant Agent shall also cancel any Warrant Certificate delivered to it for exercise, in whole or in part, or delivered to it for transfer, split-up, combination or exchange. Warrant Certificates so canceled shall be delivered by the Warrant Agent to the Company from time to time, or disposed of in accordance with the instructions of the Company.

-13-

Section 18. CONCERNING THE WARRANT AGENT

The Company agrees to pay to the Warrant Agent from time to time, on demand of the Warrant Agent, reasonable compensation for all services rendered by it hereunder and also its reasonable expenses, including counsel fees, and other disbursements incurred in the administration and execution of this Agreement and the exercise and performance of its duties hereunder. The Company also agrees to indemnify the Warrant Agent for, and to hold it harmless against, any loss, liability or expense, incurred without gross negligence, bad faith or willful misconduct on the part of the Warrant Agent, arising out of or in connection with the acceptance and administration of this Agreement.

Section 19. MERGER OR CONSOLIDATION OR CHANGE OF NAME OF WARRANT AGENT

Any corporation into which the Warrant Agent may be merged or with which it may be consolidated, or any corporation resulting from any merger or consolidation to which the Warrant Agent shall be a party, or any corporation succeeding to the corporate trust business of the Warrant Agent, shall be the successor to the Warrant Agent hereunder without the execution or filing of any paper or any further act on the part of any of the parties hereto, provided that such corporation would be eligible for appointment as a successor warrant agent under the provisions of Section 21 hereof. In case at the time such successor to the Warrant Agent shall succeed to the agency created by this Agreement, any of the Warrant Certificates shall have been countersigned but not delivered, any

such successor to the Warrant Agent may adopt the countersignature of the original Warrant Agent and deliver such Warrant Certificates so countersigned; and in case at that time any of the Warrant Certificates shall not have been countersigned, any successor to the Warrant Agent may countersign such Warrant Certificates either in the name of the predecessor Warrant Agent or in the name of the successor Warrant Agent; and in all such cases such Warrant Certificates shall have the full force provided in the Warrant Certificates and in this Agreement.

In case at any time the name of the Warrant Agent shall be changed and at such time any of the Warrant Certificates shall have been countersigned but not delivered, the Warrant Agent may adopt the countersignature under its prior name and deliver Warrant Certificates so countersigned; and in case at that time any of the Warrant Certificates shall not have been countersigned, the Warrant Agent may countersign such Warrant Certificates either in its prior name or in its changed name; and in all such cases such Warrant Certificates shall have the full force provided in the Warrant Certificates and in this Agreement.

-14-

Section 20. DUTIES OF WARRANT AGENT

The Warrant Agent undertakes the duties and obligations imposed by this Agreement upon the following terms and conditions, by all of which the Company and the holders of Warrant Certificates, by their acceptance thereof, shall be bound:

A. The Warrant Agent may consult with counsel satisfactory to it (who may be counsel for the Company or the Warrant Agent's in-house counsel), and the opinion of such counsel shall be full and complete authorization and protection to the Warrant Agent as to any action taken, suffered or omitted by it in good faith and in accordance with such opinion; PROVIDED, HOWEVER, that the Warrant Agent shall have exercised reasonable care in the selection of such counsel. Fees and expenses of such counsel, to the extent reasonable, shall be paid by the Company.

B. Whenever in the performance of its duties under this Agreement, the Warrant Agent shall deem it necessary or desirable that any fact or matter be proved or established by the Company prior to taking or suffering any action hereunder, such fact or matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a certificate signed by a Chairman or co-Chairman of the Board or the President or a Vice President or the Secretary of the Company and delivered to the Warrant Agent; and such certificate shall be full authorization to the Warrant Agent for any action taken or suffered in good faith by it under the provisions of this Agreement in reliance upon such certificate.

C. The Warrant Agent shall not be liable for or by reason of any of the statements of fact or recitals contained in this Agreement or in the Warrant Certificates (except its countersignature on the Warrant Certificates and such statements or recitals as describe the Warrant Agent or action taken or to be taken by it) or be required to verify the same, but all such statements and recitals are and shall be deemed to have been made by the Company only.

D. The Warrant Agent shall not be under any responsibility in respect of the validity of this Agreement or the execution and delivery hereof (except the due execution hereof by the Warrant Agent) or in respect of the validity or execution of any Warrant Certificate (except its countersignature thereof); nor shall it be responsible for any breach by the Company of any covenant or condition contained in this Agreement or in any Warrant Certificate; nor shall it be responsible for the making of any change in the number of shares of Common Stock for which a Warrant is exercisable required under the provisions of Section 6 or responsible for the manner, method or amount of any such change or the ascertaining of the existence of facts that would require any such adjustment or change (except with respect to the exercise of Warrant Certificates after actual notice of any adjustment of the Exercise Price); nor shall it by any act hereunder be deemed to make any representation or warranty as to the authorization or reservation of any shares of Common

-15-

Stock to be issued pursuant to this Agreement or any Warrant Certificate or as to whether any shares of Common Stock will, when issued, be validly issued, fully paid and non-assessable.

E. The Warrant Agent shall be under no obligation to institute any action, suit or legal proceeding or take any other action likely to involve expense unless the Company shall furnish the Warrant Agent with reasonable security and indemnity for any costs and expenses which may be incurred.

F. The Warrant Agent and any stockholder, director, officer or employee of the Warrant Agent may buy, sell or deal in any of the Warrants or other securities of the Company or become pecuniarily interested in any transaction in which the Company may be interested, or contract with or lend money to or otherwise act as fully and freely as though it were not Warrant Agent under this Agreement. Nothing herein shall preclude the Warrant Agent from acting in any other capacity for the Company or for any other legal entity.

G. The Warrant Agent is hereby authorized and directed to accept instructions with respect to the performance of its duties hereunder from a Chairman or co-Chairman of the Board or President or a Vice President or the Secretary or the Controller of the Company, and to apply to such officers for advice or instructions in connection with the Warrant Agent's duties, and it shall not be liable for any action taken or suffered or omitted by it in good faith in accordance with instructions of any such officer.

H. The Warrant Agent will not be responsible for any failure of the Company to comply with any of the covenants contained in this Agreement or in the Warrant Certificates to be complied with by the Company.

I. The Warrant Agent may execute and exercise any of the rights or powers hereby vested in it or perform any duty hereunder either itself or by or through its attorneys, agents or employees and the Warrant Agent shall not be answerable or accountable for any act, default, neglect or misconduct of any such attorneys, agents or employees or for any loss to the Company resulting from such neglect or misconduct; PROVIDED, HOWEVER, that reasonable care shall have been exercised in the selection and continued employment of such attorneys, agents and employees.

J. The Warrant Agent will not incur any liability or responsibility to the Company or to any holder of any Warrant Certificate for any action taken, or any failure to take action, in reliance on any notice, resolution, waiver, consent, order, certificate, or other paper, document or instrument reasonably believed by the Warrant Agent to be genuine and to have been signed, sent or presented by the proper party or parties.

K. The Warrant Agent will act hereunder solely as agent of the Company in a ministerial capacity, and its duties will be determined solely by the provisions hereof. The Warrant Agent will not be liable for anything which it may do or refrain from doing in connection with this Agreement except for its own negligence, bad faith or willful conduct.

-16-

Section 21. CHANGE OF WARRANT AGENT

The Warrant Agent may resign and be discharged from its duties under this Agreement upon 30 days' prior notice in writing mailed, by registered or certified mail, to the Company. The Company may remove the Warrant Agent or any successor warrant agent upon 30 days' prior notice in writing, mailed to the Warrant Agent or successor warrant agent, as the case may be, by registered or certified mail. If the Warrant Agent shall resign or be removed or shall otherwise become incapable of acting, the Company shall appoint a successor to the Warrant Agent within 15 days following such resignation, removal, or incapacity and shall give notice thereof in writing to each registered holder of the Warrant Certificates. If the Company shall fail to make such appointment within a period of 15 days after giving notice of such removal or after it has been notified in writing of such resignation or incapacity by the resigning or incapacitated Warrant Agent, then the Company agrees to perform the duties of the Warrant Agent hereunder until a successor Warrant Agent is appointed. After appointment and execution of a copy of this Agreement in effect at that time, the successor Warrant Agent shall be vested with the same powers, rights, duties and responsibilities as if it had been originally named as Warrant Agent without further act or deed; but the former Warrant Agent shall deliver and transfer to the successor Warrant Agent, within a reasonable time, any property at the time held by it hereunder, and execute and deliver any further assurance, conveyance, act or deed necessary for the purpose. Failure to give any notice provided for in this Section, however, or any defect therein shall not affect the legality or validity of the resignation or removal of the Warrant Agent or the appointment of the successor warrant agent, as the case may be.

