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**InFocus® Corporation**  
**Second Quarter FY 2002 - Earnings Conference Call**  
**July 17, 2002**

**John V. Harker, Chairman, President and CEO, InFocus® Corporation.....**

Good morning and thank you for joining us on the InFocus second quarter earnings conference call. Joining me today is Mike Yonker, our Chief Financial Officer. The purpose of this conference call is to augment the information provided in our earnings press release earlier this morning, after which we will open the call to your questions.

**Safe Harbor Introduction...**

In getting started, I must tell you up front that this conference call includes forward-looking statements, including statements related to anticipated revenues, gross margins, earnings, availability of components, subassemblies and projectors manufactured for the Company, inventory, backlog and new product introductions. Investors are cautioned that all forward-looking statements involve risks and uncertainties and several factors could cause actual results to differ materially from those in the forward-looking statements. A more complete listing of these risk factors can be found in the Company's periodic reports on Form 10Q and 10K.

**Q-2 Financial Highlights ...**

- Second quarter revenues of \$165.0M increased 5% from the \$156.9M in the first quarter
- Worldwide units shipped increased 11% from the first quarter
- Average sales price (ASP) declines eased to 6% in the quarter, as the dollar weakened relative to the yen
- Projector demand in education and government fueled 14% sequential revenue growth for the Americas in the second quarter
- Gross margins improved in the second quarter to 25.0% from 20.7% in the first quarter
- Operating expenses in the second quarter declined \$3.7M from the first quarter
- Earnings per share in the second quarter including the cost of restructuring charges improved to \$.03 per share, excluding restructuring charges, earnings per share were \$.05 per share
- Cash and cash equivalents increased \$10M in the second quarter to \$114.5M
- Day's sales outstanding in receivables (DSO) in the second quarter improved to 69 days from 81 days in the first quarter

Overall, we are very pleased with the Company's financial performance during the quarter, but we are even more encouraged with the progress we have made to reshape the Company for profitable growth even during uncertain economic times. Before addressing the financials in detail, I would like to give you an industry update and then highlight the new opportunities for projection solutions we are pursuing that will expand InFocus presence both within and beyond our core commercial markets and into new, diverse, and growing markets.

**Economic Outlook and Industry Update.....**

Continuing the trend from the past few quarters, the U.S. economy remained uneven and cautious, influenced by the emotion and financial implication around the collapse of several high profile

corporations. The underlying economic fundamentals remained stable as nearly every sector continues in a positive, albeit modest, trend of business activity. Unfortunately, until the financial markets' "confidence crisis" subsides, a muted recovery is all we will likely see. A recent survey by Goldman Sachs indicates that IT spending seems to have tightened further during the second quarter, and most respondents believe a return to normal IT spending levels will not occur until 2003.

Europe continues in a mixed mode of performance as well, overall netting into a stalled business environment. Economic sentiment retrenched slightly in Europe in June, underscoring the tentative nature of the economic recovery currently underway. Germany in particular is plagued by a no-growth manufacturing sector and high unemployment. In Asia, Japan's economy is showing signs of recovery as reflected by changes in the yen which strengthened 10% relative to the dollar in the second quarter. However, the underlying support for Japan's economy still lies in export growth, not in domestic consumption. Driven by over-capacity and operating losses, aggressive exporting continues to provide a critical lifeline for our Japanese competitors. As a result, the recent easing in ASP declines is not quite as robust as the strengthening of the yen would otherwise suggest. Until we see confidence rebuild in U.S. financial markets, we expect to see the yen remain stronger relative to the dollar than it has been the last several quarters, and therefore we expect ASP declines to be more in line with historic levels of around 5% per quarter.

Preliminary second quarter market share trends show gains for InFocus across all geographies compared with the first quarter and are comparable to the second quarter of 2001. While industry growth forecasts for the near term continue to be impacted by the economic uncertainty, projector industry analysts expect 2003 to return to annual unit growth rates of 20%-25% or greater.

