

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2022

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 001-34170



MicroVision, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

91-1600822

(I.R.S. Employer Identification Number)

6244 185th Avenue NE, Suite 100

Redmond, Washington 98052

(Address of Principal Executive Offices, including Zip Code)

(425) 936-6847

(Registrant's Telephone Number, including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.001 par value per share	MVIS	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO

The number of shares of the registrant's common stock outstanding as of October 24, 2022 was 166,035,291.

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PART I.

ITEM 1. FINANCIAL STATEMENTS

MicroVision, Inc.
Condensed Consolidated Balance Sheets
(In thousands, except per share data)
(Unaudited)

	September 30, 2022	December 31, 2021
Assets		
Current assets		
Cash and cash equivalents	\$ 21,977	\$ 82,647
Investment securities, available-for-sale	61,281	32,720
Inventory	1,762	1,780
Other current assets	2,832	2,283
Total current assets	<u>87,852</u>	<u>119,430</u>
Property and equipment, net	4,545	3,026
Operating lease right-of-use asset	14,486	5,577
Restricted cash	1,418	1,092
Intangible assets, net	85	115
Other assets	1,005	985
Total assets	<u>\$ 109,391</u>	<u>\$ 130,225</u>
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable	\$ 1,519	\$ 3,584
Accrued liabilities	1,588	1,170
Contract liabilities	4,601	5,265
Other current liabilities	1,459	1,181
Current portion of long-term debt	-	392
Current portion of operating lease liability	769	849
Current portion of finance lease obligations	25	21
Total current liabilities	<u>9,961</u>	<u>12,462</u>
Operating lease liability, net of current portion	13,803	4,983
Finance lease obligations, net of current portion	2	26
Total liabilities	<u>23,766</u>	<u>17,471</u>
Commitments and contingencies (Note 9)		
Shareholders' equity		
Preferred stock, par value \$0.001; 25,000 shares authorized; no and no shares issued and outstanding	-	-
Common stock, par value \$0.001; 210,000 shares authorized; 165,885 and 164,363 shares issued and outstanding at September 30, 2022 and December 31, 2021, respectively	166	164
Additional paid-in capital	754,702	742,042
Accumulated other comprehensive loss	(194)	(19)
Accumulated deficit	(669,049)	(629,433)
Total shareholders' equity	<u>85,625</u>	<u>112,754</u>
Total liabilities and shareholders' equity	<u>\$ 109,391</u>	<u>\$ 130,225</u>

The accompanying notes are an integral part of these financial statements.

MicroVision, Inc.
Condensed Consolidated Statements of Operations
(In thousands, except per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Product revenue	\$ -	\$ -	\$ -	\$ -
License and royalty revenue	-	718	664	1,943
Contract revenue	-	-	-	-
Total revenue	-	718	664	1,943
Cost of product revenue	45	(10)	67	(46)
Cost of contract revenue	-	-	-	-
Total cost of revenue	45	(10)	67	(46)
Gross profit	(45)	728	597	1,989
Research and development expense	7,535	5,791	22,828	17,629
Sales, marketing, general and administrative expense	5,522	5,006	17,664	15,608
Total operating expenses	13,057	10,797	40,492	33,237
Loss from operations	(13,102)	(10,069)	(39,895)	(31,248)
Gain on debt extinguishment	-	692	-	692
Other income (expense), net	251	(5)	279	(19)
Net loss	\$ (12,851)	\$ (9,382)	\$ (39,616)	\$ (30,575)
Net loss per share - basic and diluted	\$ (0.08)	\$ (0.06)	\$ (0.24)	\$ (0.19)
Weighted-average shares outstanding - basic and diluted	165,687	163,985	165,167	159,452

The accompanying notes are an integral part of these financial statements.

MicroVision, Inc.
Condensed Consolidated Statements of Comprehensive Loss
(In thousands)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net loss	\$ (12,851)	\$ (9,382)	\$ (39,616)	\$ (30,575)
Other comprehensive loss				
Unrealized loss on investment securities, available-for-sale	(16)	-	(175)	-
Comprehensive loss	<u>\$ (12,867)</u>	<u>\$ (9,382)</u>	<u>\$ (39,791)</u>	<u>\$ (30,575)</u>

The accompanying notes are an integral part of these financial statements.

MicroVision, Inc.
Condensed Consolidated Statements of Shareholders' Equity
(In thousands)
(Unaudited)

	Common Stock		Additional paid-in capital	Subscriptions receivable	Accumulated other comprehensive loss	Accumulated deficit	Total shareholders' equity
	Shares	Par value					
Balance at June 30, 2022	165,438	\$ 165	\$ 750,311	\$ -	\$ (178)	\$ (656,198)	\$ 94,100
Share-based compensation expense	240	-	4,081	-	-	-	4,081
Exercise of options	207	1	310	-	-	-	311
Net loss	-	-	-	-	-	(12,851)	(12,851)
Other comprehensive loss	-	-	-	-	(16)	-	(16)
Balance at September 30, 2022	165,885	\$ 166	\$ 754,702	\$ -	\$ (194)	\$ (669,049)	\$ 85,625
Balance at January 1, 2022	164,363	\$ 164	\$ 742,042	\$ -	\$ (19)	\$ (629,433)	\$ 112,754
Share-based compensation expense	997	1	11,934	-	-	-	11,935
Exercise of options	525	1	726	-	-	-	727
Net loss	-	-	-	-	-	(39,616)	(39,616)
Other comprehensive loss	-	-	-	-	(175)	-	(175)
Balance at September 30, 2022	165,885	\$ 166	\$ 754,702	\$ -	\$ (194)	\$ (669,049)	\$ 85,625
Balance at June 30, 2021	163,960	\$ 164	\$ 736,159	\$ -	\$ -	\$ (607,426)	\$ 128,897
Share-based compensation expense	95	-	2,810	-	-	-	2,810
Exercise of options	49	-	30	-	-	-	30
Sales of common stock	-	-	(8)	-	-	-	(8)
Net loss	-	-	-	-	-	(9,382)	(9,382)
Balance at September 30, 2021	164,104	\$ 164	\$ 738,991	\$ -	\$ -	\$ (616,808)	\$ 122,347
Balance at January 1, 2021	152,926	\$ 153	\$ 601,224	\$ (6,135)	\$ -	\$ (586,233)	\$ 9,009
Share-based compensation expense	2,235	2	12,343	-	-	-	12,345
Exercise of options	1,389	1	2,539	-	-	-	2,540
Sales of common stock	7,554	8	122,885	6,135	-	-	129,028
Net loss	-	-	-	-	-	(30,575)	(30,575)
Balance at September 30, 2021	164,104	\$ 164	\$ 738,991	\$ -	\$ -	\$ (616,808)	\$ 122,347

The accompanying notes are an integral part of these financial statements.

MicroVision, Inc.
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2022	2021
Cash flows from operating activities		
Net loss	\$ (39,616)	\$ (30,575)
Adjustments to reconcile net loss to net cash used in operations:		
Depreciation and amortization	1,425	1,040
Impairment of property and equipment	60	664
Share-based compensation expense	11,935	12,345
Non-cash interest expense	-	(10)
Inventory write-downs	60	-
Net accretion of premium on short-term investments	290	-
Gain on extinguishment of debt	-	(692)
Change in:		
Inventory	(42)	(1,182)
Other current and non-current assets	(662)	(3,038)
Accounts payable	(2,160)	573
Accrued liabilities	418	390
Contract liabilities and other current liabilities	(386)	(59)
Operating lease liabilities	(938)	(506)
Other long-term liabilities	-	(195)
Net cash used in operating activities	<u>(29,616)</u>	<u>(21,245)</u>
Cash flows from investing activities		
Sales of investment securities	34,700	-
Purchases of investment securities	(63,726)	-
Purchases of property and equipment	(2,017)	(2,034)
Net cash used in investing activities	<u>(31,043)</u>	<u>(2,034)</u>
Cash flows from financing activities		
Principal payments under finance leases	(20)	(25)
Principal payments under long-term debt	(392)	-
Payments received on subscriptions receivable	-	6,135
Proceeds from stock option exercises	727	2,540
Net proceeds from issuance of common stock	-	122,902
Net cash provided by financing activities	<u>315</u>	<u>131,552</u>
Change in cash, cash equivalents, and restricted cash	(60,344)	108,273
Cash, cash equivalents, and restricted cash at beginning of period	83,739	17,297
Cash, cash equivalents, and restricted cash at end of period	<u>\$ 23,395</u>	<u>\$ 125,570</u>
Supplemental schedule of non-cash investing and financing activities		
Non-cash additions to property and equipment	\$ 645	\$ 298

The following table provides a reconciliation of the cash, cash equivalents, and restricted cash balances as of September 30, 2022 and December 31, 2021:

	September 30, 2022	December 31, 2021
Cash and cash equivalents	\$ 21,977	\$ 82,647
Restricted cash	1,418	1,092
Cash, cash equivalents and restricted cash	<u>\$ 23,395</u>	<u>\$ 83,739</u>

The accompanying notes are an integral part of these financial statements.

MicroVision, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. MANAGEMENT'S STATEMENT

The Condensed Consolidated Balance Sheets as of September 30, 2022, the Condensed Consolidated Statements of Operations, Condensed Consolidated Statements of Comprehensive Loss and the Condensed Consolidated Statements of Shareholders' Equity for the three and nine months ended September 30, 2022 and 2021, and the Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2022 and 2021, have been prepared by MicroVision, Inc. ("we" or "our") and have not been audited. In the opinion of management, all adjustments necessary to state fairly the financial position at September 30, 2022 and the results of operations and cash flows for all periods presented have been made and consist of normal recurring adjustments. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules of the Securities and Exchange Commission (SEC). The year-end condensed balance sheet data was derived from audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America. You should read these condensed consolidated financial statements in conjunction with the financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021. The results of operations for the three and nine months ended September 30, 2022 are not necessarily indicative of the operating results that may be attained for the entire fiscal year.