Section 22. ISSUANCE OF NEW WARRANT CERTIFICATES

Notwithstanding any of the provisions of this Agreement or the several Warrant Certificates to the contrary, the Company may, at its option, issue new Warrant Certificates in such form as may be approved by its Board of Directors to reflect any adjustment or change in the Exercise Price or the number or kind of shares purchasable under the several Warrant Certificates made in accordance with the provisions of this Agreement.

Section 23. NOTICES

Notice or demand pursuant to this Agreement to be given or made on the Company by the Warrant Agent or by the registered holder of any Warrant Certificate shall be sufficiently given or made if sent by first-class or registered mail, postage prepaid, addressed (until another address is filed in writing by the Company with the Warrant Agent) as follows:

-17-

Microvision, Inc.
2203 Airport Way South, Suite 100
Seattle, Washington 98134

Subject to the provisions of Section 21, any notice pursuant to this Agreement to be given or made by the Company or by the holder of any Warrant Certificate to or on the Warrant Agent shall be sufficiently given or made if sent by first-class or registered mail, postage prepaid, addressed (until another address is filed in writing by the Warrant Agent with the Company) as follows:

American Stock Transfer & Trust Company
40 Wall Street
New York, NY 10005
Attention: Corporate Trust Department

Any notice or demand authorized to be given or made to the registered holder of any Warrant Certificate under this Agreement shall be sufficiently given or made if sent by first-class or registered mail, postage prepaid, to the last address of such holder as it shall appear on the registers maintained by the Warrant Agent.

Section 24. MODIFICATION OF AGREEMENT

The Warrant Agent may, without the consent or concurrence of the Warrantholders, by supplemental agreement or otherwise, concur with the Company in making any changes or corrections in this Agreement that the Warrant Agent shall have been advised by counsel (who may be counsel for the Company) are necessary or desirable to cure any ambiguity or to correct any defective or inconsistent provision or clerical omission or mistake or manifest error herein contained, or to make any other provisions in regard to matters or questions arising hereunder and which shall not be inconsistent with the provisions of the Warrant Certificates and which shall not adversely affect the interests of the Warrantholders. As of the date hereof, this Agreement contains the entire and only agreement, understanding, representation, condition, warranty or covenant between the parties hereto with respect to the matters herein, supersedes any and all other agreements between the parties hereto relating to such matters, and may be modified or amended only by a written agreement signed by both parties hereto pursuant to the authority granted by the first sentence of this Section.

Section 25. SUCCESSORS

All the covenants and provisions of this Agreement by or for the benefit of the Company or the Warrant Agent shall bind and inure to the benefit of their respective successors and assigns hereunder.

-18-

Section 26. WASHINGTON CONTRACT

This Agreement and each Warrant Certificate issued hereunder shall be deemed to be a contract made under the laws of the State of Washington and for all purposes shall be construed in accordance with the laws of said State.

Section 27. TERMINATION

This Agreement shall terminate as of the close of business on the Expiration Date, or such earlier date upon which all Warrants shall have been exercised or redeemed, except that the Warrant Agent shall account to the Company as to all Warrants outstanding and all cash held by it as of the close of business on the Expiration Date.

Section 28. BENEFITS OF THIS AGREEMENT

Nothing in this Agreement or in the Warrant Certificates shall be construed to give to any person or corporation other than the Company, the Warrant Agent, and their respective successors and assigns hereunder and the

registered holders of the Warrant Certificates any legal or equitable right, remedy or claim under this Agreement; but this Agreement shall be for the sole and exclusive benefit of the Company, the Warrant Agent, their respective successors and assigns hereunder and the registered holders of the Warrant Certificates.

Section 29. DESCRIPTIVE HEADINGS

The descriptive headings of the several Sections of this Agreement are inserted for convenience only and shall not control or affect the meaning or construction of any of the provisions hereof.

Section 30. COUNTERPARTS

This Agreement may be executed in any number of counterparts, each of which shall be an original, but such counterparts shall together constitute one and the same instrument.

-19-

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed, all as of the day and year first above written.

MICROVISION, INC.

By: _____
Title:

AMERICAN STOCK TRANSFER
& TRUST COMPANY

By: _____
Title:

-20-

FORM OF

THIS WARRANT HAS NOT BEEN REGISTERED
UNDER THE SECURITIES ACT OF 1933
AND IS NOT TRANSFERABLE
EXCEPT AS PROVIDED HEREIN

MICROVISION, INC.

PURCHASE WARRANT

Issued to:

[PAULSON INVESTMENT COMPANY, INC.]
[marion bass securities corporation]

Exercisable to Purchase

[200,000] Units

of

MICROVISION, INC.

Void after August , 2001

This is to certify that, for value received and subject to the terms and conditions set forth below, the Warrantholder (hereinafter defined) is entitled to purchase, and the Company promises and agrees to sell and issue to the Warrantholder, at any time on or after August __, 1997 and on or before August __, 2001, up to [200,000] Units (hereinafter defined) at the Exercise Price (hereinafter defined).

This Warrant Certificate is issued subject to the following terms and conditions:

1. DEFINITIONS OF CERTAIN TERMS. Except as may be otherwise clearly required by the context, the following terms have the following meanings:

- (a) "Act" means the Securities Act of 1933, as amended.
- (b) "Closing Date" means the date on which the Offering is closed.
- (c) "Commission" means the Securities and Exchange Commission.
- (d) "Common Stock" means the common stock, no par value, of the Company.
- (e) "Company" means Microvision, Inc., a Washington corporation.

(f) "Company's Expenses" means any and all expenses payable by the Company or the Warrantholder in connection with an offering described in Section 6 hereof, except Warrantholder's Expenses.

(g) "Effective Date" means the date on which the Registration Statement is declared effective by the Commission.

(h) "Exercise Price" means the price at which the Warrantholder may purchase one complete Unit (or Securities obtainable in lieu of one complete Unit) upon exercise of Warrants as determined from time to time pursuant to the provisions hereof. The initial Exercise Price is \$_____ per Unit. If a Warrant is exercised for a component of a Unit or Units, then the price payable in connection with such exercise shall be determined by

allocating \$0.001 to the Unit Warrant and the balance of the Exercise Price to the share of Common Stock, or, in each case, to any securities obtainable in addition to or in lieu of such Unit Warrant or share of Common Stock by virtue of the application of Section 3 of this Warrant.

2

(i) "Offering" means the public offering of Units made pursuant to the Registration Statement.

(j) "Participating Underwriter" means any underwriter participating in the sale of the Securities pursuant to a registration under Section 6 of this Warrant Certificate.

(k) "Registration Statement" means the Company's registration statement (File No. 333-5276-LA) as amended on the Closing Date.

(l) "Rules and Regulations" means the rules and regulations of the Commission adopted under the Act.

(m) "Securities" means the securities obtained or obtainable upon exercise of the Warrant or securities obtained or obtainable upon exercise, exchange or conversion of such securities.

(n) "Unit" means, as the case may require, either one of the Units offered to the Public pursuant to the Registration Statement or one of the Units obtainable on exercise of a Warrant.

(o) "Unit Warrant" means a Common Stock purchase warrant included as a component of a Unit.

(p) "Warrant Certificate" means a certificate evidencing the Warrant.

(q) "Warrantholder" means a record holder of the Warrant or Securities. The initial Warrantholder is Paulson Investment Company, Inc.

(r) "Warrantholder's Expenses" means the sum of (i) the aggregate amount of cash payments made to an underwriter, underwriting syndicate, or agent in connection with an offering described in Section 6 hereof multiplied by a fraction the numerator of which is the aggregate sales price of the Securities sold by such underwriter, underwriting syndicate, or agent in such offering and the denominator of which is the aggregate sales price of all of the securities sold by such underwriters, underwriting syndicate, or agents in such offering and (ii) all out-of-pocket expenses of the Warrantholder, except for the fees and disbursements of one firm retained as legal counsel for the Warrantholder that will be paid by the Company.

3

(s) "Warrant" means the warrant evidenced by this certificate, any similar certificate issued in connection with the Offering, or any certificate obtained upon transfer or partial exercise of the Warrant evidenced by any such certificate.

