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## EDITORIAL

*One subject that has surfaced repeatedly these past months, in our discussions with executives from a number of automatic data capture companies, is the widespread and growing concern about the ongoing performance of AIM/US, the industry's trade association. The following highly critical comments from two experienced and knowledgeable senior officials stand out as representative of many of these conversations.*

*From a letter we received in mid-April: "Isn't it amazing how much damage a few individuals can do to an industry in such a short time, and without reason? For an organization whose mission is to increase the consumption of auto ID products, one wonders how much time is actually spent in this regard, these days, compared to resolving disputes and fighting people who were once their partners. Unbelievable!....With previous leadership, members were secure that they would be involved in the affairs of the organization. Then suddenly, authority was taken by a small group who weren't able to look far down the road."*

*Remarks made last week during a phone conversation with the second executive were even more frank: "It's our organization and our money. These people work for us. I want to give AIM a mission and tell the administrators: Here it is. If you can't follow it, we are going to fire you and find someone who can.*

*"My vision of the future role of AIM is of a quasi-marketing/technical organization -- but very focused. The old days when Symbol Tech could drive the industry and open up new markets by themselves are long gone. And even Symbol recognizes that. Out in the market, and under the table, we can let our sales people kick the tar out of each other. But around the table, when we approach a new industry, we need to have our arms around each other and endorse each other and endorse this technology and industry as strong, viable and quickly moving forward. This has not been happening.*

*"All I am trying to do is to get AIM to stand up and be that organization for us. AIM does not now have the leadership to do it. The Board of Directors is a joke. That's because the Mike Hones [PSC], Jerry Swartzes [Symbol], Ray Martinos [Symbol], Bob Meyersons [Telxon] and other CEOs have all abdicated and said they do not have time -- let someone else do it. As a result, we've got what we've got!"*

*As for AIM/Europe, the caller was livid: "The European situation is a disaster," he lamented. "We are going to have two competing organizations.*

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*As the CEO of an American company, with an office in Europe that fully and enthusiastically participates in AIM/Europe activities -- as we have encouraged them to do -- I may be faced with having to resolve potential internal conflicts because of a misguided trade association policy we never supported in the first place."*

*In spite of such strong denunciations, we at SCAN believe that a glimmer of light may be flickering at the end of the tunnel. There have been genuine expressions of concern by the present elected and appointed officials at AIM/US. One-on-one and group meetings have been scheduled with the CEOs of many of the member companies who are finally waking up to the fact that the organization needs constructive surgery and not random patchwork -- and the changes must come from those who have the authority to make them stick.*

*The CEO at the other end of the phone issued what seemed like a final cry in the wilderness to those who have not yet recognized the seriousness of the problem: "It's a sad state of affairs. Just look at Wall Street. Nobody perceives us as more screwed up than that [financial] group does. They think we do not know which end is up."*

<u>The following is a snapshot</u>....

....as of April 30, 1993 of the stock market performances of some of the public auto ID companies:

| | Closing Price 4/30/93 | 12-month High | 12-month Low |
|---|---|---|---|
| Computer Identics | 1 1/8 | 2 7/8 | 1 |
| DHTechnologies | 11 1/4 | 15 1/2 | 10 3/4 |
| Norand | 20 1/4 | 21 3/4 | 16 1/2 |
| PSC | 7 | 13 1/2 | 6 |
| Symbol Technologies | 12 7/8 | 23 1/4 | 10 |
| Telxon | 8 5/8 | 24 | 6 1/2 |
| Zebra | 30 1/4 | 31 1/4 | 14 1/2 |

With the notable exception of Norand and Zebra, on April 30 all the companies were hovering around their twelve-month lows. The recent financial and operating reports from these companies suggest that the stock prices, in most cases, may be reasonable evaluations of performance.

<u>Computer Identics</u> - In 1992, the company earned $875,000 ($.09 per share) on total revenues of $21.9 million -- both sales and earnings were modest increases over 1991. For the first quarter of 1993, sales were $4.6 million -- down 12% from last year -- and C/I posted a loss of $1.0 million ($.11 per share). Part of this loss ($577,000) was attributed to the separation agreement with outgoing President/CEO Frank Wezniak.

