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PRESENTATION

Operator

Good day, and welcome to the MicroVision Third Quarter 2020 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. - Paralegal*

Thank you. Good afternoon, and welcome, everyone, to MicroVision's Third Quarter 2020 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 exploration of strategic alternatives; sale of our product verticals or technology; sale or merger of the Company; potential value of the company; managing costs; completing a strategic transaction; maximizing shareholder value; expected customer orders; future royalties; progress under and benefits of existing contracts and license agreements and the negotiation of future agreements; product availability and product sales; advantages of our technology; intellectual property; business execution; projections of future operations and financial results; availability of funds; product development applications and benefits; availability and supply of products and key components; commercialization of our technology; market size; market opportunities and future demand; as well as statements containing words like opportunity, potential, possibly, intend, confident, targeting, estimate, believe, goals, objectives, focus, paths, expects, plans, will, could, would, likely, resulting 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 12, 2020, Form 10-Q filed on August 6, 2020, as well as various 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 Sumit Sharma. Sumit?

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

Thank you, Lindsey. Good afternoon, everyone. It has certainly been a busy time for us all, and I'm glad to be here. I hope and wish everyone listening is staying safe through the pandemic and multiple resurgent waves that communities are experiencing. I want to thank all our employees who are working incredibly hard and continuing to deliver key development milestones for our first-generation MEMS scanning long-range LiDAR.

MicroVision is focusing on finding strategic alternatives that provide the right value for our shareholders. Today, we have 41 talented people focused and working hard towards accomplishing this goal, which could include a sale of the Company in a transaction that would recognize both the short and the long-term value of our technology.

We continue to explore all options while maintaining strict control of our expenses. With the support of our shareholders and continued dedication and health of our employees, we are prepared for the work ahead.

I would like to start by sincerely thanking all our shareholders for your support in approving the authorization of 60 million additional shares of common stock at our special shareholder meeting a few weeks ago. Approximately 115 million shares voted in this special election with greater than 95% of these votes in favor of the Company proposal to increase the number of shares.

I believe your strong support removes ambiguity about our capability to explore and complete any strategic alternative, including a sale of the company. I firmly believe the additional shares availability will help provide the operational flexibility to continue to pursue a strategic transaction that reflects the impact our verticals would have on these market segments.

The COVID-19 pandemic continues to grip -- continues its grip on our lives. Global markets are experiencing macroeconomic pressures, which by some estimates, could run well into 2021. I believe this has created an environment for consolidation of technology companies.

We also believe the important and expected future scaling in augmented reality and automotive LiDAR will continue. We believe that we have a solid IP and technology portfolio in both verticals, which represents value for our shareholders.

Let me be more specific about this point. MicroVision has a long track record of delivering advanced products in augmented reality with our laser beam scanning, or LBS, technology. Our full intellectual property body of work has been invested in and created by MicroVision over a long period.

Our IP includes in-house developed custom MEMS, custom optics, proprietary digital and analog silicon chips, embedded real-time firmware and software, manufacturing processes, custom automation and strategic partnerships that allow us to operate in a fabless model.

MicroVision modules function as the micro-display engine, which is a key enabling technology required for augmented reality headsets. OEM-controlled pupil expanding waveguides, coupled with our micro-display engines, are required to create the wide field of view, high definition and see-through user experience required in the augmented reality segment.

We have been focused on miniaturizing and optimizing all aspects of our LBS technology and hardware. OEM decoupling of the waveguide development from our MEMS micro-display engine affected MicroVision's ability to invest in any specific waveguide platform. However, I believe that we still have the most advanced and competitive technology with our micro-display engine for the augmented reality headset market.

We believe the process of exploring strategic alternatives has allowed potentially interested companies the benefit of reviewing our technology and allowing us to showcase current and future possibilities. I believe we have the IP, talent and partnerships in place to develop the next-generation, custom, high-volume display engine to meet OEM requirements.

With respect to our IP, MicroVision has granted very few limited licenses for use of our technology in LBS products.

We believe our approach of having very few limited licenses for use of our technology, coupled with the depth of our IP and state of technology development, represents a strong value proposition in a potential acquisition or other strategic alternatives.

We believe this approach provides an opportunity for future cost avoidance by an acquiring party, faster time to market for potential, high unit volumes and supports their multi-generational product road maps.

To elaborate a bit on our strategic advantage in this vertical. I would characterize all inquiries we have received in this vertical as looking at multi-generational product road maps our technology could support and are not limited to a single product.

We have worked very hard to show interested parties the expanse of what could be possible with our technology. I'm happy and proud to say that we showcased our technology as potentially being able to deliver multiple products that could be significantly more advanced than what these parties require or expected.

I believe that we are in an excellent position to realize value from our technology as OEM AR products come to market. With the positive outcome of our October 8th special shareholder meeting, we look forward to continuing our exploration of strategic alternatives with parties that are potentially interested in the augmented reality vertical.

Our objective remains to establish the appropriate value for this vertical, which reflects continued expected growth in AR market using LBS technology.

The second area I would like to update you on is our automotive LiDAR vertical. Let me first start with some context on expected market size, importance of MicroVision automotive LiDAR technology and substantial strategic advantage, we believe, we will provide to an interested party. Companies adopting automotive LiDAR sensors are trying to address a market which includes traditional OEMs focused on active safety systems and new companies focused on mobility as a service.

