

# The Hard Copy Supplies Journal



December 2006 Volume 12 Number 12

## Some Settle Suit with Epson, Others Seem Ready to Fight

### Highlights

- Some of the many cases that Epson has filed against aftermarket companies in recent months have been resolved.
- Six aftermarket firms have completely settled with Epson, and a number of others have either agreed to an ITC consent order or have been ruled in default.
- Still other companies appear ready to fight, including two large third-party supplies vendors, Ninestar and Dataproducts.

On November 27, Epson announced that it has reached its first settlements in a series

of high-profile legal actions that it initiated in February. The OEM said that it has settled with five of the 24 companies that it filed complaints against with the U.S. International Trade Commission (ITC) and in the U.S. District Court for the District of Oregon (*Journal*, 3/06). According to Epson, the settlements end all legal actions against the five firms. The OEM also announced that three other firms have indicated that they will stop importing the cartridges that Epson claims infringe its patents. The three companies have agreed to consent orders in the ITC case, and an ITC judge entered default judgments against eight additional firms. Epson has made more legal progress since its late November announcement. This month, Texas-based Nectron International

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## Request for a General Exclusion Order Makes Epson's ITC Suit High Stakes

The lawsuits that Epson filed in February (*Journal*, 3/06) have already had an impact on the digital imaging supplies industry. Several aftermarket firms have now confirmed what the OEM and many industry watchers had long suspected—Epson's patents were going virtually ignored. Certain third-party supplies vendors that were once blasé about OEMs' patents seemed to gain a newfound respect for intellectual property almost overnight. The suits have sparked whole new categories of aftermarket products such as "noninfringing cartridges" and "IP-free SKUs," and these names alone suggest that preceding compatibles violated various OEMs' intellectual property. While there have been immediate changes, the longer-

term implications of Epson's complaints may be even more profound. Ultimately, the Epson suits have the potential to prevent firms from importing any Epson compatibles into the United States, whether they infringe the OEM's patents or not.

Because encroaching on Epson's patents has become so rampant in the aftermarket industry, the complaint that the OEM filed with the U.S. International Trade Commission (ITC) requests a general exclusion order, among other remedies. If granted, the order could severely limit the flow of Epson compatibles into U.S. markets. Peg O'Laughlin, an ITC public affairs officer, explains that unlike a limited exclusion order, which can be used to

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## IPG Helps Boost HP's Profits in 2006

### Highlights

- Despite a lot of bad publicity, HP's business units did well this year, and the company's printer unit added significantly to overall profitability.
- According to a recent report from Lyra Research, supplies revenue, particularly revenue from ink consumables, has become the lifeblood of HP and its competitors.
- OEMs indicate that they have changed their business plans and are seeing positive results.

Unless you live under a rock, you have probably heard something about the public flogging that Hewlett-Packard took this year. The ethical missteps made by some of its senior managers have received plenty of bad press and led to a flurry of high-profile resignations—not to mention some contentious congressional hearings. Despite the fact that HP's reputation has suffered and the company's name is sometimes mentioned in the same breath as corporate ne'er-do-wells such as Enron and WorldCom, the company has remained focused on business. Thanks in part to its Imaging and Printing Group (IPG), HP had a banner year in 2006 and forecasts that its fiscal 2007 will be even brighter.

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# New Company Unites Small, Regional Remanufacturers

A new Santa Rosa, CA-based company has surveyed the toner cartridge-remanufacturing industry and determined that its experience in developing business systems, coupled with the manufacturing experience of local or regional remanufacturers, could lead to a synergistic relationship that might provide opportunities for all involved. The company, American TonerServ (ATS), has acquired two small remanufacturers and intends to acquire or partner with at least 12 more companies over the next year.

According to ATS President and CEO Dan Brinker, the company's expertise is in business systems. "We are not a remanufacturer," cautions Brinker. "We build systems that allow our partners to do what they do best—concentrate on selling and remanufacturing. We take the back office off of our partners' plates." Brinker notes that ATS handles all of a remanufacturer's back-end business functions, such as billing, accounting, order taking, fulfillment, collections, and customer service, via Web-based systems. "We are a professional management company," boasts Brinker.

Brinker describes ATS's business model as analogous to that of True Value hardware stores. The True Value model allows independently owned hardware stores to reap the benefits of purchasing in bulk and using inventory, payroll, and accounting systems developed specifically for the industry by professionals. "Our market studies showed us the independent toner cartridge market is struggling to survive," says Brinker, pointing out that small operators don't have the capital necessary to compete against printer OEMs or very large remanufacturers. According to Brinker, ATS currently has annual revenues of \$2 million and plans to grow its revenue, by acquisition or partnerships, to over \$200 million by 2010. He notes that this figure represents about 5 percent of the market for third-party toner cartridges.

