

industry



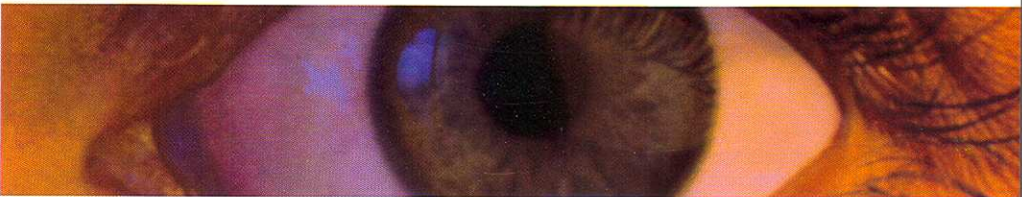
science



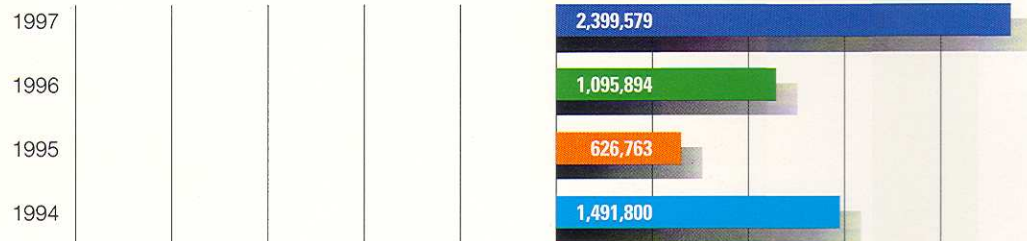
defense



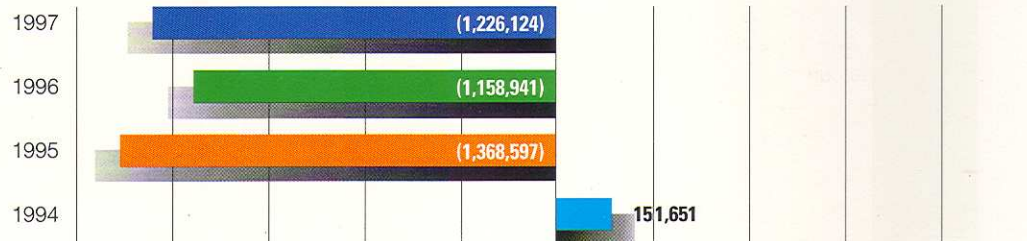
medicine



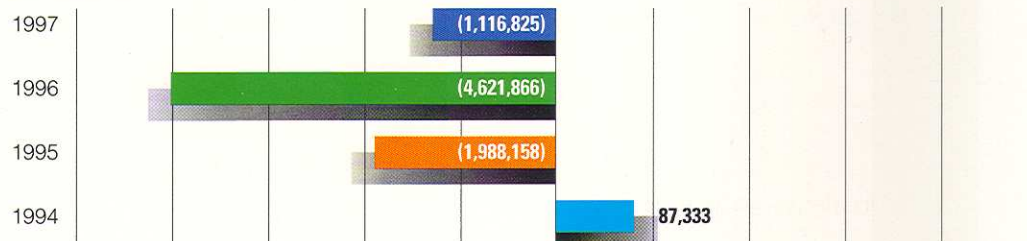
Revenue



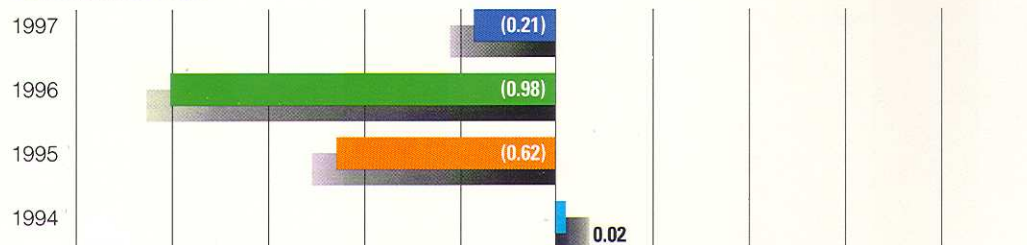
Operating Income



Net Income



Earnings per Share



All of us at n-Vision are pleased to report to our shareholders and customers that 1997 was a year of significant growth and market development. n-Vision gained the crucial momentum necessary as we strive for market leadership and overall profitability. Our 119 percent increase in reported revenue not only reflects a growth in demand for n-Vision products, it also represents a significant rise in requests for our specialized engineering services. In delivery of products, our output increased by more than 160 percent, while our market penetration in proven areas such as defense simulation and design prototyping deepened and our customer base broadened. This was fueled by the market acceptance of new n-Vision products including the Datavisor® 80, Datavisor VGA, Virtual Binoculars, and a monoscopic viewing system.