OEMs are preparing to transform their future business with fleets including a larger portion of fully electric vehicles that offer enhanced safety features as well as expanding safety features in their traditional fleet. This is analogous to the introduction of airbags, which eventually arrived in every car, with the help of regulation, by showing the benefits to safety.

There's also a new emerging segment being driven by privately held AI software technology companies focused on autonomous driving to deliver mobility as a service. Using autonomous vehicles, mobility as a service companies are endeavoring to change ridesharing, long-haul transportation and last mile delivery services and their impact on consumer and business-to-business transactions. Both these market segments will need a suite of sensors ranging from LiDAR, radar, camera modules and ultrasonic sensors to achieve these goals.

According to industry reports, the automotive sensor market is expected to grow from $8.7 billion in 2020 to $22.4 billion in 2025. Within these numbers, automotive LiDAR by itself is expected to grow at 113% compounded annual growth rate going from a projected $400 million in revenue in 2020 to $1.7 billion in 2025. This revenue in 2025 would represent only 2.3% of all vehicle classes sold globally and according to some industry reports is expected to reach approximately 10.3% by 2032.

Some industry projections estimate that up to 5 LiDAR sensors will be required per vehicle to achieve expected safety standards. We believe automotive LiDAR is an important market opportunity for our technology. Another important validation of this opportunity appears as we start to see stand-alone LiDAR companies go public through special purpose acquisition company deals. These LiDAR companies have invested in development and are expanding with large talented teams as stated in their public filings. These new companies are addressing multiple market segments with revenues greater than $100 million annually with expectations of significant growth in the future. They have also publicly stated they expect to invest in developing their technology for years to come at high levels of expenses in their foreseeable future.

Even with the high required investment ahead and associated risks, these new LiDAR companies are valued at market capitalization in the multiple billion-dollar range. We believe MicroVision is well positioned to impact this segment with our automotive LiDAR technology and IP.

Current LiDAR sensors in the market have limitations in meeting specifications required by targeted OEM and mobility companies. These companies expect LiDAR sensors to deliver 200-meter detection range, low angular resolution which requires high-density point cloud, wide fields of view, capable of operating in full sunlight, small size that can blend into car styling, meet automotive reliability for 15 years of operational life, provide

velocity data of objects within the field of view and price competitive at scale. Most sensors on the market today are primarily mechanical scanners with small handfuls using other techniques.

Cost structure, size and performance of the products on the market do not meet current or future trajectory of requirements. MicroVision expects to be able to offer a solid-state LiDAR sensor that is based on highly scalable silicon wafer processing and our LBS technology. Throughout our history, we have demonstrated the miniaturization, reliability and scalability of our LBS technology.

Our team is working to complete a sensor hardware capable of meeting all required OEM and mobility company specifications. This product represents our first-generation MEMS scanning long-range LiDAR. We believe this hardware could allow automotive OEMs, Tier 1 and pure-play LiDAR companies to secure high-volume OEM business as well as provide direct sales opportunities to mobility, industrial and topography market segments. I believe the work to complete our long-range LiDAR hardware represents significant value to our shareholders.

As many of you know, MicroVision has invested in R&D and product development in LiDAR technologies since as far back as 2011. I believe that our automotive LiDAR sensor implemented with our LBS technology will have a sustainable strategic advantage with features, performance, price and reliability for several generations.

We have been developing our first-generation MEMS scanning long-range LiDAR product for a 2021 introduction prior to the changes to our strategy in 2020. Our long-range LiDAR sensor is expected to have a 200-meter detection range of 10% reflectance objects, dense point cloud output, new proprietary scanning technology that allows operation in full sunlight and be first in market with outputting velocity data in a scanned MEMS LiDAR using a 905-nanometer laser in Class 1 safety systems. We believe this would be a groundbreaking product.

Our first sensor is expected to be slightly larger than a VHS cassette in size. And with future implementation of our custom silicon, this size will reduce significantly. I expect the hardware for demonstration and benchmarking could be available in April 2021 time frame. I also expect that a version of this first-generation LiDAR sensor could be available for sale in Q3 2021. I believe this dual opportunity for both long-term and short-term revenue for the first-generation product would represent significant value to parties interested in strategic alternatives.

In closing, we believe the market is starting to plan for growth in both AR and automotive LiDAR segments. Our LBS technology could potentially provide a sustainable strategic advantage to an acquiring party and allow that acquirer to potentially avoid significant future expenses and product development risk.

Our team remains committed to maximizing value for our shareholders. We remain focused on pursuing strategic alternatives and working through the process while maintaining our required expenses appropriate for such efforts.

I would like to thank our dedicated employees on effectiveness in their work and our shareholders for their continued support. With that, I would like to turn over the call to Steve.

Stephen P. Holt - *MicroVision, Inc. - CFO*

Thank you, Sumit. Good afternoon, everyone.

For the third quarter, revenue was $639,000 with $539,000 of royalty revenue and $100,000 of production -- product revenue. All of the third quarter royalty revenue was attributable to our April 2017 customer.

Product revenue is related to projection engines we made for Ragentek back in 2017. In the third quarter, MicroVision and our distributor concluded legal action with Ragentek. As a result of the settlement, we were able to recognize an additional $100,000 of revenue.