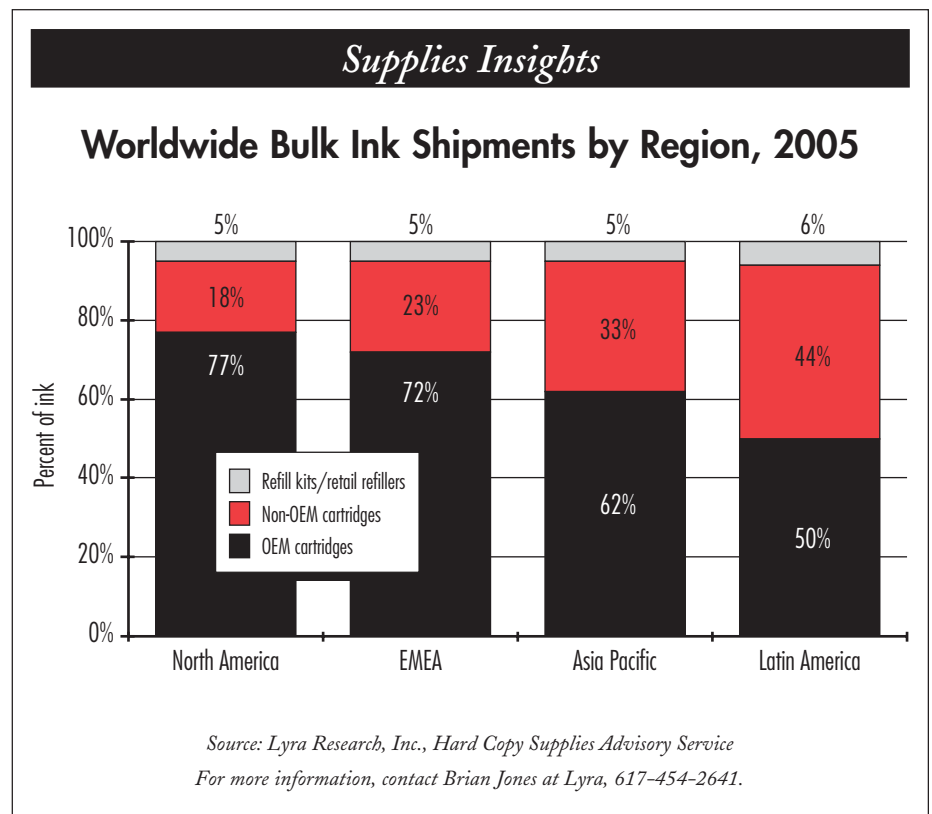
Brinker is especially excited about ATS's print-management solution, which is called Essential Strategic Printing (ESP). ESP remotely monitors printing devices on a network and allows dealers to supply main-

tenance and consumables before a machine goes down or runs out of supplies. The solution also allows to dealers to offer customers cost-per-page contracts. Brinker tells us that ATS has partnered with another firm for the software that provides ESP, although he declined to name the company. ESP technology may provide dealers that sell aftermarket cartridges with the ability to compete more effectively against firms that offer click-charge contracts using OEM supplies.

ATS also offers nationwide service on all makes and models of office equipment. Service is available anywhere in the United States through a national service-provider network of more than 3,000 office-equipment repair companies with which ATS has partnered. The ATS Web site notes that the company manages the entire repair process via a "single source, one phone call" solution.

There is no question that the toner cartridge-remanufacturing industry has seen some consolidation in recent years. Many

smaller regional remanufacturers have discontinued remanufacturing all but the highest-volume SKUs and are outsourcing most of their cartridges to larger remanufacturers that can take advantage of economies of scale. The increasing complexity of some of the newest cartridge SKUs and continued SKU proliferation make it almost impossible for small remanufacturers to keep up to date in terms of tooling and processes. But small remanufacturers have one huge advantage over larger companies in the industry: they are very close to their customers. Local and regional companies are able to visit their customers on a regular basis, determine their customers' needs, and offer solutions. This is something that even the OEMs have trouble doing. If a business model such as ATS's is able to relieve some of the back-office burden of small dealers and provide them with tools such as ESP while proving cost-effective, then it will allow them to do what they do best—service their customers. ☞



