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# THE WALL STREET TRANSCRIPT

Questioning Market Leaders For Long Term Investors

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## Integral Vision, Inc. (INVI)

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**CHARLES J. DRAKE** has been Chairman and CEO of Integral Vision, Inc., since 1983. He has experience in bringing new production technologies into existing markets. Mr. Drake has over 25 years of experience working with companies in Asia and Europe. He holds a degree in Systems Engineering and a Master's degree in Business Administration from the University of Michigan.

### TWST: What is Integral Vision?

**Mr. Drake:** Integral Vision is a supplier of automated inspection equipment for the display industry. We use machine vision techniques to evaluate displays and display components for functional and cosmetic defects and also provide electrical and other testing for some displays. Our inspection technology was developed in the 1990s when we were the largest manufacturer of automated inspection equipment for compact discs. As worldwide manufacturing capacity for compact discs and related optical media peaked in the late 1990s, the market for new inspection equipment deteriorated and we exited the business. Since that time, our focus has been on the inspection of displays — primarily emerging display technologies like AMOLED displays, LCOS and MEMS microdisplays used in projection televisions, various MEMS displays for portable devices, and displays produced on rolled flexible media (AMOLED stands for active matrix organic light emitting diodes, LCOS stands for liquid crystal on silicon, and MEMS stands for micro electro-mechanical systems). Limitations with current LCDs (liquid crystal displays) are driving many companies to develop emerging technology displays that improve readability while using substantially less power. Human eye inspections (the current LCD industry standard) are not feasible for many of the

emerging display technologies. Higher resolution, increased brightness and contrast, and pixel switching speed issues in newer LCDs are even causing many LCD manufacturers to consider our automated inspection systems.

**TWST: If we were speaking a year ago, what would have been the goals and expectations? Give us a report card.**

**Mr. Drake:** A year ago we were expecting to receive large orders from two key customers — within months from one and by year-end from the other. Those orders have been delayed. Sharply lower LCD television prices impacting the demand for microdisplay-based projection televisions disrupted the plans of one customer. The other customer encountered difficulties on their prototype production line that had to be resolved before they launched commercial production of their new displays. According to this customer, their “next-generation” MEMS displays “are poised to transform the display industry and move beyond the considerable limitations of current display technologies.” At a display industry convention in December, this customer said that they expected to launch the commercial production of their displays by the end of 2007.

These delays were disappointing, even though they were not our fault. However, we expect to receive orders for multiple inspection systems from both of these customers by the end of this year.

We spent most of our time in the last year demonstrating our capabilities to solve inspection problems for other customers and prospective customers. These efforts have been very successful.

In the last three months, we have received orders for two LCD inspection systems from a Korean company that is the largest LCD television manufacturer in the world. Additionally, in the last year, another customer accepted the delivery of an inspection system for new color filters they are developing for LCD displays. These orders are examples of the scalability of our technology. We can inspect 2 million pixels on microdisplays the size of a thumbnail to 50 inch LCD television panels.

Another major development in the last year was news from an old customer that they expect to order multiple inspection systems from us that are to be incorporated in a new AMOLED production line they anticipate building this year. It has been five years since this company ordered an inspection system from us. That system was for their research laboratory. We have also had many discussions with a large Korean display manufacturer that is building an AMOLED display production facility. We believe that we are the only company that can satisfy many of the inspection requirements of this company

tion lines within the next 12 months. Although it is unlikely that all seven inspection display projects will proceed as presently anticipated, it is very likely that most or at least some of these projects will proceed.

The use of our inspection systems on display production lines should be the catalyst for many other display manufacturers to order our inspection systems; and success to us in the next 12 months will be order bookings for display inspection systems exceeding our total sales of display inspection systems in the last six years.

**TWST: Introduce us to two or three of the key individuals in your top-level management team.**

**Mr. Drake:** Mark Doede is our COO. Mark was formerly the President of our predecessor company, Medar, Inc. At its peak, Medar had over \$40 million in annual sales and over 350 employees. Mark is very qualified to oversee the substantial ramp-up in business we expect in the next few years. We also have several employees that are the heart of our technical team. This team has extensive experience in software and optical design combined with special abilities in color measurement and color matching — all very important for the automated inspection of displays.

