



newsletter

The management
Newsletter for all
industries involved
with bar-code
scanning and
related
technologies.

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It would seem to be....

....a classic example of expanding too fast, too soon. On August 12, 1985, Metrologic Instruments (Bellmawr, NJ) filed under Chapter 11 with the Bankruptcy Court. (Chapter 11 permits the company to continue to operate, while holding off the creditors, pending approval of a reorganization plan submitted to the Court.)

The immediate problem seems to have been cash flow. The company owed about \$3 million to the First Pennsylvania Bank, and about \$500,000 to unsecured creditors. It had undertaken overhead costs -- new product development, marketing expansion, increased inventory -- which were not supported by current sales and profit levels. Something had to give.

Chairman and majority stockholder Harry Knowles was very blunt and realistic in his appraisal of what happened, and pulled no punches when he told us, "It was our own fault. It came on suddenly and we made the mistake of surprising our bank at the last minute. Fortunately the bank has been very cooperative and is supporting the company in its efforts to reorganize."

Knowles states the company is back in production with all of its key technical people on board. Some marketing staff has been lost, but they will be replaced as needed. No products are being dropped, and all key customers are being contacted. "Initial response has been good," he says, "because our products are sound, and customers like NCR have already sold significant quantities and are committed to more next year."

The company will be meeting with its unsecured creditors to work out a "fair and equitable" settlement of the amounts outstanding. Sales this year are expected to reach \$6 million and Knowles forecasts \$11 million for 1986 with his restructured company.

COMMENT

Metrologic has been in business for 17 years. Harry Knowles and his wife, Janet, are well known in the bar coding industry. The company has been a manufacturer of laser tubes which it early adapted successfully to bar code scanning -- both hand-held and fixed position. Chapter 11 is a traumatic and eye-opening experience. We almost sensed Knowles' relief when we spoke with him -- the air was cleared, and he said he now knew what had to be done. We wish him luck!

The information....

....that came across the Dow Jones tape on August 23 stated that Intermec's earnings would be affected this quarter because of the settlement of a suit against the company by a former distributor in Texas, and a separate set of problems with its current distributor in California. There were few additional details.

We had been aware of the suit against the company. It had been brought by Comspec, a previous Intermec dealer based in Texas and covering Texas, Oklahoma, Arkansas and Louisiana. Comspec's dealership had been terminated about a year ago in favor of a new sales organization. It was alleged that the new group was made up of key sales personnel who had been working for Comspec and who had been induced to leave to form the new dealership, financed in part by Intermec. The suit has been settled. It was the amount of the settlement (unspecified) and the cost of the legal fees involved that Intermec stated was sufficiently large to impact current earnings.

We checked the story with Intermec's President, David Allais. Although he would not reveal any of the particulars of the settlement (as the parties had agreed), he did indicate his company wanted to settle rather than continue to expend the large legal fees involved. The additional dealership difficulties in southern California, where there was a falling out among the various owners, were expected to cause a significant reduction in sales from that region -- enough to reduce overall second quarter revenues by 12%.

Much of this seems to stem from Intermec's program to establish an in-house sales group organization to replace its 12 independent dealers (SCAN June 84). The plan was to negotiate a separate contract with each dealer, with the ultimate goal of creating a dedicated U.S. sales and service organization.

When we spoke with a few of these dealers last year, they seemed pleased with the prospect. But that was not true in all cases, obviously, and the Comspec and southern California situations are evidence of Intermec moves that have not come off too well. Because of the California problem, which, from other reports, sounds like a can of worms, Allais expects minimum sales from that important region until new arrangements can be implemented.

In 1984, Allais expected negotiations to be "reasonable and creative...in the best interests of all concerned." This has obviously been more difficult to achieve than anticipated, but it has not changed the company's objectives. In spite of these setbacks, Allais states that "The second half of fiscal 1986 still looks encouraging."

Our first inkling....

....of the situation was buried at the end of a July, 1985 letter from the Uniform Code Council to all UPC coordinators. "The Uniform Code Council Inc. is aware of a class action lawsuit recently filed by an individual in Florida alleging patent infringement by the users of the UPC. The Council is confident the case can be successfully defended."

A few weeks later, companies supplying UPC film masters received certified letters, dated 8/23/85, from a Clearwater, Florida patent attorney notifying them of the existence of patent number 3,832,686 titled Bar Code Font (filed

5/11/72; issued 8/27/74) in the name of Ilhan Bilgutay. The letters requested that the companies cease and desist from making the film masters at this time.