## HP IPG ...

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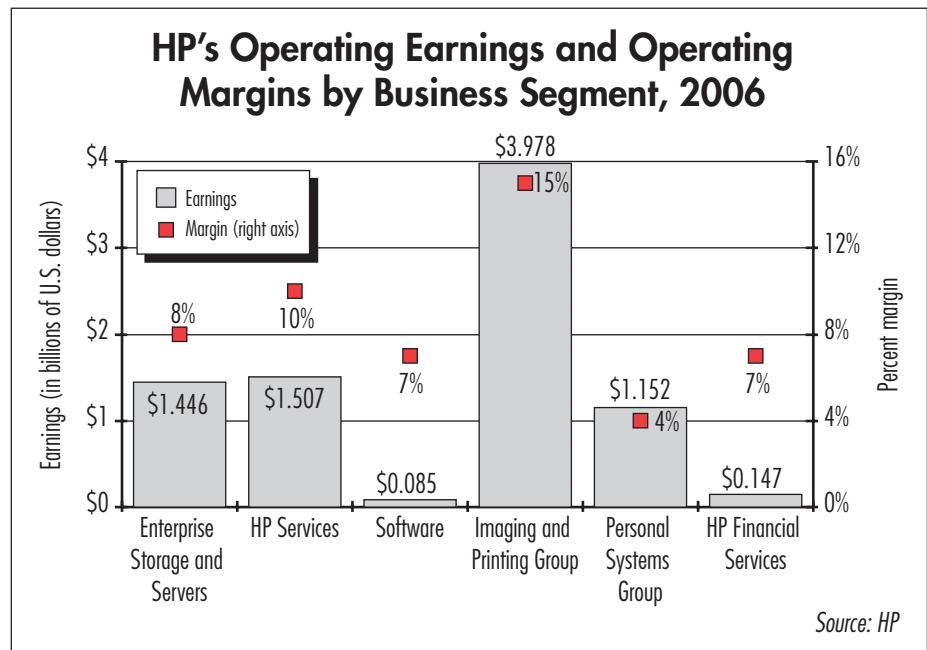
On November 16, the firm reported net revenue of \$24.6 billion for its fiscal fourth quarter, up 7 percent from \$22.9 billion in the fourth quarter of 2005. For fiscal 2006, HP's revenue totaled \$91.7 billion, which represents a 6 percent gain over the firm's revenue of \$86.7 billion in fiscal 2005. Last month, various high-tech industry watchers reported that HP is now the top technology company in terms of revenue, leaving IBM in second place. The business press also noted that HP has surpassed rival computer maker Dell to become the number-one firm worldwide in terms of computer systems sold. HP reported in November that the third quarter of 2006 was the eighteenth consecutive quarter that it shipped more servers worldwide than any of its competitors.

Like HP's other business divisions, which each saw a revenue increase during the closing quarter of 2006, IPG enjoyed a strong fourth quarter with total printer unit shipments up 17 percent year-over-year. Shipments of consumer printers increased 16 percent compared with the fourth quarter of 2005, and commercial printer shipments grew 20 percent. Some printer hardware segments experienced even sharper gains in the fourth quarter: color laser shipments were up 40 percent year-over-year, shipments of appliance photo printers were up 70 percent, and shipments of printer-based MFPs were up 160 percent.

Following an established trend, unit prices for hardware dropped and, as a result, shipment growth outpaced revenue growth. Commercial hardware revenue grew 8 percent compared with the fourth quarter of 2005, and consumer hardware revenue increased 2 percent. Despite lower prices, IPG had fourth-quarter revenue of \$7.3 billion, up from \$6.8 billion one year ago. IPG's operating profit for the quarter was \$1.1 billion and represented about half of the entire company's operating profit for the period. This quarterly number is in keeping with what the group contributes to HP's overall operating profit for the year.

## IPG Shines Best

IPG contributes more to HP's operating profit than any of the firm's five other busi-



*As HP's most profitable group, IPG is of key importance to HP's overall financial performance*

ness units, although the group ranks second in terms of revenue. In fiscal 2006, IPG's revenue of \$26.8 billion was exceeded only by the Personal Systems Group (PSG), which sells desktop, notebook, workstation, and handheld PCs and contributed almost \$29.2 billion in revenue. With combined revenue of over \$3 billion in 2006, Software and HP Financial Services are the firm's smallest divisions. HP Services brought in revenue of \$15.6 billion, placing it in the middle of the pack along with HP Enterprise Storage and Servers, which had sales of almost \$17.3 billion in 2006.

While it lags behind PSG in terms of revenue, IPG had nearly four times PSG's operating earnings in the fourth quarter of this year (\$4 billion compared with PSG's \$1.2 billion). The critical role that IPG plays in HP's overall success cannot be overstated. The group contributed about half of HP's total \$8.2 billion in earnings from operations in 2006.