### **Expanding the Market...**

Over the years, projection technology has evolved far beyond the PowerPoint presentation stereotype. Today, you find projection technology in classrooms, boardrooms, conference rooms, retail outlets, concert halls, airports, malls, and living rooms. In almost any venue where information is shared with multiple people, there is an opportunity for projection technology to enhance the experience. As the innovative world-wide leader in digital projection, InFocus continues to broaden the market applications for projection display technology, both by expanding our core commercial markets and by creating new applications in markets such as home entertainment, rear-projection engines for large screen digital television and digital signage.

### **Core commercial market**

Independent research performed by IDC indicates people are aware that the return on investment for a projector is less than one year with hard dollar savings in material and labor costs of \$7k to \$8k per projector. In addition, people understand the soft side benefits of using multimedia projection systems: they make the presenter appear smarter and they enhance the audience's learning and retention. With over 30 million laptops sold per year and over 10 million conference rooms and classrooms in the U.S. alone, why is it that our industry has hit a plateau of only 1.3 million projectors a year? ... It is because, as an industry, we continue to focus on the technology rather than the end user's needs. As the industry leader, this past year we set out to fix that dilemma with innovative designs focused on solving the problems and needs of our end users.

At InFocomm in June, we held a press conference to roll out the beginning of our expanded customer-centric product development strategy, which is intended to make projector setup and management easier, faster and more intuitive than ever before; and which will facilitate projector movement to broader mainstream everyday use. After conducting a year-long extensive research effort working closely with end users, we determined that we and our industry were too focused on selling customers technical specifications (symptomatic of early adoption), when today customers

prefer products and solutions that meet their everyday usage needs (necessary to open up mainstream use).

As part of our customer-centric strategy, we introduced 4 new innovative products at InFocomm designed specifically to meet the unique needs of end users...in addition to having the best image and price performance in the industry.

**First**, for mobile professionals who need to deliver collaborative presentations via a small form factor, the **LP<sup>®</sup>70** delivers the optimal, no-sacrifice combination of portability, performance and connectivity. At only 2.4 pounds and small enough to fit in the palm of your hand, the LP70 features 1100 lumens of brightness, 800:1 contrast ratio and XGA resolution. To optimize for collaborative presentations and ease of operation, the LP70 features intelligent electronics that project the image based on a room's existing light conditions. It also comes with fully integrated and color-coded connectivity support, our new standard remote and an intuitive, easy-to-navigate GUI menu system. It also ships standard with InFocus' Projector Manager software, which allows presenters to discreetly control the projector and make changes to presentations without the audience even knowing it.

**Second**, we learned that in the meeting-room environment, people really need to share their projectors. So we introduced the **LP650**. With an innovative industrial design that says, "pick me up, share me and move me around," we built a sleek handle right into the projector itself. The product's superior usability, combined with full-connectivity, brightness and rugged design make the LP650 perfect for government and business users who often share the projector with a group or between departments. The LP650 features 2500 lumens and an optical zoom lens, providing users with the flexibility to present in virtually any light condition, from anywhere in the room and can be connected to five data or video sources simultaneously, enabling seamless switching and integration of content and facilitating greater collaboration among workgroups. As part of our new customer-centric design, the LP650 features color-coded cables and connectors and comes with a color-coded compartmentalized carrying case, designed like a tool kit, to keep connectors organized for fast, easy setup: Easy to set up, easy to use, easy to share and easy to take down.

**Third**, for educators interested in bringing a more dynamic and effective learning experience to students, and for small business owners, who often need to take their presentation on the road, we designed two new innovative products with their needs specifically in mind, the LP240 and LP250. These two products offer the same easy setup, standardized and intuitive user interfaces as the LP650 along with vivid, high-quality video, and all at a very competitive price. At 5.8 pounds and over 1000 lumens, the LP240 and LP250 are easily shared among classrooms or offices, and are portable enough to be taken on the road. Both products lower the total cost of projector ownership through compatibility with industry standard cables, interchangeable accessories, InFocus Projector Manager software and the same easy-to-store, break down color-coded compartmentalized carrying case.