In comparison, in the second quarter, we recognized $587,000 of revenue with $572 million in royalty revenue.

Third quarter cost of revenue was $0. The resulting gross profit was $639,000. In comparison, second quarter gross profit was $588,000, which included a warranty credit of $1,000.

Royalties associated with the April 2017 customer that are due to MicroVision will be credited against the prepayment made by the customer. When the prepayment is exhausted, the April 2017 customer will begin making cash payments for royalties due.

At the end of Q3, the balance of the prepayment stood at $8.2 million. This $8.2 million is on the balance sheet as a contract liability. ASC 606, the applicable revenue standard, requires the companies estimate and disclose the timing of when those liabilities are expected to be recognized. This information will be found in the revenue recognition footnote in our Form 10-Q, which will be -- which we will be filing shortly.

Our current estimate is that approximately $400,000 of the $8.2 million will be recognized in Q4 for a total of about $1.7 million being recognized in 2020. Operating expenses were $3.5 million in the third quarter, in line with the $3 million to $3.5 million range we provided on our last call. In comparison, operating expenses were $2.9 million in the third quarter. The increase of about $500,000 is mostly due to noncash compensation and engineering materials and subcontractors to produce our automotive LiDAR proofs of concept and prototypes.

Noncash compensation is related to an employee retention program we put in place to help retain employees while the company explores strategic alternatives. This retention program was for employees and excluded Section 16 officers. Our head count at the end of September was 35, comprised of 25 in engineering and 10 in SG&A.

For the third quarter, our net loss was $2.8 million or $0.02 per share. This compares to a net loss of $2.3 million or $0.02 per share in the prior quarter. The third quarter cash used in operations was $3.5 million, which compares to cash used in the prior quarter of $3 million.

In the fourth quarter, I expect our cash used in operations and capital equipment purchases to increase. We are procuring components, tools and equipment necessary to build the automotive LiDAR hardware that we are targeting to be ready in the April time frame. Additionally, we paid a $625,000 invoice in Q4 related to parts we shipped earlier this year in Q1. There was a dispute with the supplier, and that had delayed the payment.

Additionally, you may recall that during the second quarter, we secured $1.6 million of funding under the payroll protection plan. We expect a portion of the $1.6 million will be forgiven based on the rules of the PPP program. Our estimates show that we expect about $690,000 to be forgiven and that we will need to repay about $900,000. The monthly payment to repay the unforgiven portion of the loan should be around $50,000, and that's per month, and that begins in Q4. As it is possible that the rules of the PPP program could change, the amount to be forgiven could also change.

So all these items give us an expected Q4 cash usage in operations plus capital expenditures of around $5 million, plus or minus $300,000. The timing of much of this will be late in the quarter, and it is possible that some will fall into Q1, but I wanted to let you know that we do expect an increase in Q4.

We are trying to keep expenses down and minimize negative cash flow. And as Sumit said, we believe completing our LiDAR hardware development is important because it could drive a significant increase in valuation for the Company. Value increase comes from the elimination of the development risk and that a potential acquirer could be acquiring a product that could be ready for shipment in the second half of 2021.

We ended the third quarter with cash and equivalents of $5 million. Thus far, in the fourth quarter, we have raised $5.8 million from our Lincoln Park Capital facility. Our goal is to maintain sufficient cash position to give potential acquirers confidence that we have the necessary capital and resources to have a successful transaction and balance that against dilution that would come along with raising cash through the sale of stock.

Adding the $5.8 million to the $5 million we had at September 30, we believe we have sufficient cash to fund operations through the first quarter of 2021. There currently remains about $200,000 available to the Company on the Lincoln Park facility.

Finally, I'd like to turn our attention to intellectual property and licensing. We've had some investor questions about licenses for our technology. At this time, we are party to 3 licenses for our technology. Our April 2017 customer has a limited license to produce specific components for use in a specific product.

Second, in May 2018, we granted a 5-year limited license to a technology company to produce display-only products that incorporate our components. That license does not include the right to use our technology and augmented reality or near-eye micro-display engine products.

Third, in 2016, we granted a royalty-bearing license to a Taiwanese manufacturer to make scan beam display products. We have received immaterial royalties under this license agreement. As we have not received nor expect to receive material royalties from this license, we do not expect to extend this license beyond its current expiration date in 2022. With that, we will now open the call up to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question today will come from Glenn Mattson with Ladenburg Thalmann.

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

So first, Steve, while we're on the topic of cash burn and stuff. So just the elevated CapEx and just generally speaking, the elevated use of cash that you expect in Q4. Is that -- I understand there's a lot of moving parts with the potential acquisition and things like that. But assuming that you continue to pursue the path you're on currently, is that expected to continue to be elevated in Q1? Can you give any color as to if it's kind of onetime in nature or if it's recurring?

Stephen P. Holt - *MicroVision, Inc. - CFO*

Yes. I think it's not -- I expect it to be a bit lower in Q1. But like you said, there's movement from -- it's -- a lot of the timing of this stuff is right at year-end. So it's going to be tough to pick which quarters, but I don't expect it to be going up at an increasing rate.

