

INDUSTRY NEWS

by Jerry O'Neill

AGFAPHOTO USA

U.S. d-lab owners' complaints lead to lawsuit against Agfa

Photo retailers in Minnesota, Texas, and New Jersey, who own or lease Agfa d-lab minilabs, are filing a lawsuit against Agfa Corporation and related companies for failure to honor warranties and service contracts for the equipment. The plaintiffs hope their suit (Vieau, Carroll, Castronovo and Bakewell, et al. v. Agfa Corporation, et al.) will be given class action status, but as we go to press the court has not yet acted on that request. Even without class action status the suit can be pursued by the plaintiffs individually and as a group with a "community of interest".

The plaintiffs allege that Agfa and related companies conspired to collect payments for plaintiffs' lease and purchase contracts but did not provide the necessary service to maintain the equipment. (The related companies and entities include Agfa Finance Group, Bayer Financial Services, AgfaPhoto USA, Bing Liem, and Leaf Funding.)

The plaintiffs also allege that the market value of their d-lab equipment has dropped "by at least 75 percent" due to Agfa's actions.

According to documents filed for the lawsuit, the two major common issues are alleged to be unfair and deceptive trade practices, and a civil conspiracy, specifically: "whether Agfa's refusal to continue to make service and maintenance available with respect to the Equipment constituted an unfair and deceptive trade practice" and "whether Agfa, Bing Liem, and Leaf's actions constituted a civil conspiracy." The plaintiffs are seeking legal relief from any continuing collection efforts by Agfa and Leaf, plus damages and other relief.

As a sign of the times, the d-lab owners were able to discuss the issues and reach agreement via a website, www.Dlabusers.com. That website was closed in June but the group, currently with 315 members, continues at <http://finance.groups.yahoo.com/group/Dlabglobal/>, and interested d-lab owners and users are invited to join.

The plaintiffs in the case include Douglas Vieau and Metro Color Lab Inc. d/b/a Metro Photo & Frames, Wayzata, Minnesota; Paula Carroll, d/b/a/ Carroll Film Processing and John W. Carroll, San Angelo, Texas; Technical Photography Inc. and John Castronovo, Fairfield, New Jersey; and Donald Blakewell and Troy Blakewell, d/b/a Camelot Photography, Minneapolis, Minnesota. The plaintiffs are represented by Roddy, Klein & Ryan of Boston, Massachusetts, and by Chestnut and Cambronne of Minneapolis, Minnesota.

CPAC

CPAC, Inc. announces strong quarterly results, declares dividend

CPAC, Inc., has reported good results for its April-May-June quarter, the first quarter of the company's 2006-07 fiscal year. First quarter net income was \$1.1 million/\$0.22 per diluted share, much improved from the net loss of \$139,000 or \$0.03 per diluted share for the same period in the previous year. Net sales for the quarter increased to \$23.9 million, 6.7 percent over the year-previous figure. CPAC's board of directors declared a cash dividend of \$0.07 per share.

CPAC manages holdings in two industries: the Fuller Brands segment manufactures commercial, industrial,

and household cleaning products, as well as custom brushes and personal care lines; the CPAC Imaging segment develops and markets innovative Imaging chemicals, equipment, and supplies at seven operations worldwide.

Thomas J. Weldgen, the company's Chief Financial Officer and Acting CEO, said in a statement, "Both segments of our business experienced sales growth and profitability, resulting in the highest first quarter earnings per share reported in the last five years ... Sales improvements resulted from several new customer relationships and contracts being executed within Fuller's commercial cleaning division, and in the International Imaging entities. In addition, television home shopping sales on QVC increased significantly in this quarter due to new product offerings and incremental airings."

Weldgen also commented that the strong first quarter performance meant "cash increased approximately \$1.2 million during the period, after capital expenditures and dividend payments. On June 30, 2006 the Company had \$7.4 million in cash and working capital of \$31.3 million."