Coupled with the release of these disappointing first quarter results, the company announced the appointment of Richard Close as the new President/CEO to replace Wezniak. Close has held various positions with a number of divisions and subsidiaries of Eastman Kodak, and has been a member of the C/I Board of Directors since May 1992.

Wezniak took over the helm in 1987 when David Collins, C/I's founder, was forced out by the major stockholders. Wezniak had reorganized and redirected the company, while promising each year to increase sales and improve earnings. (See below for *SCAN* interview with Wezniak).

__DHTechnology__ - After posting a banner year in 1992 -- sales up 16% to $54.1 million and a net earnings increase of 25% to $5.8 million ($1.12 per share) -- DHT's first quarter 1993 results were flat and almost identical with last year. Comparing the three month figures for 1993 and 1992, sales were $12.4 million vs. $12.9 million and earnings were $1.4 million ($.27 per share) for both years. William Gibbs, President/CEO of this manufacturer of speciality printers and printer components, reports a stronger second quarter backlog and is "optimistic [about] long range revenue and earnings growth."

__Norand__ - The company went public on 2/8/93 (*SCAN* April 93). First half results for the period ending 2/27/93 (Norand's fiscal year ends 8/31) reflected a 42% increase in revenues to $67.1 million. Income from operations was a healthy $2.8 million compared to last year's $128,000.

[As we have noted before, Norand's pattern of quarterly sales and earnings has always been very unusual (disproportionately low in the first quarter and high in the fourth); therefore, although sales and earnings look great so far this fiscal year, it may be too soon to draw final conclusions from the results of the first 6 months.

__PSC__ - First quarter (3/31/93) sales of $8.5 million were up a hefty 21% over last year, However, the combination of an increase in R&D investments, a significant rise in selling and administrative expenses, and a substantial hike in provision for taxes (the company exhausted its tax loss carry-forward last year) resulted in net income of only $590,000 (6.9% of sales) for the first quarter of 1993 compared to $916,000 (12.9% last year).

PSC is moving ahead optimistically with plans to build a large new facility (up to 75,000 square feet) in Webster, New York to consolidate its corporate operations, which are now spread among 5 buildings in that area. Taking advantage of its strong balance sheet and the depressed value of its shares, President Mike Hone also announced that the company plans to repurchase -- depending on market conditions -- up to 500,000 shares of its common stock on the open market.

__Symbol Technologies__ - First quarter 1993 results reflected less than a stellar performance by the largest company in the auto ID industry. Sales were down 6% to $83.7 million and net earnings plummeted to $727,000 ($.03 per share) from last year's $4.7 million ($.19 per share). One significant factor that contributed to the sharp drop in earnings was a 4% increase in "Cost of Revenues" (sometimes labelled as "Cost of Goods Sold").

Symbol is proceeding with its consolidation and restructuring plan to close the old MSI operation in California and to bring all engineering and manufacturing operations into a single Long Island-based Products Group. As these steps are completed in the second half of 1993, the company "expects its operating expenses to decrease as a result of the greater operating efficiency afforded by a simpler structure."

__Telxon__ - Tough times continue to plague this leading manufacturer of hand-held data collection systems. Once again, Telxon has had to revise its estimates of sales and earnings. On April 13, the company issued the following statement: "For the fourth quarter ending 3/31/93, the company expects to reflect a net loss within a range of $9.5 million to $11.0 million ($.63 to $.73 per share) on revenues of approximately $55 million. For the year, the company expects revenues to be approximately $238 million and anticipates a net loss within a range of $10.7 million to $12.2 million ($.72 to $.82 per share). The previous expectation was for fourth quarter earnings to be at or near break-even and for the full year to show a small net loss to break even. The company expects to report its audited fiscal 1993 results by the end of May 1993."