The company's gross margin on sales, which held steady at 43 percent, showed less quarterly fluctuation than in 1996 and appears to be stabilizing at the current level of sales. Our investment in sales and marketing nearly doubled to take advantage of numerous favorable industry trends, chief among these is the dramatic reduction in the cost of image generation technology, making solutions that involve n-Vision products more affordable.

Another significant trend, an increase in multiple unit sales, has already been evidenced in large volume orders for our monoscopic display system, and our new ViewPort immersive display product, developed under contract with a world leader in the entertainment industry. While we view these developments as an extremely promising indication of the company's potential, we continue to prepare for future opportunities by strengthening our corporate image and product line.

Notable this year was the addition to our Board of Directors of Rear Admiral Ronald C. Wilgenbusch, USN (Ret.), who brings more than 36 years of experience in space and electronic warfare issues to the company. We have the people, we have the products, and now we have momentum. We look forward to building on these strengths in the coming year.

A handwritten signature in black ink that reads "Christopher J. Lewis". The signature is written in a cursive, flowing style.

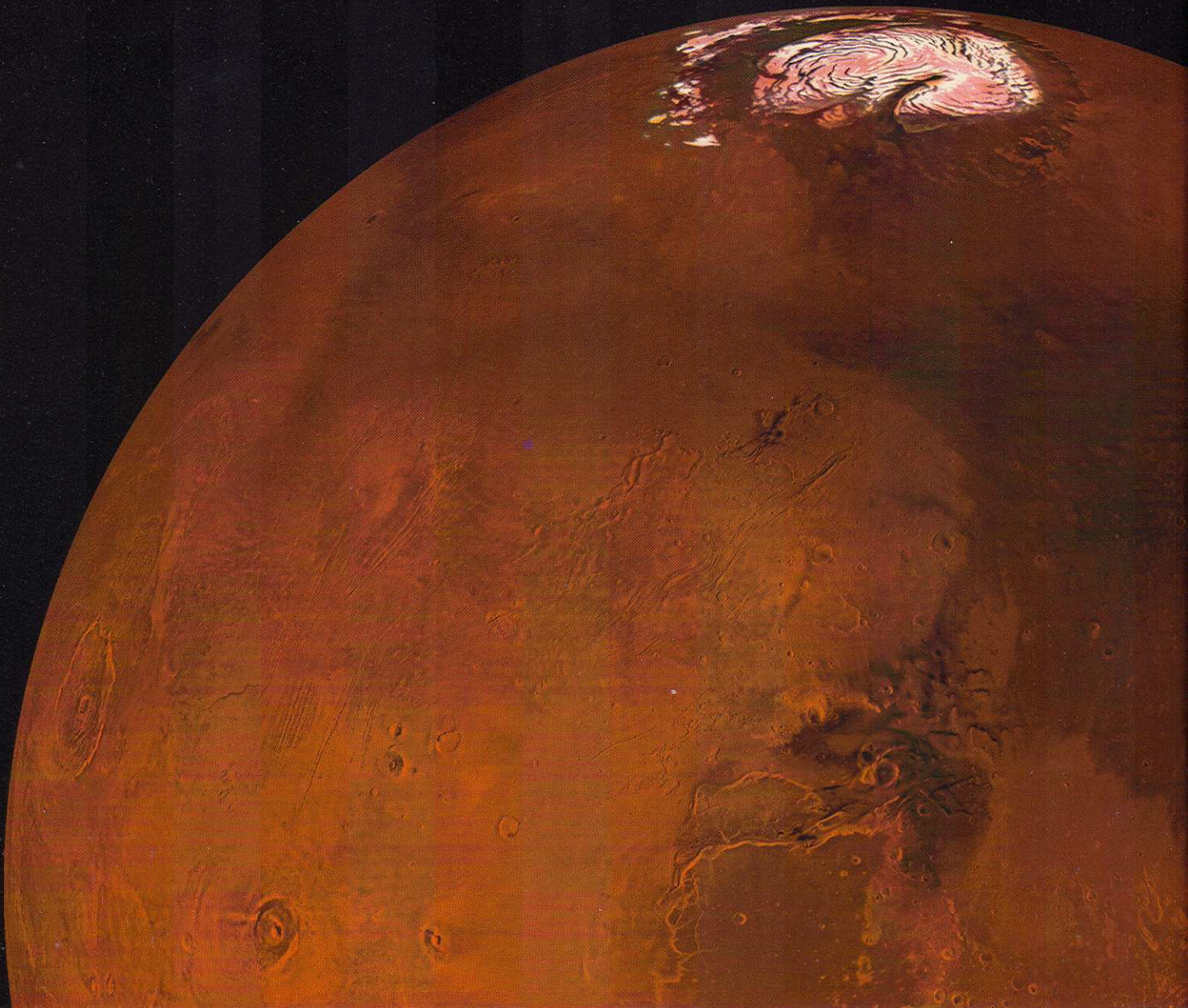
Christopher J. Lewis, President

n-vision

1997



NASA scientists at the Jet Propulsion Laboratory have one foot on Earth and the other on the surface of Mars as they employ the hand-held Virtual Binoculars HiRes to scan the Martian landscape as if they were actually there.



Products Proven In Customer Applications

The use of visually accurate, three-dimensional immersive worlds that users can enter and manipulate is becoming more essential and accepted as a valuable productivity tool throughout the global economy. The convergence of improved graphical performance, lower cost of entry, and newly innovated uses of immersive technology continuously creates new opportunities for n-Vision across a wide range of industries.

Progress in transportation, manufacturing, and construction is becoming increasingly dependent on accurate visual simulation before expensive production begins. In other areas, like defense simulation, medicine, entertainment, training, and research, a high degree of visual realism is required to create an effective experience.