We are developing lidar sensors and sensor fusion software to address the needs of the Level 2+, or L2+, and Level 3, or L3, Advanced Driver-Assistance Systems (ADAS) markets to be used in automotive safety and autonomous driving applications. Our lidar sensor uses our pioneering laser beam scanning (LBS) technology. Our solution-based development approach recognizes two key realities of the L2+ and L3 markets: that safety is mission critical and that OEMs require cost efficiency and adaptability. With these factors in mind, we believe that our best-in-class lidar sensor supports critical safety needs by providing the highest resolution at range and velocity of moving objects with a dynamic field of view while running at 30 hertz.

Our LBS technology is based on our patented expertise in systems that include micro-electromechanical systems (MEMS), laser diodes, optomechanics, electronics, algorithms and software, and how those elements are packaged into a small form factor. Our lidar sensor also utilizes edge computing and machine intelligence as part of the solution. Though automotive lidar is our priority now, we have developed solutions for Augmented Reality, Interactive Displays, and Consumer Lidar in the recent past.

Prior to our shift in focus to automotive lidar, our strategy had been to sell Augmented Reality (AR) displays or components, Interactive Displays, or Consumer Lidar to original equipment manufacturers (OEMs) and original design manufacturers (ODMs) for incorporation into their products. For the two fiscal years ended December 31, 2021 and the nine months ended September 30, 2022, our sole customer has been Microsoft Corporation. Our arrangement with this customer generates royalty income; however, the volume of sales and resulting royalties from that arrangement are not significant. In the recent past, we shifted our strategic focus to increase the value of the Company by completing development of our 1st Generation long range lidar module to a level that would be ready to scale in the market for automotive applications. We believe the size of the ADAS market is significantly bigger than the AR market and related applications. We believe our technology and designs for automotive lidar can be successful in the market, and our solutions will have features and performance that exceed those of competitors and will provide a sustainable strategic advantage in the market.

We have incurred significant losses since inception. We have funded our operations to date primarily through the sale of common stock, convertible preferred stock, warrants, the issuance of convertible debt and, to a lesser extent, from development contract revenues, product sales and licensing activities.

At September 30, 2022, we had total liquidity of \$83.3 million including \$22.0 million in cash and cash equivalents and \$61.3 million in short-term investment securities. Based on our current operating plan, we anticipate that we have sufficient cash and cash equivalents to fund our operations for at least the next 12 months.

2. NET LOSS PER SHARE

Basic net loss per share is calculated using the weighted-average number of common shares outstanding during the period. Net loss per share, assuming dilution, is calculated using the weighted-average number of common shares outstanding and the dilutive effect of all potentially dilutive securities, including common stock equivalents and convertible securities. Net loss per share, assuming dilution, is equal to basic net loss per share because the effect of dilutive securities outstanding during the period, including options and warrants computed using the treasury stock method, is anti-dilutive.

The components of basic and diluted net loss per share were as follows (in thousands, except loss per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Numerator:				
Net loss available for common shareholders - basic and diluted	\$ (12,851)	\$ (9,382)	\$ (39,616)	\$ (30,575)
Denominator:				
Weighted-average common shares outstanding - basic and diluted	165,687	163,985	165,167	159,452
Net loss per share - basic and diluted	\$ (0.08)	\$ (0.06)	\$ (0.24)	\$ (0.19)

For the three and nine months ended September 30, 2022 and 2021, we excluded the following securities from net loss per share as the effect of including them would have been anti-dilutive: outstanding options exercisable into a total of 954,000 and 1,712,000 shares of common stock, respectively, and 9,591,000 and 2,553,000 nonvested restricted and performance stock units, respectively.

3. REVENUE RECOGNITION

The following is a description of principal activities from which we generate revenue. Revenues are recognized when control of the promised goods or services are transferred to our customers, in an amount that reflects the consideration that we expect to receive in exchange for those goods or services. We generate all of our revenue from contracts with customers.

We evaluate contracts based on the 5-step model as stated in Topic 606 as follows: (i) identify the contract, (ii) identify the performance obligations, (iii) determine the transaction price, (iv) allocate the transaction price, and (v) recognize revenue when (or as) performance obligations are satisfied.

A contract contains a promise (or promises) to transfer goods or services to a customer. A performance obligation is a promise (or a group of promises) that is distinct, as defined in the revenue standard.

The transaction price is the amount of consideration an entity expects to be entitled to from a customer in exchange for providing the goods or services. A number of factors should be considered to determine the transaction price, including whether there is variable consideration, a significant financing component, noncash consideration, or amounts payable to the customer. The determination of variable consideration will require a significant amount of judgment. In estimating the transaction price we will use either the expected value method or the most likely amount method.

The transaction price is allocated to the separate performance obligations in the contract based on relative standalone selling prices. Determining the relative standalone selling price can be challenging when goods or services are not sold on a standalone basis. The revenue standard sets out several methods that can be used to estimate a standalone selling price when one is not directly observable. Allocating discounts and variable consideration must also be considered. Allocating the transaction price can require significant judgement on our part.

Revenue is recognized when (or as) the customer obtains control of the good or service/performance obligations are satisfied. Topic 606 provides guidance to help determine if a performance obligation is satisfied at a point in time or over time. Where a performance obligation is satisfied over time, the related revenue is also recognized over time.

Disaggregation of revenue

The following table provides information about disaggregated revenue by timing of revenue recognition (in thousands):

	Three Months ended September 30, 2022			
	Product revenue	License and royalty revenue	Contract revenue	Total
Timing of revenue recognition:				
Products transferred at a point in time	\$ -	\$ -	\$ -	\$ -
Product and services transferred over time	-	-	-	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

	Nine Months Ended September 30, 2022			
	Product revenue	License and royalty revenue	Contract revenue	Total
Timing of revenue recognition:				
Products transferred at a point in time	\$ -	\$ 664	\$ -	\$ 664
Product and services transferred over time	-	-	-	-
Total	<u>\$ -</u>	<u>\$ 664</u>	<u>\$ -</u>	<u>\$ 664</u>

	Three Months ended September 30, 2021			
	Product revenue	License and royalty revenue	Contract revenue	Total
Timing of revenue recognition:				
Products transferred at a point in time	\$ -	\$ 718	\$ -	\$ 718
Product and services transferred over time	-	-	-	-
Total	<u>\$ -</u>	<u>\$ 718</u>	<u>\$ -</u>	<u>\$ 718</u>

	Nine Months Ended September 30, 2021			
	Product revenue	License and royalty revenue	Contract revenue	Total
Timing of revenue recognition:				
Products transferred at a point in time	\$ -	\$ 1,943	\$ -	\$ 1,943
Product and services transferred over time	-	-	-	-
Total	<u>\$ -</u>	<u>\$ 1,943</u>	<u>\$ -</u>	<u>\$ 1,943</u>

Contract balances

Under Topic 606, our rights to consideration are presented separately depending on whether those rights are conditional or unconditional. We present our unconditional rights to consideration as “accounts receivable” in our Balance Sheet.

Significant changes in the contract assets and the contract liabilities balances during the period are as follows (in thousands, except percentages):

	<u>September 30,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>	<u>\$ Change</u>	<u>% Change</u>
Contract assets	\$ -	\$ -	\$ -	-
Contract liabilities	(4,601)	(5,265)	664	(12.6)
Net contract assets (liabilities)	<u>\$ (4,601)</u>	<u>\$ (5,265)</u>	<u>\$ 664</u>	<u>(12.6)</u>

In April 2017, we signed a contract with Microsoft Corporation to develop an LBS display system. Under the agreement, we received an upfront payment of \$10.0 million. As of December 31, 2021, we had applied \$4.7 million against the contract liability. During the three and nine months ended September 30, 2022, we applied an additional \$0 and \$664,000, respectively, against the contract liability with this customer.

Contract acquisition costs

We are required to capitalize certain contract acquisition costs consisting primarily of commissions paid when contracts are signed. We currently do not pay any commissions upon the signing of a contract; therefore, no commission cost has been incurred as of September 30, 2022.

Transaction price allocated to the remaining performance obligations

The \$10.0 million upfront payment received from our customer as noted above was being recognized as revenue as component sales were transferred to the customer. Under the new arrangement reached in March 2020, the royalties we expect to earn will be applied against the remaining prepayment. Because we do not have information on projected future shipments by our customer, we are not able to estimate the timing of revenue recognition related to the remaining performance obligations. The \$4.6 million contract liability at September 30, 2022 is classified as a current liability on our balance sheet. It is likely that recognition of revenue may extend beyond the next twelve months.

4. INVESTMENT SECURITIES, AVAILABLE-FOR-SALE AND FAIR VALUE MEASUREMENTS

Our investment securities, available-for-sale are comprised of corporate and government debt securities. The principal markets for the debt securities are dealer markets which have a high level of price transparency. The market participants for debt securities are typically large money center banks and regional banks, brokers, dealers, pension funds, and other entities with debt investment portfolios.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the authoritative guidance establishes a three level fair value inputs hierarchy and requires an entity to maximize the use of observable valuation inputs and minimize the use of unobservable inputs. We use market data, assumptions and risks we believe market participants would use in measuring the fair value of the asset or liability, including the risks inherent in the inputs and the valuation techniques. The hierarchy is summarized below.

Level 1 - Quoted prices in active markets for identical assets and liabilities at the measurement date that the reporting entity has the ability to access.

Level 2 - Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Unobservable inputs for which there is little or no market data, which requires us to develop our own assumptions, which are significant to the measurement of the fair values.