According to court documents, Bilgutay filed suit on 5/3/85 in the U.S. District Court in Tampa, listing Exxon as defendant representing the thousands of companies that use the UPC symbol. The Uniform Code Council has undertaken the defense of the suit as an intervenor (we guess little Exxon needed some help). UCC's position, in its answers and counterclaims filed with the Court on 7/3/85, is a simple one:

1. The patent is invalid. (The UPC symbol has always been in the public domain.)
2. Even if the patent is valid, UPC does not infringe.
3. Even if the patent is valid, and UPC does infringe, the plaintiff has lost his right to damages by delaying too long.

Don't hold your collective breaths for the outcome. Preliminary indications are that the District Court in Florida will not schedule this case on its calendar for a couple of years. With the possible appeal from the loser, this may drag on into the next century.

Most important, noone we have contacted in this industry believes there is any possibility the suit has any merit or any chance of success. The UCC has always vigorously defended the Universal Product Code from any such patent suits. In particular, the one brought a few years ago, by Walter Kaslow relating to UPC coupon codes, was successfully fought by the UCC through the courts and the patent office. The message seems to be to continue with business as usual, and let the attorneys do their own thing.

The potential impact...

....of K mart and Wal-Mart on bar code scanning at retail is about to be realized. These giant mass merchandise (discount) retailers are coming out of their test phase into active expansion.

Dave Carlson, the new VP Electronic Merchandise Systems at K mart, could not divulge any details as to future plans, but there are strong indications of positive movement. There are now 47 K mart scanning stores: 46 are equipped with IBM 3683's at the front end with Spectra Physics slot scanners; 1 has NCR equipment. At the departmental cashiers, all stores have hand-held laser scanners supplied by Symbol Technologies and Metrologic. A typical store has about a dozen front end scanners and 8 to 10 laser guns.

Recently K mart signed an \$8 million, 3 year contract with Symbol Technologies (SCAN July 85). Carlson, whom we remember from his days at Data Terminal Systems, sounds very excited about the potential of scanning to improve operations at many levels. Although he was reticent to reveal plans for new scanning installations, there have been published reports that the chain expects 500 stores to be scanning by 1986 with chain-wide scanning a reality by the end of the decade.

Wal-mart, the other giant discount chain, has achieved phenomenal growth over the past 15 years from \$32 million in sales to over \$6 billion in 1984. The

company committed to UPC a few years ago, had 100 stores scanning in 1984, and expect that number to double this year. All new, remodeled and expanded stores are scan equipped. The company is very enthusiastic about the advantages of scanning, and executives have been quoted in the trade press as saying, "Scanning is working miraculously for us, and will pay for itself in productivity improvements."

The two chains operate a total of over 3,000 stores. There are many other discount chains who are either in a test mode or will follow close behind the leaders. This will not only be a major market for retail scanning equipment, but it has also significantly increased the number of source-marked consumer products. This will open the door to other types of retail outlets (hardware, soft goods, department stores) and make it easier for them to implement front-end scanning.

In fiscal year 1985....

....Symbol Technologies came close to meeting their optimistic forecast (SCAN Sept 84). The company had predicted a profitable year and the 12 month figures reflect that achievement with respectable earnings. The 61% sales increase does not exactly meet the "doubling" forecast of President Ray Martino, but it would be quibbling to point that out in view of these upbeat results (it's the first profitable year in the company's history.)

<u>SYMBOL TECHNOLOGIES</u>	<u>Fiscal Year Ended 6/30</u>		<u>3 Months Ended 6/30</u>	
	<u>1985</u>	<u>1984</u>	<u>1985</u>	<u>1984</u>
Revenues (\$000)	13,927	8,675	4,057	2,650
Net Income (Loss)(\$000)	518	(1,525)	251	(283)
Net Income (Loss)/Share	.13	(.50)	.05	(.08)

The per share earnings are based on 4,102,668 shares outstanding, about 31% greater than the previous year. Earnings during the fourth quarter represented almost half the net profit for the 12 month period.

The company now has a backlog of contracts and orders totalling \$60 million, according to Martino. Of that amount, \$3.5 million represents firm releases during the next 90 days, and \$10 million to be shipped by 6/30/86.

As for this year's performance, Martino expects that FY 86 sales will increase about the same amount (60% +), and that the rate of earnings will improve. He sees 30-40 cents a share to be a reasonable estimate. He hedges by pointing out a few unknowns that may affect earnings: the manufacturing contract with Mars Electronics comes up for review, there will be an increased commitment to in-house manufacturing, new management level people are being brought into the manufacturing and engineering areas, and overhead and inventories are bound to increase.