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

Okay. Great. And then, Sumit, thank you for the color, especially on the automotive LiDAR. There is obviously some public companies now in that space. And so we have a little more understanding of like where the market is valuing some products in that space. So I guess -- you mentioned that as well. I guess I would just be curious as to how you think your product set, once it's available, will match up with the things that are out there already.

And then given the opportunity is so large, and given you're so close to fruition of years and years of development, I guess the question would be like, how do you balance the fact that if you sell the company in the medium term, you're giving up maybe on a lot of the upside potential that could be out there, given how these other companies are valued based -- versus their current revenue streams?

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

I think that's a good point to bring up. There is pure-play LiDAR companies out there, and they give a great benchmark of what may have been possible. So I think if you think about our path as a product, conversation in verticals now becomes important, in the automotive space versus our other verticals, the same body of work allows us to develop a product. And as I described, and I wanted to be somewhat more open about it in the call today, it's the size of a VHS cassette compared to the thing that you see outside in other companies that are public or nonpublic. Those are

easily things that folks can get their data points on. So it's significantly starting to look like what a sensor that goes into the automotive space looks like and behaves like.

And if there was another opportunity for LiDAR to find a home that could be a big growth opportunity, automotive is a great one obviously. So what's exciting about that space in general, and then I'll get back to like what about us, you think about the rolling out of a product like that is not like fire. And that's what I wanted to make sure people understand. Except the size of the market is so large, 90 million vehicles sold a year. So it kind of boggles your mind, right? Even though it's low, you're talking about big numbers, and that requires a different level of scaling. Of course, I think if MicroVision was -- had the opportunity to get partnerships together and launch a product and generate revenue, obviously, our enterprise value would be significantly better obviously. I mean that goes without saying.

But when we're focusing on strategic alternatives, and that's what I wanted to be very clear in our call today, this represents the value for a potential interested party. There's obviously a long-term gain of the market that I just described, also the potential of having a product that could be some short-term revenue that will generate. So would MicroVision ourselves have been able to be successful there? Of course, I believe that. I think it'd be silly for me not to believe that. But I think where we are, we have to be realistic about being -- strategic alternative, having offered it to the market, everybody is reviewing it a certain way. Then you really have to put it on the table and look at what the right value for our shareholders is. And that's the real emphasis I want to put in today's call, the theme is there's value and there's right value. And it should be clear. We understand what right value, we think, is for the company, and we intend to drive towards it. Does that answer your question, Glenn?

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

Yes. No. That's helpful. Just I mean I guess the scope of coming to market may be bigger than MicroVision is currently capable of is what you're basically trying to say. So that's fair and valid.

The -- on the consumer LiDAR products that you guys have kind of shopped around in the past, have you seen -- there's been obviously Apple incorporating some consumer LiDAR scanner into their products. So does that spark a higher level of interest, generally speaking, in that market or anything on that front?

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

In general, on the consumer LIDAR, the interest is, I would just say, neutral as before. One distinction I would like to make is the product that Apple has talked about, those are flash-based LiDAR, based on a different technology, different price point. Our consumer LiDAR, based on -- does something different that, that flash-based LiDAR may not have been able to do as well. So they're different things, right? It would not have gone into a handset anyway. But it has a bigger opportunity. IoT products are pretty big. Perhaps not as big as handsets or tablets, but still a significant market.

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

Okay. And then last, I'll pass the call over to someone else. But just could you characterize how you feel? In the past, you've said there are multiple -- you shopped, you looked around and talked to 100 different companies. There are multiple interested parties. Is it -- could you just characterize over the last 90 days, how the -- would you say you're in the same place you were 90 days ago, you've narrowed down the list, you're closer with a few guys or further away than you thought you'd be? Any just general color. I know you can't -- you don't like giving specifics about the deal flow, but just...

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

In general, I would say it is the same list, pretty level. As you can imagine, our October 8 special proxy vote, there's ebbs and flows to things that happened, right? But in general, it's the same list.

Operator

Our next question will come from Kevin Dede with H.C. Wainwright.

Kevin Darryl Dede - *H.C. Wainwright & Co, LLC, Research Division - MD of Equity Research & Senior Technology Analyst*

I was wondering, Sumit, I mean, your shareholders have, I think, to your point, made it clear that they support your endeavors, right, with that October 8 proxy vote and affording you an opportunity to issue more stock and continue. And you're making it explicitly clear, there's no doubt about it, you're making explicitly clear that you're going to continue the strategic direction that you set earlier this year. But I guess what I'm wondering is whether or not that might be something you'd reconsider given where you see your shareholders' parts?

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

Yes. I think that's a great question, right? I think it's -- is there any other plan or anything you're working on? Our focus on strategic alternatives, we got to see it through. It's the -- it's what we established was the next plateau from where somebody would want to have inflection point and the kind of capitalization that'd required moving forward, it would be somebody else.

Do I believe that MicroVision by itself could actually be one of those stand-alone LiDAR companies, for example, or a leader when AR is very big in headset markets? Absolutely. Of course, I do. Absolutely. No doubt in my mind. And as far as the talent, we've always had the talent, and we continue to attract talent. It's the markets that are finally catching up, and so that's exciting. So yes.