In the CPAC Imaging Segment, first quarter sales were up by 7.4 percent over the year-previous figure, \$8.5 million versus \$7.9 million. Operating income was \$114,000 compared to an operating loss of \$241,000 in the year-previous period. International Imaging sales were up by 18.2 percent despite currency impacts. CPAC stated it expects to report "continued strong sales and profit growth in foreign markets in its second fiscal quarter." Domestic sales of medical imaging and photographic chemistry were flat.

Steven E. Baune, President of CPAC Imaging, pointed out that Imaging sales increased 3 percent over the previous year, and that the segment had generated a profit in FY '06 for the first time in three years. "Gross margins also improved, and SG&A expenses declined from 36 percent last year to 31 percent this year. While the overall global market for traditional silver halide chemistry and equipment continues to decline, we are very well positioned to increase our market share as others exit the business. Domestically, we gained a significant piece of color photographic paper and chemical distribution business from a major manufacturer in the first quarter, and expect to add more than \$1.0 million annually in graphic arts chemical production beginning in the second quarter. Internationally, sales increased by 9 percent over prior year (and) profits were up by 67 percent. CPAC Asia had its 6th consecutive year of record sales growth. International sales now comprise 46 percent of Imaging segment sales ... Our core competency is excellence in packaging chemical formulations. We see significant opportunities to grow our market share as major players disinvest in traditional products, and we will capitalize on the industry's shift to digital by using our global assets to fulfill outsourcing needs and to begin blending and packaging non-Imaging chemicals, as well."

In CPAC's Fuller Brands segment, first quarter net sales increased to \$15.4 million, 6.4 percent above the year-previous figure, with operating profit of \$1.3 million, an increase of nearly \$1.0 million.

In mid-August CPAC President and CEO Thomas N. Hendrickson returned to work and "is back in the role of full-time CEO and President." He commented, "Tom Weldgen did an excellent job of stepping in and guiding CPAC's business activities during my absence."

HARMAN TECHNOLOGY

U.S. subsidiary Harman technology LLC formed for Ilford marketing/support

Ilford Photo's U.K.-based parent company, Harman technology Ltd., has announced its new U.S. subsidiary, Harman technology LLC. Based in New Jersey, the new Harman technology LLC will handle market development and technical support in North America.

This move comes after the previous announcement that U.S. distribution of Ilford black-and-white photo products would henceforth be exclusively handled by WYNIT, Inc. of Syracuse, New York. WYNIT is a leading national distributor of computer peripheral and digital imaging products in the photo retail channel and is known for its "competitive pricing, dedicated sales reps and superlative service."

In effect, the two companies, Harman technology LLC and WYNIT, will together be carrying out the functions of the previous Ilford Imaging USA.

President of the U.S. subsidiary will be Steven Brierley, who is also sales director of the parent firm. He leads a team of six dedicated employees in the U.S. and Canada who have more than 100 years of combined service as employees of the former Ilford Imaging USA. Brierley said, "the establishment of this dedicated support group for our customers completes our new organization in North America ... all our support services are now in place with the ability to look after existing and potential Ilford Photo customers now and in the future."

The Ilford/Harman stand at photokina 2006 will prominently display both trade names and will be the site for the worldwide introduction of new Ilford Galerie FB Digital paper, the only paper in the world coated on Ilford Photo's fiber base and compatible with exposure in digital laser printers, providing the opportunity to create traditional, genuine silver gelatin prints from digital images.

HP

HP chemists use CSI methods to hunt ink criminals

Hewlett-Packard chemist LeAnn Bell and her team of nine scientists are, in effect, forensic investigators hunting for violators of HP's patents protecting its ink formulas and ink cartridge designs – more than 4,000 patents!

According to the Wall Street Journal, HP has a whopping market share of 50 percent in the U.S. ink-cartridge business. In fact, in fiscal 2005 HP made nearly \$4.5 billion of its operating profit from selling ink and toner supplies for its printers, more than 80 percent of its total \$5.6 billion operating profit, according to the investment and research firm Sanford C. Bernstein & Co.