These two products are especially timely for us as we enter the education-buying season. The education stimulus package signed into law in Q-4 of 2001, designed to incentivize schools to upgrade technology in the classroom, continues to show signs of taking effect. While business spending has been flat in the U.S., the education market has been the bright spot for us with revenues growing 51% over Q-1 and representing 22% of U.S. revenues in the second quarter.

**And finally**, like previous generations of InFocus platforms, all these new products ship with the standard connections required to make wireless a reality soon. Our vision is to create the "automatic projector." It was clear to us at InFocomm, that our approach to bringing a robust wireless capability into reality is the way to go. Using 802.11b technology and combining our proprietary compression and screen scraping technology, we have created an intuitive, easy-to-use solution that anyone can understand and operate. By utilizing our wireless adapter, the user will be able to click an icon on their desktop, which will then automatically send the signal to the projector and onto the screen. No more having to remember which Function key to push on your computer,

that is all done for you automatically. Our solution will allow the user to get rid of the cables, without compromising the timing and quality of image communication between your computer and projector; something that will provide welcomed relief to end users as we migrate to wireless projectors later this year. In addition, our solution will work with all our legacy projectors, lowering the total cost of ownership as well.

As you can see, a lot is going on through innovative ideas and product designs focused on opening up the market to a broader base of new mainstream and repeat end users in the commercial marketplace. With the introduction of these four new products and others to follow over the second half of the year, we believe we will be able to lead the expansion of our core commercial market and provide the opportunity for many more people to realize the value of digital projection.

### **Now lets switch gears and talk about what we are doing in the Home Market space...**

While our commercial market strategy is designed to open up and facilitate everyday mainstream use of projection technology by business, government and education users; our home-market strategy is designed to enter and create demand from a whole new set of customers for us, the family. Our product roadmap is geared to facilitate evening use, weekend use, and after-school use for video gaming entertainment, big screen TV usage, internet browsing, theatre, and high-end cinema experience for the home.

The initial product supporting this strategy is the Screenplay 110. We began shipping this product in December, and it has quickly moved up the market share ranks to the #2 spot for the home by the end of the second quarter. With over 50% sequential sales growth in the second quarter, the Screenplay 110 has exceeded both our internal expectations and those of our customers as well. The Screenplay 110 continues to receive many independent media accolades confirming it as the product of choice for a great theatre experience in the home. In Q-2, it was awarded the prestigious PC World award for Best Home Projection System of 2002.

Contributing to the strong sales results were better-than-expected sales of the InFocus branded version of the Screenplay 110, which represented approximately 62% of the total home units sold during the quarter. The InFocus brand benefited from our vigorous channel expansion both in the U.S. and around the world. In the U.S., the Screenplay 110 can now be demonstrated in over 60 of the top metropolitan areas, while overseas, new distribution partners have been signed in top markets throughout Asia and Europe. In addition to the growth of our InFocus' branded units, we continue to be very pleased with the OEM performance of the Toshiba branded product as well, as they shipped substantially more units during the second quarter.

While it will be difficult for our engineers to top the exceptional image performance of the Screenplay 110, they are aggressively working to that end; as we plan to launch two follow-on products by year-end to solidify our product lineup and clearly and broadly establish InFocus in this growing new market. By year-end, we plan to have two new products that will straddle the Screenplay 110 in the marketplace, with the high-end product a true high-definition system, based on TI's upcoming 720P HD2 micro display. The second new product will target the entry-level consumer, who is just as likely to use a projector for home entertainment use, such as big screen gaming or digital photos, as they would for running a DVD movie in various rooms in the house, or the neighbor's house or outside with friends while camping under the stars. The point is, this will be a product that says, "pick me up and take me anywhere; I am robust, I can crank the sound, and by the way I project a great image also!!" Our strategy to go offshore to drive down cost, will also allow us to position this product at a very compelling entry-level price point.