But right now, I think it's just generally me, right, and I think what I'd like to say is like you focus on something -- to be successful, you have to hyper focus. You can't be blind to the other options. But again, that's what brings the concept of valuation into it today without -- giving you any kind of broad answer on that. It has to be the right valuation. If the technology can have that kind of impact in the short and the long term, it is in our shareholders' best interest for us to make sure that we establish what impact that would be. And if something is -- it's in the future, right? But we have to see through what's in front of us, which is we have put the company up, and people that are reviewing -- looking at the company, they would be -- they need to have certainty as well that we are committed towards the process. So we are committed to the process. That's the message, but at the right valuation.

So really, I'm hoping that everybody does get the message that it's not just -- we do understand what the value of this stuff is and probably more than a lot of the shareholders probably give us credit for. We do understand it, and we do understand the inflection points, how they actually come about in technology. They're not imagination. It takes time. But we also are committed to the process, as we said. And again, 41 people to date monitoring our expenses. I think a great question that was asked before about capital tooling. It's just what's required to demonstrate a bigger opportunity for potentially somebody else to take that revenue add. And if the right valuation is there, I mean, whatever is in the best interest of shareholders, of course, the Board would get to decide on that. Is that a fair answer, Kevin?

Kevin Darryl Dede - *H.C. Wainwright & Co, LLC, Research Division - MD of Equity Research & Senior Technology Analyst*

Well, I don't know. I mean...

Stephen P. Holt - *MicroVision, Inc. - CFO*

I know what you're looking for...

Kevin Darryl Dede - *H.C. Wainwright & Co, LLC, Research Division - MD of Equity Research & Senior Technology Analyst*

No. I appreciate -- I've always appreciated not just you, certainly, Steve and even your predecessors, being open-minded to the opportunities, given how unique your technology is and the opportunities that can afford your partners. And I know your shareholders see that, too. Clearly, they're as passionate. It's just that there's no right answer, right? You'll have to, I guess, make the best decisions that you see come before you. It just seems to me -- and this sort of leads into my next question for you, Sumit. It's -- I'm curious to know if you've developed maybe a new engine for that close to eye projection in the -- in what you'd consider the AR?

Because you -- I think you have dedicated much of your prepared remarks to that. And I can't recall that you've done that in the previous couple of quarters. So I'm wondering if -- obviously, Steve, spoke to this a little bit, right, R&D expenses increased over 20% sequentially. You're making some investments in auto LiDAR. I'm just wondering if those investments are paralleled in your AR development.

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

The AR development, believe it or not, we were ahead. So in the AR, to make that piece of hardware, of course, takes a significant amount of investment like anything an R&D company has to do. But what I tried to highlight in the prepared remarks, it takes another partner that owns the waveguide. So Kevin, let's say you had a company that's a waveguide. How do I know to partner with you unless I know somebody else would be adopting your technology, and that would have to be still an OEM? So since these 2 things are separated, right, MicroVision was at a slight disadvantage of like you can't invest in all the different technologies that are out there to put them together. But the micro-display part of it, certainly, we have already innovated.

So as I described, I am very proud of what our team did and what we presented. That was quite a surprise to folks that things that we could do for them were beyond the fields of view and beyond image qualities that they actually originally anticipated in our discussion.

So I think our confidence in AR, delivering on AR, of course, is high because we have such a long history with it and pretty high confidence that we can have that completed. Automotive LiDAR, on the other hand, it's a different thing -- different -- the version of our technology, I'll say, the best way to describe it, things that you do in consumer, in automotive are slightly different. It's actually showcasing another dimension to what LBS would be.

The same core stuff can actually enable another larger market, and it does not look and feel like exactly like a consumer and just slap on some duct tape and bubble gum and send it off. It is something unique. And it actually showcases some of the things that we certainly could do also in the AR. Those core things that we're developing in automotive LiDAR. But unless we have a partner here, it's hard to participate in that, not knowing what the waveguide would be and how you would fall in.

So I think I am not -- I'm pretty confident that our position in AR is ahead of what people in the market even anticipate, anything there that people will talk about. But it's -- again, for an acquiring company, this was the best thing because they have multi-generation products now. So our investment -- the investments we're making in automotive LiDAR is because that's the one place, again, market is ripe for consolidation, as I said early on. There's interest there. There are stand-alone companies, there's references. Therefore, it makes sense to have that one vertical also show and -- show something in piece of hardware that allows people to evaluate different dimensions of our Company, different verticals, of course.

Kevin Darryl Dede - *H.C. Wainwright & Co, LLC, Research Division - MD of Equity Research & Senior Technology Analyst*

Right. So your -- I guess the takeaway is -- and please help me if I'm wrong on this, Sumit. The takeaway is that it's -- there's a little less operating room in AR just because you have to forge partnerships across multiple bridges, right, one, to secure the proper waveguide technology. And that -- I guess, that refers to the OEM decoupling that you spoke to versus a...

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

Right. You have -- go ahead. Go ahead.

Kevin Darryl Dede - *H.C. Wainwright & Co, LLC, Research Division - MD of Equity Research & Senior Technology Analyst*

Yes. So versus auto, where, I mean, maybe it's a little easier to -- right, you could work directly with a Tier 1 OEM auto supplier.

