Planar Systems, Inc. (NASDAQ: PLNR)
First Quarter Fiscal Year 2005 Analyst and Investor Conference Call
January 19, 2005

Good afternoon and thank you for joining us. I'm Balaji Krishnamurthy, Planar's Chairman, President and Chief Executive Officer. I will review Fiscal Year 2005's first quarter which ended December 31st, and Steve Buhaly, who was CFO throughout the quarter, will summarize the financial results. I will then make my closing comments, before welcoming your questions.

With me here today in Beaverton, Oregon, are Scott Hildebrandt, Planar's new Chief Financial Officer, Steve Buhaly, Chief Operating Officer, Jeff Siegal, Corporate Controller, and Stewart Clark, Director of Investor Relations.

For your convenience, the transcript of this call's prepared comments will be posted on the Planar web site later today.

I will first let Steve cover the Safe Harbor Provisions.

SB: Thanks Balaji and good afternoon everyone. The press release we issued today includes a Business Outlook section that contains forward-looking statements. On this conference call we are going to be commenting on our business outlook and making other forward-looking statements based on our current expectations. Words such as expects, anticipates, intends, plans, believes, sees, estimates and variations of such words and similar expressions are intended to identify such forward-looking statements. All forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially. Please refer to the press release we issued earlier today for a description of factors that could cause actual results to differ materially from those forecast. The forward-looking statements we make today speak only as of today and we do not undertake any obligation to update any such statements to reflect events or circumstances occurring after today.

Back to you, Balaji.

BK: Thank you, Steve

Our results for the first quarter were at the low end of our outlook for both sales and net income. We generated quarterly sales of $63.1M, down sequentially $4.9M or 7%, due to declines in the medical and commercial segments. Year-on-year, sales in the first quarter were flat as growth in the medical segment was offset by a decline in the commercial segment. Note that there were 14 weeks in the first quarter vs. all other recent quarters which had 13 weeks.

Net income per diluted share rounded to zero cents in the first quarter, down from 19 cents in the prior quarter and 21 cents a year ago. Poor performance in our commercial segment, coupled with a spike in bad debt expense due to the insolvency of a customer was primarily responsible for the weak results. Recall that in the prior quarter, net income benefited by 5 cents per diluted share due to a significant change to our F'Y04 tax rate.

Normal fluctuations in orders lowered first quarter backlog to $45.8M, down from $48.3 at the end of the fourth quarter. Of course, two-thirds of Planar's sales do not generate significant backlog.

Sales outside of the US were 17% of total sales in the first quarter, up from 13% in the previous quarter and 16% in the quarter a year ago. Excluding the commercial business, which only sells product in North America, over 30% of our remaining sales came from outside the US, reflecting initial success of

our efforts to improve sales in Europe and China.

Planar's commercial business recorded sales in the first quarter of $28.2M, down $3.0M sequentially and $2.8M year-on-year. Market prices continued their precipitous slide which negatively impacted us in the fourth quarter. As a consequence of this, and an excess level of inventory at the beginning of the first quarter, many of our sales were at poor margins. During the quarter, we reduced our inventory in this business by over 40% and feel our inventory is now at an appropriate level and is at market-competitive cost.

Our North America market share numbers continue to be very respectable: we're ranked number five in the independent-monitor category and number nine overall. We are confident we have cleaned-up the inventory problems that led to this quarter's poor results.

The medical segment had first quarter sales of $20.7M, down $2.0M or 9% sequentially but up $2.9M or 16% over last year's first quarter. Decline in digital imaging revenue, due to seasonality associated with this industry's largest annual trade show caused the segment decline. Year-on-year, our unit volume and market share have increased substantially.

Our medical business launched two significant products in the quarter, the Planar-Dome Dashboard, a network management application, and the Planar-Dome Surgery Review Cart, which simplifies the flexible use of digital imaging in the operating room. Both products are part of our strategy to enable a hospital's extension of digital imaging outside of radiology to other areas of the hospital where use of medical images improves care.

On January 3rd, Patrick Herguth joined the company as VP and General Manager of our medical business, based in Massachusetts. Patrick comes with significant medical imaging experience having worked for GE Medical, Kodak and Hitachi. We are delighted to have him on board.

In our industrial business unit, sales of $14.3M for the first quarter were up slightly both sequentially and year-on-year. Our EL products continue to sell well with good margins, and are winning new orders such as one this quarter with a Chinese producer of communications terminals. We also introduced new 15" and 17" touchscreen monitors suitable for integration into a variety of kiosk applications. The expansion of our sales effort across geographies is allowing us to serve new customers with existing applications.

Moving to our investments in the area of emerging opportunities, we see a changing paradigm in retailing that offers significant long-term growth potential. Over the past decade technology has had a significant impact on the back-office operations of retail establishments, yet it has had little impact on customer facing-interactions. We believe that in the next few years, technology investments are likely to be focused on enhancing value by enriching the customer experience and thereby driving revenue growth, and are likely to include customer-facing interactive display solutions. We believe that Planar's expertise, speed and agility position us well in a growth market that is just beginning to take off.