"For nearly a decade, the crown jewel of HP's six business divisions has been IPG," says Lyra analyst Rodger Reis. "It generates significantly higher profit margins and operating earnings than HP's other business units." Supplies sales, according to Reis, have become a platform for IPG's strong growth. "In 2005, printing supplies accounted for more than half of all IPG revenue worldwide, and

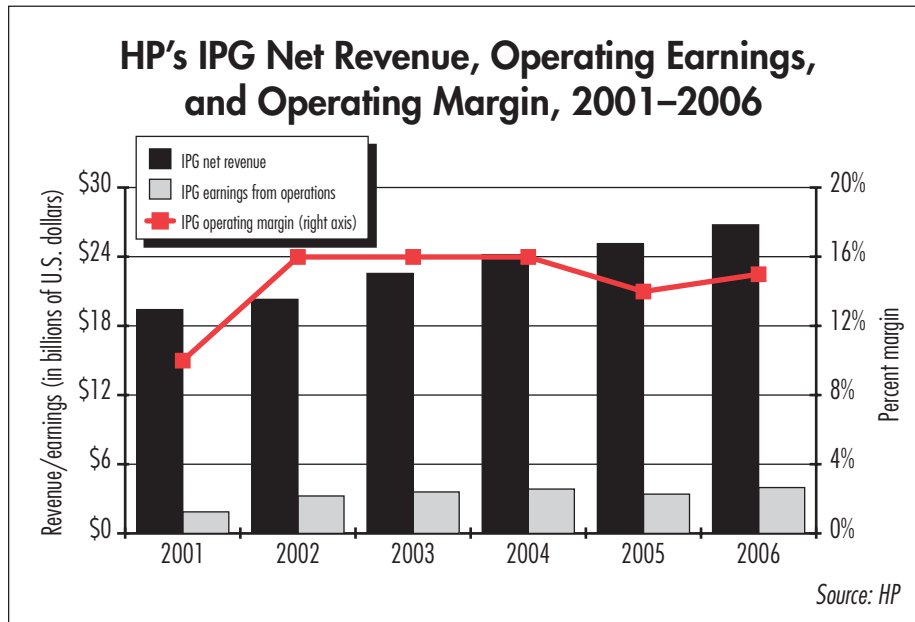
it appears that number was improved upon this year."

Indeed, HP's supplies revenue climbed from \$3.8 billion in the fourth quarter of last year to \$4.1 billion in the firm's most recent quarter, a 9 percent increase. Moreover, the firm said that its supplies revenue grew from \$14.0 billion in 2005 to \$15.4 billion this year, up approximately \$1.4 billion or about 10 percent. Supplies revenue accounted for more than 56 percent of all IPG revenue in the last quarter of 2006 and for 57 percent of the group's fiscal 2006 revenue of \$26.8 billion.

## All about Ink

Although HP offers a wide range of consumables including ink and toner cartridges, commercial digital imaging supplies, cut-sheet specialty media, and business papers, its ink jet SKUs are the most critical. "From a supplies revenue standpoint," Reis says, "the desktop ink jet printer market is the most important area for IPG." He estimates that ink jet cartridges and desktop media together make up nearly 60 percent of IPG's supplies revenue and over two-thirds of its profits. While important, laser cartridges are not as profitable because HP must share much of its margin with its partner Canon. Citing new applications that HP is pursuing with equipment based on its SPT print heads, Reis says, "HP is aggressively pursuing new

## HP's IPG Net Revenue, Operating Earnings, and Operating Margin, 2001–2006



After successfully maintaining a 16 percent operating margin for three years, IPG slipped a bit last year. In fiscal 2006, IPG managed to improve margins, although not to previous levels.

higher-volume markets with new ink jet devices such as MFPs for corporate offices and kiosks for retail photo printing.”

This month, Lyra Research released a new report, *Supplying the Profits: Chasing Cash with Consumables at HP, Canon, Epson, and Lexmark*, which details how critical ink jet and other consumables are for these four ink jet printer OEMs. According to the report, IPG experienced margin erosion in 2005 due in part to a migration from ink to toner technology. Although IPG’s net revenue grew 4 percent from \$24 billion in 2004 to \$25 billion in 2005, the group’s operating profit fell from \$3.8 billion to \$3.4 billion, an 11 percent decrease, over the same period.

Quoting from HP’s 2005 10-K, the 69-page report observes that HP’s operating margins shrank because of severance packages offered in 2005, lower prices, and “a mix shift within supplies from ink jet cartridges to LaserJet toner [and] a low-end mix shift in consumer hardware.” Inexpensive personal monochrome lasers and lower-cost color lasers took pages away from ink jet devices in 2005, driving down IPG’s operating margins. The report indicates that third-party supplies also factored into HP’s shrinking margins and that the impact of the aftermarket is “affecting the bottom line of all OEMs.”

According to HP’s latest quarterly financial report, it appears that IPG has managed

to reverse some of this profit slippage in 2006. The group’s operating margin climbed to 15 percent this year after dipping to 14 percent in 2005. Last year’s decline in operating margin signaled an end to stable operating profits for IPG, which had successfully maintained a margin of around 16 percent for the three years prior to 2005.

