Welcome to the Q4 and full year 2019 MicroVision, Inc. Financial and Operating Results Conference Call. (Operator Instructions) Please note, today’s event is being recorded. I will now turn the call over to Lindsey Stibbard. Please go ahead.

Thank you. Good afternoon and welcome everyone to MicroVision’s Fourth Quarter and Full Year 2019 Financial and Operating Results Conference Call. Joining me on today’s call are Sumit Sharma, Chief Executive Officer and Steve Holt, Chief Financial Officer.

The information in today’s conference call includes forward-looking statements, including statements regarding opportunities to license our technology; evaluation of strategic alternatives; development of perceptive automotive lidar; potential effect of COVID-19 on operations; compliance with Nasdaq listing standards; potential partnership structures; expected customer orders; progress under and benefits of existing contracts and license agreements; the negotiation of future agreements; advantages of our technology; progress with prospective customers; business execution and abilities of management and staff; projections of future operations, growth and financial results; product development applications and benefits; availability and supply of products and key components; commercialization of our technology; and potential market opportunities; as well as statements containing words like target, intend, believe, path, expect, will, could, would, opportunity, grow, potential, evident, create, evaluate and other similar expressions. These statements are not guarantees of future performance. Actual results could differ materially from the future results implied or expressed in the forward-looking statements.
We encourage you to review our various SEC filings, including our Annual Report on Form 10-K filed on March 6, 2019, our Form 10-Qs filed on April 26, 2019, July 19, 2019, November 6, 2019 and other SEC filings made from time to time in which we discuss risk factors associated with investing in MicroVision. These risk factors could cause results to differ from those implied or expressed in our forward-looking statements. All forward-looking statements are made as of the date of this call, and except as required by law, we undertake no obligation to update this information.

The financial numbers presented on the call today are included in our press release and in the 8-K filed today. Both are available from the Investor Relations section of our website. This conference call will also be available for audio replay in the Investor Relations section of MicroVision's website at www.microvision.com.

And now I'd like to turn the call over to our new CEO Sumit Sharma. Sumit?

**Sumit Sharma**

Thank you, Lindsey. Good afternoon everyone. First off, I would like to take a few minutes and introduce myself as I take on the Chief Executive Officer role and assume a position on the MicroVision Board of Directors.

I joined MicroVision in September 2015, four and a half years ago, to lead the company’s Engineering, Operations, and R&D functions. Most recently, I served as Chief Operating Officer where I have been responsible for Business Development, Engineering and Operations. I have been fortunate enough to have the opportunity to drive our direction and execution for the last two years.

I first became aware and gained appreciation of MicroVision’s technology and what it could achieve in 2006 when I served as Vice President of Engineering and Operations at MicroOptical and through my time at Google [X]. I am personally humbled, honored and excited to have the opportunity to lead the company into the future with the support and commitment of a very capable staff. We are committed and excited and, we believe, that our best products and opportunities are still ahead of us.
As you know, we have been working with a North American technology OEM for a 2020 launch of our interactive display module in their product line and we expected to complete a supply agreement. We were recently informed by the OEM that for various reasons they were no longer targeting a 2020 launch of their product. These reasons were NOT related to our technology or capability to execute in production. They shared with us that internal considerations factored into their decision not to launch in 2020, but did not provide details of these internal discussions. This, of course, was a very disappointing and big surprise to us. While we worked with them to explore all reasonable options for a 2020 launch, their internal reasons for this decision were something we could not overcome. We believe that we remain in good standing with the OEM and its teams.

As a result of this decision, the company would have faced financial challenges in 2020. Therefore, on February 25th with a heavy heart, we announced a reduction to our workforce of approximately 60% to reduce our expenses and create an appropriate runway to allow us to monetize the vertical markets we have created products for, namely Augmented Reality, Consumer Lidar and Interactive Display. We are currently actively engaged with multiple interested parties to evaluate various opportunities to license our IP as well as other strategic alternatives. The management team and I are committed, with a sense of urgency, to find a monetization path through licensing to support our go forward strategy. We are actively engaged with our board to evaluate and consider all options and alternatives to maximize shareholder value.

Let me also comment on our April 2017 contract customer. We are amicably working with them to provide continuity of supply that is consistent with our contract and the non-exclusive license to use our technology in their products. Again, we believe we are in good standing with them as we cooperatively move forward.

With our timely action to reduce the workforce and the ability to raise additional funds using the Lincoln Park facility as needed, we believe, we have created runway that will allow us the opportunity to close one or more licensing agreement in the first half of 2020. We have retained critical staff needed to support technology transfer for a potential license agreement.

I am impressed by our staff who remain engaged in our path to recovery and growth. The value of the technology we have created is evident to them, and confirmed through the response of our OEM
partners, who include a list of the highest tier companies. I expect MicroVision to grow again through this tough time and that our dedicated employees and shareholders will also enjoy the fruits of that growth in the future.

I believe MicroVision’s future lies in developing our Perceptive Automotive Lidar products and entering partnerships with automotive Tier 1 suppliers. Since 2019 we have been actively engaged with presenting our technology roadmap to automotive OEMs and Tier 1 suppliers, and have continuously received positive feedback on our products and potential partnership structures. We are currently developing our first Automotive Lidar samples targeted for OEM demonstration in Q4 2020. I believe our Perceptive Lidar products will bring true solid-state Automotive Lidar capable of an operating range greater than 200 meters with perceptive edge computing in full sunlight first-to-market. My desire to relocate to Seattle four and a half years ago and join MicroVision was rooted in what I knew would be possible with our core technology applied to Perceptive Lidar products.