2. EXERCISE OF WARRANTS. All or any part of the Warrant may be exercised commencing on the first anniversary of the Effective Date and ending at 5:00 p.m. (Pacific Time) on the fifth anniversary of the Effective Date by surrendering this Warrant Certificate, together with appropriate instructions, duly executed by the Warrantholder or by its duly authorized attorney, at the office of the Company, 2203 Airport Way South, Suite 100, Seattle, Washington 98134, or at such other office or agency as the Company may designate. Upon receipt of notice of exercise, the Company shall immediately instruct its transfer agent to prepare certificates for the Securities to be received by the Warrantholder upon completion of the Warrant exercise. When such certificates are prepared, the Company shall notify the Warrantholder and deliver such certificates to the Warrantholder or as per the Warrantholder's instructions immediately upon payment in full by the Warrantholder, in lawful money of the United States, of the Exercise Price payable with respect to the Securities being purchased. The Securities to be obtained on exercise of the Warrant will be deemed to have been issued, and any person exercising the Warrants will be deemed to have become a holder of record of those Securities, as of the date of the payment of the Exercise Price. If the Warrantholder shall represent and warrant that all applicable registration and prospectus delivery requirements for their sale have been complied with upon sale of the securities received upon exercise of the Warrant, such certificates shall not bear a legend with respect to the Act.

If fewer than all the Securities purchasable under the Warrant are purchased, the Company will, upon such partial exercise, execute and deliver to the Warrantholder a new Warrant Certificate (dated the date hereof), in form and tenor similar to this Warrant Certificate, evidencing that portion

of the Warrant not exercised.

3. ADJUSTMENTS IN CERTAIN EVENTS. The number, class, and price of Securities for which this Warrant Certificate may be exercised are subject to adjustment from time to time upon the happening of certain events as follows:

(a) If the outstanding shares of the Company's Common Stock are divided into a greater number of shares or a dividend

4

in stock is paid on the Common Stock, the number of shares of Common Stock for which the Warrant is then exercisable will be proportionately increased and the Exercise Price will be proportionately reduced; and, conversely, if the outstanding shares of Common Stock are combined into a smaller number of shares of Common Stock, the number of shares of Common Stock for which the Warrant is then exercisable will be proportionately reduced and the Exercise Price will be proportionately increased. The increases and reductions provided for in this subsection 3(a) will be made with the intent and, as nearly as practicable, the effect that neither the percentage of the total equity of the Company obtainable on exercise of the Warrants nor the price payable for such percentage upon such exercise will be affected by any event described in this subsection 3(a).

(b) In case of any change in the Common Stock through merger, consolidation, reclassification, reorganization, partial or complete liquidation, purchase of substantially all the assets of the Company, or other change in the capital structure of the Company, then, as a condition of such change, lawful and adequate provision will be made so that the holder of this Warrant Certificate will have the right thereafter to receive upon the exercise of the Warrant the kind and amount of shares of stock or other securities or property to which he would have been entitled if, immediately prior to such event, he had held the number of shares of Common Stock obtainable upon the exercise of the Warrant. In any such case, appropriate adjustment will be made in the application of the provisions set forth herein with respect to the rights and interest thereafter of the Warrantholder, to the end that the provisions set forth herein will thereafter be applicable, as nearly as reasonably may be, in relation to any shares of stock or other property thereafter deliverable upon the exercise of the Warrant. The Company will not permit any change in its capital structure to occur unless the issuer of the shares of stock or other securities to be received by the holder of this Warrant Certificate, if not the Company, agrees to be bound by and comply with the provisions of this Warrant Certificate.

(c) When any adjustment is required to be made in the number of shares of Common Stock, other securities, or the property purchasable upon exercise of the Warrant, the Company will promptly determine the new number of such shares or other securities or property purchasable upon exercise of the Warrant and (i) prepare and retain on file a statement describing in reasonable detail the method used in arriving at the new number of such shares or other securities or property purchasable upon exercise of the Warrant and (ii) cause a copy of such statement to be mailed to the Warrantholder within thirty (30) days after the date of the event giving rise to the adjustment.

5

(d) No fractional shares of Common Stock or other securities will be issued in connection with the exercise of the Warrant, but the Company will pay, in lieu of fractional shares, a cash payment therefor on the basis of the mean between the bid and asked prices of the Common Stock in the over-the-counter market or the closing price on the Nasdaq National Market or a national securities exchange on the day immediately prior to exercise.

(e) If securities of the Company or securities of any subsidiary of the Company are distributed pro rata to holders of Common Stock, such number of securities will be distributed to the Warrantholder or his assignee upon exercise of his rights hereunder as such Warrantholder or assignee would have been entitled to if this Warrant Certificate had been exercised prior to the record date for such distribution. The provisions with respect to adjustment of the Common Stock provided in this Section 3 will also apply to the securities to which the Warrantholder or his assignee is entitled under this subsection 3(e).

(f) Notwithstanding anything herein to the contrary, there will be no adjustment made hereunder on account of the sale by the Company of the Common Stock or other Securities purchasable upon exercise of the Warrant.

4. RESERVATION OF SECURITIES. The Company agrees that the number of shares of Common Stock, Unit Warrants or other Securities sufficient to provide for the exercise of the Warrant upon the basis set forth above will

at all times during the term of the Warrant be reserved for exercise.

5. VALIDITY OF SECURITIES. All Securities delivered upon the exercise of the Warrant will be duly and validly issued in accordance with their terms, and the Company will pay all documentary and transfer taxes, if any, in respect of the original issuance thereof upon exercise of the Warrant.

6. REGISTRATION OF SECURITIES ISSUABLE ON EXERCISE OF WARRANT CERTIFICATE.

(a) The Company will register the Securities with the Commission pursuant to the Act so as to allow the unrestricted sale of the Securities to the public from time to time commencing on the first anniversary of the Effective Date and ending at 5:00 p.m. (Pacific Time) on the fifth anniversary of the Effective Date (the "Registration Period"). The Company will also file

6

such applications and other documents necessary to permit the sale of the Securities to the public during the Registration Period in those states in which the Units were qualified for sale in the Offering or in such other states as the Company and the Warrantholder agree.

(b) The Company will pay all of the Company's Expenses and each Warrantholder will pay its pro rata share of the Warrantholder's Expenses relating to the registration, offer and sale of the Securities.

(c) Except as specifically provided herein, the manner and conduct of the registration, including the contents of the registration statement, will be entirely in the control and at the discretion of the Company. The Company will file such post-effective amendments and supplements as may be necessary to maintain the currency of the registration statement during the Registration Period. In addition, if the Warrantholder participating in the registration is advised by counsel that the registration statement, in their opinion, is deficient in any material respect, the Company will use its best efforts to cause the registration statement to be amended to eliminate the concerns raised.

(d) The Company will furnish to the Warrantholder the number of copies of a prospectus, including a preliminary prospectus, in conformity with the requirements of the Act, and such other documents as it may reasonably request in order to facilitate the disposition of Securities owned by it.

(e) The Company will, at the request of Warrantholders holding at least 50 percent of the then outstanding Warrants, (i) furnish an opinion of the counsel representing the Company for the purposes of the registration pursuant to this Section 6, addressed to the Warrantholders and any Participating Underwriter, (ii) furnish an appropriate letter from the independent public accountants of the Company, addressed to the Warrantholders and any Participating Underwriter, and (iii) make such representations and warranties to the Warrantholders and any Participating Underwriter as are customarily given to underwriters of public offerings of equity securities in connection with such offerings. A request pursuant to this subsection (e) may be made on three occasions. The documents required to be delivered pursuant to this subsection (e) will be dated within ten days of the request and will be, in form and substance, equivalent to similar documents furnished to the underwriters in connection with the Offering, with such changes as may be appropriate in light of changed circumstances.

7

7. INDEMNIFICATION IN CONNECTION WITH REGISTRATION.

(a) If any of the Securities are registered, the Company will indemnify and hold harmless each selling Warrantholder, any person who controls any selling Warrantholder within the meaning of the Act, and any Participating Underwriter against any losses, claims, damages, or liabilities, joint or several, to which any Warrantholder, controlling person, or Participating Underwriter may be subject under the Act or otherwise; and it will reimburse each Warrantholder, each controlling person, and each Participating Underwriter for any legal expenses reasonably incurred by the Warrantholder, controlling person, or Participating Underwriter in connection with investigating or defending any such loss, claim, damage, liability or action, insofar as such losses, claims, damages, or liabilities, joint or several (or actions in respect thereof), arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained, on the effective date thereof, in any such registration statement or any preliminary prospectus or final prospectus, or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or

necessary to make the statements therein not misleading; PROVIDED, HOWEVER, that the Company will not be liable in any case to the extent that any loss, claim, damage, or liability arises out of or is based upon any untrue statement or alleged untrue statement or omission or alleged omission made in any registration statement, preliminary prospectus, final prospectus, or any amendment or supplement thereto, in reliance upon and in conformity with written information furnished by a Warrantholder for use in the preparation thereof. The indemnity agreement contained in this subparagraph (a) will not apply to amounts paid to any claimant in settlement of any suit or claim unless such payment is first approved by the Company, such approval not to be unreasonably withheld.