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

That's correct. So automotive operates a little bit differently. I think I've already mentioned this early on. In 2019, we had contact directly with top-tier OEMs. So in this case, they're more active because the Tier 1s will come in, but the technology is not coming from Tier 1s. They're either doing partnerships or they're making investments, they're acquiring.

But effectively, a lot of the path that we're on right now, it's not just imagine. It is specifically some OEM input directionally of what the market needs. And these are, as I said, top tier OEMs. So I think it is not -- the risk that you think about, in this case, we own everything to deliver a piece of hardware. There is nothing we couple to. Our data stream goes into a computing platform. Those things that they know our certifications, they know what target specifications that we want. We're on a good path there.

In the case of AR, you have that decoupling, let's say, it's always a slight disadvantage. You can -- we can certainly go off and work with a waveguide partner. What's the probability that, that waveguide partner does or does not get picked by any specific OEM out in the world, right?

And so these kind of things will actually create inefficiencies if you start developing technologies to demonstrate, but you cannot show a path to partnerships.

Kevin Darryl Dede - *H.C. Wainwright & Co, LLC, Research Division - MD of Equity Research & Senior Technology Analyst*

Or commercial...

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

But I think if the partnership was there, I think we have -- we feel pretty confident that our path to demonstrating the technology is not years out. It would be relatively quick.

Kevin Darryl Dede - *H.C. Wainwright & Co, LLC, Research Division - MD of Equity Research & Senior Technology Analyst*

Well, if I'm not wrong on this, you've developed products or at least been a key component in products that have reached at least prototype. And that would suggest that you've worked with intermediate or partner suppliers in developing the full solution. So if you were to take a step back and look at the -- I guess, the cross-section of opportunities, how many, say, waveguide companies do you think could help you get to a full-fledged commercial-ready AR product? And how -- I mean, honestly, how difficult would it be to explore those options?

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

It's actually not difficult at all. I mean I'm not saying this just to be -- to mute that. Honestly, we have a Board member that's very experienced in that, right? And I've known him for a long time. I think we know lots of people in the industry, we know what waveguide are the ones that you want to go with, that would give the experience that people are looking for. Certainly, some top tier OEMs, I think previously, not this year, but I think it was last or the year before, made some acquisitions of waveguides specifically technology-wise, right?

So I think like -- I think we have a pretty good idea of which ones you would want to go after and you would have a high probability. But making an investment like that, especially in AR, which is still, if you think about the volumes, there's volume, but there's not the volume, think about consumer -- as other consumer devices have yet. Until that comes in, it's kind of difficult to make a kind of investment because you may not see that return in a meaningful time frame.

Again, for a tech company with revenue where it is, one would argue, hey, that would be better than where you are. Yes. But the investment you get to that point and the risk associated with an OEM not adopting that waveguide technology is challenging. But the amount of companies in the world is not 100. I would say there's like 10 companies that can do it, and they are at different levels of scale themselves also.

So pick a partner that not only has technology, but they can also scale the technology that you expect the OEM to adopt because we will get the micro-display done. That's the thing, right, we're so far ahead. And I'll talk about the LaSAR Alliance in a little bit. But we can get that display done. But if that waveguide doesn't get adopted, then we're still -- we have to have some level of confidence that OEM is entertaining that. And of course, we can develop or augment our module for any waveguide technology.

Kevin Darryl Dede - *H.C. Wainwright & Co, LLC, Research Division - MD of Equity Research & Senior Technology Analyst*

Okay. Yes. I appreciate it. Can we switch gears a little bit and go back to the auto side? Steve mentioned that you've got 25 engineers, 10 in general and admin. I'm wondering if you think that's the head count you need to get through to, I guess, closer to commercialization that you suggest could be the second half of next year.

Stephen P. Holt - *MicroVision, Inc. - CFO*

Yes. The head count that I gave was as of September 30. Sumit mentioned in his remarks that I think we're at 41 today. And all those increases are in the engineering ranks. So we still have a little bit of hiring to do. We don't have a specific number of target right now to give you, but we're at 41 today.

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

But obviously, the next step of course, Kevin, is not commercialization. It's -- the next step is having a product ready because that would be an opportunity for somebody else in our current strategy, 2020 strategy that we're working on.

Kevin Darryl Dede - *H.C. Wainwright & Co, LLC, Research Division - MD of Equity Research & Senior Technology Analyst*

Right. So did I misunderstand your earlier comments then? Apologies. I had thought that you felt that the second half next year was a reasonable target for someone to potentially take that product commercial.

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

No. I think what I'm saying is, again, we'll have reliability, we'll have the things that are required for that market to address it ready. So that's the opportunity for somebody to see the product in April time frame, and -- March-April time frame. But let's just say it's April with the supply chain where they are right now. And effectively, the commercialization, the ramp part of it is easier to validate than the technology by itself. So once technology is validated, having a clarity that does not take years after that to commercialize for any interested party, we expect that, that has value.

Operator

At this time, I would like to turn the conference back over to Steve Holt.

Stephen P. Holt - *MicroVision, Inc. - CFO*

Thank you. We received over 60 questions from investors. Many of the questions are variations on the same topic. And most of the questions were addressed in our prepared remarks. We tried to consolidate the questions on the same topic to address the basic issue. We won't be able to answer every question submitted today. But we will go through them here.

First one is, there are several questions regarding head count and recent job postings and why are you adding resources.