We are developing a complete hardware/software/system solution for interactive retailing. Our solution will allow customer-facing devices to attract, interact and transact with customers while maintaining extensive logs of the interactions. We have completed pieces of this solution, engaged customers that are in synch with this future, and begun deployment. In addition to Nike's deployment of our solution in their Niketown stores, we announced last quarter a contract to develop pieces of this solution for Transcore, a company with 1,200 locations currently getting by with an older technology.

We are actively engaged with a number of other retailers and are working to refine our solution based on their input, enter into partnerships to conduct trials, and complete our solution in the process. This is a long-term effort. We do not expect results with meaningful financial impact in the current fiscal year, but these interactions have confirmed that our strategy and implementation is on target.

Turning back to Planar as a whole, we are pleased with the running start we have in our geographic expansion efforts. Our sales team in Europe is complete and fully trained. Our Sales Director for China has moved to Shanghai and has begun hiring local employees. In both markets we are finding new opportunities for our EL and digital imaging businesses. We are pleased with our international sales in Q1 and the sales funnel that has been generated. We have shown impressive year-over-year growth in digital imaging, but it is too soon to extrapolate that into annualized growth rates.

Now Steve will cover the financials.

SB: Thank-you, Balaji.

Planar's first quarter sales of $63.1M declined sequentially by $4.9M or 7% due to declines in our medical and commercial segments. Year-on-year, sales in the first quarter were flat with growth in the medical segment offset by a decline in the commercial segment. Note that there were 14 weeks in the first quarter vs. all other recent quarters which had 13 weeks.

First quarter gross margin was 21.7% which was above the prior quarter's gross margin of 21.0%. Recall for comparison purposes that the prior quarter included charges for excess inventory and increased warranty obligations that impacted gross margin by about 1%. Poor gross margin in the commercial business impacted aggregate margins by about 3% in both quarters.

First quarter operating expenses at 21.6% of sales were up significantly over the prior quarter's 17.4%. Results in the first quarter were adversely impacted by bad debt expense of $0.5M, lower revenue and increased spending associated with geographic expansion in sales and marketing and the development of our retailing initiative.

First quarter income from operations was $0.1M or 0% of sales, compared to fourth quarter income from operations of $2.5M or 3.6% of sales.

Planar reduced the carrying value of its investment in Topvision Technologies by about $150k reflecting a further decline in this publicly traded firm's market value. This adjustment leaves the remaining book value of our investment in Topvision at $0.8M.

First quarter net income per diluted share rounds to zero cents, down from 19 cents in the fourth quarter and 21 cents in the first quarter of fiscal 2004.

Our balance sheet remains strong with nearly $39M cash and minimal debt. We reduced inventory levels by over $5M and grew cash by $8.6M during the first quarter. Elsewhere on the balance sheet, our accounts receivable continues to be well managed.

First quarter return on equity was 0%, down from 6.8% in the prior quarter.

In the balance of fiscal 2005, we expect profitability will continue to be constrained by planned, incremental increases in operating expenses to further penetrate European and Asian markets and to continue development of new software-rich products and services.

In addition, while we intend to improve the financial results generated by our commercial segment,

current market uncertainties and volatility require us to remain cautious regarding the company's near-term financial performance. As such, our guidance is for second quarter sales and earnings to be similar to the results reported for the first quarter of fiscal 2005.

As I wrap up my transition out of the CFO role, I want to welcome Scott on board and thank the analysts and investors I've had the opportunity to work with.

BK: Thank you, Steve.

Thanks, Steve. And let me say both thank you to you for your four years as CFO and welcome Scott Hildebrandt as our new CFO. With both Scott and the new GM of our medical business, Patrick Herguth, starting with the company this month, I'm particularly confident in the strength of the management team to lead and get things done.

The medical and industrial businesses performed to our expectations this quarter. The aggressive shift in strategy we undertook just about a year ago in our medical business has proven successful and has gained us market share. The industrial business is healthy and stable under the current economic conditions.

As to the commercial business, after almost four years of reasonably profitable performance, the business has stumbled two quarters in a row. It goes without saying we take that extremely seriously around here, and are attacking the causes. We are confident that we can return this business to its traditional levels of profitability, and that we can continue to enjoy the valuable benefits of the synergies its supply-chain and reseller-channel activity brings for the rest of the company.

We are also making important investments for the future. The results of our investments in geographic expansion are already beginning to show, and I'm confident they will have growing and lasting value. Investments in development of new products, software and services are also exciting, and I'm particularly pleased to be able to allocate a greater portion of my time to overseeing this. I continue to see substantiation of our value proposition selling into the retailing industry and confirmation that the market demand is growing for such products and services.

As we focus on the long term, we maintain our commitment to and confidence in creating lasting shareholder value. We maintain that we will promise only what we can deliver and we will deliver all that we promise.

Now, I will be happy to take your questions.