The entry-level consumer is the key to market acceptance and rapid growth in this space and we believe our products will offer the right blend of performance and price to grow this pivotal segment as we move into 2003.

As we discussed during last quarter's conference call, market research analysts expect a market size for these home entertainment products of approximately 140,000 units in 2002, growing to over 1.4M units, or 10 times greater, in 2005. We believe our stated goal to earn a 10% market share is achievable given our strong out-of-the-gate performance to date. As a result, we will continue to invest in new consumer-oriented channels and marketing programs in 2002, aimed at expanding our range and reach into the home to best position us as the market begins to open up going into 2003. Accordingly, in 2002 we are reinvesting a majority of the profits from this segment back into infrastructure development and marketing programs that will support and encourage future growth in this exciting and emerging market.

**There is another way you will "see us" in the home, lets now talk about what we are doing with rear screen image Engines**

While we believe an InFocus front projector belongs in every home, we are also very aware that over 2 million rear-projection televisions find their way into homes each year. Today's rear-projection television is generally a huge piece of furniture, typically weighing over 300 pounds, with a footprint larger than a refrigerator and often requires construction to install. Due to the size limitations of older CRT technology used today, increases in screen size will require even more space in the living room. Because of this, we believe that digital projection technology will eventually supplant CRT technology in many rear-projection televisions, due to its inherent benefits: superior image quality, large-screen capability, small footprint, and light weight.

As we announced in a separate press release earlier this morning, we believe we can leverage the core competency capabilities we have developed as the world-wide leader in digital projection engine design and manufacturing to become the leading supplier of a key component for this market, the image engine. The technology our engineers develop for the front projector market can be utilized to design the very best light engines for rear-projection television applications. We began exploring this new market in the fourth quarter of last year, when we formed a relationship with SVA in China to supply projection engines to be used in rear-projection televisions in the Chinese market. We are currently building on the success of this initial effort by developing two new digital light engines designed specifically for manufacturers in the rear-projection television market.

The benefits of such a strategy go beyond just shipping new products to a broader audience of end users; it also affords us the ability to leverage our volume-leadership position with key-component suppliers to further reduce material costs in all our product families, as the technologies and components used to develop engines for rear screen TVs are predominately the same as those used for front projection.

**Digital Signage**

In addition to commercial, home entertainment and rear-projection engine markets, we are also targeting the emerging digital signage market with both front and rear screen projection solutions for future market expansion. Digital signage and networked electronic displays in indoor and outdoor settings, provide unique capabilities for retailers, brand marketers, and other businesses intent on communicating with the public. Cap Ventures and other research analyst information estimates that the total number of installed digital signage displays will approach 750,000 units by 2005. As with rear-projection televisions, we believe a compelling footprint at an attractive price point will propel the growth of the digital signage marketplace. Similar to our other market expansion initiatives, digital projection technology is uniquely capable of meeting these requirements.

**Outsourcing update . . .**

As we discussed in our last conference call, we continued the process of shifting more production off shore to Flextronics, our contract-manufacturing partner. Outsource production increased to 65% in the second quarter, up from 57% in the first quarter, as two additional product platforms were transitioned. We were very pleased with both Flextronics' quality and flexibility during the second quarter.

In addition to producing 65% of our manufactured product during the quarter, Flextronics has been actively working with our internal team to begin directly sourcing components for our next generation of products. As mentioned earlier, our Q3 product launches (the LP70, LP650, LP240, and LP250) were designed in collaboration with Flextronics to take advantage of their significant purchasing power. For this next generation of products, Flextronics will begin directly sourcing a greater number of projector components, resulting in both initial savings at product launch and continuing savings over the life of each product platform. With these material cost savings beginning to accrue as we launch these new products later in Q-3, and with a corresponding reduction in our internal manufacturing overhead costs, as we increase our percentage of product outsourced, we should exit 2002 with the lowest overall product costs in the industry.

In addition to our Flextronics relationship, we are in the process of adding a second co-development and manufacturing partner in Asia to minimize business risk while reducing product cost and optimizing flexibility and availability of product.