I'll take the answer to that one. It's really very simple. We're hiring to support the goal of completing the LiDAR development in that April time frame that Sumit mentioned. We want to complete that development as soon as possible and have that hardware available for evaluation. We have a very talented team at MicroVision. And we've been fortunate we've had low turnover, and we do appreciate the dedication and the hard work of all of our employees.

The next question is, comment on other companies' laser beam scanning products and how those products relate to MicroVision's intellectual property.

I'll take that one again. We don't comment on specific IP questions or issues nor do we comment on other companies' products, technology development. Generally, we believe we have broad and early filed patents related to laser beam scanning, and we would take appropriate action as needed to defend our IP. As we have stated, our IP does go beyond patents. We have know-how and methods that we believe give our products a performance advantage and a competitive advantage.

It might make sense here to reiterate what I said earlier. There are 3 IP-related licenses that we granted. The first is to our April 2017 customer. The second is for a display-only and does not include augmented reality or near-eye applications. And the third is a Taiwanese ODM, which expires in 2022. Sometimes we get questions about the STMicro co-marketing agreement. That agreement is about promoting each other's products, and that does not include a technology license.

Right. Go on to the next question. There are several questions about STMicro and LaSAR, the LaSAR Alliance. First, how is MicroVision's relationship with ST? And second, can you comment on MicroVision's participation in LaSAR? Sumit, maybe you could take this one.

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

Good question. In general, I would say, ST and MicroVision are -- we continue to have a very close relationship, that's without a doubt, as was evident in the public comments that were made during some other recent presentations. They've been our MEMS wafer partner for several generations of our products. And in the past, we had our analog ASIC with them, which is now obsolete. We work with them collaboratively but as a fab partner, and both parties are very good in maintaining boundaries on our IP.

Additionally, we sell components to our component -- we sell components to our customers. ST is not able to sell our components, the MEMS and the ASICs that we design, to the market directly. And that's actually a very important point to remember.

And as you know from their public presentations, I think this was recent, it was brought to my attention, we enjoy a very close partnership with them. They understand the value that MicroVision has created, and they've been great supporters.

The LaSAR Alliance appears to be -- to me, it is a group of -- as I've looked at it, a group of companies dedicated to advancing AR development. Companies have their areas of expertise like lasers and MEMS and waveguides and algorithms, ASICs, et cetera. But they're individual companies part of the alliance that could be a one-stop shop for anybody to do development.

MicroVision has these fundamental pieces integrated into our LBS technology already at a very mature level. So we develop everything required in-house. This has allowed us to be a one-stop shop in the LBS micro-display engine for a long time. And I think another way to just really keep in

mind is that this does not really make sense for us to be part of alliance since we have the pieces, and we already have solutions ready for OEMs. And secondly, we're focused on strategic alternatives, not on business development. So it didn't really make sense for us to be part of that.

Stephen P. Holt - *MicroVision, Inc. - CFO*

Next question is can you please comment on the number of newly authorized shares you have used so far? And can you talk about burn rate and cash status and the use of Lincoln Park?

Okay. So on October 8th, 60 million shares were authorized. So far, we have issued about 2.5 million, raising funds through the Lincoln Park facility. Some of you may have seen an S-8 filed on October 9th, and let me explain that.

In May, the shareholders approved that 5 million shares could be added to the employees' stock incentive plan. However, because the increase in authorized shares did not pass until October 8th, we did not have the shares to actually put in the plan. And the 5 million shares filed on the S-8 on October 9th just increased the pool that could be granted to employees. Those shares have not been granted to anyone. They are intended to be granted to new hires and is long-term incentives to existing employees over future periods in the form of stock options or RSUs or PRSUs, performance RSUs.

I'll mention again, while we're on the subject of stock, I did mention in my prepared remarks that in Q2, we sought to incentivize employees to stay as we explore strategic options, and we granted employees restricted stock units that vest at the earlier of the closing of the strategic transaction or 1 year. Section 16 officers of the company were not included in that incentive. It's for employees only. And I guess I should add that the shares used for that incentive, which was about 1.2 million, were not part of the 60 million shares that were authorized in October.

There was part of that question about cash and Lincoln Park. I said earlier that $5 million at the end of the third quarter is what we had on hand, and we raised another $5.8 million on Lincoln Park in Q4. And we believe that, that gets us sufficient cash to get through Q1 of next year, and there's about $200,000 remaining on the Lincoln Park facility.

All right. Did I get everything on that question? I think so. Okay. Next question. We've had a few questions regarding state of augmented and mixed reality markets and why you think MicroVision's technology is relevant. Could you provide any additional color to your prepared remarks?

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

Right. I'll take that. So first, let me give some context. I think I started this last time, and I want to elaborate a little bit more. Let's distinguish between augmented reality and mixed reality for a second. Augmented reality products or AR products try to superimpose information in user head-mounted hardware. Google Glass is an example of AR, among other products. Applications, look at what information user needs, position of their pupil, et cetera, and determine how best to present information.

The micro-display engine and sensors to this headset are usually used to enhance user experience and delivery of information. Focus more on the user directly. The products need to be light in weight, low power, provide wide fields of view, rich color, able to adjust brightness based on indoor and outdoor condition.