The valuation inputs hierarchy classification for assets measured at fair value on a recurring basis are summarized below as of September 30, 2022 and December 31, 2021 (in thousands). These tables do not include cash held in our money market savings accounts.

As of September 30, 2022	Level 1	Level 2	Level 3	Total
Assets				
Corporate debt securities	\$ -	\$ 23,651	\$ -	\$ 23,651
U.S. Treasury securities	-	37,630	-	37,630
	<u>\$ -</u>	<u>\$ 61,281</u>	<u>\$ -</u>	<u>\$ 61,281</u>
As of December 31, 2021				
Assets				
Corporate debt securities	\$ -	\$ 32,720	\$ -	\$ 32,720
	<u>\$ -</u>	<u>\$ 32,720</u>	<u>\$ -</u>	<u>\$ 32,720</u>

Our short-term investments are summarized below as of September 30, 2022 and December 31, 2021 (in thousands).

	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Investment Securities, Available- For-Sale
As of September 30, 2022				
Assets				
Corporate debt securities	\$ 23,722	\$ 2	\$ (73)	\$ 23,651
U.S. Treasury securities	37,753	2	(125)	37,630
	<u>\$ 61,475</u>	<u>\$ 4</u>	<u>\$ (198)</u>	<u>\$ 61,281</u>
As of December 31, 2021				
Assets				
Corporate debt securities	\$ 32,739	\$ 3	\$ (22)	\$ 32,720
	<u>\$ 32,739</u>	<u>\$ 3</u>	<u>\$ (22)</u>	<u>\$ 32,720</u>

The maturities of the investment securities available-for-sale as of September 30, 2022 and December 31, 2021 are shown below (in thousands):

As of September 30, 2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Maturity date				
Less than one year	\$ 61,475	\$ 4	\$ (198)	\$ 61,281
	<u>\$ 61,475</u>			<u>\$ 61,281</u>
As of December 31, 2021				
Maturity date				
Less than one year	\$ 32,739	\$ 3	\$ (22)	\$ 32,720
	<u>\$ 32,739</u>			<u>\$ 32,720</u>

The following table summarizes investments that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for more than 12 months as of September 30, 2022 and December 31, 2021 (in thousands):

As of September 30, 2022	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Corporate debt securities	\$ 16,249	\$ (73)	\$ -	\$ -	\$ 16,249	\$ (73)
U.S. Treasury securities	31,684	(125)	-	-	31,684	(125)
	<u>\$ 47,933</u>	<u>\$ (198)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 47,933</u>	<u>\$ (198)</u>

As of December 31, 2021	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Corporate debt securities	\$ 27,195	\$ (22)	\$ -	\$ -	\$ 27,195	\$ (22)
	<u>\$ 27,195</u>	<u>\$ (22)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,195</u>	<u>\$ (22)</u>

5. CONCENTRATION OF CREDIT RISK AND MAJOR CUSTOMERS AND SUPPLIERS

Concentration of credit risk

Financial instruments that potentially subject us to a concentration of credit risk are primarily cash equivalents and investment securities. As of September 30, 2022, our cash and cash equivalents are comprised of operating checking accounts and short-term highly rated money market savings accounts. Our short-term investments are comprised of highly rated corporate bonds and U.S. Treasury securities.

Concentration of major customers and suppliers

For the three and nine months ended September 30, 2022, one customer, Microsoft Corporation, accounted for \$0 and \$664,000 in revenue, respectively, representing 100% of our total revenue for each period. For the three and nine months ended September 30, 2021, the same customer accounted \$718,000 and \$1.9 million in revenue, respectively, representing 100% of our total revenue for each period.

Typically, a significant concentration of our components and the products we have sold are manufactured and obtained from single or limited-source suppliers. The loss of any single or limited-source supplier, the failure of any of these suppliers to perform as expected, or the disruption in the supply chain of components from these suppliers could subject us to risks and uncertainties including, but not limited to, increased cost of sales, possible loss of revenues, or significant delays in product development or product deliveries, any of which could adversely affect our financial condition and operating results.

6. INVENTORY

Inventory consists of the following:

(in thousands)	September 30, 2022	December 31, 2021
Raw materials	\$ 1,572	\$ 1,780
Work in process	190	-
	<u>\$ 1,762</u>	<u>\$ 1,780</u>

Inventory is computed using the first-in, first-out (FIFO) method and is stated at the lower of cost and net realizable value. Management periodically assesses the need to account for obsolescence of inventory and adjusts the carrying value of inventory to its net realizable value when required.

7. SHARE-BASED COMPENSATION

We issue share-based compensation to employees in the form of stock options, restricted stock units (RSUs), and performance stock units (PSUs). We account for the share-based awards by recognizing the fair value of share-based compensation expense on a straight-line basis over the service period of the award, net of estimated forfeitures. The fair value of stock options is estimated on the grant date using the Black-Scholes option pricing model. The fair value of RSUs and non-executive PSUs is based on the closing price of our common stock on the grant date. Executive PSUs are valued using a Monte Carlo simulation model using the following inputs: stock price, volatility, and risk-free interest rates. Changes in estimated inputs or using other option valuation methods may result in materially different option values and share-based compensation expense.

The following table summarizes the amount of share-based compensation expense by line item on the statements of operations:

Share-based compensation expense	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
(in thousands)	2022	2021	2022	2021
Research and development expense	\$ 1,831	\$ 1,371	\$ 5,681	\$ 4,758
Sales, marketing, general and administrative expense	2,250	1,439	6,254	7,587
	<u>\$ 4,081</u>	<u>\$ 2,810</u>	<u>\$ 11,935</u>	<u>\$ 12,345</u>

Options activity and positions

The following table summarizes shares, weighted-average exercise price, weighted-average remaining contractual term and aggregate intrinsic value of options outstanding and options exercisable as of September 30, 2022:

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding as of September 30, 2022	945,000	\$ 1.26	5.9	\$ 2,302,000
Exercisable as of September 30, 2022	941,000	\$ 1.26	5.9	\$ 2,288,000

As of September 30, 2022, our unrecognized share-based employee compensation related to stock options was \$1,000 which we plan to expense over the next 1.4 years.

Restricted stock activity and positions

The following table summarizes activity and positions with respect to RSUs and PSUs for the nine months ended September 30, 2022:

	Shares	Weighted-average price
Unvested as of December 31, 2021	2,625,000	\$ 13.05
Granted	9,083,000	2.45
Vested	(1,019,000)	10.59
Forfeited	(1,098,000)	7.34
Unvested as of September 30, 2022	9,591,000	\$ 3.93

In June 2022, we issued 6.0 million PSUs to our executive officers. The PSUs are subject to the achievement of performance goals and time-based vesting. The PSUs will become eligible to vest if the closing price of our common stock reaches or exceeds specified price thresholds for at least 20 consecutive trading days during the performance period through December 31, 2025. If the performance goals are met, the portion of the PSUs deemed earned will become subject to time-based vesting in equal quarterly installments over two years starting from the date on which the goal is achieved. These PSUs were valued using a Monte Carlo simulation model using the following inputs: stock price, volatility, and risk-free interest rates.

During the nine months ended September 30, 2022, we issued 2.4 million PSUs to non-executive employees subject to the achievement of development goals. These shares were valued based on the closing price of our common stock on the dates of grant. These shares vest quarterly over two years from the achievement of established performance criteria.

During the nine months ended September 30, 2022, we issued 511,000 time-based RSUs to non-executive employees for promotion, retention, and new hire grants. These shares were valued based on the closing price of our common stock on the dates of grant. These shares vest over three or four years from the date of grant.

As of September 30, 2022, our unrecognized share-based compensation related to RSUs was \$15.9 million which we plan to expense over the next 1.8 years. Our unrecognized share-based compensation related to the executive PSUs was \$8.5 million, which we plan to expense over the next 2.9 years and our unrecognized share-based compensation related to the non-executive PSUs was \$4.0 million, which we plan to expense over the next 1.2 years.

8. LEASES

We lease our office space and certain equipment under finance and operating leases. Our leases have remaining lease terms of less than one year to ten years. Our office lease agreement includes both lease and non-lease components, which are accounted for separately. Our finance leases contain options to purchase the leased property. The depreciable life of assets and leasehold improvements are limited by the expected lease term, unless we are reasonably certain to exercise the purchase option.

In September 2021, we entered into an office lease with Redmond East Office Park LLC, a Washington limited liability company, pursuant to which we lease approximately 16,681 square feet of space located in Redmond, Washington that we use primarily for general office space, lab space and product testing. The lease provides for an initial term of 128 months that commenced November 1, 2021. Pursuant to the lease, annual base rent will be approximately \$500,000 for the first year and is subject to annual increases of 3.0%. In addition to base rent, we pay additional rent comprised of our proportionate share of any operating expenses, real estate taxes, and management fees. We have the option to extend the term for one ten-year renewal period, provided that the rent would be subject to market adjustment at the beginning of the renewal term. The total minimum lease payments related to this lease is \$6.4 million.

In September 2021, we entered into a second office lease with Redmond East Office Park LLC, pursuant to which we will lease approximately 36,062 square feet of space located in Redmond, Washington that we will use primarily for general office space. The lease provides for an initial term of 120 months and is expected to commence on December 1, 2022. Pursuant to the lease, annual base rent will be approximately \$1.1 million for the first year and is subject to annual increases of 3.0%. In addition to base rent, we will pay additional rent comprised of our proportionate share of any operating expenses, real estate taxes, and management fees. We have the option to extend the term for one ten-year renewal period, provided that the rent would be subject to market adjustment at the beginning of the renewal term. The total minimum lease payments related to this forward-starting lease are \$13.0 million. The delivery date of the new space was September 1, 2022 to allow for the build out of tenant improvements before the commencement date. During the quarter ended September 30, 2022, we recorded a right-of-use asset in the amount of \$9.3 million on our balance sheet.