### The Competition

HP is not the only OEM focused on wringing better margins out of its ink jet cartridges. The new Lyra report found that HP and Lexmark each derived over half of their supplies revenue in 2005 from sales of desktop inkjet cartridge. For Epson, revenue from ink jet cartridge sales is even more critical, accounting for nearly three-quarters of the company’s total supplies business. As HP’s laser engine supplier, Canon is not as reliant on ink jet cartridges for its supplies revenue as the other three firms. Sales of Canon ink jet cartridges made up less than one-quarter of the firm’s total consumables revenue in 2005.

Both Epson and Lexmark have suffered because of flagging revenue from inkjet hardware and supplies. According to the companies’ respective financial disclosures in recent months, each has been hurt by sales of low-end printers that are not delivering enough cartridge sales to make the installed hardware

## Financial Reports

	Period*	Revenue	Net Income
Dell	Q3 2007	\$14.4B	\$677.0M
	Q3 2006	\$13.9B	\$606.0M

\*preliminary results for the period ending 11/3/06  
 Comments: In the quarter, the company achieved a better balance of liquidity, profitability, and growth, driven by an improved mix of products worldwide. The firm’s third-quarter revenue from software and peripherals was \$2.3 billion, while enhanced services revenue was \$1.4 billion.

	Period*	Revenue	Net Income
HP	Q4 2006	\$24.6B	\$1.7B
	Q4 2005	\$22.9B	\$0.4B
	FY2006	\$91.7B	\$6.2B
	FY2005	\$86.7B	\$2.4B

\*period ending 10/31/06  
 Comments: Revenue in HP’s Imaging and Printing Group (IPG) grew 7 percent year-over-year to \$7.3 billion in the fourth quarter. On a year-over-year basis, supplies revenue grew 9 percent, commercial hardware revenue grew 8 percent, and consumer hardware revenue grew 2 percent. Printer unit shipments increased 17 percent year-over-year, all-in-one unit shipments were up 22 percent, and appliance photo printers were up 70 percent. Color laser printers and printer-based MFPs saw shipment increases of 40 percent and 160 percent, respectively.

	Period*	Revenue	Net Income
Sensient	Q3 2006	\$280.9M	\$17.0M
	Q3 2005	\$256.4M	\$14.1M

\*period ending 9/30/06  
 Comments: “This marks Sensient’s third consecutive quarter of double-digit earnings increases,” said Kenneth P. Manning, chairman, president, and CEO. “Our businesses are showing excellent results with the Flavors and Fragrances Group again reporting record quarterly revenues and operating profits.”

profitable. In addition to offering the puniest of hardware margins at best—and more often being sold at a loss—low-end printers do not deliver high print volumes. Moreover, their owners tend to be price-sensitive consumers who are attracted to aftermarket supplies. As a result, the so-called razor-and-blades model no longer delivers profits for many of the two OEMs’ low-end machines. Epson and Lexmark have vowed to transition their product lines away from unprofitable models in favor of machines that can provide margin relief, higher print volumes, and more reliable cartridge sales.

In its 10-Q for the period ending September 30, Lexmark indicated that the move away from low-end machines has involved some sacrifices. Earlier in the year, the firm made a decision to “implement a more rigorous process to improve lifetime profitability and payback on ink jet sales.” As a result of

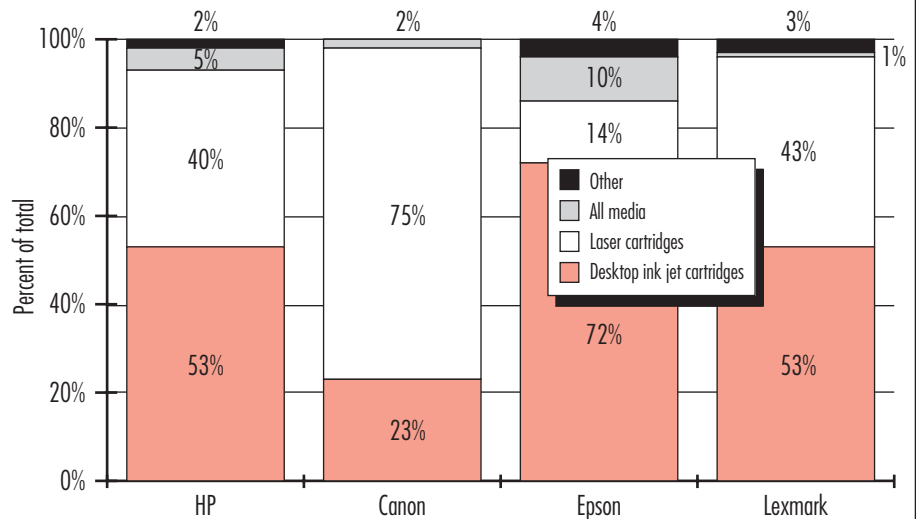
reducing its lower-end printer business, Lexmark's revenue dipped \$30 million in the third quarter and \$133 million for the year to date. Lexmark reported that for the first nine months of 2006 sales of ink jet units declined approximately 20 percent compared with the same period last year. While the firm has seen an increase in sales of ink jet MFPs, the increase has not been enough to offset the decline in revenue from sales of single-function printers and a dip in sales of machines to OEM clients—we assume primarily to Dell. There was some good news in that the average unit revenue for ink jet hardware increased approximately 3 percent thanks to the shift to multifunction ink jets.