Mixed reality, on the other hand, those products take everything I listed for AR and add additional outward looking sensors, lots of computing and software and can basically overlay other things on top of reality that you see through them, modified and adaptive images. Video of these, obviously, you can see HoloLens, Magic Leap and others showcase the experience they create or they want to create.

I would also like to note that recently, I think Kevin brought it up, OEMs like Apple are starting to show MR applications running on phones and tablets. This is kind of a very interesting way to think about what this opportunity is. This is a form of mixed reality as well. And mixed reality can be created with VR headsets as well. There are so many ways to provide an experience, and it just depends on what problem for the user's needs to be solved.

For example, if you want to help a jet engine technician repair an engine with a see-through image that overlaps what the technician is seeing in front of them, see-through waveguide, that would be a better implementation, whereas VR and mixed reality could have other applications where that makes more sense. So it really depends on what problem you're solving and what you're trying to monetize.

Top tier OEMs are starting to show AR applications, personally, I think, across other hardware platform, it's a great validation that AR is important. This is exciting because they are solving user problems and thinking about monetization.

Also this would create an opportunity for AR hardware ecosystem to expand. In my experience, personal experience, AR and MR experiences are significantly more engaging for users in head-mounted hardware. And that's not just a bias because I'm here. I've been on the floor of CES with our devices more than a decade ago, and I know with the reaction that you get, you know it's genuine. So personal marketing, I would say, is what I've done on this one for many, many, many years.

Now to answer the main question. So MicroVision technology, as I described it, as you saw in the August video that we put up, the module is the MEMS, the lasers, the electronics, everything combined. So MicroVision technology represents the micro-display engine for use in see-through optics required in AR and MR. So that micro-display branches across all the different experience we talked about in the head-mounted space. We would be the main display engine that brings that information to the eyes. So that's very important thing, so yes, in front of the eye, you have the waveguide. But everything behind that -- that's why it's called an engine. Everything happens inside this one engine. All the things that you would create for that experience, make it light, low power, big fields of view, it's in this engine by itself.

In the future, we could have -- in the future, MicroVision could have developed more advanced features like people tracking, that could support foveation integrated into our micro-display module. This level of integration, miniaturization integration, would produce engines that are small in size, low power, low computing, among other key features that the experience requires. So the technology is not just plateaued. We have other opportunities through multigenerational products we develop.

And this is what I meant earlier when I spoke about multi-generation possibilities for technology and the value it presents. So anybody looking at that vertical, our job is to show them all the things that will be made possible with this. And it's not just an engine that may be in front of them, but it's all the way out to all the different products that will be possible.

So I think if you put that in context, AR, MR, I think we have great IP, very strong IP, great validation that we can create the kind of experiences beyond what even OEMs were visualizing their users would expect at price points that are very competitive for the kind of problems we're solving. So therefore, there's huge amount of value in the AR vertical in my belief.

Stephen P. Holt - *MicroVision, Inc. - CFO*

Thanks, Sumit. That concludes the question-and-answers for today. I will now turn the -- oh, there's one more question. Sorry. There's a question about the state of the development of MicroVision's automotive LiDAR samples and how the availability of samples could be part of a strategic transaction.

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

Okay. I'll cover that, too. So earlier, I mentioned the key features in our LiDAR and sustainable strategic advantage they have. We will be able to very quickly advance the conversation from mechanical scanners to solid-state sensors, not in R&D, but ready for product level, and that's not an easy thing to say for anybody. Most people that are looking at technology right now, to them, that's a long tail. We have such a long history with LBS and all the key parts of it, I can say with quite high confidence that we would be able to completely change the conversation. That's actually one of the key things to remember for context.

To show how disruptive our LiDAR technology would be, we need to demonstrate it in a piece of hardware and not just theory. And that, I can just tell you from personal experience, cannot actually -- even though you completely trust the team you're talking about, you really have to see the

hardware to really understand all the complexity of the problems that have been solved, not just the theoretical version of it. After all, the value of a business is its capability to scale products and generate revenue for potential interested parties. So that -- showing that piece of hardware is actually very important.

By completing the hardware demonstrator -- we would show to the market and interested parties how LBS technology-based LiDAR meets the goals of the market, which is projected for huge growth. Additionally, having the design demonstrates the capability in terms of economics and reliability with a path to being able to generate revenue for an interested party further reduces their risk. A transaction would be easier if the acquirer can see the ability to generate revenue quickly.

And I think one more point, I think the respect we have for augmented reality, interactive display and consumer LiDAR is because we have hardware that demonstrates the capability of the technology. Automotive LiDAR is an important market that is quickly developing. Our hardware demonstrated for 2021 showcases the value of the company and how this vertical leverages our core common IP. So that's why it's actually important to have a piece of hardware that demonstrates all the features that are required for automotive LiDAR partners to see that it transitioned from mechanical to MEMS scanning, our first-generation MEMS scanning is within the realm of possibility, and that represents value to our shareholders.

Stephen P. Holt - *MicroVision, Inc. - CFO*

That was the last question, and that does conclude the question-and-answer for today. I'll turn the call over to Sumit for some closing remarks.

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

I want to thank all our employees, of course, that are working extremely hard for the objectives that are in front of us. And also, I want to thank all our shareholders for their continued support. Thank you very much.

Operator

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