Profits from ink sales are vital to HP because the company follows a "razor/razor blades" model of doing business, often selling its printers at a loss so it can "lock in" customers by insisting they buy HP's high-markup ink cartridges. But more and more cut-price competitors are appearing, selling their own ink cartridges at lower prices than HP's or offering to refill consumers' cartridges for even lower prices.

Tuan Tran, a vice president of marketing in HP's printing business, said, "A lot of people come into the ink marketplace with some assumptions that there really isn't a lot of technology" in ink, but "We want to remind them that there is a lot of technology that goes into formulations."

HP can and does sue ink manufacturers it believes are

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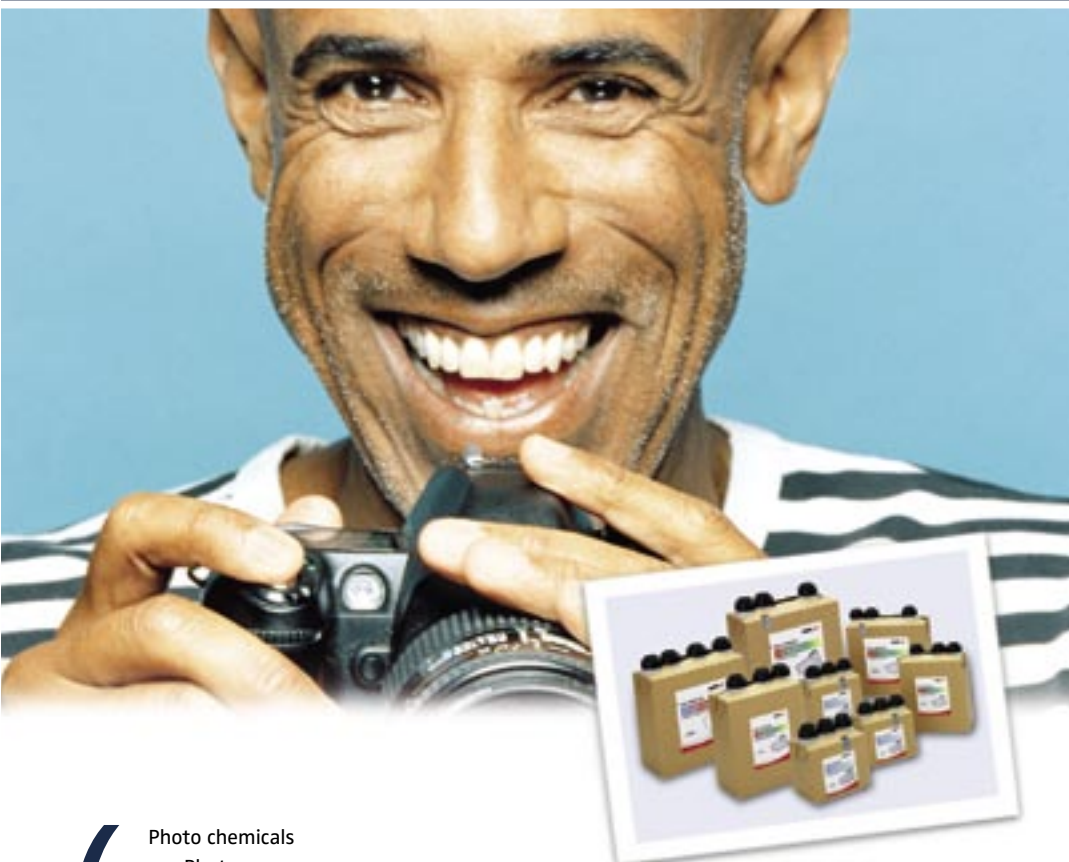
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infringing on its patents. Recently it sued China-based G&G Ninestar Image Company, a cartridge manufacturer, and four online retailers, saying G&G had violated seven of HP's cartridge design patents. A few months earlier, HP sued the Walgreen drugstore chain and the OfficeMax office-supplies chain, alleging their in-store ink cartridge-refilling stations infringed on HP patents.