(b) Each selling Warrantholder, as a condition of the Company's registration obligation, will indemnify and hold harmless the Company, each of its directors, each of its officers who have signed any registration statement or other filing, or any amendment or supplement thereto, and any person who controls the Company within the meaning of the Act, against any losses, claims, damages, or liabilities to which the Company or any such director, officer, or controlling person may become subject under the Act or otherwise, and will reimburse any legal or other expenses reasonably incurred by the Company or any such director, officer, or controlling person in connection with investigating or defending any such loss, claim, damage, liability, or action, insofar as such losses, claims, damages, or liabilities (or

8

actions in respect thereof) arise out of or are based upon any untrue or alleged untrue statement of any material fact contained in said registration statement, any preliminary or final prospectus, or other filing or any amendment or supplement thereto, or arise out of or are based upon the omission or the alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, but only to the extent that such untrue statement or alleged untrue statement or omission or alleged omission was made in said registration statement, preliminary or final prospectus, or other filing, or amendment or supplement, in reliance upon and in conformity with written information furnished by such Warrantholder for use in the preparation thereof; PROVIDED, HOWEVER, that the indemnity agreement contained in this subparagraph (b) will not apply to amounts paid to any claimant in settlement of any suit or claim unless such payment is first approved by the Warrantholder, such approval not to be unreasonably withheld.

(c) Promptly after receipt by an indemnified party under subparagraphs (a) or (b) above of notice of the commencement of any action, such indemnified party will, if a claim in respect thereof is to be made against an indemnifying party, notify the indemnifying party of the commencement thereof; but the omission to notify the indemnifying party will not relieve it from any liability that it may have to any indemnified party otherwise than under subparagraphs (a) and (b).

(d) If any such action is brought against any indemnified party and it notifies an indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate in, and, to the extent that it may wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel satisfactory to such indemnified party; and after notice from the indemnifying party to such indemnified party of its election to assume the defense thereof, the indemnifying party will not be liable to such indemnified party for any legal or other expenses subsequently incurred by such indemnified party in connection with the defense thereof other than reasonable costs of investigation.

8. RESTRICTIONS ON TRANSFER. This Warrant Certificate and the Warrant may not be sold, transferred, assigned or hypothecated for a one-year period after the Effective Date except to underwriters of the Offering or to individuals who are either a partner or an officer of such an underwriter or by will or by operation of law. The Warrant may be divided or combined, upon request to the Company by the Warrantholder, into a

9

certificate or certificates evidencing the same aggregate number of Warrants.

9. NO RIGHTS AS A SHAREHOLDER. Except as otherwise provided herein, the Warrantholder will not, by virtue of ownership of the Warrant, be entitled to any rights of a shareholder of the Company but will, upon written request to the Company, be entitled to receive such quarterly or annual reports as the Company distributes to its shareholders.

10. NOTICE. Any notices required or permitted to be given hereunder will be in writing and may be served personally or by mail; and if served

will be addressed as follows:

If to the Company:

2203 Airport Way South, Suite 100
Seattle, Washington 98134
Attn: Chief Executive Officer

If to the Warrantholder:

at the address furnished
by the Warrantholder to the
Company for the purpose of
notice.

Any notice so given by mail will be deemed effectively given 48 hours after mailing when deposited in the United States mail, registered or certified mail, return receipt requested, postage prepaid and addressed as specified above. Any party may by written notice to the other specify a different address for notice purposes.

11. APPLICABLE LAW. This Warrant Certificate will be governed by and construed in accordance with the laws of the State of Oregon, without reference to conflict of laws principles thereunder. All disputes relating to this Warrant Certificate shall be tried before the courts of Oregon located in Multnomah County, Oregon, to the exclusion of all other courts that might have jurisdiction.

10

Dated as of August ___, 1996.

MICROVISION, INC.

By: _____

Agreed and Accepted as of August ___, 1996

[PAULSON INVESTMENT COMPANY, INC.]
[MARION BASS SECURITIES CORPORATION]

By: _____

11

EXHIBIT 5.1

OPINION AND CONSENT

EXHIBIT 5.1

August 14, 1996

Microvision, Inc.
2203 Airport Way South, Suite 100
Seattle, WA 98134

Ladies and Gentlemen:

We have acted as counsel for Microvision, Inc., a Washington corporation (the "Company"), in connection with a Registration Statement on Form SB-2, Registration No. 333-5276-LA, filed on July 12, 1996, to be amended by Amendment No. 1 to be filed substantially contemporaneously with this letter ("Amendment No. 1") (collectively, the "Registration Statement"), under the Securities Act of 1933, as amended (the "Securities Act"), covering the following securities of the Company:

1. A maximum of 2,300,000 units (the "Units") to be sold by the Company to the several underwriters (the "Underwriters") to be named in, and pursuant to the terms of, the Underwriting Agreement substantially in the form to be filed as Exhibit 1.1 (the "Underwriting Agreement"), each Unit consisting of one share of the Company's common stock, no par value ("Common Stock"), and one warrant to purchase one share of Common Stock;

2. The 2,300,000 shares of Common Stock included in the Units (the "Shares");

3. The 2,300,000 warrants included in the Units (the "Unit Warrants");

4. The 2,300,000 shares of Common Stock issuable upon exercise of the Unit Warrants (the "Unit Warrant Shares");

5. The warrants to be sold to Paulson Investment Company, Inc. and marion bass securities corporation, the representatives of the Underwriters (the "Representatives"), to purchase Units (the "Representatives' Warrants") pursuant to the

Microvision, Inc.
August 14, 1996
Page 2

terms of a purchase warrant substantially in the form to be filed as Exhibit 4.4 (the "Purchase Warrant");

6. The 300,000 Units issuable upon exercise of the Representatives' Warrants (the "Representatives' Units");

7. The 300,000 shares of Common Stock included in the Representatives' Units (the "Representatives' Unit Shares");

8. The 300,000 warrants included in the Representatives' Units (the "Representatives' Unit Warrants");

9. The 300,000 shares of Common Stock issuable upon exercise of the Representatives' Unit Warrants (the "Representatives' Unit Warrant Shares");

10. The 6,000 Units reserved for issuance to Stoel Rives LLP, legal counsel to the Company (the "Stoel Rives Units");

11. The 6,000 shares of Common Stock included in the Stoel Rives Units (the "Stoel Rives Shares");

12. The 6,000 Warrants included in the Stoel Rives Units (the "Stoel Rives

Warrants"); and

13. The 6,000 shares of Common Stock issuable upon exercise of the Stoel Rives Warrants (the "Stoel Rives Warrant Shares").

The Unit Warrants and the Representatives' Unit Warrants are being issued pursuant to a warrant agreement substantially in the form filed as Exhibit 4.3 (the "Warrant Agreement"). In this connection, we have examined the originals or copies, certified or otherwise identified to our satisfaction, of the Company's Articles of Incorporation, as amended, its Amended and Restated Bylaws, resolutions of its Board of Directors, the Underwriting Agreement, the Purchase Warrant, the Warrant Agreement (including the form of warrant certificate (the "Warrant Certificate") that is Exhibit A to the Warrant Agreement), certificates of officers of the Company, including without limitation the President's Certificate and the Chief Financial Officer's Certificate, each of even date herewith, and such other documents as we deemed necessary for purposes of rendering this opinion. We have not reviewed, and express no opinion as to, any instrument or agreement referred to or incorporated by reference in the Underwriting

Microvision, Inc.
August 14, 1996
Page 3

Agreement, the Purchase Warrant or the Warrant Agreement (except for the Warrant Certificate).

We have assumed the authenticity of all documents submitted to us as originals, the genuineness of all signatures, the legal capacity of natural persons and the conformity to originals of all copies of all documents submitted to us. We have relied upon the certificates of public officials and corporate officers, including without limitation the President's Certificate and the Chief Financial Officer's Certificate, with respect to the accuracy of all matters contained therein.

