InFocus® Corporation
Third Quarter FY 2002 - Earnings Conference Call
October 23, 2002

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

Good morning and thank you for joining us on the InFocus third 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.

Financial results comparisons . . .

For comparative purposes to prior periods, my discussions throughout the conference call will focus on results from ongoing operations, which exclude restructuring charges.

Intro / Overview …

As we stated in our press release this morning, we were negatively impacted in the quarter by continued softness in business technology spending and a soft economy, especially in Europe; significant competitive pricing pressure worldwide due to an industry oversupply situation; and delayed volume shipments of previously announced new products. Third quarter revenues of $149.9M decreased 9% from the $165.0M reported in the second quarter of 2002. Primarily contributing to the 9% reduction in revenue in the quarter was an overall average sales price decline of 6% on new product sales, the deferral of revenue for units in the channel, and the sale of remanufactured units at reduced prices.

The third quarter loss per share of ($0.23) decreased $0.28 from the earnings per share of $0.05 reported in the second quarter of 2002. Included in the ($0.23) loss for the quarter was a $3.9M charge for potential bad debts, a $4.1M charge for additional inventory reserves, and a $2.0M benefit to true up the annual effective tax rate from 30% to 38% in the quarter.

Our balance sheet, however, continues to remain strong with $110M in cash and equivalents, no debt, and with positive operating cash flow for the fifth consecutive quarter. I will further discuss the specifics of this quarter's financial performance later in the call.

Obviously, we are not pleased with this quarter's operating results. Accordingly, I will focus most of my comments on the issues affecting our performance along with comments on our core professional projector market and what we are doing to return to profitable growth. Even as we continue to pursue new markets for projection solutions, the successful execution of our core business strategic objectives: to be the low-cost producer and to produce innovative, easy-to-use, first-to-market products, remains critical to return the Company back to profitability. Before I walk you through the specifics of our strategy to improve performance, I would first like to briefly touch on the state of the overall economic environments in which we operate and then provide an industry update.

Overall Economic Outlook……

The fragile U.S. economic recovery all but vanished in the third quarter. Consumer confidence turned increasingly negative as growing concern over the "no-growth" scenario and the threat of Middle East conflict pummeled the stock exchanges. Even more troubling now is the nine-quarter-long recession in U.S. corporate spending. From CIOs to CFOs, the tone is consistent – “keep tightening the budget belts” as new waves of cost-cutting announcements and layoffs begin to hit the headlines again. Although Wall Street’s recent performance marked the first sign in months that financial markets may have finally turned the corner, there are still a number of significant negative factors affecting the U.S. economy that indicate a turn around is still not imminent.

During the third quarter, the deterioration in the U.S. economy was mirrored in Western Europe with the rest of Europe and Nordic growth no longer offsetting the softness of German, French and Italian markets. With respect to Japan, they seemed to have pulled back from the brink of recession, but are still struggling to break the decade-long decline in their domestic spending and capital investment as signaled by recent declines in the yen relative to the dollar. South American countries continue to struggle both politically and economically with devaluing currencies, inflation and high unemployment. The lone bright spot continues to be the business growth in China, which is still relatively small to the overall market. In general, oversupply conditions in a number of key industries have given the majority of the developed countries a troubling scenario of little business growth for the foreseeable future despite continued low inflation rates.

Industry Update……

Preliminary worldwide third quarter projector unit sales continued to move in a positive direction, with global growth estimated at a slight gain over second quarter levels. EMEA was the weakest region, due to the typical summer slow-down and deteriorating economic conditions, resulting in flat to slightly down projector sales compared to Q2, while the Asian region, led by the strength of China, continued with its linear growth at double digit levels. Early indications are that the U.S. projector demand was flat to slightly up, albeit at the expense of even lower SVGA prices. Across the globe, the strength of this industry has depended increasingly on more education and government sales as the corporate sector continues in a flat to slightly down buying pattern.

Early indications are that InFocus Corporation’s market share tracked with the market and was flat to slightly down Q2 to Q3, with the greatest impact coming from Europe.

April restructuring update……

Given the indications during the quarter of a continuing prolonged economic downturn and the sustained intense pricing environment that has resulted, we believe it is prudent to continue to aggressively pursue the restructuring changes we announced back in April as part of our first quarter's conference call. At that time, we announced our intention to reduce product costs and costs to serve by outsourcing most of our manufacturing and streamlining our sales and marketing efforts. Along those lines, we are in the process of further analyzing all facets of our business with the focus on driving down manufacturing overhead and operating costs of the Company even more, without sacrificing longer term strategic initiatives. In doing so, the Company should be able to operate at a lower break-even point and return to profitable growth going forward.