I would again like to thank the board for their confidence to let me lead MicroVision. Knowing all the professional and personal challenges ahead for me and for our employees, I am happy to have this opportunity every day. The path is tough, but not impossible, and I truly believe that our best days are ahead of us.

I’ll now turn the call over to Steve, our CFO, who will discuss the financial side of our business.

**Steve Holt**

Thank you, Sumit. Good afternoon, everyone.

For the fourth quarter, revenue was $4.6 million, with approximately $4.1 million of product revenue, $376 thousand of contract revenue and the balance from license revenue. The product revenue came from two sources: first, $3.6 million dollars came from the shipment of components to our April 2017 customer, and second, we recognized $594 thousand of revenue on the projection engines we built for Ragentek.
In comparison, last quarter we recognized $1.2 million of revenue, with about $1 million in product revenue and the balance in contract and royalty revenue.

Revenue for 2019 was $8.9 million, $5.3 million in product revenue, $3.4 million in contract revenue and $99 thousand from royalties.

Fourth quarter cost of revenue was $3.4 million, resulting in a gross profit of $1.2 million. $594 thousand in gross profit was from the revenue on the Ragentek units, which had zero cost of sales. The components we shipped to our April 2017 cutomer, had a gross profit of $213 thousand or 6% of revenue, and we had $372 thousand in gross profit on contracts and royalties.

In comparison, gross profit was a negative $882 thousand in Q3.

Gross profit for 2019 was $332 thousand, $1.6 million from contract revenue, $99 thousand from royalties, and negative $1.3 million from product revenue.

Fourth quarter operating expenses were $4.5 million. We are not paying management or executive bonuses for 2019 though estimated bonuses were accrued in the first three quarters of the year. So the $4.5 million of opex in Q4 is $770 thousand dollars lower as the result of those accruals being reversed in Q4.

For reference, operating expenses were $5.3 million in the third quarter. For the full-year, operating expenses were $26.8 million.

For the fourth quarter, our net loss was $3.3 million or 3 cents per share. This compares to a loss of $6.1 million or 5 cents per share last quarter. 2019’s net loss was $26.5 million or 24 cents per share.

For the fourth quarter cash used in operations was $4.3 million which compares to cash used in the prior quarter of $3.4 million. We ended the fourth quarter with total cash and cash equivalents of $5.8 million. During the fourth quarter we raised $2.7 million from the Lincoln Park Capital facility we established of April 2019, and we also raised about $1 million from a second Lincoln Park facility we established in December.
Now I’d like to discuss the April 2017 contract. First, I want to acknowledge our engineering and advanced manufacturing teams who took this product to production and did an outstanding job. Our quality was excellent and our yields were above 95%, almost out of the gate. Our teams really performed well and delivered a stable manufacturing process. The fact that our gross margin on this product was 6% in the fourth quarter is a function of the low volumes. The manufacturing has been very smooth.

The backlog we had for this contract at December 31st was $6.7 million dollars and we have received another $1.7 million in orders during the first quarter. That totals $8.4 million dollars, to be delivered over the next several quarters. Obviously, the low volume and associated revenue and gross profit are not sufficient to support our operating expenses. So we are exploring transferring production to the customer and accepting a royalty for each component shipped. The royalty would be about the same as the gross profit dollars we earn on the product now. This would help us lower our cost structure and reduce working capital, but maintains upside in the event that the customer’s product experiences much higher volumes in the future. Discussions are on-going.

Now I’d like to turn to Nasdaq compliance. In late January we appeared before Nasdaq to seek a six month exemption to the $1.00 minimum bid price requirement. That request was granted and the company has until June 9th to regain compliance. We expect our proxy to have a provision for a reverse stock split that would take effect IF we have not regained compliance before our May 19th Annual Shareholder Meeting. IF we need a reverse stock split to regain compliance, the ratio for a reverse stock split will be determined by the board of directors based on the stock price at the time of the Annual Shareholder Meeting. IF a reverse stock split is completed, the percentage ownership in the company of each shareholder is not affected.

Now I’d like to turn to the coronavirus. The virus did delay our production restart by a week after the lunar new year, and production has been slower due to fewer employees at the contract manufacturer. As employees clear quarantine we have seen production increase. We do expect there to be an impact to Q1 production, and possibly Q2, but we cannot accurately quantify the amount of that impact at this time. At our Redmond, Washington headquarters, employees are both working at the office and from home depending on the tasks they’re working on. Work is continuing to get done in a timely manner.
Also, due to the virus, we have decided to hold a virtual annual shareholder meeting, and not our usual in-person meeting. Information on how to attend the virtual shareholder meeting will be in our proxy.

And finally, I’d like to note that I’ve enjoyed working with Sumit for the last four and a half years, and am looking forward to working with him to address the challenges ahead and making MicroVison a success.

I will now turn the call back over to Sumit for a few comments before we open the call to questions.

Sumit Sharma

Thank you, Steve.

I would like to re-iterate our commitment and sense of urgency to secure partnerships to license and monetize our product verticals and other strategic alternatives that maximize shareholder value. We are thankful to our employees and shareholders for their continued support and opportunity to create a stronger company for the future.

Thank you we will now open the call for the questions.

Q&A

Sumit Sharma

Thank you, operator. In closing, I want to thank our employees, business partners and our investors for their continued support.