Based upon the foregoing, and subject to the qualifications herein, we are of the opinion that:

1. The Company is duly incorporated and validly existing under the laws of the State of Washington;

2. The Units and the Shares have been duly authorized, and when issued, delivered and paid for in accordance with the terms of the Underwriting Agreement, the Shares will be validly issued, fully paid and nonassessable by the Company.

3. The Unit Warrants have been duly authorized, and when issued and delivered in accordance with the terms of the Underwriting Agreement, will be legal, valid and binding obligations of the Company. The Unit Warrant Shares have been duly authorized, and when issued and delivered upon exercise of the Unit Warrants in exchange for payment therefor in accordance with the terms thereof, will be validly issued, fully paid and nonassessable by the Company.

4. The Representatives' Warrants and the Representatives' Units have been duly authorized, and when issued and delivered in accordance with the terms of the Underwriting Agreement and the Purchase Warrant, respectively, will be legal, valid and binding obligations of the Company. The Representatives' Unit shares have been duly authorized, and when issued and delivered upon exercise of the Representatives' Warrants in exchange for payment therefor, will be validly issued, fully paid and nonassessable by the Company. The Representatives' Unit Warrants have been duly authorized, and when issued and delivered in accordance with the Underwriting Agreement, will be legal, valid and binding obligations of the Company. The Representatives' Unit Warrant Shares have been duly authorized, and when issued and delivered upon exercise of the Representatives' Unit Warrants in exchange for payment therefor in accordance with the terms thereof, will be validly issued, fully paid and nonassessable by the Company.

Microvision, Inc.
August 14, 1996
Page 4

5. The Stoel Rives Units and the Stoel Rives Shares have been duly authorized, and when issued and delivered in accordance with the terms of the engagement of Stoel Rives by the Company, the Stoel Rives Units and the Stoel Rives Shares will be validly issued, fully paid and nonassessable by the Company. The Stoel Rives Warrants have been duly authorized, and when issued and delivered in accordance with the terms of the engagement of Stoel Rives by the Company, will be legal, valid and binding obligations of the Company. The Stoel Rives Warrant Shares have been duly authorized, and when issued and delivered upon exercise of the Stoel Rives Warrants in exchange for payment

therefor in accordance with the terms thereof, will be validly issued, fully paid and nonassessable by the Company.

The opinions set forth above are subject to the following qualifications:

(a) We express no opinion concerning the laws of any jurisdiction other than the laws of the State of Washington; and

(b) We express no opinion as to the effect on any obligations of the Company of (i) bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium, or other similar laws affecting the rights of creditors generally; or (ii) equitable principles, including those limiting the availability of specific performance, injunctive relief, and other equitable remedies, regardless of whether enforceability of such obligations is considered in a proceeding in equity or at law.

This opinion is intended solely for use in connection with the transactions described herein. We hereby consent to the use of our name in the Registration Statement and in the Prospectus filed as a part thereof and to the filing of this opinion as an exhibit to the Registration Statement. In giving such consent, we do not thereby admit that we are in the category of persons whose consent is required under Section 7 of the Securities Act.

Very truly yours,

/S/ STOEL RIVES LLP

HALO

Confidential

EXCLUSIVE LICENSE AGREEMENT
Between
The University of Washington
and
MICRO VISION, INC.

This AGREEMENT is entered into as of the 3 day of March, 1994 (hereinafter the "EFFECTIVE DATE" by and between the University of Washington, a public institution of higher education with offices at Seattle, Washington 98195, hereinafter referred to as "UW" and MICRO VISION, INC. having a place of business at 6500 Columbia Center 701 Fifth Avenue Seattle, WA 98104-7003 (hereinafter "MICRO VISION").

Whereas, UW has sole ownership of UW PROPRIETARY MATTER (defined below) deriving from development of a HALO Display ("HALO", and further referenced as "UW INVENTION", below) and thus is the sole licensor of LICENSED SUBJECT MATTER (defined below);

WHEREAS, UW desires that the HALO be used as soon as possible in the public interest, and to this end desires to transfer the HALO to a company capable of commercially exploiting the HALO.

WHEREAS, MICRO VISION desires, for the purpose of commercial exploitation, to acquire a license to certain UW PATENT rights in and to the HALO and to receive certain TECHNICAL INFORMATION relating to the HALO.

NOW, THEREFORE, in consideration of the above and the mutual covenants, terms, and conditions set forth below, UW and MICRO VISION agree as follows:

1.0 DEFINITIONS

1.1 Terms defined in this Article, and parenthetically defined elsewhere in this AGREEMENT, shall throughout this AGREEMENT have the meaning provided. Defined terms may be used in the singular or in the plural, as sense shall require. Terms defined in this Article and throughout this AGREEMENT will be printed in capital letters for ease of reference.

1.2 "PARTIES" means UW (as the Licensor hereto) and MICRO VISION (as the Licensee hereto), including AFFILIATES, successors or assigns as permitted by this AGREEMENT, and "PARTY" means either one of them as the context where such term is used indicates.

1.3 "AFFILIATE" means any corporation, company, new start-up company, or other business entity (including any joint venture, partnership, form of association or otherwise) and directly or indirectly controlling, controlled by, or under common control with MICRO VISION; "control" of an entity for purposes of this definition shall

Page 2

mean having the right to direct or to appoint or remove a majority or more of the members of the board of directors (or their equivalent) or management (including the president, chairman of the board, or general or managing partner as applicable) of said entity, by contract, agreement, provisions in the applicable articles or bylaws, ownership of or holding rights to vote sufficient numbers of voting shares, securities or other rights entitled to vote for, appoint, or remove the same, or having such right to so direct or appoint the same by applicable law.

1.4 "This AGREEMENT" means this License Agreement as amended in writing by the PARTIES from time to time.

1.5 "EFFECTIVE DATE" means the date referenced in the Preamble above. The EFFECTIVE DATE takes effect upon signature of this AGREEMENT by the PARTIES hereto.

1.6 "TECHNICAL INFORMATION" shall mean any technical facts, data, or advice, written or oral (in the form of information contained in UW PATENTS and UW PATENT applications, reports, letters, drawings, specifications, testing procedures, training and operational manuals, bills of materials, photographs and the like) relating to the HALO and owned or in the possession of UW.

1.7 "UW INVENTION" means the "HALO Display" as described and disclosed in UW's Office of Technology Transfer (OTT) file #02-93-13.

1.8 "UW PATENTS" means all U.S. and foreign utility and design Patents and Patent applications (including any divisionals, continuations, continuations in part, reexaminations, extensions, renewals, or reissues thereof), design registrations, utility models and similar rights and applications therefor as part of the HALO Display.

1.9 "COPYRIGHTS" means all registered and unregistered statutory copyright rights and applications for registration thereof and all common law COPYRIGHTS.

1.10 "UW PROPRIETARY MATTER" means any combination of COPYRIGHTABLE or COPYRIGHTED work, UW INVENTIONS, UW PATENTS, and TECHNICAL INFORMATION.

1.11 "LICENSED SUBJECT MATTER" shall mean any subject matter, including but not limited to products and processes, covered in whole or in part by the UW PROPRIETARY MATTER for the FIELD OF USE specified below and in the TERRITORY in which said subject matter is made, used, or sold; and any product incorporating any TECHNICAL INFORMATION.

1.12 "FIELDS OF USE" shall mean all possible uses for the HALO technology.

1.13 "TERRITORY" shall mean world wide territory.

1.14 "CONFIDENTIAL INFORMATION" means confidential information or data disclosed to a PARTY (the "RECEIVING PARTY") in connection with HALO by the other PARTY (or, with respect to MICRO VISION, by its AFFILIATE) (the "DISCLOSING PARTY"), including without limitation trade secrets, algorithms, processes, formulae, programming,

Page 3

TECHNICAL INFORMATION, programming concepts and methods, source code and accompanying comments and documentation which allow understanding thereof, product specifications and procedures of operation, and all records, models, prototypes, other media containing or disclosing such information or data, EXCEPT any such information that (i) is already or becomes generally available to the public free from any confidentiality obligations through no breach of any confidentiality obligation under this AGREEMENT by the RECEIVING PARTY (provided, however, that information shall not be deemed generally available to the public merely because any part of that information is embodied in general disclosures or because individual features or components, or a combination thereof, are now or become generally available to the public), (ii) is already known by the RECEIVING PARTY (or, with respect to MICRO VISION, by its AFFILIATE), without any confidentiality obligation to the DISCLOSING PARTY, prior to receipt from the DISCLOSING PARTY, (iii) is independently developed by the RECEIVING PARTY (or, with respect to MICRO VISION, by its AFFILIATE), without use of CONFIDENTIAL INFORMATION of the DISCLOSING PARTY, (iv) is independently disclosed to the RECEIVING PARTY (or, with respect to MICRO VISION, to its AFFILIATE) by a source other than the DISCLOSING PARTY which source is under no obligation to maintain the confidentiality thereof (provided that the RECEIVING PARTY shall not disclose any such information regardless of the source if the RECEIVING PARTY knows or has reason to know that such information should be kept confidential), or (v) is required by a court or governmental agency to be disclosed to it by the RECEIVING PARTY (or, with respect to MICRO VISION, by its AFFILIATE) in connection with any proceeding over which such agency or authority has jurisdiction, provided that the RECEIVING PARTY (or, with respect to MICRO VISION, its AFFILIATE) shall use its best efforts to obtain confidential treatment of such information by the court or agency and shall accompany its disclosure to the court or agency with written notice of the DISCLOSING PARTY's proprietary rights therein.