To find violators, HP uses teams of its employees around the world to collect all the different brands of ink they can buy and ship them to an HP lab in Corvallis, Oregon, where LeAnn Bell, HP's coordinator of competitive-ink testing, and her team of scientists are ready to determine each ink's chemical "fingerprint" with sophisticated analysis equipment and techniques such as gas chromatography and capillary electrophoresis. Bell pioneered the use of the latter high-tech method in the field of printer ink, according to the Wall Street Journal article.

By using techniques like this, last year the HP ink team came to the conclusion that ink sold by the Staples office-supplies chain, made by the InkCycle division of LaserCycle Inc., violated two HP patents that prevent colors from bleeding together in printouts. HP sued InkCycle for patent infringement in March 2005, and the company settled with HP in June 2005, paying HP an undisclosed sum and agreeing to stop selling the infringing inks.

There are heated debates about ink patents and ink prices on many web sites such as blogs. One blogger points out that inkjet ink costs more per liter "than expensive perfume, whiskey, or vintage champagne. Apparently, if you filled an Olympic-sized swimming pool with inkjet ink at retail prices, it would cost you \$6 billion."

A reader responded that the razor/razor blades model works with razors because "it's hard to 'refill' a blade, I suppose you could sharpen them as a service, but you're not going to make money doing it. Inkjet printer/inkjet ink will never work since it's easy to supply ink ... trying to apply this model to printers is along the lines of a car maker trying to use legal tricks to make you buy fuel from them and only them; it won't work because fuel is available elsewhere (and) the brand name adds little to the product."

KODAK

Kodak gets three-year Wal-Mart contract for photo kiosks

Wal-Mart, which calls itself the world's largest photo processor, has signed a new three-year contract with Kodak for Kodak Picture Kiosks and consumables. As part of the agreement, 1,000 Wal-Mart stores across the U.S. will add 2,000 Kodak kiosks to Wal-Mart's existing total. Financial terms of the agreement were not disclosed.

Wal-Mart told the press it has already started installing the new kiosks and plans to have them in more than 2,000 locations by November 1, in plenty of time for customers to make photo Christmas cards, enlargements for holiday gifts, and so on. Subsequently, Wal-Mart may make more kiosk installations in additional stores – it has a total of 3,256 in the U.S., according to The Wall Street Journal. Kodak already has more than 80,000 kiosks worldwide in retail locations, the company stated.

Kodak said the Wal-Mart kiosks are its new G4 (Generation 4) design, "an entirely new category of high performing photo kiosks, with significant improvements in speed, performance, reliability and styling. The G4 Picture Kiosk supports all popular digital media formats (e.g., memory cards, USB drives, CDs/DVDs), digital scanning, and wireless printing via Bluetooth and infrared technologies. The kiosks apply an Xtralife coating to the prints to provide extra protection against stains, spills and fingerprints." The G4 kiosks deliver 4x6 prints to customers in as little as 4 seconds.

The Wall Street Journal also said the Kodak kiosks covered by the agreement include a new-style kiosk "that can be used by two customers at a time, which both compa-

nies expect will expand usage significantly." Wal-Mart said kiosks have become so popular for making prints from digital cameras that waiting lines for the existing one-person-at-a-time kiosks have been common at its stores.

Kodak plans to reduce its debt by \$800 million

In a presentation to investors and investment analysts that was carried over the Internet as a webcast, Kodak's Chief Financial Officer, Bob Brust, said the company has entered the "home stretch" this year in its major restructuring from a traditional photography manufacturer into a digital imaging company.

As part of the transformation, Kodak today has an accumulated \$3.5 billion in debt, money borrowed to acquire other companies, to close no-longer-needed manufacturing plants, and to cover the severance costs for thousands of laid-off employees. However, Brust said, as Kodak moves into the final stages of restructuring this year, it plans to reduce its debt load by about 23 percent, about \$800 million, which includes about \$500 million of debt not due until 2012.