In connection with the effectiveness of the second lease with Redmond East Office Park, we amended our current office lease and will have access until January 31, 2023 to coincide with our move into the new 36,062 square feet of space.

In April 2022, we entered into an office lease with Universal-Investment-Gesellschaft mbH, a German investment company, pursuant to which we lease approximately 3,533 square feet of space located in Nuremberg, Germany that we use primarily for general office space for business development activities. The lease provides for a term of 60 months that commenced May 1, 2022. Pursuant to the lease, annual base rent is approximately \$76,000 per year. The total minimum lease payments related to this lease is approximately \$380,000.

The components of lease expense were as follows:

<i>(in thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Operating lease expense	\$ 365	\$ 116	\$ 865	\$ 348
Finance lease expense:				
Amortization of leased assets	6	7	19	24
Interest on lease liabilities	1	-	2	2
Total finance lease expense	7	7	21	26
Total lease expense	\$ 372	\$ 123	\$ 886	\$ 374

Supplemental cash flow information related to leases was as follows:

<i>(in thousands)</i>	Nine Months Ended September 30,	
	2022	2021
Cash paid for amounts included in measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 938	\$ 506
Operating cash flows from finance leases	2	2
Financing cash flows from finance leases	20	25

Supplemental balance sheet information related to leases was as follows:

<i>(in thousands)</i>	September 30, 2022	December 31, 2021
Operating leases		
Operating lease right-of-use assets	\$ 14,486	\$ 5,577
Current portion of operating lease liability	769	849
Operating lease liability, net of current portion	13,803	4,983
Total operating lease liabilities	\$ 14,572	\$ 5,832
Finance leases		
Property and equipment, at cost	\$ 112	\$ 112
Accumulated depreciation	(75)	(56)
Property and equipment, net	\$ 37	\$ 56
Current portion of finance lease obligations	\$ 25	\$ 21
Finance lease obligations, net of current portion	2	26
Total finance lease liabilities	\$ 27	\$ 47
Weighted Average Remaining Lease Term		
Operating leases	9.9 years	9.5 years
Finance leases	0.7 years	1.2 years
Weighted Average Discount Rate		
Operating leases	4.6%	2.5%
Finance leases	6.3%	6.3%

As of September 30, 2022, maturities of lease liabilities were as follows:

<i>(in thousands)</i>	Operating leases	Finance leases
Years Ended December 31,		
2022	\$ 303	\$ 7
2023	1,753	21
2024	1,804	-
2025	1,855	-
Thereafter	12,733	-
Total minimum lease payments	18,448	28
Less: amount representing interest	(3,876)	(1)
Present value of capital lease liabilities	\$ 14,572	\$ 27

9. COMMITMENTS AND CONTINGENCIES

Litigation

We are subject to various claims and pending or threatened lawsuits in the normal course of business. We are not currently party to any legal proceedings that management believes are reasonably possible to have a material adverse effect on our financial position, results of operations or cash flows.

10. COMMON STOCK

In June 2021, we entered into a \$140.0 million ATM equity offering agreement with Craig-Hallum. Under the agreement we are able, at our discretion, to offer and sell shares of our common stock having an aggregate value of up to \$140.0 million through Craig-Hallum. As of September 30, 2022, we had issued 4.0 million shares of our common stock for net proceeds of \$67.8 million under this ATM agreement. There have been no transactions under this agreement since June 2021.

In February 2021, we entered into a \$50.0 million ATM equity offering agreement with Craig-Hallum. Under the agreement we were able, at our discretion, to offer and sell shares of our common stock having an aggregate value of up to \$50.0 million through Craig-Hallum. We issued 2.5 million shares of our common stock for net proceeds of \$48.8 million under this ATM agreement. No further shares are available for sales under this agreement.

In December 2020, we entered into a \$13.0 million ATM equity offering agreement with Craig-Hallum. Under the agreement we were able, from time to time, at our discretion to offer and sell shares of our common stock having an aggregate value of up to \$13.0 million through Craig-Hallum. As of December 31, 2020, we had issued 1.0 million shares for net proceeds of \$6.1 million that was received in January 2021. The \$6.1 million was classified as subscriptions receivable on our December 31, 2020 balance sheet and was not included in the cash balance as of December 31, 2020. In January 2021, we issued 1.1 million shares of our common stock for net proceeds of \$6.6 million under the agreement. In total, we have issued 2.1 million shares of our common stock for net proceeds of \$12.7 million under this ATM agreement. No further shares are available for sales under this agreement.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-looking statements

The information set forth in this report in Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Item 3, "Quantitative and Qualitative Disclosures about Market Risk," includes "Forward-Looking Statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and is subject to the safe harbor created by those sections. Such statements may include, but are not limited to, projections of revenues and expenses, and measures of income or loss, status of product development and performance, market opportunity and future demand, partner and customer engagement, strategic plans, future operations, financing needs or plans of MicroVision, Inc. ("we," "our," or "us"), as well as assumptions relating to the foregoing. The words "anticipate," "could," "believe," "estimate," "expect," "goal," "may," "plan," and similar expressions identify forward-looking statements. Factors that could cause actual results to differ materially from those projected in our forward-looking statements include risk factors identified below in Item 1A.

Overview

MicroVision, Inc. is a pioneer in laser beam scanning, or LBS, technology, which is based on our patented expertise in micro-electromechanical systems, or MEMS, laser diodes, opto-mechanics, electronics, algorithms and software and how those elements are packaged into a small form factor. Throughout our history, we have combined our proprietary technology with our development expertise to create innovative solutions to address existing and emerging market needs, such as augmented reality microdisplay engines; interactive display modules; consumer lidar components; and, most recently, automotive lidar sensors and solutions for the automotive market.

Currently, our development efforts are primarily focused on automotive lidar sensors and perception software for advanced driver-assistance systems, or ADAS. Our integrated solution will combine our MEMS-based lidar sensor, custom ASICs, and software targeted for sale to automotive OEMs and Tier-1 automotive suppliers.

We believe that our MEMS-based lidar sensor demonstrates best-in-class features and performance that can exceed market expectations and outperform competitive products. In 2021 we completed our A-Sample long range lidar module, and we are continuing to advance our lidar sensor and refine its features.

Our ADAS solution is intended to leverage edge computing and custom ASICs to enable our hardware and sensor fusion software to be integrated into an OEM's ADAS stack. We are continuing to refine our technology and products and we have begun testing our solution and demonstrating its capabilities during the first half of 2022. Although we are forecasting small quantities of sales in 2022, we do not expect to achieve significant, sustained revenue from our ADAS solution in the near term.

In the recent past, we developed micro-display concepts and designs for use in head-mounted AR headsets and developed a 1440i MEMS module that can support AR headsets. We also developed a display solution targeted at the smart speakers market, which we call an Interactive Display module. The display was designed to project onto a countertop, tabletop or a wall from inside a smart speaker. The user could then touch the projected image on any surface on which the display is visible and it will behave like a touchscreen, as on a tablet or smartphone. In addition, we developed a small lidar sensor, which we call Consumer Lidar, for use indoors with smart home systems. It was designed to allow for a smart home system to understand what is happening in the home and then enable the smart home to respond in an appropriate way.

Although our development and productization efforts are now solely focused on our ADAS solution, our revenue in the nine months ended September 30, 2022 and the two fiscal years ended December 31, 2021 was derived from one customer, Microsoft Corporation, related to components that we developed for a high-definition display system. Our arrangement with this customer generated royalty income; however, the volume of sales and resulting royalties from that arrangement were not significant.

We have been unable to secure the customers needed to successfully launch our products. We have incurred substantial losses since inception, and we expect to incur a significant loss during the fiscal year ending December 31, 2022.

Continuing Impact of COVID-19 on Our Business

Our business operations continue to be impacted by the ongoing COVID-19 pandemic. Government restrictions in the early days of the pandemic caused us to mostly close our offices in early 2020. To support our hardware development efforts, we reopened our offices in July 2021 while maintaining compliance with government mandates and health agency protocols, including masking requirements and encouraging vaccination. Some of our office employees continue to work remotely or on hybrid schedules. We may experience reductions in productivity and disruptions to our business routines while our hybrid work policy remains in place, or if our employees become ill and are unable to work, which could have an adverse effect on the timing of our development and productization activities. We will continue to prioritize the health and safety of our employees as we adapt our workplace policies based on evolving government regulation, health agency advice, and industry best practice.

In addition, several of our suppliers have experienced closures or have been operating at reduced capacity, resulting in lower component availability. Continued disruptions to our supply chain could have a material impact on our development and future operations. Moreover, various global travel restrictions and office closures have hampered our business development efforts, making it more difficult to engage with potential customers and partners, which could have a material negative impact on our business prospects.

Key accounting policies and estimates

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that materially affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent liabilities. We evaluate our estimates on a continuous basis. We base our estimates on historical data, terms of existing contracts, our evaluation of trends in the consumer display and 3D sensing industries, information provided by our current and prospective customers and strategic partners, information available from other outside sources and on various other assumptions we believe to be reasonable under the circumstances. The results form the basis for making judgments regarding the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. There have been no significant changes to our critical accounting judgments, policies, and estimates as described in our Annual Report on Form 10-K for the year ended December 31, 2021.

Results of operations

License and royalty revenue

<i>(in thousands)</i>	2022		2021		\$ change		% change	
Three Months Ended September 30,	\$	-	\$	718	\$	(718)		(100.0)
Nine Months Ended September 30,		664		1,943		(1,279)		(65.8)

License and royalty revenue is revenue under license agreements to our PicoP® scanning technology. We recognize revenue on upfront license fees at a point in time if the nature of the license granted is a right-to-use license, representing functional intellectual property with significant standalone functionality. If the nature of the license granted is a right-to-access license, representing symbolic intellectual property, which excludes significant standalone functionality, we recognize revenue over the period of time we have ongoing obligations under the agreement. We will recognize revenue from sales-based royalties on the basis of the quarterly reports provided by our customer as to the number of royalty-bearing products sold or otherwise distributed. In the event that reports are not received, we will estimate the number of royalty-bearing products sold by our customers.