### **Second Quarter Financial Results Review.....**

Now lets review the second quarter financial results. For comparative purposes to prior periods, my discussion will focus on results from ongoing operations, which exclude restructuring charges.

#### **First the income statement:**

**Revenues** of \$165.0M in the second quarter were up 5% from the \$156.9M recorded in the first quarter of 2002 and down 11% from the \$185.3M recorded in the second quarter of 2001. Average selling prices declined 6% during the quarter as pricing pressure eased somewhat as the dollar weakened relative to the yen. Unit volumes increased 11% primarily due to sales growth in the U.S. government and education markets. Volumes in the corporate market increased slightly, but overall IT capital spending remained flat.

On a regional basis, Americas' revenues increased 14% sequentially from the first quarter but decreased 11% compared to the second quarter of 2001. Channel inventories came down during the second quarter, decreasing to 5 weeks as of June 30 from 8 weeks as of March 31. The decrease was due to increased sell through in both the distribution and AV channels.

European revenues decreased 14% sequentially from Q1 and decreased 7% compared to the second quarter of 2001 due to a weakening economy in Europe.

Asian revenue was up 27% sequentially from Q1 and down 21% compared to the second quarter of 2001. Asian revenues were up sequentially as a modification to our channel strategy began to take shape in China and we improved credit bandwidth issues in the region.

For a composition breakdown of consolidated revenue --

- The breakdown of revenues by product segment in the quarter was 60% meeting room, 28% mobile (3 pounds and under), and 12% integration and installation.
- Second quarter sales into the U.S. education market were up 51% compared with the first quarter of 2002, and represented 22% of U.S. revenues.

- Second quarter sales into the U.S. government market were up 46% compared with the first quarter of 2002 and represented 15% of U.S. revenues.
- Our revenue channel splits were 52% from distributors, 37% from value-added resellers, and 11% from OEMs.
- The breakdown of revenues geographically in the quarter were 62% Americas, 28% Europe, and 10% Asia/Pacific.
- XGA projectors were 64% of unit shipments, while SVGA accounted for 36%.
- DLP technology comprised 48% of unit shipments, while polysilicon accounted for 52%.

**Backlog** ended the quarter at \$22M, slightly down from \$23M in the first quarter.

**Gross margins** improved to 25.0% in the second quarter, up from 20.7% in the first quarter due primarily to material cost reductions, the benefit of a stronger Euro relative to the dollar, easing of ASP declines in the market due to favorable movements in the yen to the dollar, and mix improvements to higher margin products.

Operating expenses of \$38.9 million decreased \$3.7 million from \$42.7 million in the first quarter. The sequential decrease was primarily the result of a reduction in general and administrative expense due to lower write-down charges on doubtful accounts receivable, offset by a slight increase in research and development expense during the quarter. In addition, sales and marketing expenses were also down sequentially, as we took steps to streamline our channel structure and began to see the cost benefit of headcount reductions we took in late April.

**Non-Operating income** of \$0.7M in the second quarter of 2002 was up from a loss of (\$1.1M) in the first quarter. The sequential increase in non-operating income was primarily due to foreign currency losses incurred during the first quarter.

The Company moved forward on the **restructuring initiative** announced in April to migrate additional production offshore over the course of 2002, streamline key processes and reduce operating expenses. One-time charges in the quarter relating to these restructuring efforts totaled approximately \$1.3M and consisted mainly of severance costs.

The **effective tax rate** for the quarter was 30%. Certain tax benefits related to foreign and domestic operations are key to the calculation of the overall annual effective tax rate. To the extent actual results vary significantly from forecasted results, the effective rate could vary significantly from quarter to quarter, however, an annual effective rate of 30% is the best estimate for calendar year 2002 at this point in time.

Second quarter **earnings per share** of \$0.03 on 39.7 million shares outstanding increased \$0.23 from a loss of (\$0.20) per share on 39.2 million shares reported in the first quarter of 2002. Second quarter earnings per share excluding restructuring charges of \$1.3M were \$.05 per share.