Epson is having a similar experience as it tries to wean itself off low-end machines. To address its poor financial performance in 2005, the firm initiated a new midrange business plan called "Creativity and Challenge 1000" in March 2006. Reducing fixed costs and adjusting its product portfolio are key elements of the plan. As we have reported in this publication, Epson has grown increasingly aggressive in defending its consumables patents (see page 1 for more on Epson's lawsuits). We suspect that the OEM's legal efforts have allowed it to regain some of its ink jet cartridge business.

On October 25, Epson filed its financial results for the half year ending on September 30, and the changes to its ink jet business have helped Epson's bottom line but have hurt revenue. The company said that it "has carefully tailored its product mix in each region to maximize profitability and, as a result, is pursuing a policy of strategically reducing shipment of unprofitable models, including those that generate low print volumes." Like Lexmark, Epson is beginning to see some results from its new strategy. While net sales for the first half of the year were down almost 6 percent compared with the year-ago period, operating income was up nearly 250 percent. For the first half of 2006, Epson had a net income of ¥413 million (\$3.5 million) versus a net loss of ¥1.16 billion (\$9.8 million) during the same period last year.

As noted earlier, Canon does not rely on its ink jet business as much as Epson, HP, and Lexmark do. Even so, the firm confirms that it is experiencing the same market conditions as its competitors. In its financial statement for the third quarter of this year,

### Vendors' Share of Worldwide Imaging Supplies Revenue by Product Segment, 2005



Source: Lyra Research, Inc., Hard Copy Supplies Advisory Service, Second-Half 2005 Forecast

*Canon is the only one of the four OEMs that does not derive most of its supplies revenue from ink jet cartridges*

which was released on October 26, Canon reported that its ink jet business encountered "severe price competition." While unit sales were down, Canon's computer peripherals group, which is responsible for ink jet and laser printers, managed to increase revenue by over 15 percent compared with last year. The company credited "a significant increase in unit sales of multifunction [ink jet] models" for the gains. It also cited "favorable sales growth for consumables," which we suspect is due to the aftermarket's inability to launch fully functional alternative ink tanks for use in Canon's popular new ink jets such as the PIXMA iP4200 and MP500.

#### HP Outlook

Although HP has weathered some negative press over the past year, its strong financial performance in fiscal 2006 ends the year on an up note for the firm. It appears that investor confidence has been restored. Shares were trading at the \$40 mark as we went to press, which was within 85 cents of its 52-week high. In fact, HP shares are trading at their highest level since Mark Hurd took the helm in April 2005.

We should point out that investors appear to be bullish about Lexmark and Canon as

well. Trading at just over \$70 per share as we went to press, the Kentucky-based OEM's share price was within a dollar of its high for the year. Likewise, Canon shares traded on the New York Stock Exchange at just over \$55.50 a share, less than a dollar away from their 52-week high. Traders are not as enthusiastic about Seiko Epson. In mid-December, Epson shares traded in Tokyo at about ¥3,000 (\$25.42) per share, which is approximately in the middle of its 52-week range.

HP is predicting healthy growth company-wide in 2007. The firm told investors that it expects revenue for the first quarter of 2007 to be roughly on par with the fourth quarter of 2006. For the full fiscal year 2007, HP forecasts a nearly 6 percent increase in revenue to \$97.0 billion, up from \$91.7 billion this year. The firm did not specify what role IPG will play in that growth, but clearly success in various printer markets will be a major force behind HP's overall performance. We agree with the findings of the Lyra report noted earlier, which concludes, "Given HP's strength in these markets, it is likely that the company should continue to generate healthy, if perhaps not exceptional, profits from the sale of these [ink jet and laser] products in the future." ☞

## Supplying the Profits:

### Chasing Cash with Consumables at HP, Canon, Epson, and Lexmark

This new report from Lyra Research leverages Lyra's understanding of ink jet and laser printing market dynamics to provide industry executives and financial analysts with a complete view of OEM supplies revenue and the trends that impact OEM profitability.

**Supplying the Profits: Chasing Cash with Consumables at HP, Canon, Epson, and Lexmark** examines each company's 2005 revenue in detail. With over 50 figures and five chapters, the report provides an understanding of the trends that impact OEM profitability.