According to President Dan Wipff: "The revised estimate [is attributed] primarily to an expanded corporate restructuring program that boosted nonrecurring expenses. In addition, a weakened performance in Europe reflected unfavorable currency trends and the impact of deteriorating economic conditions in the European marketplace." Wipff explained the one-time nonrecurring expenses of $10.8 million as inventory write-offs associated with discontinued products and other administrative costs related to the restructuring of the company.

Chairman/CEO Robert Meyerson announced that Telxon plans to reorganize its North American sales and marketing operations into independent business units (IBUs) to make the company more responsive to customers in different market segments. "At the same time," Meyerson disclosed, "the company has embarked on a new product strategy built around advanced computing platforms and other advanced interactive technologies, such as wireless, pen-based and voice-technology systems."

Last month, Telxon completed its acquisition of Itronix (for $4 million in cash). Itronix (Spokane, WA) develops and markets hand-held systems for mobile work force applications, such as telephone company field technicians.

Meyerson anticipates that Telxon's revenues for fiscal year 1994 (ending 3/31/94) will increase 10% to 15% due to the acquisition of Itronix and the projected roll-out of Telxon's new products in the third and fourth quarters of next year. "Accordingly," Meyerson continued, "the company is anticipating a small loss for each of the first two quarters of FY 1994, and net profits in the range of $.30 to $.40 per share for the year, despite lower gross margins as the company increases penetration of new markets and seeks to increase market share."

*[Editor's Comment: Considering the volatility of the market, its own product line and its recently revised corporate structure, why does Telxon continue to issue sales and earnings projections a year in advance? To our knowledge, it is the only company in the industry that sticks its neck out this way -- unnecessarily, we believe.]*

Oh, yes, Telxon declared a one-penny-per-share dividend and, as an expression of its continued confidence, the company has decided that it may repurchase up to 2 million shares of its common stock over the next six months "depending on market conditions."

Zebra Technologies - Justifying its very strong performance in the stock market, this manufacturer of thermal transfer demand printers posted a first quarter increase of 44% in revenues (to $19.0 million) and a 56% jump in profits (to $3.6 million). Zebra's CFO, Chuck Whitchurch, characterized these results as "extraordinary." He added: "Zebra continued to experience strong sales of Performance Line printers during the quarter, as well as strong, favorable response to its recently introduced Stripe printers. Our international sales continue to grow despite weakness in the European economy."

In an unusually candid....

....interview at the conclusion of his six-year tenure as president of Computer Identics, Frank Wezniak, bluntly observed: "Simply put, I am burned out. We need to change the company's course. I haven't been able to do that."

Wezniak has stepped down as the chief executive of one of the pioneer companies of the auto ID industry; he has turned over the reins to Richard Close, who has been a C/I board member for a year. According to Wezniak: "He [Close] knows the business somewhat; he knows the company pretty well; and I think it is a good idea to make the change at this point." (Close was scheduled to assume his new responsibilities on May 1.)

Wezniak was philosophical about the transition. "I was very frustrated by our performance during the past six to eight months," he confessed, "and I am at a loss to say where we should go from here. Maybe a fresh perspective is what it takes. We started out bankrupt six years ago -- now we have a couple of million dollars in the bank and we have been profitable for four years in a row. We have a lot of good projects in the mill. We invested a substantial amount of money into new product development six months ago. The question is: Do we have to change some directions for the sake of the investors? I feel that a fresh look is appropriate even without a preconceived notion as to whether we have to turn right or left."

Wezniak was appointed President/CEO of Computer Identics in March 1987 to rejuvenate a company whose sales were down and whose losses were mounting. In spite of the suddenness of his current departure, he insists that he is leaving on good terms with no rancor or bitterness. "I will continue as a director," he explained. "I remain the second largest stockholder in the company. The separation package I received is all stock and I am very committed to making the transition go very smoothly and seeing the company grow."

Asked why Computer Identics has never broken out and grown more rapidly these past few years, Wezniak reflected: "We came close to some deals that may have made a difference, but they did not happen. Part of the problem is that the industry in general has had a tough year. If you get behind the fluff that all of these people [other corporate executives] put out, and talk honestly with them, you will find that it has been a very tough time, especially in the area of industrial applications and also somewhat in retail. Major projects, such as new distribution centers or modernization of automotive plants, have been postponed. I attribute this to the economy in general. The economic uncertainty in the European market hasn't helped."