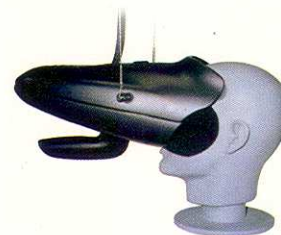
The leading global entertainment company, five of the world's top automobile manufacturers, the nation's four armed services, NASA, and some of the most innovative educational and medical institutions all apply n-Vision technology in different ways, but all with the same goal: expanding the boundaries of the possible.

Enabling Solutions with a Diverse and Flexible Product Line

n-Vision meets customer needs with the unrivaled visual performance and versatility of its diversified line of off-the-shelf systems and customization capabilities. Leading with the flagship Datavisor 80 head-mounted display (HMD), n-Vision has developed the widest variety of commercially available immersive display systems. The Datavisor HiRes and VGA models are recognized as mid-range price/performance leaders, while the Virtual Binoculars and its monoscopic display derivative meet requirements for hand-held or fixed placement applications.

But off-the-shelf n-Vision products are only part of the story. Across a wide range of industries, the specialized expertise of n-Vision designers provides vital engineering collaboration services that lead to unique, customized systems. One example is the ViewPort. Initially developed in conjunction with a major entertainment company, both the hand-held and head-mounted variations offer ease of use and durability that are ideal for a wide range of high-volume educational and marketing applications involving kiosks and interactive displays. The top quality reputation of n-Vision's engineering capabilities was affirmed by capturing a 1997 Industrial Design Excellence Award for the Datavisor 80.

The world's leading retail merchants confer with experts on consumer behavior at Indiana University, who use the hand-held ViewPort to analyze store layouts and explore the feasibility of virtual shopping through kiosks.





Sponsored by *BusinessWeek* and presented by the Industrial Designers Society of America, the Industrial Design Excellence Award (IDEA) honors n-Vision and its industrial design partner ION Design for their efforts in designing and producing the Datavisor 80.

Whether it's defense simulation, automotive design, astronaut training, or the latest in entertainment, n-Vision's high quality displays empower users by immersing them in totally convincing virtual environments across a wide spectrum of visualization applications.

