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While attention has been focused....

....for the past two months on "bombshells" that had been detonating in Bohemia, Long Island (*SCAN* Sep 92, Oct 92), a major explosion went off 450 miles to the West, at Telxon headquarters in Akron, OH.

First, some background. Everything about the auto ID industry's financial health had seemed reasonably normal at a special meeting of financial analysts and institutional investors hosted by the Robinson-Humphrey brokerage firm on September 24 in New York. Each of the industry's major public companies -- Computer Identics, LXE, Peak, PSC, Symbol Tech, Telxon and Zebra -- was represented by a top executive who was invited to make a presentation to these important gurus (whose opinions directly affect the movement of these stocks).

Much of the attention was centered on what Symbol Technologies had to say. The company had been hit with a second-half downturn in sales; earnings were also off sharply -- with a loss anticipated for the third quarter which was attributed to the $6 million expense associated with its workforce reduction.

The reports of the other companies, however, were generally positive. Telxon, in particular, was being closely monitored, since so many of that company's products and markets parallel those of Symbol. Both industry leaders were largely dependent on the retail market, which had shown marked weakness as the worldwide economy remained in the doldrums.

But Telxon's President Ray Meyo was generally optimistic at that meeting. He confirmed the analysts' consensus projections of earnings at $1.35-$1.45 per share on sales of $265-$275 million for the current fiscal year (ending March 31, 1993). There was no indication that the company would not meet the estimated earnings of $.30-$.36/share for its about-to-be-ended second quarter. Meyo also emphasized the company's positive outlook for the future based on strong customer acceptance of its new products (which were to be showcased at SCAN-TECH 92 two weeks later).

And then the roof fell in. On Thursday, October 8, David Nelson, the respected Lehman Brothers analyst in New York who follows the automatic data capture industry, issued a report suggesting that Telxon's second half performance might not reach expectations. That report was based on a meeting that Nelson's assistant had had with Telxon's President Meyo the day before in Anaheim (at SCAN-TECH). Nelson told *SCAN*: "At that meeting, Meyo seemed apprehensive about future business. From our prior contacts with the company, that just did not jibe with their previous comments. Our October 8 report was intended as

just a warning -- we continued to believe that the second quarter would be fine and that any possible problems would occur only in the second half."

The stock plunged that day from its opening price of $20 to as low as $15 3/4 before trading was finally halted at $16 7/8. According to Nelson: "The stock did not resume that day -- it's very unusual for a stock not to trade for three hours." Later, that same day, the company issued a statement which declared:

> "Management now believes [that]...earnings estimates generally predicted, by analysts, for the second quarter, ended September 30, 1992, to be in a range of $.30 to $.36 per share, should be revised downward to reflect certain factors that have recently come to management's attention. These factors relate to delays in the completion of sales, aggregating approximately $1.2 million, from the second quarter into the third quarter; as well as, the negative impact of foreign currency fluctuations, primarily in Italy. The above-referenced factors will, it is anticipated, lower probable earnings for the quarter to the range of $.24 to $.28 per share, on consolidated revenues of approximately $66 million."

On the following day, October 9, a further "clarification" statement was issued in which Telxon forecast the full fiscal year's results. Management estimated that sales for the year would be down $10 million to the $255-$265 million range; earnings, which earlier had been estimated at $1.35-$1.45, were downsized to $1.15-$1.20. In the company's release, Ray Meyo optimistically expressed his full "confidence in [Telxon's] long-term business outlook."

The numbers were disappointing to many, but a 4% drop in estimated sales and a 15% drop in estimated earnings did not sound that disastrous, considering the current economic climate, and particularly since both figures still represented actual increases over last year's results.

The shareholders obviously didn't see it that way and reacted violently. On Friday, October 9, the stock dropped another $3 3/4 and closed at $13 3/8, a two-day loss of almost 7 points, or one-third of its value.

On Wednesday of the following week, Telxon announced that Ray Meyo had stepped down as president, chief executive officer and member of the Board of Directors. Bob Meyerson -- one of the original founders of Telxon and a close working associate of Ray Meyo -- who had retired from active duty with the company in 1986, was brought back as Chief Executive Officer. Dan Wipff was promoted from Senior Executive Vice President and Chief Operating Officer to become President and Chief Operating Officer.