In a final expression of disappointment, he declared: "I have been very frustrated that our stock price today is about where it was when I joined the company. I feel we have made so much progress, but the market, for its own reasons, says we are only worth now what we were worth then. We were bankrupt then! Looking at the progress we made long-term, over a period of time, the value of our stock today should reflect our increased value." [Computer Identics stock closed at $1 1/8 per share on NASDAQ on 4/30/93]

We recently erred....

....it turns out, in reporting that the National Association of Recording Merchandisers (NARM) had issued a guideline which specified the use of non-magnetic, radio frequency, electronic article surveillance (RF EAS) tags on prerecorded records, tapes and CDs (*SCAN* Feb 93). The ostensible reason for selecting a non-magnetic medium, we wrote, was that these security tags would not pose any threat to damage the magnetic-based merchandise.

In response to our report, we received a detailed letter from Christopher Brown, Market Development Manager of Sensormatic (Deerfield Beach, FL), a leading manufacturer of acousto-magnetic systems. "To set the record straight," he wrote, "NARM spent the last six months analyzing different technologies for use in packaging prerecorded CDs, cassettes, etc. Those technologies, which include magnetic systems and radio frequency systems, were still under consideration as of February....On March 5, after a careful study of all the benefits of each technology, the Board of Directors of NARM concluded that the acousto-magnetic technology is the ultimate technology for source tagging."

The relevant portion of NARM's March 5 statement reads as follows:

> "NARM recommends the acousto-magnetic EAS technology for source tagging....The recommendation comes as a result of evaluating the technology's performance with respect to panel distance; effect on prerecorded products; ability to be activated and deactivated; ability to be hidden/inaccessible to the consumer; pick rate; willingness of the technology owner to cross-license the product; ability of the technology to detect through foil, metal or body shielding; freedom from interference from radio frequencies, TV monitors, cash registers, neon signs and access cards; ability to withstand heat, bending and pressure; and cost effectiveness.
>
> "The Board is currently soliciting feedback from the music manufacturing community with respect to the automation of acousto-magnetic targets on the various configurations recommended for source tagging."

Acousto-magnetics is a proprietary security system that was developed by Sensormatic in 1988 in a joint venture with Allied Signal. Sensormatic markets the system under the name Ultra-Max. The key element is a label containing an amorphous metal material. When an "active" label is pulsed by a 58 kHz signal emitted by the pedestals guarding the store exits, the metal vibrates in a predictable manner and sets off an alarm. To deactivate the label on a product after it is purchased, the item is passed over a magnetic pad at the checkout counter. It is this magnetic deactivation process that has raised the issue of potential damage to recorded tapes and discs.

The question of which technology would be selected spilled over into a heated dispute between Sensormatic and Checkpoint Systems (Thorofare, NJ), a leading supplier of (non-magnetic) RF EAS systems. According to Sensormatic's Brown, his company is now suing Checkpoint because "Checkpoint...ran [a] public advertisement in the January 9 issue of *Billboard Magazine* claiming that Sensormatic's acousto-magnetic technology distorts audio quality."

"And so it does," responds Dave Shoemaker, Director of Business Development for Checkpoint. In a recent interview with *SCAN*, Shoemaker characterized the NARM recommendation as "disappointing, alarming and based on limited information."

Shoemaker emphasized these additional complaints and arguments in support of his position:

- "The NARM EAS committee that made the recommendations to the NARM Board was made up of retailers with a vested interest in magnetic systems. Many of them either already had magnetic systems installed in their stores or owned companies which had such systems.

- "The magnetic devices used to activate the acousto-magnetic labels will degrade the quality of all prerecorded products when the item is swiped across the magnet.