At Raytheon Corporation, the result is a fully-immersed environment, providing real-time visual and sound response, where a construction design engineer wearing a Datavisor HMD can engage in virtual walkthroughs of proposed facilities, manipulating objects along the way.

Automotive engineers in the design laboratories of Chrysler, Daimler Benz, Volvo, Skoda, and Volkswagen can test the realistic feel and performance of future production vehicles well in advance of actual prototype fabrication, with significant savings in design and production costs and time by using Datavisor HMDs.

Astronauts in training at NASA's Johnson Space Flight Center benefit from the wide field-of-view characteristics of the Datavisor 80 to practice potential mission scenarios prior to launch. At HT Medical, they invite cardiologists to don a n-Vision HMD and feel as if they are being miniaturized and injected into the left atrium of a heart to destroy a blood clot and save a human life.

Universities and research institutions represent one of the fastest growing markets for n-Vision, allowing the company to serve the needs of today's brightest students and multi-disciplinary research activities while cultivating future generations of potential customers. The benefits of immersive technology are not confined to engineering and computer science departments. Psychology and marketing professors and graduate students, for example, are realizing the value of virtual environments as an important research tool.

At Catholic University, psychology researchers use n-Vision displays to ensure accurate results as they study the effects of 3D virtual worlds on the human mind. A leading expert on consumer behavior at the Kelley School of Business at Indiana University uses a ViewPort to analyze supermarket layouts and explore the feasibility of virtual shopping through kiosks. Engineers at Iowa State University use n-Vision displays to determine how virtual environments can be applied to a variety of engineering disciplines. In a quest to reduce accidents caused by pilot error, aeronautical engineering students in Germany interact with prototype airplane cockpits.

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Chrysler engineers are designing vehicles for the 21st century with accurate visual simulations developed using the Datavisor HiRes display system, working out design details long before hard prototypes are produced.





In air combat, a pilot's life depends upon visual information. With the Datavisor 80, pilots gain 360-degrees of realistic situational awareness while using the Virtual Reality Air Combat Simulator (ViRACS). This flexible simulator, developed by Eidetics and the USAF, can be integrated into different aircraft environments, lowering the cost of combat simulation by reducing facilities and image generation requirements.

Using n-Vision display systems enables the armed services to improve training safety and save taxpayer dollars. For example, the U.S. Army applies the capabilities of customized monoscopic display systems in creating highly realistic visual simulations for artillery specialists, saving expensive ammunition and equipment for live combat situations. n-Vision technology is now an integral part of the U.S. Navy's revolution in submarine officer training. Employing a virtual reality-based simulator fully integrated with traditional piloting and navigation trainers, submarine officers can now realistically practice harbor navigation maneuvers and crew communications without consuming rare and costly steaming time.

The growing list of applications in use by an expanding client base clearly demonstrates the strength and potential for n-Vision to deliver valuable solutions through its products and engineering expertise.

Broadening Market Acceptance

Capitalizing on favorable industry trends, n-Vision strategically increased its sales and marketing investment in 1997 and aggressively promoted sales of both existing and new products domestically and in promising international markets. Keenly aware of the importance of effective product branding, the company continued to mature its corporate image by reinforcing a consistent message and appearance throughout marketing and promotional efforts to firmly establish n-Vision as a premier brand of immersive display systems.

While continuing to grow our domestic client base, the company laid the foundation for a global reseller network in every major world marketplace. With Authorized Resellers representing n-Vision in nine countries on four continents, n-Vision greatly expanded market penetration in Europe as well as the Pacific Rim, resulting in an increase of 117% for 1997 international sales. As world markets continue to open and become more interdependent, n-Vision is prepared to further develop reseller relationships that will increase our international presence.

New strategic alliances were formed, most notably with Silicon Graphics, Intergraph Computer Systems, Real3D, and The Solution Group™, a landmark consortium of leaders in the simulation marketplace led by Paradigm Simulation. These important alliances allow us to ensure product compatibility, leverage combined marketing and sales resources, and greatly enhance our position as the leading provider of high performance immersive display solutions to their customer base.

