

2,250,000 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 2,250,000 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"). See "Underwriting" for a discussion of the factors considered in determining the initial offering price (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 \$12.00 per share, 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 Common Stock and Warrants have been approved for listing on the Nasdaq National Market under the symbols "MVIS" and "MVISW," respectively.

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.

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	PRICE TO PUBLIC	UNDERWRITING DISCOUNTS AND COMMISSIONS (1)	PROCEEDS TO
COMPANY (2)			
<S>	<C>	<C>	<C>
Per Unit.....	\$8.00	\$0.608	
\$7.392			
Total (3).....	\$18,000,000	\$1,368,000	
\$16,632,000			

</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 2% 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 178,075 Units exercisable at \$9.60 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 \$889,000, including the Representatives' nonaccountable expense allowance.
- (3) The Company has granted the Representatives a 45-day option (the "Overallotment Option") to purchase up to 337,500 Units on the same terms and conditions as set forth above, solely for the purpose of covering overallotments, if any. If the Overallotment Option is exercised in full, the total Price to Public, Underwriting Discounts and Commissions and Proceeds to Company will be \$20,700,000, \$1,573,200 and \$19,126,800, 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 August 30, 1996.

PAULSON INVESTMENT COMPANY, INC.

MARION BASS SECURITIES CORPORATION

THE DATE OF THIS PROSPECTUS IS AUGUST 27, 1996.

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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 IS AN ARTIST'S RENDERING PREPARED FOR ILLUSTRATION PURPOSES ONLY TO DEMONSTRATE A PROPOSED PRODUCT AND POSSIBLE APPLICATION FOR THE COMPANY'S TECHNOLOGY. THIS RENDERING DOES NOT DEPICT AN ACTUAL PRODUCT OR CURRENT APPLICATION. THE COMPANY HAS BUILT ONLY PORTABLE AND TABLE-TOP PROTOTYPES TO DATE. THE PROTOTYPES ARE WORKING MODELS OF THE TECHNOLOGY AND ARE NOT INCORPORATED INTO ANY PRODUCT CONFIGURATION OR DESIGNED FOR ANY SPECIFIC APPLICATION. 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 APPROVED BY THE SHAREHOLDERS ON 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

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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 certain of its key components. The Company has completed the development of a mechanical resonant scanner ("MRS"), which the Company believes represents a breakthrough in the miniaturization of scanning devices. The Company believes that the MRS will permit high quality image displays using smaller devices produced at lower cost than is possible with current alternative 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.

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THE OFFERING

<TABLE>	
<S>	<C>
Securities offered.....	2,250,000 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.....	5,711,546 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."
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 \$5.28 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) 356,150 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 a nominal number of 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."

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SUMMARY FINANCIAL INFORMATION

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.

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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
<S>	<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).....		\$ (0.63)	\$ (0.24)	\$ (0.28)	
Shares used in pro forma net loss per share calculations.....		4,677	4,587	4,767	

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	AS OF DECEMBER 31,		AS OF JUNE 30, 1996		
	1994	1995	ACTUAL	PRO FORMA (1)	AS
<S>	<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)	

(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 net proceeds estimated to be 15,743,000 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 \$5.28 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) 356,150 shares of Common Stock issuable upon exercise of the Representatives' Warrant; (iv) the Stoel Rives Shares; and (v) the cash redemption of a nominal number of 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.

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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, or prevent the Company from introducing, products to the marketplace and adversely affect the Company's competitive position, financial condition and results of operations. See "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

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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 11 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

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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. The Company's products and the VRD technology will be competing with established manufacturers of miniaturized CRT and flat panel display devices, including companies such as Sony Corporation and Texas Instruments Incorporated, most of whom have substantially greater financial, technical and other resources than the Company and many of whom are developing alternative miniature display technologies. The Company also will compete with other developers of miniaturized display devices. There can be no assurance that the Company's competitors will not succeed in developing information display technologies and products that would render the VRD technology or the Company's proposed products 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 future products, if any, in commercial quantities, which will require extensive lead time. There can be no assurance that the Company will successfully obtain access to these resources. See "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."