The decrease in license and royalty revenue for the three and nine months ended September 30, 2022 compared to the same period in 2021 was due to a lower number of royalty-bearing products being communicated to us as distributed by our customer.

Cost of product revenue

<i>(in thousands)</i>	2022		2021		\$ change		% change	
		% of product revenue		% of product revenue				
Three Months Ended September 30,	\$	45	\$	(10)	\$	55		550.0
Nine Months Ended September 30,	\$	67	\$	(46)	\$	113		245.7

Cost of product revenue includes the direct and allocated indirect costs of products sold to customers. Direct costs include labor, materials, reserves for estimated warranty expenses, and other costs incurred directly, or charged to us by our contract manufacturers, in the manufacture of these products. Indirect costs include labor, manufacturing overhead, and other costs associated with operating our manufacturing capabilities and capacity. Manufacturing overhead includes the costs of procuring, inspecting and storing material, facility and other costs, and is allocated to cost of product revenue based on the proportion of indirect labor which supported production activities.

Cost of product revenue can fluctuate significantly from period to period, depending on the product mix and volume, the level of manufacturing overhead expense and the volume of direct material purchased. During the quarter ended September 30, 2022, we recorded inventory write-downs of \$43,000. The credits of \$10,000 and \$46,000 for the three and nine months ending September 30, 2021, respectively, are related to the reversal of accrued warranty liabilities since warranty claims were less than expected.

Research and development expense

<i>(in thousands)</i>	2022		2021		\$ change		% change	
Three Months Ended September 30,	\$	7,535	\$	5,791	\$	1,744		30.1
Nine Months Ended September 30,		22,828		17,629		5,199		29.5

Research and development expense consists of compensation related costs of employees and contractors engaged in internal research and product development activities, direct material to support development programs, laboratory operations, outsourced development and processing work, and other operating expenses. We assign our research and development resources based on the business opportunity of the available projects, the skill mix of the resources available and the contractual commitments we have made to our customers. We believe that a substantial level of continuing research and development expense will be required to further develop our technology.

The increase in research and development expense during the three months ended September 30, 2022 compared to the same period in 2021 was primarily due to higher salary and benefits expenses of \$715,000, higher non-cash compensation expense of \$459,000, higher facilities expenses of \$242,000 and higher purchased labor of \$180,000. The increase in research and development expense during the nine months ended September 30, 2022 compared to the same periods in 2021 was primarily due to increased salary and benefits expenses as a result of increased headcount of approximately \$2.9 million, higher non-cash compensation expense of \$924,000, higher facilities expenses of \$678,000 and higher purchased labor of \$400,000.

Sales, marketing, general and administrative expense

<i>(in thousands)</i>	<u>2022</u>	<u>2021</u>	<u>\$ change</u>	<u>% change</u>
Three Months Ended September 30,	\$ 5,522	\$ 5,006	\$ 516	10.3
Nine Months Ended September 30,	17,664	15,608	2,056	13.2

Sales, marketing, general and administrative expense includes compensation and support costs for marketing, sales, management and administrative staff, and for other general and administrative costs, including legal and accounting services, consultants and other operating expenses.

The increase in sales, marketing, general and administrative expense during the three months ended September 30, 2022 compared to the same period in 2021 was primarily due to higher non-cash compensation expenses of \$811,000 and higher salary and benefits expenses of \$389,000 offset by lower consulting expenses of \$408,000 and lower recruiting expenses of \$142,000. The increase in sales, marketing, general and administrative expense during the nine months ended September 30, 2022 compared to the same period in 2021 was primarily attributed to increased business insurance expense of \$1.1 million, increased salary and benefits expenses as a result of increased headcount of approximately \$1.4 million and increased professional services and consulting costs of \$557,000, offset by lower non-cash compensation expense of \$1.3 million.

Liquidity and capital resources

We have incurred significant losses since inception. We have funded operations to date primarily through the sale of common stock, convertible preferred stock, warrants, the issuance of convertible debt and, to a lesser extent, from development contract revenues, product sales, and licensing activities. At September 30, 2022, we had total liquidity of \$83.3 million including \$22.0 million in cash and cash equivalents and \$61.3 million in short-term investment securities.

Based on our current operating plan, we anticipate that we have sufficient cash and cash equivalents to fund our operations for at least the next 12 months.

Operating activities

Cash used in operating activities totaled \$29.6 million during the nine months ended September 30, 2022 compared to cash used in operating activities of \$21.2 million during the same period in 2021. Cash used in operating activities resulted primarily from cash used to fund our net loss, after adjusting for non-cash charges such as share-based compensation, depreciation and amortization charges and changes in operating assets and liabilities. The changes in cash used in operating activities were primarily attributed to increased operating expenses to support the development of our lidar sensor and software solution.

Investing activities

During the nine months ended September 30, 2022, net cash used in investing activities was \$31.0 million compared to \$2.0 million during the nine months ended September 30, 2021. During the nine months ended September 30, 2022, we purchased short-term investment securities totaling \$63.7 million and sold short-term investment securities totaling \$34.7 million. Purchases of property and equipment during the nine months ended September 30, 2022 and 2021 were \$2.0 million.

Financing activities

Net cash provided by financing activities totaled \$315,000 during the nine months ended September 30, 2022, compared to \$131.6 million during the same period of 2021. During the nine months ended September 30, 2022, we made principal payments under long-term debt totaling \$392,000 related to the loan under the Paycheck Protection Program of the 2020 CARES Act (PPP) administered by the Small Business Administration. Proceeds received from stock option exercises totaled \$727,000 during the nine months ended September 30, 2022 compared to \$2.5 million during the same period of 2021. Principal payments under finance leases were \$20,000 during the nine months ended September 30, 2022 compared to \$25,000 during the same period of 2021.

In June 2021, we entered into a \$140.0 million ATM equity offering agreement with Craig-Hallum. Under the agreement we are able, at our discretion, to offer and sell shares of our common stock having an aggregate value of up to \$140.0 million through Craig-Hallum. As of September 30, 2022, we had issued 4.0 million shares of our common stock for net proceeds of \$67.8 million under this ATM agreement. There were no transactions under this agreement in the first three quarters of 2022.

In February 2021, we entered into a \$50.0 million ATM equity offering agreement with Craig-Hallum. Under the agreement we were able, at our discretion, to offer and sell shares of our common stock having an aggregate value of up to \$50.0 million through Craig-Hallum. We have issued 2.5 million shares of our common stock for net proceeds of \$48.8 million under this ATM agreement. No further shares are available for sales under this agreement.

In December 2020, we entered into a \$13.0 million ATM equity offering agreement with Craig-Hallum. Under the agreement we were able to, from time to time, at our discretion offer and sell shares of our common stock having an aggregate value of up to \$13.0 million through Craig-Hallum. As of December 31, 2020, we had issued 1.0 million shares for net proceeds of \$6.1 million that was received in January 2021. The \$6.1 million was classified as subscriptions receivable on our December 31, 2020 balance sheet and is not included in the cash balance as of December 31, 2020. In January 2021, we issued 1.1 million shares of our common stock for net proceeds of \$6.6 million under the agreement. In total, we have issued 2.1 million shares of our common stock for net proceeds of \$12.7 million under this ATM agreement. No further shares are available for sales under this agreement.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest rate and market liquidity risk

As of September 30, 2022, all of our cash and cash equivalents have variable interest rates. Therefore, we believe our exposure to market and interest rate risk is not material. Due to the generally short-term maturities of our investment securities, we believe that the market risk arising from our holdings of these financial instruments is not significant. We do not believe that inflation has had a material effect on our business, financial condition or results of operations; however, we do anticipate our labor costs to increase as a result of inflationary pressures.

Our investment policy generally directs that the investment manager should select investments to achieve the following goals: principal preservation, adequate liquidity and return. As of September 30, 2022, our cash and cash equivalents are comprised of short-term highly rated money market savings accounts and our short-term investments are comprised of highly rated corporate and government debt securities. The values of cash and cash equivalents and investment securities, available-for-sale as of September 30, 2022, are as follows:

(in thousands)

	Amount	Percent
Cash and cash equivalents	\$ 21,977	26.4%
Less than one year	61,281	73.6%
	<u>\$ 83,258</u>	<u>100.0%</u>

Foreign exchange rate risk

Our major contract and collaborative research and development agreements, product sales, and licensing activity payments are currently made in U.S. dollars. However, in the future we may enter into contracts or collaborative research and development agreements in foreign currencies that may subject us to foreign exchange rate risk. We have entered into purchase orders and supply agreements in foreign currencies in the past and may enter into such arrangements, from time to time, in the future. We believe our exposure to currency fluctuations related to these arrangements is not material. We may enter into foreign currency hedges to offset material exposure to currency fluctuations when we can adequately determine the timing and amounts of the exposure.

ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) as of the end of the period covered by this report and, based on this evaluation, our Principal Executive Officer and Principal Financial Officer have concluded that these disclosure controls and procedures are effective. There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934) that occurred during the quarter ended September 30, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II.

ITEM 1. LEGAL PROCEEDINGS

We are subject to various claims and pending or threatened lawsuits in the normal course of business. We are not currently party to any other legal proceedings that management believes are reasonably possible to have a material adverse effect on our financial position, results of operations or cash flows.

ITEM 1A. RISK FACTORS

You should carefully consider the risks described below together with the other information set forth in this report, which could materially affect our business, financial condition and future results. The risks described below are not the only risks facing our company. Risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and operating results.

