Operator
Good day and welcome to the MicroVision Fourth Quarter 2019 Financial and Operating Results Call. (Operator Instructions) Please note, this event is being recorded.

I would now like to turn the conference over to Lindsey Stibbard. Please go ahead.

Lindsey L. Stibbard MicroVision, Inc.
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 alternative, 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-Q 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 MicroVision, Inc. - CEO & Director
Thank you, Lindsey. Good afternoon, everyone. First off, I'd 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, 4.5 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 be -- to have the opportunity to drive our direction and execution for the last 2 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'm 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 on these 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 was 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 25, 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 a nonexclusive 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 workforce and the ability to raise additional funds using 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'm 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, we -- 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 would 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 road map 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 4 and a half years ago and join MicroVision was rooted in what I know -- 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'm 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.
Stephen P. Holt MicroVision, Inc. - CFO

Thank you, Sumit. Good afternoon, everyone.

For the fourth quarter, revenue was $4.6 million, with approximately $4.1 million of product revenue, $376,000 of contract revenue and the balance from license revenue. The product revenue came from 2 sources. First, $3.6 million came from shipments of components to our April 2017 customer; and second, we recognized $594,000 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 $99,000 from royalties. Fourth quarter cost of revenue was $3.8 million (sic) [$3.4 million], resulting in a gross profit of $1.2 million. $594,000 in gross profit was from the revenue on the Ragentek units, which had 0 cost of sales. The components we shipped to our April 2017 customer had a gross profit of $213,000 or 6% of revenue, and we had $372,000 in gross profit on contracts and royalties. In comparison, gross profit was negative $882,000 in Q3. Gross profit for 2019 was $332,000, $1.6 million from contract revenue, $99,000 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 in -- for 2019, though estimated bonuses were accrued in the first 3 quarters of the year. So, the $4.5 million OpEx in Q4 is $770,000 lower as a 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 $0.03 per share. This compares to a loss of $6.1 million or $0.05 per share last quarter. 2019’s net loss was $26.5 million or $0.24 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 quarter, we raised $2.7 million from the Lincoln Park capital facility we established in April of 2019, and we also raised an additional 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 have for this contract at December 31 was $6.7 million, and we've received another $1.7 million in orders during the first quarter. That totals $8.4 million 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 shift. The royalty would be about the same as the gross profit dollars we earn on the product now. This will help us lower our cost structure and reduce working capital, but it maintains upside in the event the customers' product experiences higher volumes in the future. The discussions on that are ongoing.

Now I’d like to turn to NASDAQ compliance. In late January, we appeared before the NASDAQ to seek a 6-month exemption to the $1 minimum bid price requirement. That request was granted, and the company has until June 9 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 the 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 the 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 of contract manufacturer. As employees clear quarantine, we have seen production increase. We do expect there to be an increase to Q1 production and possibly Q2, but we cannot accurately quantify the amount of that impact at this time.

Our Redmond, Washington headquarters -- at our headquarters, employees are both working at the office and from home depending on the tasks that 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 have enjoyed working with Sumit for the last 4.5 years, and I'm looking forward to working with him, addressing the challenges ahead and making MicroVision 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 MicroVision, Inc. - CEO & Director**

Thank you, Steve.

I would like to reiterate 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 to questions.

**QUESTIONS AND ANSWERS**

**Operator**

(Operator Instructions) The first question comes from Glenn Mattson from Ladenburg Thalmann.

**Glenn George Mattson Ladenburg Thalmann & Co. Inc., Research Division - VP of Equity Research**

So as it relates to monetizing IP, what's your general -- Sumit, what's your general experience for how long it should take? It's surprising that you feel like you could get something done reasonably quickly and that it doesn't feel like there's been much done to date because perhaps, many people are thinking about this being kind of an option that wouldn't hopefully be needed. But anyway, we're here now. So curious how long do you think it would take. And then what -- just what part of the patent portfolio is viewed to you as like core and something that you wouldn't want to part with almost under any circumstances, and which parts are more likely to be monetized in the medium term?

**Sumit Sharma MicroVision, Inc. - CEO & Director**

I think, first off, you could think about it that being a public company, all our partners always know we're up for any kind of opportunity they want to present. They're always evaluating us, right? And we are engaged with some of the top OEMs in the world that value our technology, right? Sometimes because of NDAs, we're not able to talk about it, but in general, I think they are aware about it. So I clearly say that I believe very strongly that in first half 2020, we should be able to get some level of agreement with one or more on the product verticals.

So, I think your question had 2 parts. The second part was what part of the IP portfolio patent portfolio. When you think about IP, you think about not just the patent, but also our designs, our products, our know-how, our algorithms. There's a whole body of work that goes with it. So, if you think about our interactive display module, for example, right, a product that some of you have visited -- some folks have visited CES. They had an opportunity to look at the devices, these are real things with real production lines and ready to go.
Think about the licensing, anything like that, design to be licensed away, right? So, people are engaged, as I mentioned. They're actively looking at it, and we're working through them. They have questions or due diligence and looking forward to finding a common ground where we can agree.

Glenn George Mattson Ladenburg Thalmann & Co. Inc., Research Division - VP of Equity Research

Okay. And as you think about funding operations going forward, do you bake into your plans some level of expectations that the customer, the large North American OEM who decided not to go to production -- do you factor in that they could come back in 2021 and you need to be prepared for that? Or is that -- I guess how much of that kind of that process delaying them?

Sumit Sharma MicroVision, Inc. - CEO & Director

That's a good question, right? So, in a subtlety, the 2020 launch is what is not happening. We're in good standing. All other options for 2021, obviously, would be available. But for us to continue funding out through 2020, we have to look at alternative options.

Glenn George Mattson Ladenburg Thalmann & Co. Inc., Research Division - VP of Equity Research

Okay. And perhaps, can you give us an idea of how much is left on the Lincoln Park in total? You mentioned that you talked about 2 different facilities.

Stephen P. Holt MicroVision, Inc. - CFO

Yes. The line that we set up in December was a $16 million line. We took $1 million in the fourth quarter. That would be $15 million.

Glenn George Mattson Ladenburg Thalmann & Co. Inc., Research Division - VP of Equity Research

And is there anything that could trigger the -- I mean I think I've read the document pretty clearly. But is there anything that I may have missed that could create their ability to get out of that agreement at all or anything?

Stephen P. Holt MicroVision, Inc. - CFO

I can't give you a blanket statement, but there's nothing that I'm aware of at this time.

Operator

(Operator Instructions)

Stephen P. Holt MicroVision, Inc. - CFO

I'm just being nudged by somebody here in the room that said I may have misspoke when I said the cost of revenue number, I may have said $3.8 million, and the number is $3.4 million. So just correct that.

Operator

There are no more questions in the queue. This concludes our question-and-answer session. I would like to turn the conference back over to Sumit Sharma for any closing remarks.

Sumit Sharma MicroVision, Inc. - CEO & Director

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

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.
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