Brust said Kodak's restructuring "has been hard work and there have been a lot of surprises along the way, but it's in good shape."

Analysts pointed out that reducing its debt may raise Kodak's credit rating, which commercial credit agencies such as Moody's had downgraded to junk bond status due to concerns about the company's future, once it lost its high-profit silver halide "cash cows" and had to depend on lower-margin digital products and services.

Kodak will soon decide fate of its health unit

Also in the investor presentation/webcast, Kodak CFO Bob Brust stated "We need to find a way to satisfy the investment needs" of the company's \$2.65 billion-per-year health unit. "We look at acquisitions that are going on in that field and they are all very expensive and very high multiples, and we don't have the financial strength to go it alone on that. We expect to have an answer for that by the end of the year." Kodak has previously stated it is looking at all possibilities, including a joint venture with a partner or selling off the unit, either in its entirety or piecemeal.

The unit, which grew from Kodak's long-established x-ray film division, today includes a wide range of technologies such as printers for medical images, digital image storage systems, software for medical information management, and molecular imaging. Competitors in all or some of those areas include GE Healthcare (General Electric), Siemens AG, Philips Electronics NV, Fuji Photo Film Co. Ltd., and Agfa-Gevaert.

Brust summed up the situation this way: Kodak's health unit is a valuable business "with strong brand, market-leading products, global customer base, experienced employees, strong cash flow." But to achieve sustainable leadership in its field requires a significant investment to sustain long term value and at the same time finding a solution that satisfies Kodak's investment needs.

The unit has had some recent success stories, the latest of which is a multimillion-dollar sale to the Regional Shared Health Information Program (RSHIP) in Alberta, Canada, to help 34 hospitals and other health care facilities convert from traditional x-ray film to digital medical imaging. The deal includes Kodak digital X-ray systems, laser imagers, and film digitizers. RSHIP says it considered ten vendors in all before selecting Kodak.

And last December the health unit signed its largest-ever contract for medical Picture Archiving and Communications Systems (PACS) and Information Management Solutions (IMS) in a multimillion-dollar agreement with National Services Scotland (NSS). Under the agreement, Kodak will deliver systems and software to the Scotland National PACS project that will help in the efficient management of patient images and data, the expansion of information sharing, and an improved workflow.

Mitsubishi Electric Research Laboratories (MERL)

Sharp photos of moving objects with the MERL "Flutter Shutter"

At the recent Siggraph computer graphics conference in Boston, three researchers from the Mitsubishi Electric Research Laboratories (MERL) in nearby Cambridge, Massachusetts, presented a novel type of camera shutter that allows making sharp photographs of moving objects at slow shutter speeds. They call their motion de-blurring device a "flutter shutter" because it opens and closes many times, very rapidly, during the slow exposure (1/20 second or slower).

MERL is the North American arm of Mitsubishi's corporate R&D organization.

To quote excerpts from the presentation's abstract, "In a conventional single-exposure photograph, moving objects ... cause motion blur. The exposure time ... smears the moving object across the image ... This ... destroys important ... spatial details ... Rather than leaving the shutter open for the entire exposure duration, we 'flutter' the camera's shutter open and closed during the chosen exposure time with a binary pseudo-random sequence. The flutter ... preserves high-frequency spatial details in the blurred image ... sufficient for ... motion-blur removal ..."

In practical terms, the MERL researchers demonstrated that their shutter may have applications in such fields as law enforcement. For example, with a conventional camera a slow exposure of a moving car will be very blurry and conventional image-sharpening will not be able to restore the details in the photo. The same exposure with a flutter shutter equipped camera appears equally blurry to the eye, but MERL software restores details to the point that the enhanced photograph looks nearly as sharp as one taken with the car not moving.



A slow exposure of a moving car produces a blurred image. photo credit: Courtesy of MERL



Enlarging the car's license plate produces an unusable image, even with conventional image sharpening.

photo credit: Courtesy of MERL



MERL software produces useful detail from the blurred image.

photo credit: Courtesy of MERL