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CONTROL BY EXISTING SHAREHOLDERS. Upon the closing of this offering, the Company's existing shareholders will own approximately 61% 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 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 Common Stock and Warrants have been approved for listing on the Nasdaq National Market. To maintain the listing of the Common Stock and Warrants on the Nasdaq National Market, the Company must continue to satisfy certain maintenance standards. If the Company is unable to maintain the standards for continued quotation on the Nasdaq National Market, the Common Stock and the 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 has been determined by negotiation between the Company and the Representatives and may not be indicative of future market prices. Factors considered in these negotiations, in addition to prevailing market conditions, included 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 deemed 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

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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 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 356,150 shares of Common Stock that are issuable upon exercise of the Representatives' Warrants (including exercise of the warrants included therein) will be eligible for resale without restriction under the Securities Act. 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 after the date hereof. 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.

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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 \$15,743,000 (approximately \$18,443,000 if the Overallotment Option is exercised in full).

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 certain expenses related to this offering, and to make a payment of approximately \$320,800 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.

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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 859,776 shares of Series A Preferred Stock into an equal number of 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 2,250,000 Units and receipt of the net proceeds therefrom. See Note 8 of Notes to the Financial Statements.

<TABLE>
<CAPTION>

	JUNE 30, 1996 (1)		
<S>	<C> ACTUAL	<C> PRO FORMA	<C> PRO FORMA AS ADJUSTED
<CAPTION>	(IN THOUSANDS)		
<S>	<C>	<C>	<C>
7% Convertible Subordinated Notes due 1997 (current).....	--	\$ 750	\$ 750
-	-----	-----	-----
-	-----	-----	-----
Shareholders' equity			

Series A 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 5,711,546 shares issued and outstanding.....	4,794	8,327	24,070
Deferred compensation.....	(21)	(21)	(21)
Subscription receivable.....	(10)	(10)	(10)
Accumulated deficit.....	(8,440)	(8,440)	(8,440)

Total shareholders' equity.....	(144)	(144)	15,599

Total capitalization.....	\$ (144)	\$ (144)	\$ 15,599

</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 \$5.28 per share; (ii) up to 135,000 shares of Common Stock issuable in connection with conversions or redemptions of the 7% Notes; (iii) 356,150 shares of Common Stock issuable upon exercise of the Representatives' Warrants; (iv) the Stoel Rives Shares; and (v) the cash redemption of a nominal number of 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 "Management -- Benefit Plans."

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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 the Series A 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 2,250,000 Units in this offering 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 \$15,599,000, or \$2.73 per share. This represents an immediate increase in pro forma net tangible book value of \$2.77 per share to existing shareholders and an immediate dilution in pro forma net tangible book value of \$5.27 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.....		\$ 8.00
Pro forma net tangible book value per share at June 30, 1996.....	\$ (0.04)	
Increase per share attributable to new investors.....	2.77	

Pro forma net tangible book value per share after this offering.....		2.73
Pro forma net tangible book value dilution per share to new investors.....		\$ 5.27

</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 2,250,000 Units by the Company. The calculations are based upon total consideration given by new and existing shareholders.

<TABLE>
<CAPTION>

AVERAGE PRICE PER SHARE	SHARES PURCHASED		TOTAL CONSIDERATION	
	NUMBER	PERCENT	AMOUNT	PERCENT
	-----	-----	-----	-----

<S>	<C>	<C>	<C>	<C>	<C>
Existing shareholders.....	3,461,546	61%	\$ 7,777,528	30%	\$
2.25					
New investors.....	2,250,000	39%	18,000,000	70%	\$
8.00					
	-----	---	-----	---	
TOTAL.....	5,711,546	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 \$5.28 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) 356,150 shares of Common Stock issuable upon exercise of the Representatives' Warrants; (iv) the Stoel Rives Shares; and (v) the cash redemption of a nominal number of 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."

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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

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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 net proceeds of \$707,500 in a private placement of its 7% Notes. 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 \$480,000 and \$4,088,000, respectively, 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

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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

[CHART]

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,

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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's strategy will be to seek both initial license fees from such arrangements as well as ongoing per unit royalties.