2.0 GRANT

2.1 UW hereby grants to MICRO VISION, and MICRO VISION accepts, an exclusive license, with the right to sublicense during the term of exclusivity, to make, use, and sell LICENSED SUBJECT MATTER in the TERRITORY and for the FIELD OF USE.

2.2 The license granted above is subject to a reserved non-exclusive license in UW and the Washington Technology Center (a state institution headquartered on the UW Campus) to make, have made, and use products, processes, or other subject matter covered by UW PROPRIETARY MATTER for non-commercial research and instructional purposes in all fields of use.

3.0 SUBLICENSING

3.1 During the term of exclusivity of the license granted in this AGREEMENT, MICRO VISION shall have the right to grant sublicenses to UW PROPRIETARY MATTER in the FIELD OF USE and for the TERRITORY without any additional compensation due to UW beyond the compensation set forth in Article 7 for the license granted under this AGREEMENT.

3.2 Any and all sublicenses in and to UW PROPRIETARY MATTER granted by MICRO VISION shall not be subject to prior approval of UW.

3.3 MICRO VISION agrees, at the request of UW, to forward to UW a list of any and all sublicensees pertaining to UW PROPRIETARY MATTER.

4.0 TECHNICAL INFORMATION

4.1 UW agrees to disclose to MICRO VISION any other TECHNICAL INFORMATION, whether confidential or non-confidential, not obtained by UW under conditions of confidentiality to others, in UW's possession as of the EFFECTIVE DATE or during the term of this AGREEMENT that in UW's judgment is necessary or valuable to the commercial exploitation of LICENSED SUBJECT MATTER.

4.2 MICRO VISION agrees to keep any TECHNICAL INFORMATION received from UW and identified by UW as confidential under conditions of strict secrecy and to use the same degree of care MICRO VISION would for its own confidential TECHNICAL INFORMATION, but no less than reasonable care, to protect UW's confidential TECHNICAL INFORMATION from disclosure to unauthorized third parties.

5.0 DILIGENCE

5.1 MICRO VISION, during the term of this AGREEMENT, shall utilize its best efforts in proceeding with the development, manufacture, sale, and other commercial exploitation of UW PROPRIETARY MATTER, and in creating a supply and demand for LICENSED SUBJECT MATTER.

6.0 INVENTIONS, PATENT PROSECUTION AND COST RECOVERY

6.1 MICRO VISION shall pay all reasonable costs associated with the filing and prosecution of any UW PATENT application which it has properly requested UW to make, MICRO VISION agrees to pay invoices for such fees and costs submitted by UW within sixty (60) days of receipt of any such invoice from UW.

6.2 MICRO VISION hereby requests UW, pursuant to Paragraph 6.1 of this Agreement, to proceed with drafting and filing a patent application for the HALO Display. UW hereby agrees to take diligent efforts to file such a patent application within Six (6) months from the EFFECTIVE DATE hereof.

6.3 UW, in consultation with MICRO VISION, shall have the overall control of the selection of counsel, preparation, filing, prosecution and maintenance, of any applications for UW PATENTS or COPYRIGHT registrations for UW PROPRIETARY MATTERS, and examinations thereof, of any validity, opposition or re-examination proceedings related thereto, and of the settlement or disposition of all matters related thereto (including the renewal, defense or assertion thereof); UW shall have no liability or obligation to MICRO VISION with respect to its exercise of discretion or handling of such matters, except to make such reports and respond to MICRO VISIONS'S comments or requests, as may be appropriate. UW and Micro Vision agree to meet and confer prior

to the selection of any invention disclosure, filing of new patents or other material patenting decisions.

6.4 UW shall keep MICRO VISION informed of the status of any and all UW PATENTS and UW PATENT applications comprising UW'S PATENTS, and shall provide MICRO VISION with the opportunity to advise UW on courses of action respecting the filing of UW PATENT applications relating to the UW INVENTION, prosecution of UW PATENT applications, and management of UW PATENTS.

6.5 In the event that MICRO VISION determines that it does not desire to reimburse UW, or fails for any reason to reimburse UW for UW PATENT fees incurred under Paragraph 6.1 above, it will promptly notify UW of its decision and UW shall thereafter have the sole and exclusive right to file and/or maintain any such UW PATENT and/or UW PATENT application, either foreign or domestic, at its own expense; and, any UW PATENT issued or issuing therefrom shall not be included among THE LICENSED SUBJECT MATTER. MICRO VISION and UW agree to cooperate in filing UW PATENT applications in UW's name on any such UW INVENTION and/or improvement where MICRO VISION declines to proceed in its own name and at its own expense.

7.0 LICENSING FEES

7.1 In consideration for the grant of this License, MICRO VISION agrees to pay to UW a non-refundable license issue fee of Twenty Five Thousand Dollars (\$25,000) due and payable as of the EFFECTIVE DATE.

7.2 In further consideration for the grant of this License, MICRO VISION agrees to pay the following non-refundable payments of cash and equity in MICRO VISION, based upon patent milestone dates of the items recited below:

a. On filing a, or, if there is more than one, on filing the first HALO Display patent application, MICRO VISION agrees to pay to UW Seventy Five Thousand Dollars (\$75,000) and grant equity to UW of One Hundred Thousand (100,000) shares of stock in MICRO VISION. MICRO VISION'S obligation under this Paragraph 7.2 (a) extends only to the first such HALO Display patent application to be filed, even though multiple applications may be filed. MICRO VISION agrees to issue the stock in the name of UW and in the name of the inventor of HALO as follows:

UW	Twenty Thousand Shares (20,000)
Thomas A. Furness III	Eighty Thousand Shares (80,000)

b. On issuance of a, or, if there is more than, the first to issue HALO Display patent application, MICRO VISION agrees to pay One Hundred Thousand Dollars (\$100,000) and grant equity of Two Hundred Thousand shares of stock in MICRO VISION. MICRO VISION'S obligation under this Paragraph 7.2(b) extends only to the first such HALO Display patent application to be issued, even though multiple applications may be issued. MICRO VISION agrees to issue the stock in the name of UW and in the name of the inventor of HALO as follows:

Page 6

UW	Forty Thousand Shares (40,000)
Thomas A. Furness III	One Hundred Sixty Thousand Shares (160,000)

7.3 All payments required under this AGREEMENT shall be made in U.S. dollars by check or money order payable to the University of Washington, and delivered to UW as specified in this AGREEMENT; or, if so directed in writing by UW, in such currency, form, and to such account as UW may designate.

8.0 TERM AND TERMINATION OF EXCLUSIVITY

8.1 The term for the exclusive license to UW PROPRIETARY MATTER shall extend from the EFFECTIVE DATE of this AGREEMENT to thirty (30) days written notice by UW for cause. Cause shall only exist if MICRO VISION fails to pay licensing fees identified in Paragraph 7 above or fails to reimburse for patent prosecution costs as identified in Paragraph 6 above. UW's option to terminate exclusivity shall be in addition to any and all other legal remedies which UW may have for the enforcement of any and all terms hereof, and does not in any way limit any other legal remedy UW may have.

8.2 Upon expiration or termination of exclusivity:

- a) the license granted herein shall become non-exclusive and shall remain in effect for the duration of this AGREEMENT;
- b) MICRO VISION shall have no further right to grant sublicenses;
- c) MICRO VISION shall no longer have first right to bring suit for infringement of UW PROPRIETARY MATTER; and
- d) MICRO VISION shall have no further obligation to reimburse UW for any fees or costs incurred by UW after expiration or termination of exclusivity and related to UW PROPRIETARY MATTER.