COMMENT

We have two observations to make about Telxon's recent experiences. First, the sharp negative reaction of the stockholders to the revised sales and earnings estimate was, we believe, more than just a response to Telxon's fiscal performance (and poor management of the release of the negative information). The recent volatility of Symbol Technologies' shares, fueled by negative rumors and half-truths, has contributed to a general nervousness by investors about all of the auto ID public companies. The irony is that the most-often quoted source for the negative comments about Symbol has been Rocker Partners -- the largest single shareholder of Telxon (10%) and a consistent short seller of Symbol stock. When Telxon's stock toppled, Rocker's losses exceeded $10 million.

Which brings us to our second comment. Although no one at Telxon will speak for attribution, and although the ousted Meyo emphatically told SCAN that he will not engage in what he calls the "Who killed John" game, there are strong indications that it was the company's major investors who convinced a reluctant Board of Directors to make the change in the presidency. These stockholders may have wanted to replace the top man, who had a strong sales and marketing orientation, with what they considered to be more responsible fiscal leadership.

What we have not heard is a satisfactory explanation for why Ray Meyo had to be relieved of his positions in such a drastic and dramatic fashion. Even if the Directors felt that a change was warranted, this man, who gave 20 years to Telxon and who guided it from a small company to a quarter-billion-dollar operation, deserved better treatment. The transition could have been done more gracefully and graciously, over a period of months, while the management team was quietly restructured.

In a whirlwind....

....series of events, <u>AIM</u> <u>International</u> has been torn apart once more amid diminishing signs of cooperation or amiability among the various factions.

In January of this year, the then-Chairman of AIM International unilaterally notified AIM/Europe, AIM/Korea and AIM/New Zealand that their licenses to use the AIM designation had been terminated -- in effect, their franchises had been revoked and they were out of business.

After a general outcry erupted, these terminations were rescinded the following month. A Task Force was appointed and assigned to develop a plan for a restructured, revitalized entity to replace the toothless paper organization that AIM International had been all along. The Task Force targeted the release of its new organizational plan for the October 9, 1992 Annual General Meeting of AIM International to be held in Anaheim, immediately following SCAN-TECH US.

As the Task Force developed its report, there were signs of differences and problems, but the members seemed resolved to overcome these obstacles. At a critical meeting on August 23-24 in Halifax, England, a new proposal emerged. Dubbed the "Halifax Plan," it was purported to be a compromise document designed to meet the specific objectives of the primary protagonists from AIM/US and AIM/Europe. (All of this was described in detail in *SCAN*: Feb 92, Mar 92, Apr 92, Aug 92, Sept 92.)

Then it all hit the fan!

According to the European members of the Task Force, they had reluctantly voted to accept the Plan, even though they had strongly objected to a number of key provisions. Unlike the Americans -- who had come to the Task Force meeting fully empowered by the AIM/US Board of Directors to adopt the Halifax Plan -- the Europeans maintain that they could only listen and negotiate as best they could. Then they were required to bring the Halifax Plan directly to the members of the individual AIM affiliate groups for their consideration. Only a vote by the general memberships could render such an important decision.

The sticking points in the original Halifax Plan related to the insistence by AIM/US that direct membership in AIM International should be limited only to individual companies. More important, the procedure for electing the Board of Directors, which was to be the dominant governing body, was structured so that these companies, no matter how few there were, would always represent the majority of the Board, outvoting the 800 other members of the worldwide AIM affiliate organizations. The AIM affiliates were to be limited to 3 members out of a minimum 8-member Board.

AIM/Europe's early position, on the other hand, was that AIM International should be comprised solely of AIM's worldwide regional organizations; i.e. AIM/Americas, AIM/Europe and AIM/Asia-Pacific -- and that the Board would have equal representation from each of these groups. AIM/Europe later compromised to allow for broader organizational membership -- even allowing for the possible inclusion of corporate members -- but they continued to clearly stipulate that it would be the AIM regionals, representing their 800 members, who would control the Board. The Europeans, fearful that the majority of the larger multi-national companies are American, just did not want an American-dominated AIM International.