The overall management prognosis continues to be optimistic. We will be tracking the quarterly figures to see how clear the crystal ball is this year.

The current emphasis....

....at Computer Identics is the expansion of its marketing operations. New sales offices have been opened in Detroit, Atlanta, Chicago, Hartford and St.

Louis as part of the increased attention to direct selling and key distributor support.

The company's latest financial report showed sales increases of over 41% for the first six months and 56% for the second quarter (compared to last year). This reflected stronger sales in all of the company's product lines, particularly in systems to customers in the aerospace, defense, transportation and mail order industries. The more modest gains in per share profits were a result of increased expenses related to the new marketing efforts and to the start-up of Computer Identics N.V., its new European operation (and a larger number of outstanding shares of stock).

<u>COMPUTER IDENTICS</u>	<u>6 Months Ended 6/30</u>		<u>3 Months Ended 6/30</u>	
	<u>1985</u>	<u>1984</u>	<u>1985</u>	<u>1984</u>
Revenues (\$000)	6,319	4,471	3,673	2,354
Net Income (\$000)	371	289	249	165
Net Income/Share	.08	.07	.05	.04

Graphic Technology reported....

....a 3% decrease in earnings for fiscal year 1985. The weak earnings performance was attributed to decreases in gross margins due to development of new products, opening of new facilities, raw material quality problems, lower interest rates, poor product mix, and a lag in sales growth early in the year.

That litany of problems affected earnings despite a 23% increase in sales of bar coded label products for vinyl shelf labels and laser labels. The company's major accounts include the U.S. Government, K mart, Wal-mart, Fleming Companies and Eckerd Drug.

<u>GRAPHIC TECHNOLOGY</u>	<u>Fiscal Year Ended 6/30</u>		<u>3 Months Ended 6/30</u>	
	<u>1985</u>	<u>1984</u>	<u>1985</u>	<u>1984</u>
Revenues (\$000)	15,202	12,334	4,813	3,559
Net Income (\$000)	1,305	1,344	338	457
Net Income/Share	.69	.84	.18	.24

From a solid base....

....of film master production, Kings Town Photocodes (Beverley, UK) has expanded its range of products and services. Within the last year it has established a division to design and install systems for a variety of bar code applications.

Kings Town has just announced that agreement has been reached with Systel International SPA (Venezia, Italy) to distribute that company's entire range of bar coding equipment in the United Kingdom. Marketed under the name Formula, the broad spectrum of equipment includes: ● Fixed and hand-held scanners ● Decoders to read almost all types of symbologies ● Badge

readers and page scanners • Thermal and dot matrix printers • Label applicator printers • Interfaces including a board to interface with IBM PC and IBM PC-XT computers.

Kings Town Photocodes Ltd., PO Box 15, Waltham Lane, North Bar Within, Beverley, HU17 8DY, United Kingdom, UK 'phone (0482) 867321; Telex 527634.

Systel International SPA, Via Dosa 1, 30030 Olmo di Martellago, Venezia, Italy; Italian phone: 041/907111; Telex: 410348.

Numeric Arts (Maidenhead, UK) has acquired....

....worldwide distribution rights outside North America for the Quick Check II bar code verifier. Commenting on the agreement concluded with Photographic Sciences Corp. (Webster, NY), Mark Marriott, Managing Director of Numeric Arts says: "This agreement is important to both companies. Photo Sciences has an excellent product which is highly successful in North America and the UK. Print symbol quality assurance is becoming an increasingly important issue with respect to EAN/UPC symbols on consumer products, ITF symbols on outer cases, and in a diversity of industrial applications. Until now, the Quick Check lacked effective international distribution. This we shall put into place."

Numeric Arts is already in discussion with potential distributor partners in some countries and is seeking distribution elsewhere. Numeric Arts Ltd., Gardner Road, Maidenhead, Berkshire SL6 7PP, United Kingdom; UK phone: (0628) 39753; Telex: 847369.

Intermec has now introduced....

....its Model 1620 hand-held laser scanner. This unit is being manufactured by Symbol Technologies as a custom version of their laser gun, pursuant to the agreement between the two companies (SCAN June 85).

Intermec is featuring the unit's 23" depth of field, and its ability to scan through laminates and glass and on uneven surfaces. The 1620 operates at 36 scans per second. It is compatible with any Intermec laser reader, and with its wand readers when the 1820 ScanMate interface is used. It has other features, the company states, which make it exceptionally rugged and geared toward industrial environments.