Risk Factors Related to Our Business

We have a history of operating losses and expect to incur significant losses in the future.

We have had substantial losses since our inception. We cannot assure you that we will ever become or remain profitable.

- As of September 30, 2022, we had an accumulated deficit of \$669.0 million.
- We incurred net losses of \$629.4 million from inception through 2021, and a net loss of \$39.6 million during the nine months ended September 30, 2022.

The likelihood of our success must be considered in light of the expenses, difficulties and delays frequently encountered by companies formed to develop and commercialize new technologies. In particular, our operations to date have focused primarily on research and development of our LBS technology system and development of demonstration units. We are unable to accurately estimate future revenues and operating expenses based upon historical performance.

We cannot be certain that we will succeed in obtaining additional development revenue or commercializing our technology or products. In light of these factors, we expect to continue to incur significant losses and negative cash flow at least through 2022 and likely thereafter. There is significant risk that we will not achieve positive cash flow at any time in the future.

COVID-19 has had an adverse effect on our business, and the future COVID-19 effects on our financial position and business prospects are uncertain.

On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic, which continues to spread throughout the United States and the world. We are unable to accurately predict the full impact that COVID-19 may have on our operations due to numerous uncertainties, including the pandemic's severity, duration and spread, as well as actions that may be taken by governmental authorities.

The adverse impacts of the pandemic on our business and future financial performance could include, but are not limited to:

- difficulties in our ability to raise capital,
- delays to our technology development plans and timelines,
- significant declines or delays in revenue or development efforts due to supply chain disruptions,
- obstacles or delays in meeting with potential customers and partners or entering into agreements with them, and
- challenges to our operating effectiveness resulting from employees working remotely or being ill and unable to work.

We may require additional capital to fund our operations and to implement our strategic plan. Raising additional capital may dilute the value of current shareholders' investment in us.

Based on our current operating plan, we anticipate that we have sufficient cash and cash equivalents to fund our operations for at least the next 12 months. We may, however, require additional capital to fund our operating plan past that time. We may seek to obtain additional capital through the issuance of equity or debt securities, product sales and/or licensing activities. There can be no assurance that any such efforts to obtain additional capital would be successful.

We are currently focused on developing our automotive lidar module. This involves introducing new technology into an emerging market which creates significant uncertainty about our ability to accurately project revenue, costs and cash flows. Our capital requirements will depend on many factors, including, but not limited to, the commercial success of our technology, the rate at which OEMs and ODMs introduce products incorporating our technology, the market acceptance and competitive position of such products and the execution of our strategic plan. If revenues, margins, or expenses are different than amounts budgeted, or strategic opportunities arise, we may seek additional capital earlier than expected to fund our operations. In addition, our operating plan provides for the development of strategic relationships with suppliers of components, products and systems, and equipment manufacturers that may require additional investments by us.

Additional capital may not be available to us or, if available, may not be available on terms acceptable to us or on a timely basis. Raising additional capital may involve issuing securities with rights and preferences that are senior to our common stock and may dilute the value of our current shareholders' investment in us. If adequate capital resources are not available on a timely basis, we may consider limiting our operations substantially and we may be unable to continue as a going concern. This limitation of operations could include reducing investments in our research and development projects, staff, operating costs, and capital expenditures which could jeopardize our ability to achieve our business goals or satisfy our customer requirements.

Risks Related to our Financial Statements and Results

Our revenue is generated from one customer, and losing that customer would have a negative impact on our revenue.

For the nine months ended September 30, 2022, one customer accounted for \$664,000 in revenue, representing 100% of our total revenue. For the nine months ended September 30, 2021, the same customer accounted for \$1.9 million in revenue, representing 100% of our total revenue. The loss of this customer would negatively affect our revenue.

We identified a material weakness in our internal controls.

In the second quarter of 2021, we identified a material weakness in the controls that support our determination of the grant date of equity awards. If we identify further material weaknesses in our internal controls, our failure to establish and maintain effective disclosure controls and procedures and internal control over financial reporting could result in material misstatements in our financial statements and a failure to meet our reporting obligations. Any such failure could cause investors to lose confidence in the accuracy of our financial reports, harm our reputation and adversely affect the market price of our common stock.

Our stock price has fluctuated in the past, has recently been in decline and may be volatile in the future, and as a result, investors in our common stock could incur substantial losses.

Our stock price has fluctuated significantly in the past, and may continue to be volatile in the future. Over the 52-week period ending October 24, 2022, our common stock has traded at a low of \$2.50 and a high of \$9.95. We may continue to experience sustained depression or substantial volatility in our stock price in the foreseeable future unrelated to our operating performance or prospects. For the fiscal year ended December 31, 2021, we incurred a loss per share of \$(0.27).

As a result of this volatility, investors may experience losses on their investment in our common stock. The market price for our common stock may be influenced by many factors, including the following:

- investor reaction to our business strategy;
- the success of competitive products or technologies;
- strategic developments;
- the timing and results of our development efforts with respect to our lidar sensor and ADAS solution;
- changes in regulatory or industry standards applicable to our technologies;
- variations in our or our competitors' financial and operating results;
- developments concerning our collaborations or partners;
- developments or disputes with any third parties that supply, manufacture, sell or market any of our products;
- developments or disputes concerning patents or other proprietary rights, including patents, litigation matters and our ability to obtain patent protection for our technology;
- actual or perceived defects in any of our products, if commercialized, and any related product liability claims;
- our ability or inability to raise additional capital and the terms on which we raise it;
- declines in the market prices of stocks generally;
- trading volume of our common stock;
- sales of our common stock by us or our stockholders;
- general economic, industry and market conditions; and
- the effects of other events or factors, including war, terrorism and other international conflicts, public health issues including health epidemics or pandemics, such as the COVID-19 outbreak, and natural disasters such as fire, hurricanes, earthquakes, tornados or other adverse weather and climate conditions, whether occurring in the United States or elsewhere.

Since the price of our common stock has fluctuated in the past, has suffered recent declines and may be volatile in the future, investors in our common stock could incur substantial losses. In the past, following periods of volatility in the market, securities class-action litigation has often been instituted against companies. Such litigation, if instituted against us, could result in substantial costs and diversion of management's attention and resources, which could materially and adversely affect our business, financial condition, results of operations and growth prospects. There can be no guarantee that our stock price will remain at current levels or that future sales of our common stock will not be at prices lower than those sold to investors.

Additionally, securities of certain companies have in the past few years experienced significant and extreme volatility in stock price due to short sellers of shares of common stock, known as a "short squeeze." These short squeezes have caused extreme volatility in both the stock prices of those companies and in the market, and have led to the price per share of those companies to trade at a significantly inflated rate that is disconnected from the underlying value of the company. Many investors who have purchased shares in those companies at an inflated rate face the risk of losing a significant portion of their original investment, as in many cases the price per share has declined steadily as interest in those stocks have abated. There can be no assurance that our shares will not be subject to a short squeeze in the future, and investors may lose a significant portion or all of their investment if they purchase our shares at a rate that is significantly disconnected from our underlying value.

If we are unable to maintain our listing on The Nasdaq Global Market, it could become more difficult to sell our stock in the public market.

Our common stock is listed on The Nasdaq Global Market. To maintain our listing on this market, we must meet Nasdaq's listing maintenance standards. From the initial receipt of notice in the fourth quarter of 2019 through our regaining compliance in the second quarter of 2020, our stock was at risk of being delisted due to noncompliance with the minimum required market value and closing price requirements of Nasdaq's continued listing standards. If we are unable to continue to meet Nasdaq's listing maintenance standards for any reason, our common stock could be delisted from The Nasdaq Global Market. If our common stock were delisted, we may seek to list our common stock on The Nasdaq Capital Market, the NYSE American or on a regional stock exchange or, if one or more broker-dealer market makers comply with applicable requirements, the over-the-counter (OTC) market. Listing on such other market or exchange could reduce the liquidity of our common stock. If our common stock were to trade in the OTC market, an investor would find it more difficult to dispose of, or to obtain accurate quotations for the price of, the common stock.

A delisting from The Nasdaq Global Market and failure to obtain listing on another market or exchange would subject our common stock to so-called penny stock rules that impose additional sales practice and market-making requirements on broker-dealers who sell or make a market in such securities. Consequently, removal from The Nasdaq Global Market and failure to obtain listing on another market or exchange could affect the ability or willingness of broker-dealers to sell or make a market in our common stock and the ability of purchasers of our common stock to sell their securities in the secondary market.

On October 24, 2022, the closing price of our common stock was \$3.58 per share.

Our lack of financial and technical resources relative to our competitors may limit our revenues, potential profits, overall market share or value.

Our products and potential products incorporating our LBS technology will compete with established manufacturers of existing products and companies developing new technologies. Many of our competitors have substantially greater financial, technical and other resources than we have. Because of their greater resources, our competitors may develop products or technologies that may be superior to our own. The introduction of superior competing products or technologies could result in reduced revenues, lower margins or loss of market share, any of which could reduce the value of our business. Additionally, for a variety of reasons, customers may choose to purchase from suppliers that have substantially greater financial, technical or other resources than we have.

Risks Related to Our Operations

Difficulty in qualifying a contract manufacturer or foundry for our products, or experiencing changes in our supply chain, could cause delays that may result in lost future revenues and damaged customer relationships.