Supply Chain / Outsourcing update . . .

As announced in our October 3rd pre-release, during the quarter we experienced temporary delays in the launch of new product platforms due to independent, unrelated supply issues with critical components. Although these supply issues were rectified late in the quarter, we were unable to sufficiently make up for the lost lead times in our supply chain in order to make the volume revenue ramp for the products.

During the quarter, we shifted more production off shore to Flextronics, our contract-manufacturing partner. Outsourced production increased to 70% in the third quarter, up from 65% in the second quarter.

We are satisfied with both Flextronics' quality and flexibility as we transitioned four major product platforms to them during the quarter. All four of these platforms were designed in collaboration with Flextronics to better take advantage of their component purchasing power. Therefore, as we go forward into the fourth quarter, Flextronics will now be directly sourcing many of the components for these new products with their Asian suppliers as they ramp in volume. As a result, our material costs should continue to come down and the working capital invested in raw materials should also come down, reducing the carrying cost of inventory. With the substantial progress we have made with our outsourcing efforts, we fully expect that we will exit 2002 with the lowest overall product material costs in the industry.

As we have previously discussed, our goal has been to engage two co-development and manufacturing partners. To this end, in early October, we announced a co-development and manufacturing agreement with Funai Electric Company, a leading Japanese consumer electronics Company that specializes in the manufacturing and distribution of high-volume, low-cost electronics products, such as VCRs, DVD players, and printers. Under the agreement, Funai will manufacture a family of innovative and aggressively priced InFocus digital projectors for professional and consumer use. These products will be co-developed, combining InFocus' design and engineering expertise with Funai's cost-effective manufacturing capability, and will be manufactured in Funai's China facility to minimize production costs.

As we go forward, by having two world class joint development/manufacturing partners, we will be able to better leverage their core competencies in cost-effective manufacturing with our innovative designs while minimizing the business risk for supply interruption to the Company.

The LP®70/ LP240&250/ LP650…

As I mentioned earlier, one of the major advances we made in the third quarter was the introduction and shipment of four new product platforms late in the quarter through our contract-manufacturing partner, Flextronics. Unlike previous products built by Flextronics, which involved pre-existing manufacturing processes and supply chains from InFocus, these new product platforms were designed with Flextronics' supply chain and manufacturing processes in mind and transitioned from InFocus' new product launch group directly to Flextronics' manufacturing lines in Malaysia.

The **First** new platform, the LP70, was designed for mobile professionals who need to deliver collaborative presentations via a small form factor. The LP®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 connectivity support, and an intuitive, easy-to-navigate GUI menu system.

Second, we began shipping the **LP650®,** perfect for government and business users who often share a projector with a group or between departments**.** The LP650 comes with an innovative/rugged industrial design, sleek built-in handle and superior usability. The LP650 features 2500 lumens, full connectivity and an optical zoom lens, providing users with the flexibility to present in virtually any light condition, from anywhere in the room. The LP650 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, our new standard remote, connectors and compartmentalized carrying case.

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 **LP®240** and **LP®250**. These two products offer the same easy setup, standardized and intuitive user interfaces like 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 take 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, color-coded compartmentalized carrying case.

And finally, like previous generations of InFocus platforms, the LP70 and LP650 ship with the standard connectors required to make wireless a reality soon. Our vision is to create the "automatic projector" by using 802.11b technology combined with our proprietary compression and screen scraping technology, to create an intuitive, easy-to-use solution that anyone can understand and operate.

The X1 Product…

The first product to launch from our partnership with Funai is the **InFocus® X1**, a value-priced, high-performance projector that targets a critical new emerging market segment for the industry, the multi-use category. This segment is primarily comprised of small-to-medium sized businesses, home offices, and educators who want a projector that is designed for high performance both at work and at home. The InFocus X1 is the industry's first projector to offer this unique combination of data image quality for business use, with outstanding home theatre quality video performance, all at a low cost of ownership at a street price of $1,699. The value of the X1 packs performance capability unrivaled in the industry… with 1000 lumens of brightness, a 2000:1 contrast ratio, outstanding home entertainment video quality, and 3000-hour lamp life, all in a portable, lightweight package. The X1 also incorporates all of the ease-of-use features in design and packaging now standard in the InFocus product lineup.

Underlying the impressive price/performance benefits of the X1 is the co-development and manufacturing agreement with Funai. As the first tangible example of how InFocus will operate more in the future, all of the manufacturing activities associated with the X1 are outsourced, focusing our people on what we do best; design, market, sell and service the customer with this new, innovative product.