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## ▼▲ HARDWARE ▲▼

On November 21, **Brother International** introduced the IntelliFAX-1960C, an ink jet MFP that features a 5.8 GHz digital cordless handset and sells for \$169.99. The IntelliFAX-1960C can print at 25 ppm in black or 20 ppm in color and can copy at 18 ppm in black or 16 ppm in color. The unit uses Brother's new LC-51 Innobella ink cartridges (*Journal*, 7/06). The LC-51BK black cartridge yields 500 pages based on 5 percent coverage and sells for \$23.49. The LC-51C, LC-51M, and LC-51Y color cartridges each yield 400 pages and sell for \$12.99 apiece. Other features of the IntelliFAX-1960C include a 20-page automatic document feeder (ADF), caller ID, and a built-in voice-message center with 29 minutes of record time.

On October 24, **IBM** introduced two new monochrome laser printers and a color laser printer based on three devices that Lexmark launched a day earlier (*Journal*, 11/06). The IBM Infoprint 1612 Express (\$399) and Infoprint 1622 Express (\$599) are 35 ppm monochrome laser printers based on the Lexmark E350 series, and the IBM Infoprint Color 1634 Express (\$699) is a color laser printer that offers top speeds of 22 ppm in color and 24 ppm in monochrome and is based on the Lexmark C534 series. Like the Lexmark printers on which they are based, the monochrome IBM units can use either a 3,500-page standard cartridge or a 9,000-page high-capacity cartridge. Toner cartridges are available as either Return Program or non-Return Program SKUs. Both printers ship with a 3,000-page starter cartridge. The Infoprint Color 1634 Express ships with a set of black and color cartridges, each with a yield of 6,000 pages. Replacement color cartridges are available with yields of 3,000, 5,000, and 7,000 pages, and the yields of the replacement black cartridges are 4,000 or 8,000 pages. All of the cartridges for the Infoprint Color 1634 Express are available in either Return Program or non-Return Program versions. IBM does not release pricing for its toner cartridges.

On December 4, **Konica Minolta** announced the bizhub C252, an upgrade of the bizhub C250, which the new unit replaces. The bizhub C252 is capable of using several advanced finishing options, offers standard duplex printing, and has new advanced fax functions. The A3-sized machine prints and copies at 25 ppm in both color and black and uses the same consumables as the model it replaces. The black toner cartridge has a yield of 20,000 pages and sells for \$45. Color toner cartridges yield 12,000 pages and sell for \$95 each. Additional consumables include a black imaging unit (70,000 pages, \$145), color imaging units (45,000 pages each, \$495 each), a transfer unit (120,000 pages, \$360), a fuser (120,000 pages, \$265), and a waste-toner box (25,000 pages, \$25). The bizhub C252 is available through Konica Minolta's direct sales, authorized dealer, and value-added reseller channels at a manufacturer's suggested retail price of \$10,450.

On November 27, **Kyocera Mita America** announced two new single-pass color printers, the 17 ppm FS-C5015N and the 22 ppm FS-C5025N. Both devices have 600 dpi multibit image quality, standard Ethernet networking, 500-sheet paper-input drawers, and 100-sheet multipurpose paper trays. With the addition of paper-handling options, the FS-C5015N has a maximum paper capacity of 1,100 sheets, while the FS-C5025N has a maximum capacity of 2,100 sheets. The FS-C5015N ships with a 3,000-page black toner cartridge and 2,000-page color cartridges. Replacement black cartridges yield 6,000 pages, and the color SKUs each yield 4,000 pages based on 5 percent coverage. The FS-C5025N ships with four toner cartridges, each yielding 4,000 pages based on 5 percent coverage. Replacement black and color cartridges each provide yields of 8,000 pages. A Kyocera Mita spokesperson told us, "We don't provide list prices for consumables—pricing is up to the individual dealer." The firm does, however, provide suggested list prices for the printers. The FS-5015N is priced at \$1,270, and the FS-5025N lists for \$2,013.

## Industry Consolidation Continues, Clover to Acquire GRC

On December 12, Chatsworth, CA-based GRC announced that it has signed a letter of intent to be acquired and merged into Ottawa, IL-based Clover Technologies Group. The deal is expected to close by mid-February 2007.

In a statement announcing the deal, Jim Daggs, president, CEO, and grandson of the founder of GRC, noted that the past few years have been very challenging for the industry in general and for GRC in particular. "We are very fortunate to have found a partner who shares the same passion for business excellence, product quality, and customer care as we do. The merging of the two organizations will create powerful synergies to grow our customer base."

Daggs tells us that no changes in the organization of GRC are expected, although it is still very early in the acquisition process. "Right now, both companies are doing our due diligence, but there is no purchase agreement—just a signed letter of intent," explains Daggs, who notes that GRC's manufacturing facility in Mesa, AZ, will give Clover needed additional capacity. "We completed the move of manufacturing to Mesa this year, and we only have about 20 administrative people left at our Chatsworth headquarters."