But AIM/US remained adamant. Ivan Jeanblanc -- President of AIM/US, member of the AIM International Task Force, and generally credited with being the chief author and most active proponent of the Halifax Plan -- stated his position succinctly in a recent interview with *SCAN*. "The logic," he explained, "as to why the member-companies should control the Board, is that they are the ones who are interested in the international markets, they are the ones paying the way. To suggest that members should be invited to join an organization, and then not to give them control is anti-logic. We are totally supported in this position by the AIM/US Board of Directors."

So the European members of the AIM International Task Force left the Halifax meeting and took the Plan back to their individual affiliates.

And they were promptly clobbered. On September 7, at separate meetings of AIM/UK and AIM/France, the members not only rejected the Halifax Plan, but they did it unanimously. The AIM/UK members even went so far as to reprimand the European Task Force delegates for having acquiesced to such a one-sided proposal. AIM/Netherlands also unanimously rejected the plan a few days later.

On September 14, AIM/Europe faxed a letter to all of the AIM International Task Force members -- including those from AIM/US -- advising them of the rejections. On September 19, AIM/Europe submitted its "Amended Proposal for Restructuring of AIM International." Although the new plan included most of the structural and charter provisions of the original Halifax agreement, it contained no provision for any direct corporate members. AIM International would remain, as it is today, an "association of associations."

During SCAN-TECH/US, in the days just prior to the scheduled AIM International general meeting in Anaheim, the members of the Task Force met informally and attempted to reconcile their conflict. While some progress was achieved on a few minor points of difference between the major protagonists, the important sticking points remained. One AIM/Europe delegate has since told *SCAN* that they were prepared to make concessions regarding the issue of corporate membership, but they would not roll over on the main dispute they perceived as the "complete takeover of the organization by the Americans."

On October 9, at the official AIM International Annual General Membership Meeting, AIM/US submitted the Halifax Plan to a vote. The proposal was defeated. (Keep in mind that the voting procedure of AIM International that prevailed at that meeting was based on the number of members from each affiliate -- and that AIM/Europe alone has over 50% of the worldwide membership of AIM International.) Ivan Jeanblanc then announced that he was instructed by the AIM/US Board of Directors to resign from AIM International. The meeting closed in turmoil.

On October 27, AIM/US dropped its next bombshell. It announced the formation of a new AIM International, which it dubbed AIMI. All current AIM International affiliates would have their AIM franchises automatically transferred to the new AIMI for the balance of 1992. Up until January 1, 1993, these affiliates would have the option to join the new AIMI, which would be operating under the Halifax Plan rules. Those not exercising the option to join would be cut loose from any AIM affiliation. The old AIM International, under this unilateral decree, would cease to exist.

The next round of negotiations took place in Paris, at the SCAN-TECH *Europe* exposition. On Tuesday morning, November 3, Jeanblanc and Don Anderson (AIM/US Executive Director) presented a compromise plan to the Europeans, as follows:

(1) The AIM International membership to be open to corporations, as originally proposed;
(2) The Board to consist of nine members -- three each from AIM/Europe, AIM/Americas and AIM/Asia-Pacific;
(3) The corporate members to elect six of the Board seats -- but there must be two designees from each region;
(4) The third member from each region to be selected by the regional members.

On Wednesday evening, November 4, the Europeans rejected the new plan. They then announced that AIM Europe had elected to remain with the original AIM International and that a meeting of that organization had been called to take place in Singapore before the end of the year. AIM/US was invited to attend as an observer (since they had resigned from the organization).

On November 6, Jeanblanc told *SCAN* that the new AIMI also plans to have a "gathering," although he admitted that there are no members signed up as yet and no application forms have been made up. "We have expressions of interest from fifteen companies," he explained, "fourteen of whom are American."

COMMENT

"What is the rush?" one AIM/Europe official lamented, in an interview with SCAN. "We are still trying to stay friends and to continue talking. In this lousy economy, our members will probably drop out all together and not remain as members of any organization. The entire industry will be damaged. There is a lot of sadness around."