Historically, we have relied on single or limited-source suppliers to manufacture our products. Establishing a relationship with a contract manufacturer or foundry is a time-consuming process, as our unique technology may require significant manufacturing process adaptation to achieve full manufacturing capacity. To the extent that we are not able to establish a relationship with a contract manufacturer or foundry in a timely manner or at prices or on other terms that are acceptable to us, we may be unable to meet contract or production milestones. Moreover, changes in our supply chain could result in increased cost and delay and subject us to risks and uncertainties regarding, but not limited to, product warranty, product liability and quality control standards. The loss of any single or limited-source supplier, the failure of any of these suppliers to perform as expected or the disruption in the supply chain of components from these suppliers could cause significant delays in product deliveries, which could result in lost future revenues and damaged customer relationships.

We are dependent on third parties to develop, manufacture, sell and market products incorporating our LBS technology, scanning modules, and the scanning module components.

Our business strategy for commercializing our technology in products incorporating LBS technology includes entering into development, manufacturing, licensing, sales and marketing arrangements with OEMs, ODMs and other third parties. These arrangements reduce our level of control over production and distribution and may subject us to risks and uncertainties regarding, but not limited to, product warranty, product liability and quality control standards.

We cannot be certain that we will be able to negotiate arrangements on acceptable terms, if at all, or that these arrangements will be successful in yielding commercially viable products. If we cannot establish these arrangements, we would require additional capital to undertake such activities on our own and would require extensive manufacturing, sales and marketing expertise that we do not currently possess and that may be difficult to obtain.

In addition, we could encounter significant delays in introducing our LBS technology or find that the development, manufacture or sale of products incorporating our technology would not be feasible. To the extent that we enter into development, manufacturing, licensing, sales and marketing or other arrangements, our revenues will depend upon the performance of third parties. We cannot be certain that any such arrangements will be successful.

We could face lawsuits related to our use of LBS technology or other technologies, which would be costly, and any adverse outcome could limit our ability to commercialize our technology or products.

We are aware of several patents held by third parties that relate to certain aspects of light scanning displays and 3D sensing products. These patents could be used as a basis to challenge the validity, limit the scope or limit our ability to obtain additional or broader patent rights of our patents. A successful challenge to the validity of our patents could limit our ability to commercialize our technology or products incorporating our LBS technology and, consequently, materially reduce our ability to generate revenues. Moreover, we cannot be certain that patent holders or other third parties will not claim infringement by us with respect to current and future technology. Because U.S. patent applications are held and examined in secrecy, it is also possible that presently pending U.S. applications could eventually be issued with claims that could be infringed by our products or our technology.

The defense and prosecution of a patent suit would be costly and time-consuming, even if the outcome were ultimately favorable to us. An adverse outcome in the defense of a patent suit could subject us to significant costs, require others and us to cease selling products incorporating our technology, require us to cease licensing our technology or require disputed rights to be licensed from third parties. Such licenses, if available, would increase our operating expenses. Moreover, if claims of infringement are asserted against our future co-development partners or customers, those partners or customers may seek indemnification from us for any damages or expenses they incur.

If we fail to manage expansion effectively, our revenue and expenses could be adversely affected.

Our ability to successfully offer products incorporating our technology and implement our business plan in a rapidly evolving market requires an effective planning and management process. The growth in business and relationships with customers and other third parties has placed, and will continue to place, a significant strain on our management systems and resources. We will need to continue to improve our financial and managerial controls, reporting systems and procedures, and will need to continue to train and manage our work force. Following our substantial reduction in headcount in February 2020, the risks associated with strained resources are heightened.

We target customers that are large companies with substantial negotiating power and potentially competitive internal solutions; if we are unable to sell our products to these customers, our prospects will be adversely affected.

Our potential customers are large, multinational companies with substantial negotiating power relative to us and, in some instances, may have internal solutions that are competitive to our products. These large, multinational companies also have significant resources, which may allow them to acquire or develop competitive technologies either independently or in partnership with others. Accordingly, even after investing significant resources to develop a product, we may not secure a series production award or, even after securing a series production award, may not be able to commercialize a product on profitable terms. If our products are not selected by these large companies or if these companies develop or acquire competitive technology or negotiate terms that are disadvantageous to us, it will have an adverse effect on our business prospects.

Our technology and products incorporating our LBS technology may be subject to future environmental, health and safety regulations that could increase our development and production costs.

Our technology and products incorporating our LBS technology could become subject to future environmental, health and safety regulations or amendments that could negatively impact our ability to commercialize our technology and products incorporating our LBS technology. Compliance with any such new regulations would likely increase the cost to develop and produce products incorporating our LBS technology, and violations may result in fines, penalties or suspension of production. If we become subject to any environmental, health, or safety laws or regulations that require us to cease or significantly change our operations to comply, our business, financial condition and operating results could be adversely affected.

Our operating results may be adversely impacted by worldwide political and economic uncertainties and specific conditions in the markets we address.

In the recent past, general worldwide economic conditions have experienced a downturn due to slower economic activity, concerns about inflation, increased energy costs, decreased consumer confidence, reduced corporate profits and capital spending, and adverse business conditions. Any continuation or worsening of the current global economic and financial conditions could materially adversely affect: (i) our ability to raise, or the cost of, needed capital, (ii) demand for our current and future products, and (iii) our ability to commercialize products. Additionally, the outbreaks of wars or infectious diseases, both as recently experienced, may cause an unexpected downturn in economic conditions. We cannot predict the timing, strength, or duration of any economic slowdown or subsequent economic recovery, worldwide, regionally or in our industry or target market.

Because we plan to continue expanding our international operations and using foreign suppliers, our operating results could be harmed by economic, political, regulatory and other factors in foreign countries.

During 2021, we established an office in Germany and we plan to expand our presence there in the near term. In addition, we currently use foreign suppliers and plan to continue to do so to manufacture current and future components and products, where appropriate. These international operations are subject to inherent risks, which may adversely affect us, including, but not limited to:

- Political and economic instability, international terrorism and the outbreak of war, such as the Russian invasion of Ukraine;
- High levels of inflation, as has historically been the case in a number of countries in Asia;
- Burdens and costs of compliance with a variety of foreign laws, regulations and sanctions;
- Foreign taxes and duties;
- Changes in tariff rates or other trade, tax or monetary policies;
- Changes or volatility in currency exchange rates and interest rates;
- Global or regional health crises, such as COVID-19 or other epidemics and
- Disruptions in global supply chains.

As part of growing our business, we may make acquisitions. If we fail to successfully select, execute or integrate our acquisitions, then our business, results of operations and financial condition could be materially adversely affected.

From time to time, we may undertake acquisitions to add new products and technologies, acquire talent, gain new sales channels or enter into new markets or sales territories. In addition to possible stockholder approval, we may need approvals and licenses from relevant government authorities for the acquisitions and to comply with any applicable laws and regulations, which could result in increased delay and costs, and may disrupt our business strategy if we fail to do so. Furthermore, acquisitions and the subsequent integration of new assets, businesses, key personnel, customers, vendors and suppliers require significant attention from our management and could result in a diversion of resources from our existing business, which in turn could have an adverse effect on our operations. Acquired assets or businesses may not generate the financial results we expect. Acquisitions could result in the use of substantial amounts of cash, potentially dilutive issuances of equity securities, the occurrence of significant goodwill impairment charges, amortization expenses for other intangible assets and exposure to potential unknown liabilities of the acquired business. Moreover, the costs of identifying and consummating acquisitions may be significant.

To date, we have no experience with acquisitions and the integration of acquired technology and personnel. Failure to successfully identify, complete, manage and integrate acquisitions could materially and adversely affect our business, financial condition and results of operations and could cause our stock price to decline.

Our suppliers' facilities could be damaged or disrupted by a natural disaster or labor strike, either of which would materially affect our financial position, results of operations and cash flows.

A major catastrophe, such as an earthquake, monsoon, flood, infectious disease including the COVID-19 virus, or other natural disaster, labor strike, or work stoppage at our suppliers' facilities or our customers, could result in a prolonged interruption of our business. A disruption resulting from any one of these events could cause significant delays in product shipments and the loss of sales and customers, which could have a material adverse effect on our financial condition, results of operations, and cash flows.

If we are unable to obtain effective intellectual property protection for our products, processes and technology, we may be unable to compete with other companies.

Intellectual property protection for our products, processes and technology is important and uncertain. If we do not obtain effective intellectual property protection for our products, processes and technology, we may be subject to increased competition. Our commercial success will depend, in part, on our ability, to maintain the proprietary nature of our key technologies by securing valid and enforceable patents and effectively maintaining unpatented technology as trade secrets.

We protect our proprietary technology by seeking to obtain United States and foreign patents in our name, or licenses to third party patents, related to proprietary technology, inventions, and improvements that may be important to the development of our business. However, our patent position involves complex legal and factual questions. The standards that the United States Patent and Trademark Office and its foreign counterparts use to grant patents are not always applied predictably or uniformly and can change.

Additionally, the scope of patents is subject to interpretation by courts and their validity can be subject to challenges and defenses, including challenges and defenses based on the existence of prior art. Consequently, we cannot be certain as to the extent to which we will be able to obtain patents for our new products and technology or the extent to which the patents that we already own, protect our products and technology. Reduction in scope of protection or invalidation of our licensed or owned patents, or our inability to obtain new patents, may enable other companies to develop products that compete directly with ours on the basis of the same or similar technology.

We also rely on the law of trade secrets to protect unpatented know-how and technology to maintain our competitive position. We try to protect this know-how and technology by limiting access to the trade secrets to those of our employees, contractors and partners, with a need-to-know such information and by entering into confidentiality agreements with parties that have access to it, such as our employees, consultants and business partners. Any of these parties could breach the agreements and disclose our trade secrets or confidential information, or our competitors might learn of the information in some other way. If any trade secret not protected by a patent were to be disclosed to or independently developed by a competitor, our competitive position could be negatively affected.

We could be subject to significant product liability claims that could be time-consuming and costly, divert management attention and adversely affect our ability to obtain and maintain insurance coverage.