The Company expects such relationships may involve a period of co-development during which engineering and marketing professionals from OEMs would work with Microvision's technical staff to specify, design and develop a product appropriate to the targeted market and application. Microvision 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 potential applications for its VRD, including the following:

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

VISUAL SIMULATION 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

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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 potential

applications, including defense and public safety, healthcare, business, industrial and consumer electronics. The following table identifies product development opportunities within each of these markets.

[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.

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

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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 believes it may develop moderately priced eyeglasses or goggles that can be fitted for augmented vision display and would be suitable for a variety of uses. There can be no assurance that the Company will be successful in developing these or other proposed products, with or without codevelopment partners. Even if the Company is successful in arranging development or co-development projects, it does not expect commercial sales of products until at least 1998, and commercial sales may not occur until substantially later, if at all.

PROTOTYPES

To date the Company has developed only 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. This prototype generates a full color image. A combination of reflective and refractive optical elements are positioned around the eye, but do not obscure the user's field of vision, so that as the image is scanned onto the optics and reflected onto the retina, the viewer perceives the image superimposed on 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 the portable prototype generates only a monochromatic image. The projection optics of the portable prototype together with the vertical and horizontal scanner and the light source are packaged in a module, which can be hand-held or mounted to a stand. The electronics that receive and condition the signal are packaged separately in the briefcase.

Significant work will be required in the area of drive electronics, development of photon sources, scanning techniques and optics design to advance the VRD from prototype to product stage. See "-- Technology Development."

TECHNOLOGY DEVELOPMENT

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

PHOTON SOURCES. The photon generator is the source of the light beam that creates the image on the retina. In a full-color VRD, red, green and blue photon generators will be used, each with its own modulator, to generate a mix yielding the desired color and brightness. Low-power solid state lasers, laser diodes and light-emitting diodes ("LEDs") are suitable photon generators for the VRD. Red, blue and green solid state lasers are currently available, but are useful only for VRD applications where cost and size are not critical. Miniaturized visible laser diodes are currently available only in red,

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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 a miniature red LED, which appears to respond quickly enough to sustain a VGA display and is expected to cost less to produce than equivalent wavelength laser diodes. Microvision expects these LEDs will provide sufficient brightness for certain applications, however, Microvision expects to use laser diodes for augmented vision applications that require maximum brightness. The Company intends to rely on others to complete development of the materials and processes necessary to produce blue and green LEDs and laser diodes. This development is not expected prior to the introduction of the Company's proposed initial products, and as a result the Company's proposed initial full color VRD products are likely to use solid state lasers.

SCANNING. A pair of scanners, one horizontal and one vertical, is used to direct the light beam that creates the image on the retina. In laser printers and bar code readers, a spinning or oscillating mirror is used to scan a light beam, but these mechanical scanners are typically too large and too slow for use in miniaturized display settings. To solve this problem, the Company 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.

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

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.

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In the event of the termination of Microvision's exclusivity, Microvision would lose its rights to grant sublicenses and would no longer have the first right to take action against any alleged infringement. In addition, each of Microvision

and the University of Washington has the right to terminate the License Agreement in the event that the other party fails to cure a material breach of the Agreement within 30 days of written notice of the breach. Microvision may terminate the License Agreement at any time by serving 90 days 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 11 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

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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 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.

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

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

VRD technology and proposed display products should deliver images of a quality and resolution substantially better than that of commercially available LCD and CRT-based display products, there is no assurance that manufacturers of LCDs and CRTs will not develop further improvements of screen display technology that would eliminate or diminish the anticipated advantages of the Company's proposed products.

OTHER TECHNOLOGY INVESTMENT

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

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

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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.

Dr. Thomas A. Furness has notified the Company that he believes he is entitled to additional compensation for past services to the Company. Dr. Furness has proposed that the Company award him warrants to purchase 156,250 shares of Common Stock. The Company and Dr. Furness are in discussions with respect to this proposal and a consulting agreement that would provide for a continuing level of involvement by Dr. Furness as a technical advisor to the Company. Dr. Furness has retained counsel to represent him in connection with his proposal to the Company and has informed the Company that unless his proposal is accepted he intends to commence legal action against the Company.

