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Lexmark International, Inc. Q1 2009 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Your first question is coming from line of Shannon Cross of Cross Research. Please go ahead.

Shannon Cross - Cross Research

Paul, if you want to take this, discuss the recent court ruling and the static control litigation, how we should think about the potential impact to your business, how you're communicating any changes with your channel, and your options going forward.

Paul Curlander

Let me first say that this is ongoing litigation, so we can't really comment on ongoing litigation, but what we can say is that we execute the Lexmark return program globally and every geography, it's very popular with our customers because we give them choices. It drives in significant collection of empty cartridges, environmentally a very strong program for Lexmark. In every geography, we have contracts where we basically enforce those contracts with chips that do functional things as well as help with the enforcement.

Only in the US do we have the additional protection of the intellectual property single use license. Now this latest ruling in the district court had to do with that single use US license. So what that really means is that beyond that the US is like every other country in the world where we execute return programs. We expect to continue to execute the return program just as we have been doing and we don't see a change in our business related to that. Again, the litigation is ongoing. It's not over.

Shannon Cross - Cross Research

John, if you could talk specifically about how you're looking at improving work in capital, maybe changes you put in place, any specifics you can give us?

Paul Curlander

Sure. As we said, the largest area of focus is in terms of our inventory improvements. So obviously we're very focused there on making sure we properly balance production with demand and there's ongoing efforts there. A lot of the inventory issue was really in the supplies area. So we're very focused on improving whip and turns within our facilities as well as entire supply chain around supplies.

Bottom line is we didn't as rapidly as we wanted to get inventory down at the same rate as which revenue declined and we think we'll have a path forward to make significant improvements as we move through the rest of the year.

The other area which wasn't nearly as significant, but where we certainly are focused, is in receivables. Our collections remain very good. Our collections days didn't move materially. On internal measures, they're still in the mid-30's, but the days did go up about two days from fourth quarter. So we're very focused obviously on refocusing on delinquencies and making sure that we drive those down as we look into the second quarter.

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