We could be subject to product liability claims if any of the product applications are alleged to be defective or cause harmful effects. For example, because some of the scanning modules incorporating our LBS technology could scan a low power beam of colored light into the user's eye, the testing, manufacture, marketing and sale of these products involve an inherent risk that product liability claims will be asserted against us.

Additionally, any misuse of our technology or products incorporating our LBS technology by end users or third parties that obtain access to our technology, could result in negative publicity and could harm our brand and reputation. Product liability claims or other claims related to our products or our technology, regardless of their outcome, could require us to spend significant time and money in litigation, divert management time and attention, require us to pay significant damages, harm our reputation or hinder acceptance of our products. Any successful product liability claim may prevent us from obtaining adequate product liability insurance in the future on commercially desirable or reasonable terms. An inability to obtain sufficient insurance coverage at an acceptable cost or otherwise to protect against potential product liability claims could prevent or inhibit the commercialization of our products and our LBS technology.

Our operations could be adversely impacted by information technology system failures, network disruptions, or cyber security breaches.

We rely on information technology systems to process, transmit, store, and protect electronic data between our employees, our customers and our suppliers. Our systems are vulnerable to damage or interruptions due to events beyond our control, including, but are not limited to, natural disasters, power loss, telecommunications failures, computer viruses, hacking, or other cyber security issues. Our system redundancy may be inadequate and our disaster recovery planning may be ineffective or insufficient to account for all eventualities. Additionally, we maintain insurance coverage to address certain aspects of cyber risks. Such insurance coverage may be insufficient to cover all losses or all claims that may arise, should such an event occur.

Loss of any of our key personnel could have a negative effect on the operation of our business.

Our success depends on our executive officers and other key personnel and on the ability to attract and retain qualified new personnel. Achievement of our business objectives will require substantial additional expertise in the areas of sales and marketing, research and product development and manufacturing. Competition for qualified personnel in these fields is intense, and the inability to attract and retain additional highly skilled personnel, or the loss of key personnel, could hinder our ability to compete effectively in the LBS markets and adversely affect our business strategy execution and results of operations.

Risks Related to Development for the Automotive Industry

If our products and solutions are not selected for inclusion in ADAS systems by automotive OEMs or automotive Tier 1 suppliers, our future prospects will be materially and adversely affected.

Automotive OEMs and Tier 1 suppliers design and develop ADAS technology over several years, undertaking extensive testing and qualification processes prior to selecting a product such as our lidar sensor for use in a particular system, product or vehicle model because such products will function as part of a larger system or platform and must meet certain other specifications. We have invested and will continue to invest significant time and resources to have our products considered and possibly selected by OEMs or Tier 1 suppliers for use in a particular system, product or vehicle model, which is known as a “series production win” or a “series production award.” In the case of ADAS technology, a series production award would mean that our lidar sensor and/or ADAS solution had been selected for use in a particular vehicle model. However, if we are unable to achieve a series production award with respect to a particular vehicle model, we may not have an opportunity to supply our products to the automotive OEM for that vehicle model for a period of many years. In many cases, this period can be as long as five to seven or more years. If our products are not selected by an automotive OEM or our suppliers for one vehicle model or if our products are not successful in that vehicle model, it is unlikely that our product will be deployed in other vehicle models of that OEM. If we fail to win a significant number of vehicle models from one or more of automotive OEMs or their suppliers, our future business prospects will be materially and adversely affected.

The complexity of our products and the limited visibility into the various environmental and other conditions under which potential customers may use the products could result in unforeseen delays or expenses from undetected defects, errors or reliability issues in hardware or software which could reduce the market adoption of our products, damage our reputation with prospective customers, expose us to product liability and other claims, and adversely affect our operating costs.

Our products are highly technical and complex and require high standards to manufacture and may experience defects, errors or reliability issues at various stages of development. We may be unable to timely manufacture or release products, or correct problems that have arisen or correct such problems to the customer’s satisfaction. Additionally, undetected errors, defects or security vulnerabilities could result in serious injury to the end users or bystanders of technology incorporating our products, inability of customers to commercialize technology incorporating our products, litigation against us, negative publicity and other consequences. These risks are particularly prevalent in the highly competitive ADAS market. These problems may also result in claims, including class actions, against us that could be costly to defend. Our reputation or brand may be damaged as a result of these problems and potential customers may be reluctant to buy our products, which could adversely affect our financial results.

Adverse conditions in the automotive industry or the global economy more generally could have adverse effects on our results of operations.

While we make our strategic planning decisions based on the assumption that the markets we are targeting will grow, our business is dependent, in large part on, and directly affected by, business cycles and other factors affecting the global automobile industry and global economy generally. Automotive production and sales are highly cyclical and depend on general economic conditions and other factors, including consumer spending and preferences, changes in interest rates and credit availability, consumer confidence, fuel costs, fuel availability, environmental impact, governmental incentives and regulatory requirements, and political volatility, especially in energy-producing countries and growth markets. In addition, automotive production and sales can be affected by our automotive OEM customers’ ability to continue operating in response to challenging economic conditions and in response to labor relations issues, regulatory requirements, trade agreements and other factors. The volume of automotive production in North America, Europe and the rest of the world has fluctuated, sometimes significantly, from year to year, and we expect such fluctuations to give rise to fluctuations in the demand for our products. Any significant adverse change in any of these factors may result in a reduction in automotive sales and production by our automotive OEM customers and could have a material adverse effect on our business, results of operations and financial condition.

Developments in alternative technology may adversely affect the demand for our lidar technology.

Significant developments in alternative technologies, such as cameras and radar, may materially and adversely affect our business prospects in ways we do not currently anticipate. Existing and other camera and radar technologies may emerge as OEMs' preferred alternative to our solution, which would result in the loss of competitiveness of our lidar solution. Our R&D efforts may not be sufficient to adapt to these changes in technology and our solution may not compete effectively with these alternative systems.

ADAS features may be delayed in adoption by OEMs, which would negatively impact our business prospects.

The ADAS market is fast evolving and there is generally a lack of an established regulatory framework. Vehicle regulators globally continue to consider new and enhanced emissions requirements, including electrification, to meet environmental and economic needs as well as pursue new safety standards to address emerging traffic risks. To control new vehicle prices, among other concerns, OEMs may need to dedicate technology and cost additions to new vehicle designs to meet these emissions and safety requirements and postpone the consumer cost pressures of new ADAS features. As additional safety requirements are imposed on vehicle manufacturers, our business prospects may be materially impacted.

Because the lidar and ADAS markets are rapidly evolving, it is difficult to forecast customer adoption rates, demand, and selling prices for our products and solutions.

We are pursuing opportunities in rapidly evolving markets, including technological and regulatory changes, and it is difficult to predict the timing and size of the opportunities. For example, lidar-based ADAS solutions require complex technology and because these automotive systems depend on technology from many companies, commercialization of ADAS products could be delayed or impaired on account of certain technological components of ours or others not being ready to be deployed in vehicles. In addition, the selling prices we are able to ultimately charge in the future for the products we are currently developing may be less than what we currently project. Our future financial performance will depend on our ability to make timely investments in the correct market opportunities. If one or more of these markets experience a shift in prospective customer demand, our products may not compete as effectively, if at all, and they may not be designed into commercialized products. Given the evolving nature of the markets in which we operate, it is difficult to predict customer demand or adoption rates for our products, selling prices or the future growth of our target markets. If demand does not develop or if we cannot accurately forecast it, the size of our markets, inventory requirements or future financial results will be adversely affected.

Because lidar is new in the markets we are seeking to enter, our market forecasts may not materialize as anticipated.

Our market opportunity estimates and growth forecasts are subject to significant uncertainty and are based on assumptions and estimates that may not materialize as anticipated. These forecasts and estimates relating to the expected size and growth of the markets for lidar-based technology may prove to be inaccurate. Even if these markets experience the forecasted growth we anticipate, we may not grow our business at similar rates, or at all. Our future growth is subject to many factors, including market adoption of our products, which is subject to many risks and uncertainties. Accordingly, we cannot assure you that these forecasts will not be materially inaccurate.

ITEM 6. EXHIBITS

<u>Exhibit Number</u>	<u>Description</u>
31.1	Principal Executive Officer Certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Principal Financial Officer Certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Principal Executive Officer Certification pursuant to Rule 13a-14(b) or Rule 15d-14(b) and Section 1350, Chapter 63 of Title 18, United States Code (18 U.S.C. 1350), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Principal Financial Officer Certification pursuant to Rule 13a-14(b) or Rule 15d-14(b) and Section 1350, Chapter 63 of Title 18, United States Code (18 U.S.C. 1350), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document).
101.SCH	Inline XBRL Taxonomy Extension Schema.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MicroVision, Inc.

Date: October 28, 2022

By: /s/ Sumit Sharma

Sumit Sharma

Chief Executive Officer and Director
(Principal Executive Officer)

Date: October 28, 2022

By: /s/ Anubhav Verma

Anubhav Verma

Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Exhibit 31.1

**CERTIFICATION PURSUANT TO
RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Sumit Sharma, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended September 30, 2022 of MicroVision, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the period presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 28, 2022

/s/ Sumit Sharma

Sumit Sharma
Chief Executive Officer

Exhibit 31.2

**CERTIFICATION PURSUANT TO
RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Anubhav Verma, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended September 30, 2022 of MicroVision, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the period presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 28, 2022

/s/ Anubhav Verma

Anubhav Verma
Chief Financial Officer

Exhibit 32.1

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Current Report of MicroVision, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Sumit Sharma, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 28, 2022

/s/ Sumit Sharma

Sumit Sharma
Chief Executive Officer

Exhibit 32.2

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Current Report of MicroVision, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Anubhav Verma, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 28, 2022

/s/ Anubhav Verma

Anubhav Verma
Chief Financial Officer