Verily -- what is the rush? Where is the danger that prompted such drastic and precipitous moves? Where are the reasonable voices from the AIM/US Board and membership (including the incoming officers) who should be introducing calm and reason into the proceedings? In fact, we find that the underlying motives of the small AIM/US cadre who are strongly pushing the new AIMI plan are still not clear.

*On the other hand, it has become apparent that the national and regional
AIM affiliate organizations have not met the needs of those companies
whose interests go beyond their borders. While it is true that a
disproportionate number of these multi-national companies may be
American-owned, we believe that the very nature of their international
outlook would prevent them from taking actions that would damage the
locally-based companies. It seems to us that it would not be difficult to
structure an organization that will give these multi-national companies an
important voice in AIM International without running the risk of having a
few individuals dominate the world market.*

*Significantly, AIM/Europe has always welcomed corporate members into its
own organization and, under a new constitution approved just last week,
these same members are guaranteed direct representation on the Board
of Directors. It would appear, then, that AIM/Europe's objections to
corporate membership in AIM International is not one of principle but only
fear of possible domination by the American companies.*

*It seems fairly obvious that the problems have become emotional and that
cooler heads are needed. Ivan Jeanblanc bluntly admitted to SCAN: "I
have done my best not to personalize this but the appearance that the
Americans are taking over AIM International is difficult to overcome. I
am trying to get someone to take over these responsibilities from me. I
have no intention of becoming Chairman of AIMI. Maybe those on the other
[European] side should also be replaced during these negotiations. Maybe
time will heal these wounds."*

Amen!

SCAN TECH 1992

It was back to California....

....for the eleventh SCAN-TECH US conference and the third to be held in that
state. The venue was Anaheim, south of L.A. and adjacent to Disneyland.

The exhibitors were spread across two halls in the Anaheim Convention Center;
the seminars were conducted in the adjoining Anaheim Hilton Hotel. There were
the usual gripes from some exhibitors, to wit:

- The arrangements of the two halls were such that traffic flow favored
  one over the other.

- Holding the seminars in the hotel conference center, about 500 yards
  away, removed the important seminar attendees from easy proximity to
  the exhibits.

- The large, island exhibit of the Systems Display Area, featuring actual
  hands-on working systems, was very well done -- but its unusual traffic
  pattern tended to bypass the regular exhibitors in that vicinity.

These were minor complaints, however. The overall response to our admittedly
unscientific survey -- stopping by as many booths as possible and asking "How
is the show going this year?" -- seemed generally upbeat. The size of the
crowds was not overwhelming, but the "quality" of the attendees and their
inquiries were reported to be very good. (Total attendance -- seminar
delegates, show-only visitors and exhibitor personnel -- has been level at

about 11,000 for the past few years, but most exhibitors rightfully look to the interest level of the individual registrants rather than the total numbers.)

As a regular observer of past SCAN-TECH shows, we did not find the excitement level quite as high this time as in the earlier years. We attribute this dropoff to two factors. First, the vendor companies have cut back sharply on their entertainment budgets. There were none of the lavish hospitality suites, or large corporate parties that were evident every night during the shows of the late 1980's. The general economy and tighter corporate budgets have taken care of those festivities.

The second reason is that there are now two major US trade shows which are less than four months apart. With the growth and increased importance of ID Expo in the Spring, the meetings and greetings among colleagues is not as enthusiastic as when they had not seen each other for as much as a year.

The persistent worldwide economic malaise has also prompted a more careful appraisal of whether these trade shows provide enough bang for the buck. One president of a medium-sized manufacturer (under $40 million in sales) told *SCAN*: "When all of the expenses are totalled, SCAN-TECH cost us over $150,000. Could we better spend that money on engineering or customer service people?" Despite such nagging doubts, this executive admitted that his company had reserved even larger space for next year's SCAN-TECH in Philadelphia. In fact, we saw no evidence of any further defections of any major companies from future SCAN-TECH shows -- similar to the action taken by Intermec (*SCAN* July 92).