9.0 TERM AND TERMINATION OF AGREEMENT

9.1 The term of this AGREEMENT shall commence on the EFFECTIVE DATE and shall continue until the last of UW PROPRIETARY MATTER expires, unless sooner terminated in accordance with the provisions set forth in this AGREEMENT.

9.2 Upon failure of UW or MICRO VISION to cure a material breach of this AGREEMENT within thirty (30) days after a written demand for performance, the notifying PARTY shall have the right at any time to terminate this AGREEMENT by written notice to the other PARTY.

9.3 MICRO VISION shall have a right to terminate this AGREEMENT with or without cause, upon ninety (90) days prior written notice to UW.

Page 7

9.4 In the event that no UW PATENTS covering LICENSED SUBJECT MATTER have been filed within Five (5) years from the EFFECTIVE DATE, or, if filed, that no UW PATENTS remain pending in or issued from any country's patent office, then following Five Years from the EFFECTIVE DATE either PARTY may terminate this

AGREEMENT following ninety (90) days written notice of such intent to terminate to the other PARTY.

9.5 The provisions under which this AGREEMENT may be terminated shall be in addition to any and all other legal remedies which either PARTY may have for the enforcement of any and all terms hereof, and do not in any way limit any other legal remedy such PARTY may have.

9.6 Termination of this AGREEMENT shall terminate all rights and licenses granted to MICRO VISION relating to UW PROPRIETARY MATTER.

9.7 Termination by UW or MICRO VISION under the options set forth in this AGREEMENT shall not relieve MICRO VISION from any financial obligation to UW accruing prior to or after termination or from performing according to any and all other provisions of this AGREEMENT expressly agreed to survive termination.

9.8 In the event that there remain no valid, enforceable, and infringed UW PROPRIETARY MATTER covering LICENSED SUBJECT MATTER, then following termination MICRO VISION and any sublicensees shall have no further obligation to pay royalties thereon or to account to UW therefor.

10.0 NOTICES

10.1 Any notice or other communication required or permitted to be given by either PARTY hereto shall be deemed to have been properly given and be effective upon the date of delivery if delivered in writing to the respective addresses set forth below, or to such other address as either PARTY shall designate by written notice given to the other PARTY. If notice or other communication is given by facsimile transmission, said notice shall be confirmed by prompt delivery of the hardcopy original.

Address and Telephone:

Page 8

FOR UW

FOR CONFIDENTIALITY, PATENTING OR
LICENSING MATTERS:
The University of Washington
Office of Technology Transfer
Mail Stop JD-50
Seattle, WA 98195

PHYSICAL ADDRESS:
1107 N.E. 45th Street N.E.
Suite 200
Seattle, WA 98105

FOR TECHNICAL MATTERS:
The Human Interface Technology
Laboratory
Washington Technology Center
Mail Stop FJ-15
Seattle, WA 98195

FOR MICRO VISION, INC.

MICRO VISION, Inc.
6500 Columbia Center
701 Fifth Avenue
Seattle, WA 98104-7003

(206) 587-3780

Attn: Mr. David Hunter, Executive
Vice President

w/copy Mr. James Biagi
Monahan & Robinson, P.S.
6500 Columbia Center
701 Fifth Avenue
Seattle, WA 98104-7003

11.0 PATENT MARKING

11.1 MICRO VISION shall mark, and shall require any sublicensee to mark, any and all material forms of LICENSED SUBJECT MATTER or packaging pertaining thereto made and sold by MICRO VISION (and/or by its sublicensees) with an appropriate patent marking identifying the pendency of any U.S. patent application and /or any issued U.S. or foreign patent forming any part of UW PROPRIETARY MATTER.

12.0 PATENT INFRINGEMENT

12.1 Each PARTY shall promptly inform the other PARTY of any alleged infringement of UW PROPRIETARY MATTER by a third party, and provide any available evidence thereof.

12.2 Subject to Paragraph 12.6 below, during the term of exclusivity of the license granted hereunder, MICRO VISION shall have the first right to settle any alleged infringement of UW PROPRIETARY MATTER by securing cessation of the infringement, instituting suit against the infringer, or entering into a sublicensing agreement in and to relevant UW PATENTS in UW PROPRIETARY MATTER. To enjoy said first right, MICRO VISION must initiate bona fide action to settle any alleged infringement within ninety (90) days of learning of said infringement. After MICRO VISION has recovered its reasonable attorney's fees and other expenses directly related to any action, suit, or settlement for infringement of UW PROPRIETARY MATTER, UW and MICRO VISION shall divide any remaining damages, awards, or settlement proceeds in the following manner:

UW Forty percent (40%)
MICRO VISION Sixty percent (60%)

Page 9

provided, however, any payment by an alleged infringer as consideration for the grant of a sublicense shall be handled according to the royalty provisions for sublicenses set forth in this AGREEMENT.

12.3 If MICRO VISION chooses to institute suit against an alleged infringer during the term of exclusivity as provided in this AGREEMENT, MICRO VISION may do so in UW's name (if required by law, otherwise, in MICRO VISION's name) but at MICRO VISION'S sole expense, and UW shall, but at MICRO VISION's expense for UW's direct associated expenses, fully and promptly cooperate and assist MICRO VISION in connection with any such suit. Any and all damages, awards, or settlement proceeds arising from such a MICRO VISION-initiated action shall be MICRO VISION'S.

12.4 If MICRO VISION fails, within ninety (90) days of learning of an alleged infringement, to secure cessation of the infringement, institute suit against the infringer, or provide to UW satisfactory evidence that MICRO VISION is engaged in bona fide negotiation for the acceptance by infringer of a sublicense in and to relevant UW PATENTS in UW PROPRIETARY MATTER, UW upon written notice to MICRO VISION may assume full right and responsibility to secure cessation of the infringement, institute suit against the infringer, or secure acceptance of a sublicense from MICRO VISION in and to relevant UW PATENTS in UW PROPRIETARY MATTER, approval for which sublicense MICRO VISION shall not unreasonably withhold.

12.5 If UW in accordance with the terms and conditions of this AGREEMENT chooses to institute suit against an alleged infringer, UW may bring such suit in its own name (or, if required by law, in its and MICRO VISION'S name) and at its own expense, and MICRO VISION shall, but at UW's expense for MICRO VISION'S direct associated expenses, fully and promptly cooperate and assist UW in connection with any such suit. Any and all damages, awards, or settlement proceeds arising from such a UW-initiated action shall be UW's.

12.6 Neither MICRO VISION nor UW is obligated under this AGREEMENT to institute a suit against an alleged infringer of UW PROPRIETARY MATTER.

12.7 Prior to making a claim of infringement or commencing any litigation regarding infringement as provided for in this Article, MICRO VISION shall obtain prior approval of UW, and such approval of UW shall not be unreasonably withheld. Prior to settling a claim of infringement or settling any litigation regarding infringement as provided for in this Article, MICRO VISION shall obtain prior approval of UW, and such approval of UW shall not be unreasonably withheld.

13.0 PATENT VALIDITY

13.1 If any claim challenging the validity or enforceability of any of LICENSED SUBJECT MATTER shall be brought against MICRO VISION, MICRO VISION shall promptly notify UW, UW, at its option, shall have the right, within thirty (30) days after notification by MICRO VISION of such action, to intervene and take over the sole defense of the claim at UW's expense.

Page 10

13.2 If MICRO VISION challenges the validity or enforceability of any of UW PATENTS, MICRO VISION agrees not to suspend any payments due UW until such time as that UW PATENT is determined to be invalid or unenforceable by final judgment of a court of competent jurisdiction from which no appeal can be or is taken.

14.0 USE OF NAMES

14.1 UW and MICRO VISION each agree that they will not use the name, trademark, or other identifier of the other for any advertising promotion, publicity or commercially related purposes except:

- a) with advance written approval of the other PARTY;
- b) to the extent required by UW Boards, UW Committees, UW policies and procedures or by law, UW may indicate that this AGREEMENT exists, may disclose the terms of the AGREEMENT and may use the names The University of Washington, or MICRO VISION solely to describe the relationship between the UW and MICRO VISION established by this AGREEMENT; or
- c) to the extent required by law and in a form previously approved in writing by the UW, MICRO VISION may indicate in any investment

offering (public or private), including but not limited to sub-licensing, co-development, etc. circulated by MICRO VISION that this AGREEMENT exists, may disclose the terms of this AGREEMENT, and may use the names the University of Washington solely to describe the relationship between the UW and MICRO VISION established by this AGREEMENT.