**Now for a review of the balance sheet:**

**Cash and marketable securities** of \$114.5M increased \$9.9M versus \$104.6M in Q1 primarily due to income from operations combined with a decrease in accounts receivable and inventory, offset by an increase in subcontractor receivables and a decrease in trade accounts payable.

**Accounts receivable** of \$125.7M decreased \$15.6M from \$141.3M in the first quarter primarily because of improved cash collections performance. Accordingly, day's sales outstanding in the second quarter were 69 days, down 12 days compared to the first quarter.

Over the course of the quarter, several of our channel partners' financial condition continued to deteriorate due to the ongoing weak economy in various markets around the world. Accordingly, we specifically recorded additional reserves primarily for potential bad debts of \$3.4M in the second quarter to better reflect the collectability of those receivables.

**Net inventories** of \$106.8M decreased \$15.2M from \$122.0M in the first quarter. Inventory decreased primarily due to the sell off of component parts to subcontractor partners at our cost. This resulted in a short-term shift of parts stock from inventory to contractor receivables and was accordingly reclassified in our balance sheet. As we migrate out of buying components for our subcontractors, we will convert those receivables to cash over the next several quarters. Our inventory turns improved to approximately 5 turns in the second quarter, up slightly from 4 turns in the first quarter. As the economy improves and demand picks back up, our goal is to manage our overall turns at around 8 times a year with operating turns of 12.

**Other current assets** of \$70M increased \$14M from \$56M in the first quarter primarily due to the increase in subcontractor receivables during the quarter.

### Summary.....

During our first quarter conference call, we highlighted a number of areas that we are focusing on as part of our strategy to expand and broaden our presence in the market while positioning the Company for profitable growth:

- From reducing operating expense levels;
- To continuing the migration to offshore manufacturing;
- To driving the lowest cost business model in the industry;
- To growing market share in our core commercial markets;
- To leading the industry into mainstream uses by delivering innovative products;
- To creating, entering and expanding the number of viable markets we serve.

While these challenges and strategies are long term in nature, we are well on our way in each of these areas and pleased with the progress the Company has made over the past quarter to stay focused on what is important. Although the global economy has not been our ally over the past several quarters, our strategy is sound and our execution continues to make it more of a reality each quarter as we think and invest beyond the current economic situation and remain committed to profitable growth through innovative leadership in this emerging industry.

### Outlook.....

Going forward, given the uncertainties of the current economic environment, both here in the U.S. and abroad, it remains difficult to provide much in the way of financial visibility into the future. In addition, forecasts for technology spending around the world are not overly optimistic in the near-term. In the third quarter, assuming no significant changes in the economy and/or in exchange rates, we believe revenues and earnings could be flat quarter-to-quarter. While new product releases should have a positive effect on revenues, the typical summer slowdown in Europe will likely offset most of this benefit in the third quarter.

Given the same set of assumptions, both revenues and earnings in the fourth quarter should improve sequentially as the fourth quarter has historically been our strongest quarter.

We can now open up the conference call for your questions.



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**About InFocus.....**

InFocus® Corporation (Nasdaq: INFS) (OSE: IFC) is the innovative worldwide leader in designing, manufacturing and marketing award-winning digital projectors, technologies and services. The Company provides its global customers with the industry's most comprehensive line of projectors and presentation products marketed under its three brands: InFocus, Proxima and ASK. Solutions range from three-pound mobile projectors to feature-packed conference room products to large audience fixed installation solutions. InFocus products and services have been recognized for excellence by business and trade publications including *CIO Magazine*, *Smart Business* and *Mobile Computing & Communications*. InFocus Corporation's global headquarters are located in Wilsonville, Oregon. For more information, visit the InFocus Corporation web site at [www.infocus.com](http://www.infocus.com) or contact the Company toll-free at 800.294.6400 (U.S and Canada) or 503.685.8888 worldwide.

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