Home Entertainment…

With the introduction of the InFocus X1 "multi-use" projector, we expect to find more of our projectors making their way from the office and into the living room for those interested in having a big screen Hollywood home entertainment experience but at a much more affordable price than ever before.

In addition to the X1 "multi-use" product, we have projectors designed specifically for the more discerning home theatre enthusiast. The ScreenPlay™ 110, launched nearly a year ago, continues to sell well and maintained a top market share position in the industry during the third quarter. To further supplement our movement into the home, we also announced a new high-end product, the ScreenPlay 7200. Available in Q4, the ScreenPlay 7200 is designed to deliver the best home cinema video experience available in the market, incorporating the industry's highest performing DLP display technologies in our own award-winning platform. The ScreenPlay 7200 is a true 720p high-definition front projector with high-resolution imagery, film-like contrast, the industry's brightest image, cinema-quality color reproduction, and an installation-friendly design. This top-of-the-line product is designed for home cinema enthusiasts and residential systems professionals, and is equipped for flexible installation and optimal video quality performance.

The ScreenPlay 7200 was the talk of this year's CEDIA show in Minneapolis earlier this month and has already won the home theatre industry's most prestigious award, the 2002 Manufacturer's Excellence Award for Best Video Product. Up against hundreds of video products from many manufacturers, the ScreenPlay 7200 was judged as the best overall product based on performance, ease-of-use, and value for the money followed closely by its sister product the ScreenPlay 110 (which was also a finalist for the CEDIA award). The ScreenPlay 7200 further demonstrates InFocus' continued commitment to excellence in creating innovative products that will now also compete very well in the home theatre/cinema market space.

To effectively market our ScreenPlay products, we have successfully adapted and evolved our channel and product strategies to work in the consumer environment. In the third quarter alone, the number of dealers showcasing our home entertainment products in North America doubled compared to the second quarter. Overseas, new distribution partners are being signed in top markets throughout Asia and Europe. With two new products coming into production in the fourth quarter and a growing channel presence around the world, we are well positioned to expand our presence in the home as we move into 2003.

Image Engines…

In addition to the ScreenPlay series of products, we are also migrating into the home by leveraging our micro-display engine design expertise in targeting the rear projection television industry, a market of nearly 3M units per year. On July 18th we announced an agreement with SVA, a leading electronics manufacturer in China, to supply them with DLP-based engines specifically designed and optimized for SVA's large-screen format, rear projection televisions for the China market.

The benefits of our engine 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.

Third Quarter Financial Results Review…………

Now lets review the third quarter financial results.

First the income statement:

Revenues of $149.9M in the third quarter were down 9% from the $165.0M recorded in the second quarter of 2002 and down 17% from the $180.2M recorded in the third quarter of 2001. As previously stated, we were negatively impacted in the quarter by continued softness in business technology spending and a soft economy, especially in Europe; significant competitive pricing pressure due to an industry oversupply situation; and delayed volume shipments of previously announced new products. The delayed launches of new products during the quarter resulted in a product mix that consisted mainly of more mature, lower margin products. The delayed launches also caused back-end loaded shipments into the channel, resulting in the deferral of revenue for certain units in the channel. In addition, certain individual product ASPs declined by as much as 10-20% during the quarter on higher volume value segment products. Overall aggregate average ASPs declined approximately 6% during the quarter. In addition, revenues included an increased amount of remanufactured product sales, some of which were sold below cost in order to move them out in anticipation of newer product launches.

Total unit volumes shipped were up slightly quarter to quarter.

On a regional basis, Americas' revenues decreased 3% sequentially from the second quarter and decreased 18% compared to the third quarter of 2001. Channel inventories remained flat during the third quarter, at approximately five weeks as of September 30. As part of our channel migration strategy to reach new and emerging market segments, we are moving more product to business and consumer retail channels. Sales of our branded projectors in U.S. retail stores tripled in volume from the second quarter, albeit starting from a small base.

European revenues decreased 25% sequentially from Q2 in part due to the typical summer slowdown and decreased 14% compared to the third quarter of 2001, as a result of deteriorating economic conditions.

Our overall Asian revenue was down 4% sequentially from Q2 and down 18% compared to the third quarter of 2001.

For a composition breakdown of consolidated revenue --

- The breakdown of revenues by product segment in the quarter was 64% meeting room, 25% mobile (3 pounds and under), and 11% integration and installation.

- Third quarter sales into the U.S. education and government markets represented approximately 45% of U.S. revenues.

- Our revenue channel splits were 51% from distributors, 39% from value-added resellers, and 10% from OEMs.

- The breakdown of revenues geographically in the quarter were 65% Americas, 24% Europe, and 11% Asia/Pacific.