Defense trainers around the globe utilize the monoscopic display system as a "virtual gun sight," deploying the device in a variety of simulators ranging from field artillery to shoulder-fired missiles.

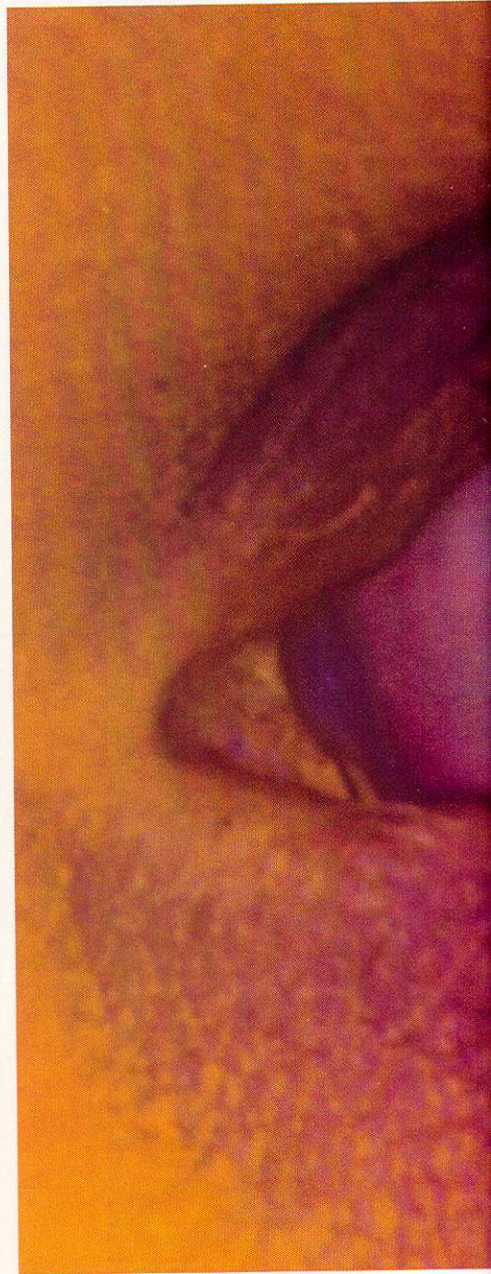


The acceptance and implementation of cutting edge technology is not limited to the United States. To remain competitive, rapid adoption of immersive technology, along with the recognition of n-Vision's status as the developer of the highest performance immersive display systems, is taking place in the world's leading markets.



To reinforce our alliances, reseller networking, and sales activities, n-Vision increased its web presence, advertised in leading industry publications, and participated in key industry conferences and exhibitions throughout the year. Trade show participation was carefully chosen to target domestic and international business at SIGGRAPH, government and military simulation and training agencies at I/ITSEC, important European defense markets at ITEC, and key market segments, such as medical technology, at the MMVR (Medicine Meets Virtual Reality) conference. Besides focusing on industry interests, the n-Vision message at these shows reflected a company with the market experience to help clients, large and small, fulfill their missions with specific visualization solutions.

These activities collectively strengthened our image, enhanced our visibility with industry veterans as well as new adopters of immersive technology, and affirmed the value of n-Vision as an alliance partner. The growing reputation of n-Vision's products and expertise was marked by numerous invitations to collaborate in the trade show booths and marketing activities of other leading companies in the visualization industry.



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1997



Surgeons and students at the University of Colorado Center for Human Simulation experience realistic microscopic views with the Virtual Binoculars HiRes 3D display system to safely practice delicate ophthalmic surgery by interacting with a high-resolution, computer-generated eye.



Positioned for the Future

1997 was a year of favorable results and momentum building for n-Vision. With increased acceptance of our product line among our traditional customers, new ground being broken in dynamic international markets, and an increasing number of industries demonstrating a serious interest in the benefits of immersive display technology, the outlook for n-Vision is positive and promising.

Stable profit margins and a revenue increase of almost 120 percent over the previous year encouraged us to expand our already aggressive efforts in the vital areas of product innovation and marketing. With key strategic alliances and partner relationships established, we solidified our position as the leader in our industry, offering premier immersive display solutions. n-Vision enters the next fiscal year with its management, staff expertise, products, and services well positioned as we pursue increasing market leadership and profitability.



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