*“The automated inspection of displays is going to disrupt the way most displays are inspected. The human eye is not up to the task of making repeatable inspections of the brighter, higher resolution displays being demanded by consumers. Integral Vision’s automated inspection systems are the solution to this need.”*

and also expect initial AMOLED inspection systems orders from this company soon.

In the last year, we also perfected our ability to inspect OLED displays produced on rolled flexible media. The initial concept was that these OLED displays would be used for ceiling light applications. The technology we developed for this application has other potential applications — from inspecting other e-paper displays to rolled solar panel material.

**TWST: What is the agenda for the next 12 months? What would make that time frame a success?**

**Mr. Drake:** Our agenda for the next 12 months is to see our display inspection systems being used on display production lines. Most of the display inspection systems we have shipped to date have either been for research and development projects or for the evaluation of their capabilities.

We now have five current customers with seven display projects that could see our inspection systems on full-scale produc-

**TWST: What historically has been the shareholder base with the company? Has that base undergone any changes or transitions?**

**Mr. Drake:** Our five largest shareholders and management account for over 75% of our stock. Our two largest shareholders have only been with us for two years, the others much longer. These large shareholders are very knowledgeable and supportive of our efforts.

**TWST: In your discussions with the investment community, are there any recurring questions or misperceptions that you encounter? Do they understand the Integral Vision story?**

**Mr. Drake:** We are a small company and have no analyst coverage. Our largest shareholders and many very long-term smaller shareholders clearly understand the Integral Vision story and potential. Many prospective investors have expressed interest in our story, but question how our unique technical ability has resulted in so few orders. Our anticipated order bookings in the next 12 months should resolve this question.

**TWST: What should investors track in terms of events or metrics? What matters?**

**Mr. Drake:** Investors should track repeat orders from existing major customers. Orders for multiple inspection systems from a single company will be even more important. The cost to engineer and build single inspection systems for research projects or prototype production lines is very high as a percentage of sales. Good gross margins on volume repeat orders will have a dramatic positive impact on our cash flow.

Investors should also track key developments in the display industry. An announcement by our customer that they are launching the commercial production of their “next-generation” MEMS displays that “are poised to transform the display industry” is likely to precede their issuance of orders for multiple display inspection systems from us. AMOLED displays are likely to be inspected 2 to 4 times as they are being made – requiring several of our inspection systems on each production line. Major display companies’ progress launching large-scale commercial production of AMOLED displays is likely to be very positive for Integral Vision.

**TWST: Are there any fundraising items on the near-term agenda? Do you feel you have enough resources in hand to meet your goals?**

**Mr. Drake:** We believe that we have access to adequate resources. Some of our long-term shareholders have provided a line of credit that we are using. If our backlog gets large enough, we may look for additional working capital sources later this year.

**TWST: What are the key points today that compel investors not only to review Integral Vision and include it as part of their current portfolios but also to include it as part of their longer term investment strategies?**

**Mr. Drake:** The automated inspection of displays is going to disrupt the way most displays are inspected. The human eye is not up to the task of making repeatable inspections of the brighter, higher resolution displays being demanded by consumers. Integral Vision’s automated inspection systems are the solution to this need.

Companies developing emerging display technologies have been in the lead identifying Integral Vision’s capabilities. Unfortunately, most of these emerging display technologies have taken longer to develop than expected.

The market potential for inspection systems for emerging display technologies is enormous. Last year there were 3.4 billion displays produced — and growing. Over 1.2 billion of these displays were for cell phones and digital cameras. We think consumers would be eager to purchase products with improved, emerging technology

displays — like AMOLED displays and the “next-generation” MEMS displays that “are poised to transform the display industry.” The market should be able to easily absorb annual production of 100 million AMOLED displays and 100 million “next-generation” MEMS displays. The problem has been that manufacturers have not been able to produce these new technology displays. When display manufacturers ramp-up production of these two emerging technology displays, they will need hundreds of Integral Vision’s inspection systems. These two applications alone could generate over \$50 million in annual sales to Integral for several years.

The LCD display will still dominate the display industry. Integral also believes that many LCD manufacturers will replace their current human eye inspections with their automated inspection systems. LCD inspection system sales also represent a significant opportunity to Integral.

The inspection requirements of other emerging display technologies (like OLED ceiling light panels) add to our potential long-term growth.

**TWST: Thank you.**

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