Now, on to what we found of particular interest and importance at the 1992 show. Because of space limitations, we will only report on bar code scanners in this issue. Next month, we will bring you news of new symbologies, RF/DC and RF/ID, and other special products and companies that caught our attention.

It may seem surprising....

....but, for the first time in many years, we sensed that the major product news at this SCAN-TECH show was focused on <u>bar</u> <u>code</u> <u>scanners</u>. The products are still based on wands, lasers and CCDs, but changes and improvements in performance, design, configuration and applications were significant.

- A great deal of the news coverage and conversation centered about a product that never made it to the convention floor. A new CCD scanner (patent pending) -- with a claimed depth of field of 0 to 22 inches -- was introduced by <u>ScanQuest</u>, but was only shown privately in a Hilton suite. ScanQuest has christened their product the "<u>LaserKiller</u>" (an obvious response to Symbol Tech's "CCD Killer," the low-end LaserTouch unit introduced in June at ID Expo -- *SCAN* July 92). Sam Dishman (VP/Sales) told *SCAN*: "This rugged scanner has no moving parts and its manufacturing costs will be comparable to those of standard CCD scanners, which makes us competitive with both lasers and CCDs."

    ScanQuest, a new company based in San Diego, is owned by Dr. Alex Roustaei (Chief Engineer and inventor), Dishman and two other silent investors. They are looking for additional partners to help develop,

produce and market their product. There was a steady parade of
interested observers -- many of them from the most familiar corporate
names in the auto ID industry -- traipsing through their hotel suite
for private presentations.

[A note of caution was raised about the LaserKiller by a number of
skeptics that we spoke with (including a few knowledgeable, technical
types) who maintain that CCDs can never reach the performance
capabilities of lasers, particularly with regard to depth of field. It
was also pointed out that the costs of laser scanners have been coming
down and could drop even further and faster if faced with any serious
threat from CCDs.]

ScanQuest, 9750 Miramar, San Diego, CA 92126; 619/695-2400.

- <u>Symbol</u> <u>Technologies</u> introduced the SE 1000, "the world's smallest
  laser scan engine," measuring 1.1 cubic inches (0.75" x 1.5" x 0.95"),
  weighing less than 1 oz. and having a working range of 2 to 20".
  Symbol is targeting OEMs and third-party manufacturers to integrate
  these tiny, high-performance, laser scanners into a variety of
  devices, including hand-held computers, medical instruments, diagnostic
  equipment, lottery terminals, vending machines and robotics. The SE
  1000 incorporates the shock-resistant harmonic scan element that Symbol
  first incorporated into their LT 1700 LaserTouch last Spring.

- Both <u>Spectra</u> <u>Physics</u> and <u>Datalogic</u> also laid claim to having the
  "world's smallest scanner" but they were referring to a different class
  of scanner used on counter-tops in retail stores. Spectra's SP*ACE
  model (which features an asterisk-shaped laser beam pattern) and
  Datalogic's Omniscan DL500 (at $995, said to be the first to break the
  $1,000 barrier) are intended to attract specialty, drug, convenience
  and department store retailers who have limited space for POS hardware.

- <u>Telxon</u>, in keeping with its emphasis on RF products (see next month's
  issue), showed the new PTC-921 wireless, remote, laser diode scanning
  terminal which weighs 6.7 oz., fits in the palm of the hand, has a
  15-key numeric keypad and communicates real time within a 10' radius of
  its base station. We particularly liked the ergonomics and ease of use
  of this well-designed unit.

- <u>Computer</u> <u>Identics</u> introduced its Scanstar 85 synchronous sweep raster
  scanner designed specifically for finding "the tiny labels positioned
  anywhere over the full height of a large printed circuit board."
  At 300 scans per second and precise beam spacing, along with large
  sweep angles, their demonstration unit performed very impressively by
  successfully reading many bar codes scattered across a PCB.

As for the future, aside from becoming smaller, faster, more versatile and less
expensive, we anticipate that the next generations of scanners will relate to
the next generations of two-dimensional bar codes and matrix-type symbologies
which are looming just over the horizon (see next month's issue).

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