- "Type 1 (ferric oxide) audio tapes represent 70% of the current audio cassette market. Independent tests -- commissioned by Checkpoint -- clearly demonstrate that these tapes are noticeably degraded by Sensormatic's Ultra-Max system. Type 1 tapes were specifically excluded from the NARM tests and recommendations. The NARM committee refused to examine the Checkpoint reports because they were 'funded by an interested party.'

- "Retailers have no idea of the costs involved in labelling and inserting the labels on the products. The large manufacturers of tapes and discs (the so-called six 'major labels') were not represented on the NARM committee and they are currently studying the problem."

In a follow-up interview with Sensormatic's Brown, he acknowledged that swiping a cassette across a magnetic deactivator pad could damage the Type 1 audio tapes. "This is a simple problem to correct," he maintained, "and we are working on a new type of deactivator which will not damage the product. We are redesigning the pads so that the operator's motion is limited, making it impossible to swipe the product back and forth."

Both Brown and Shoemaker agreed that whichever labelling/security devices are ultimately adopted, they must be acceptable to the major record and tape manufacturers. Both men revealed that they are scurrying around to visit each of the six "major labels" to convince them of the validity of their positions.

According to Jim Donio, NARM's Communications Director, the "major labels" will be meeting within a few weeks to review the NARM recommendation and to discuss the methods available to automate the application of the special tags to their products. "We are not waiting for the manufacturers to approve the NARM decision," Donio explained. "They will be advising us on their plans to automate the technology we have already selected."

One final point worth noting. It is surprising to us that a trade association would recommend a proprietary technology for industry-wide use. When questioned on this point, NARM's Donio would not comment on the probability that the adoption of this proprietary system will provide Sensormatic with an advantage in the marketplace. Sensormatic's spokesman, Brown, on the other hand, readily acknowledges that his company has never agreed to place the acousto-magnetic method in the public domain. He adds: "We have agreed to offer licenses to other companies. However, these licenses will not be free -- a license fee will be required."

<u>American food retailers</u>....

....sat up and took notice this time, following the tough exposé on ABC's *Prime Time Live* TV show about <u>scanning overcharges in supermarkets</u> (*SCAN* April 93).

The following week, *Supermarket News* (4/19/93), the industry's leading trade weekly, headlined a front-page story: "TV Program Sparks Review of Scanning." From the reactions of a number of grocery merchants quoted in the article, it was obvious that the impact of the television show was much greater than any of the previous print stories on the same subject. [For example, the local newspaper coverage of the survey of scanning irregularities, completed by the New York City Consumer Affairs Department two years ago, created a quick flurry of interest and then died out (*SCAN* July 91).]

But this time, the reaction was stronger and more visible. Leading chains, like Giant Food (Washington, DC) and King Soopers (Denver), ran full-page ads, the day following the ABC broadcast, reaffirming their commitment to accuracy and offering to give their customers, free-of-charge, any item that scans incorrectly. Inevitably, some chain store executives still chose to rationalize the problem away, like the Winn Dixie VP who told *Supermarket News*: "The information in the broadcast didn't come as any shock to any customer because they knew we're not perfect."

Columnist Dave Merrefield, in that same issue of the trade newsweekly, was more concerned about whether food retail executives have been "blindsided" by reporters from news programs like *Prime Time Live* and NBC's *Dateline*.

> [Scanning errors were only the most recent retail practice to be scrutinized. Last November, *Prime Time Live* blasted the Food Lion chain for their poor sanitation practices and, in December, *Dateline* brought Wal-Mart to task for using misleading "Made in America" promotions. Food Lion's sales and stock prices fell off after the ABC report, and the chain still hasn't recovered from the results of the hidden camera wandering around their meat departments and uncovering some pretty shoddy hygiene.]

As for dealing with aggressive TV reporters, Merrefield posed the question: "When the guys with the television cameras rap on the door, is it better to ignore them or to accept the risk of being blindsided on the air?" His answer: "On balance, the latter option looks best."

Finally, there was the cartoon that ran in the *Chicago Tribune* showing a harried check-out clerk holding up a food package and shouting into the store microphone: "The shelf sign says 89 cents, the label says 79 cents, and the scanner says 83 cents. Bob Barker, c'mon down."

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