EMPLOYEES

As of August 20, 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.

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MANAGEMENT

EXECUTIVE OFFICERS AND DIRECTORS

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

<TABLE>

<CAPTION>

NAME	AGE	POSITION
<S>	<C>	<C>
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	36	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.

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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

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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	NUMBER OF SECURITIES UNDERLYING UNEXERCISED	VALUE
DECEMBER	OPTIONS AT DECEMBER 31, 1995 (#)	31, 1995 (\$)

(1)


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<S>
                                     <C>
                                     SHARES ACQUIRED ON
NAME                                EXERCISE (#)
EXERCISABLE
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<CAPTION>
<S>
Richard F. Rutkowski.....
833,861
                                     --
                                     --
                                     115,814
                                     195,703
                                     $

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<CAPTION>
<S>
NAME                                UNEXERCISABLE
-----
Richard F. Rutkowski.....
$ 626,250
</TABLE>

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(1) Calculated based on the initial offering price of \$8.00 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

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.

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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 625,000 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.

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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>

(2)	<S>	<C> AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP	PERCENTAGE OF COMMON STOCK	
			<C> BEFORE	<C> OFFERING
	AFTER NAME AND ADDRESS OF BENEFICIAL OWNER	(1)		

<CAPTION>				
<S>	<C>		<C>	<C>
Richard F. Rutkowski (3)	191,077		5.5%	
3.3%				
c/o Microvision, Inc.				
2203 Airport Way South, Suite 100				
Seattle, WA 98134				
Stephen R. Willey (4)	145,104		4.2%	
2.6%				
c/o Microvision, Inc.				
2203 Airport Way South, Suite 100				
Seattle, WA 98134				
Walter J. Lack (5)	120,938		3.5%	
2.1%				
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)	463,994		13.4%	
8.1%				

</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 5,711,546 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 no redemption of fractional shares resulting from the reverse stock split, 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 net proceeds of \$707,500 for the

Company's immediate operating requirements and for payment of certain expenses in connection with this offering. 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 under the agreement. The advisory board of the Company has not been active since June 1995.

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.

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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.

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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 113 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 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 356,150 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 178,075 Units at an exercise price of \$9.60 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.

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UNIT WARRANTS. Each Warrant will entitle the holder to purchase one share of Common Stock at a price of \$12.00 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.

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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 156,608 shares are immediately exercisable at an exercise price of \$6.40 per share and will expire in 2001. Warrants to purchase 41,666 shares are immediately exercisable at an exercise price of \$8.00 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

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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.

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 United States 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 United States has an income tax treaty. To determine the applicability of a tax treaty providing for a lower rate of withholding,

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 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 U.S. 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 United States (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 United States 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 U.S. 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 United States for 183 days or more in the taxable year of sale and to whom 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 U.S. 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 United States 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 United States, 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 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. 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.

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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 5,711,546 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 a nominal number of fractional shares to occur following the reverse stock split). The 2,250,000 shares of Common Stock that are included in the Units and sold in this offering (plus up to 337,500 shares that may be sold as a result of exercise of the Overallotment Option), and the 2,250,000 shares of Common Stock issuable upon exercise of the Warrants (plus up to 337,500 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 57,115 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 356,150 shares of Common Stock that are issuable upon exercise of the Representatives' Warrants (including exercise of the warrants included therein) will be eligible for resale without restriction under the Securities Act. 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."

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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.	1,370,000
marion bass securities corporation.....	500,000
Cohig & Associates, Inc.	200,000
Capital West Securities, Inc.	30,000
First Colonial Securities Group, Inc.	30,000
First London Securities Corporation.....	30,000
Kashner Davidson Securities Corporation.....	30,000
Redwine & Company, Inc.	30,000
Smith, Moore & Co.	30,000

Total.....	2,250,000

</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 reallow 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 reallowance 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 337,500 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 178,075 Units at a price of \$9.60 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

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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 two percent (2%) 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 warrants to such person for the purchase of 31,250 shares of Common Stock at an exercise price of \$8.00 per share. Such warrants vest monthly through October 1, 1996 and are exercisable for a period of five years from the date of vesting.