14.2 UW and MICRO VISION each agree that they will not use the name, trademark, or other identifier of the other for any advertising, promotion, or other commercially related purpose except as provided for above or except upon advance written notice and approval to the other PARTY.

15.0 REPRESENTATION AND WARRANTIES

15.1 UW represents and warrants that it has the right to grant the license in and to UW PATENTS and disclose the TECHNICAL INFORMATION set forth in this AGREEMENT.

15.2 UW represents that Ms. Margaret Wagner Dahl is authorized to sign this AGREEMENT on behalf of UW.

15.3 MICRO VISION represents that Mr. David Hunter and Mr. Caisey Harlingten are authorized to sign THIS AGREEMENT on behalf of MICRO VISION.

15.4 Nothing in this AGREEMENT shall be construed as:

Page 11

- a) A representation or warranty by UW as to the patentability, validity, scope, or usefulness of any of UW's PROPRIETARY MATTER; or
- b) A representation or warranty by UW that anything made, used, sold, or otherwise disposed of under any license granted in this AGREEMENT is or will be free from infringement of patents or other proprietary rights of third parties;
- c) an obligation to bring or prosecute actions or suits against third parties for infringement.

15.5 MICRO VISION represents that it is a company formed to further develop the HALO Display into a commercially viable product, and that it is and will take good faith efforts towards that end. MICRO VISION understands UW's concerns regarding the competitive atmosphere for products having applications similar to those of the HALO Display, and agrees with UW's concerns regarding the potential for a licensee to "buy out" the rights of a licensor in order to keep a product OFF the market to thereby benefit another's product. To this end, MICRO VISION specifically represents and warrants that at no time will it take actions intended to defeat, delay, suspend, or otherwise prevent the HALO Display from attaining commercial viability as soon as reasonably possible.

15.6 Except as expressly set forth in this AGREEMENT, UW MAKES NO REPRESENTATIONS AND EXTENDS NO WARRANTIES OF ANY KIND, EITHER EXPRESS OR IMPLIED. THERE ARE NO EXPRESS OR IMPLIED WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, OR THAT THE USE OF ANY UW PROPRIETARY MATTER OR ANY LICENSED SUBJECT MATTER WILL NOT INFRINGE ANY PATENT, COPYRIGHT, TRADEMARK, OR OTHER RIGHTS. UW MAKES NO REPRESENTATIONS AS TO THE USEFULNESS OF UW INVENTION(S): IF MICRO VISION CHOOSES TO EXPLOIT IT IN ANY MANNER WHATSOEVER, MICRO VISION DOES SO AT ITS OWN RISK.

16.0 INDEMNIFICATION

16.1 The PARTIES mutually agree to indemnify, hold harmless and defend the other's officers, inventors, employees, students, and agents, against any and all claims, suits, losses, damages, costs, fees and expenses resulting from or arising out of exercise of this AGREEMENT including, but not limited to, any damages, losses or liabilities whatsoever with respect to death or injury to any person and damage to any property arising from the possession, use, or operation of LICENSED SUBJECT MATTER by MICRO VISION or its sub-licensees or any customers, users, or others affected by LICENSED SUBJECT MATTER in any manner whatsoever. This indemnification clause shall survive the termination of this AGREEMENT.

17.0 APPLICABLE LAWS

17.1 MICRO VISION agrees to abide by all applicable federal, state, and local laws and regulations pertaining to the management and commercial deployment of LICENSED SUBJECT MATTER under this AGREEMENT.

Page 12

17.2 MICRO VISION understands that UW is subject to United States laws and

federal regulations, including the export of technical data, computer software, laboratory prototypes and other commodities (including the Arms Export Control Act, as amended, and the Export Administration Act of 1979), and that UW's obligations hereunder are contingent upon compliance with applicable United States laws and regulations, including those for export control. The transfer of certain TECHNICAL INFORMATION and LICENSED SUBJECT MATTER may require a license from a cognizant agency of the United States Government and/or written assurances by MICRO VISION that MICRO VISION shall not transfer data or commodities to certain foreign countries without prior approval of an appropriate agency of the United States Government. UW neither represents that an export license shall not be required, nor that, if required, it shall be issued.

17.3 The rights and obligations of the PARTIES under this AGREEMENT shall be governed by and construed in accordance with the laws of the State of Washington, and, at the option of UW, venue of the legal or equitable action shall lie in King County, the State of Washington. MICRO VISION hereby accepts the venue and jurisdiction of the Federal District Court of Western Washington or King County Superior Court located in Seattle, Washington, at UW's option.

18.0 RESOLUTION OF DISPUTES

18.1 MICRO VISION and UW agree that, in the event of a dispute between them arising from, concerning, or in any way related to this AGREEMENT, the PARTIES shall undertake good faith efforts to resolve the matter amicably between themselves.

18.2 In the event an action is commenced to enforce a PARTY's rights under this AGREEMENT, the prevailing PARTY in such action shall be entitled to recover its reasonable costs and attorney's fees.

19.0 GENERAL

19.1 If any provision of this AGREEMENT shall be held to be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not be in any way affected or impaired thereby.

19.2 No provision of this AGREEMENT shall be deemed to have been waived by any act of or acquiescence on the part of either PARTY. A waiver may only occur in writing signed by an authorized representative of the PARTY waiving the particular provision involved. No waiver of any provision of this AGREEMENT shall constitute waiver of any other provision or of the same provision on any other occasion.

19.3 No amendment or modification hereof shall be valid or binding upon the parties unless it is made in writing, cites this AGREEMENT, and signed by duly authorized representatives of UW and MICRO VISION.

Page 13

19.4 This AGREEMENT constitutes the entire agreement between the PARTIES and, supersedes all previous representations, understandings, or agreements, oral or written, between the PARTIES with respect to the subject matter hereof. The headings in this AGREEMENT are intended solely for convenience of reference and shall be given no effect in the construction or interpretation of this AGREEMENT.

19.5 The PARTIES agree that the relationship between the PARTIES established by this AGREEMENT does not constitute a partnership, joint venture, agency, or a contract of employment between them.

19.6 Neither PARTY transfer or assign its rights or obligation under this AGREEMENT, except as provided herein or with the written consent of the other PARTY. This AGREEMENT shall inure to the benefit of and be binding upon each of the PARTIES hereto and their respective permitted successors and assigns.

IN WITNESS WHEREOF, UW and MICRO VISION have executed this AGREEMENT, in duplicate originals but collectively evidencing only a single contract, by their respective duly authorized officers, on the dates hereinafter written.

FOR MICRO VISION, INC.

THE UNIVERSITY OF WASHINGTON

By: /s/ David Hunter

By: /s/ Margaret Wagner Dahl

Name: David Hunter
Title: Executive Vice President

Name: Margaret Wagner Dahl
Title: Acting Director, Office of
Technology Transfer

Date: _____

Date: 3/3/94

By: /s/ Caisey Harlinton

Name: Caisey Harlinton
Title: Executive Vice President
and Secretary, Treasurer
Date: -----

MICROVISION, INC.
COMPUTATION OF PRO FORMA LOSS PER SHARE

	YEAR ENDED DECEMBER 31 1995	SIX MONTHS ENDED JUNE 30, 1995	SIX MONTHS ENDED JUNE 30, 1996
Net loss	\$ (2,943,600)	\$ (1,098,900)	\$ (1,332,300)
	-----	-----	-----
Shares utilized in computing pro forma loss per share:			
Weighted average shares outstanding	3,461,145	3,461,145	3,461,145
Common stock equivalent shares outstanding during the period	475,584	475,584	475,584
Pro forma effect of conversation of:			
Series A Preferred Stock	770,170	680,935	859,776
7% Convertible Subordinated Notes due 1997	42,188	42,188	42,188
	-----	-----	-----
	4,749,087	4,659,852	4,838,693
	-----	-----	-----
	-----	-----	-----
Pro forma net loss per share	\$ (0.62)	\$ (0.24)	\$ (0.28)
	-----	-----	-----

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the use in the Prospectus constituting part of this Registration Statement on Form SB-2 of our report dated July 10, 1996, except as to the reverse stock split described in Note 8 which is as of August 9, 1996, relating to the financial statements of Microvision, Inc. which appears in such Prospectus. We also consent to the references to us under the headings "Experts" and "Summary Financial Information" in such Prospectus. However, it should be noted that Price Waterhouse LLP has not prepared or certified such "Summary Financial Information."

PRICE WATERHOUSE LLP

Seattle, Washington
August 14, 1996