The Model 1620 has an introductory price of \$1,395 for single quantities. Intermec, Box 360602, Lynnwood, WA 98046-9702; 206/348-2600.

A new bar code network....

....has been introduced by Barcode Industries, the US subsidiary of Barcode Industries/France. The MR-Net is described as a low cost, easily installed bar code network. It is composed of a master unit linked to a single computer port, and accommodating up to 16 slave readers daisy chained to the master along a single RS-422 data communications line.

The unit is said to be particularly suited to data collection applications on assembly lines, quality control departments, libraries, blood banks, and multi-

point work areas. It does not require a multiplexer or more than one computer port.

The master unit on the MR-Net is pre-programmed to poll the slave readers and transmit the data received to any host computer having RS-232C interface compatibility. Each slave on the network has a switch selectable address, which precedes its messages. The maximum distance between the master and the last slave is 3,000 feet.

Prices for the MR-N master are \$720; MR-3 slave with light pen \$720; and \$1,500 for a hand-held laser scanner. Quantity and resaler discounts are available.

Barcode Industries, 17 Barstow Road, Great Neck, NY 11021; 516/466-5770.

Each year we announce....

....and promote the Bar Code Manufacturers and Service Directory. The 1985/86 edition has just been completed and is available for sale. This year the directory contains a listing of 305 companies. In addition to those of every major bar code manufacturer and service company, the publisher has expanded the book to include OCR, vision, voice, smart cards, magnetic stripe, MICR and OMR.

Each entry consists of a brief description of the product line or service; general information about the company; and the name, address and phone number of a knowledgeable representative.

The directory costs \$39.95 and is available from North American Technologies, 174 Concord Street, Peterborough, NH 03458; 603/924-7136.

In something of a departure....

....from last year's seminar approach, Scan Tech 85, sponsored by the Automatic Identification Manufacturers (AIM/US), is offering more flexibility in the choices of sessions that can be attended. Last year Scan Tech used the "track" approach. A delegate chose a particular interest area or level of expertise from a list of 5 tracks, and followed a series of presentations to develop a full background on the chosen subject. There were more than 25 different presentations last December in Cincinnati.

This year Scan Tech 85 will have 13 sessions to choose from at the December 2-5 event in Baltimore. Each will be of half-day duration to allow the speakers more time to develop their subjects in depth. Each delegate may choose any 5 of the 13 sessions offered. As an added incentive, and to provide material for ongoing education, each registrant will be given a free 6 month subscription to ScanJournal.

By the way, ScanJournal's editorial calendar calls for featured topics for upcoming issues to include: bar code printing/verification and scanning; data communications; cost justification/financial; non-bar code automatic identification; and integrated systems. Papers are invited.

For both Scan Tech 85 and ScanJournal, contact: AIM/US, 1326 Freeport Road, Pittsburgh, PA 15238; 417/782-1624.

The next conference....

....sponsored by the Institute for International Research (IIR) is scheduled for October 29/30 in London. It is being billed as the Annual IIR Bar Coding Conference. It will concentrate on industrial uses of bar coding. Speakers from the ANA, member companies of AIM/UK, consultancies and users ensure a broad mix of presentations. Ed Shadd, President, Symscan Inc. (Penfield, NY), will chair the two day event and present an opening address on the international scope of bar coding.

In order to avoid any conflict with AIM/UK, and to minimize the proliferation of conferences (SCAN July 85), the two organizations have agreed to keep their events about 6 months apart.

In order to keep....

....their files on bar code equipment and supplies up to date, Symscan has sent out a call to all vendors to send in their literature, prices and company background material.

Symscan is a consulting company in the field of data capture through bar coding (SCAN Jan 85). Since the company makes many recommendations on hardware/software products and support services, they feel it is important to maintain up-to-date files in these areas.

Contact: Dean Szajna, Symscan, 2132 Five Mile Line Road, Penfield, NY 14526; 716/385-6220.

According to Applicode....

....the greatest advantage of its labeler is in the label application. The label placement is electronically controlled by optical sensors and an internal microprocessor working together with a patented stripper mechanism. This system assures rapid label application with exact registration. Applicode labelers are small, portable units built to withstand the rough use and wear found in the industrial environment.

The one-year old company is now starting production of its Bench Model. This unit can be set up as a semi-automatic or completely automatic applicator to accommodate most package shapes and label types. The Hand Held model offers the extra versatility that a user may need when assembly line application is not realistic. The price of the Bench Model is \$4,500; the Hand Held Model is \$2,500.

Applicode, 11 Maple Street, North Springfield, VT 05150; 802/886-8544.