A person associated with one of the underwriters has entered into a consulting arrangement with the Company pursuant to which the Company has issued warrants to such person for the purchase of 15,625 shares of Common Stock at an exercise price of \$8.00 per share.

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 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 has been determined by negotiation between the Company and the Representatives. Among the factors considered in determining the Unit Offering Price, in addition to prevailing market conditions, were 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 deemed 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.

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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.

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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 in 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> Contract revenue.....	<C> \$ --	<C> \$ 29,300	<C> \$ 29,300	<C> \$ --	<C> \$ 27,200	<C> \$ 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).....		\$ (0.63)		\$ (0.24)	\$ (0.28)	
Pro forma weighted average shares and share equivalents outstanding (unaudited).....		4,677,077		4,587,471	4,766,683	

</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) (10,000).....	--	--	50,000	40,000	--	\$
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) (10,000).....	859,776	\$ 3,532,800	2,601,770	\$ 4,793,700	\$ (21,300)	\$

<CAPTION>

DEFICIT
ACCUMULATED
DURING SHAREHOLDERS'

	DEVELOPMENT STAGE	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 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	(MAY JUNE
INCEPTION						
1993) TO						
30, 1996						

	(UNAUDITED)		(UNAUDITED)		(UNAUDITED)	
	<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)	
Adjustments to reconcile net loss to net cash used in operations:						
Amortization of deferred compensation.....	--	207,400	207,400	1,500	21,500	
Depreciation and write-off of equipment.....	33,100	2,600	35,700	--	5,200	
Non-cash expenses related to issuance of stock, warrants and options.....	111,600	336,100	1,107,700	145,600	74,400	
Change in:						
Receivables from former employees..	(109,600)	47,200	(69,400)	47,200		
Allowance for doubtful accounts....	66,600	(66,600)	--	(66,600)	--	
Prepaid expenses.....	--	--	--	--	(56,100)	
Other assets.....	(2,300)	6,400	(2,000)	8,100	(50,400)	
Accounts payable.....	(39,500)	60,000	207,500	18,500	185,600	
Accrued compensation and related liabilities.....	--	336,400	336,400	13,200	26,200	
Net cash used in operating activities.....	(2,751,800)	(2,014,100)	(5,283,600)	(931,400)	(1,125,900)	
Cash flows from investing activities:						
Purchases of equipment.....	(30,200)	--	(44,800)	(4,100)	(34,100)	
Net cash used in investing activities.....	(30,200)	--	(44,800)	(4,100)	(34,100)	
Cash flows from financing activities:						
Net proceeds from issuance of common stock.....	92,500	6,000	3,388,000	--	30,000	
Net proceeds from issuance of preferred stock.....	--	2,038,900	2,038,900	899,200	1,493,900	
Net cash provided by financing activities.....	92,500	2,044,900	5,426,900	899,200	1,523,900	
Net increase (decrease) in cash and cash equivalents.....	(2,689,500)	30,800	98,500	(36,300)	363,900	
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	\$
Cash paid for interest.....	\$ --	\$ 35,800	\$ 35,800	\$ --	\$ 2,400	\$

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 \$15,743,000. 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 an initial public offering price of \$8.00 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.

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 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.

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 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
	116,600	69,400
Allowance for doubtful accounts.....	(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.

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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 June 2001.

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.

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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.

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 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

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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 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.

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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:

	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 2,250,000 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 nominal 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.

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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.

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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 ARE AN ARTIST'S RENDERINGS 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.

THE PROTOTYPES ARE WORKING MODELS OF THE TECHNOLOGY AND ARE NOT INCORPORATED INTO ANY PRODUCT CONFIGURATION OR DESIGNED FOR ANY SPECIFIC APPLICATION. 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.

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UNTIL SEPTEMBER 21, 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.

2,250,000 UNITS

[SCANNED]

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

AUGUST 27, 1996