- XGA projectors were 66% of unit shipments, while SVGA accounted for 34%.

- DLP technology comprised 51% of unit shipments, while polysilicon accounted for 49%.

Backlog ended the quarter at $28M, up from $22M in the second quarter, due to unfulfilled demand for new products launched near the end of the quarter. Backlog includes deferred revenues at the end of each quarter.

Gross margins of 16.5% in the third quarter declined 8.5% from 25.0% in the second quarter due to reductions in average selling prices, increased sales of remanufactured units sold at or below cost, fixed manufacturing costs spread over lower revenues, incremental spending to expedite shipments during the last weeks of the quarter, and incremental service and warranty repair expenses in Europe, all partially offset by cost reductions.

Operating expenses of $40.5M increased $1.6M from $38.9M in the second quarter primarily due to research and development expenses incurred in the development of four new platforms during the quarter as well as additional reserve adjustments primarily relating to the collectability of receivables.

Non-Operating loss of ($0.1M) in the third quarter of 2002 was down from income of $0.7M in the second quarter. The sequential decrease in non-operating income was primarily due to foreign currency losses incurred during the third quarter.

The **effective tax benefit rate** for the quarter was 43%, which included a $2.0M benefit adjustment to true up the effective tax rate for the year from 30% to 38% as a result of the Company's expected annual results now changing to a loss position for the year. An annual effective benefit rate of 38% is the best estimate for calendar year 2002 at this point in time.

Third quarter losses per share of ($0.23) on 39.3M shares outstanding decreased $0.28 from earnings per share of $0.05 per share on 39.7M shares reported in the second quarter of 2002. (Second quarter earnings per share including restructuring charges of $1.3M were $0.03 per share.)

Now for a review of the balance sheet:

Cash and marketable securities of $110.1M decreased $4.4M versus $114.5M in Q2 primarily due to the loss from operations combined with a decrease in trade accounts payable. These uses of cash were offset by significant collections on subcontractor receivables (classified in other current assets) and trade accounts receivable during the quarter.

Accounts receivable of $118.3M decreased $7.4M from $125.7M in the second quarter primarily due to lower than expected sales late in the quarter combined with improved collections performance, primarily in the Americas. Accordingly, the aging of our accounts receivable improved and day's sales outstanding in the third quarter were up only 2 days, to 71 days, compared to the second quarter.

Net inventories of $108.0M increased $1.2M from $106.8M in the second quarter.

Inventory turns between quarters remained relatively flat at approximately 4.5 turns. As the economy improves and demand picks back up, our goal is to manage our overall turns at around 8 times a year.

Other current assets of $54M decreased $16M from $70M in the second quarter primarily due to collections on subcontractor receivables.

Summary……………

In summary, we were disappointed with our performance during the quarter. While some of the factors are clearly within our control, others are not and we are aggressively taking the steps necessary to deal with both in a manner that should once again position the Company for profitable growth.

Our strategy to migrate to an outsourced business model for manufacturing is not without its share of risk during transition; but it is the right move to more fully realize the benefits of our objective to be the lowest cost producer in the industry. The changes associated with making this transition are all designed to drive material and manufacturing overhead cost down in projector portion of our business. These changes, combined with our vision to develop value-added services and solutions, such as wireless and networking, are key to improving our gross margins going forward. In addition, we are committed to top-line revenue growth as we drive to open up new markets and channels for our products in the home while at the same time aggressively managing our operating expenses to improve profitability.

Outlook……………

Going forward, given the uncertainties of the current economic environment, both here in the U.S. and abroad, it remains difficult to provide financial visibility into the future. In addition, forecasts for technology spending around the world are not optimistic in the near-term. However, assuming no significant changes in the economy, supply-line flows and exchange rates, we believe fourth quarter revenues could increase modestly from the third quarter and earnings could return to slightly below break-even, excluding the effects of any one-time charges.

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

<u>About InFocus……..</u>

InFocus® Corporation (Nasdaq: INFS) (OSE: IFC) is the worldwide leader in digital projection technology and services, including designing, manufacturing and marketing award-winning products for business, government, education and home use. InFocus' digital projectors are essential business tools for collaboration, videoconferencing and visual support and offer the best solution for more effective meetings. The projection industry pioneer provides its global customers the ultimate in reliability with the industry's most comprehensive line of projectors and presentation products. Solutions range from the smallest and lightest mobile projectors to feature-packed meeting room products and large audience installation and integration services. The Company's products and services have been recognized for excellence by business and trade publications including BusinessWeek, 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 or contact the Company toll-free at 800.294.6400 (U.S and Canada) or 503.685.8888 worldwide.

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