According to Daggs, both companies are excited about the acquisition. "The combined companies will be a powerful organization," claims Daggs. He notes that the merger will provide customers with a wider assortment of products at more competitive prices. "It's not a done deal at this point," cautions Daggs, "but we're looking forward to the benefits of working with both Clover and the Dataproducts organizations." Clover acquired Dataproducts in 2005 (*Journal*, 2/05). The integration of Clover and GRC is expected to take 12 months or more.

According to Daggs, GRC will continue to produce GRC-branded products after the acquisition. "This is our sixtieth year in business," notes Daggs, whose grandfather, the late Willis Daggs, founded the company. GRC is an employee-owned company through its employee stock ownership plan, and employees currently own about 65 percent of the firm. While Daggs declined to comment on the details of the proposed deal with Clover, he explains that the primary goal of GRC's board is to preserve shareholder value.

GRC was nearly acquired by a venture capital firm last summer. "We were very close to being acquired by Industrial Equity Capital [IEC] this year, but unfortunately the fellow who was the prime mover and shaker with

IEC had a heart attack and died just before we could complete the deal," explains Daggs. Clover had expressed some interest in GRC during the time it was in negotiations with IEC, but Daggs says that Clover was in the process of integrating Dataproducts into its organization at that time and was not quite ready for another acquisition.

### Our Take

While it may be sad to see a 60-year-old family-run company acquired by a larger company, the continued consolidation of third-party supplies manufacturers is no doubt good for the aftermarket industry as a whole. Consolidation provides companies with the resources to develop processes, tooling, and test equipment that provide cost benefits and ensure improvements in quality. We feel that industry consolidation is one of the prime reasons that the aftermarket has gained market share over the past few years. Clover has been responsible in its acquisitions of companies and seems to have allowed each company to manage its own destiny while reaping the benefits of synergies and economies of scale. We expect to see the GRC brand continue to get the respect it deserves after the acquisition. ☞

On November 2, Xerox announced a new desktop color laser printer and MFP series. In a press release announcing the Phaser 6110 family, Xerox said that the new series is "designed as a replacement for business ink jet printers and all-in-one devices that require costly supplies," hinting that the Phaser 6110 family is aimed at HP's Business Inkjet and Officejet Pro series. While the Phaser 6110 family is indeed more competitive with HP's office-oriented ink jet printers and MFPs in terms of acquisition price, our calculations show that the Xerox models fall a bit short when it comes to cost per page.

The Phaser 6110 comes in four configurations. The direct-connect Phaser 6110/B printer sells for \$249 after a \$100 mail-in rebate, and the networked 6110/X is priced at \$269 after a \$130 rebate. The three-function

(print, copy, scan) Phaser 6110MFP/S sells for \$579 after a \$70 rebate, and the four-function (print, copy, scan, fax) 6110MFP/X sells for \$649 after a \$100 rebate. All four models print at 4 ppm in color and 17 ppm in black at a resolution of 2,400 × 600 dpi.

The toner cartridges used in the Phaser 6110 series have yields that are similar to those of the ink tanks used in HP's office-oriented ink jets, although the cost per page of the Xerox models is significantly higher. The Xerox models ship with 700-page color cartridges and a 1,500-page black cartridge. Replacement color cartridges yield just 1,000 pages and sell for \$49 each. The replacement black cartridge yields 2,000 pages and sells for \$59, giving the machines a black cost per page of 3 cents and a color cost per page of 17.7 cents without taking other consumables into account. Additional

required consumables include a \$159 imaging unit with a yield of 12,500 full-color pages or 20,000 black pages and a waste-toner container that sells for \$12 and lasts for 1,250 color pages or 5,000 black pages.

On the same date, Xerox announced the Phaser 3124, a 25 ppm monochrome laser printer priced at \$139 after a \$40 mail-in rebate. Xerox says that the 3124 has a warm-up time of 15 seconds and can print its first page in less than 9 seconds when warmed up. The unit has several features based on the company's heritage as a copier company, such as support for booklet printing, watermarks, overlays, and *n*-up printing. The host-based printer has 1,200 × 600 dpi image quality resolution. The unit ships with a 1,000-page toner cartridge, and the replacement cartridge yields 3,000 pages and sells for \$89. ☞

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3. Balancing Forecasts with Real Print Data
4. Office Printing 2.0: Forecasting the Changing Roles of Workgroup Printers and MFPs
5. Going from Boxes to Pages: A Strategic Shift
6. Originals and Copies: Discussing Edgeline and Other Office MFP Trends

#### Consumer Imaging:

1. Photo Permanence Performance at Home, Online, and In-Store
2. Think Pink: Marketing Digital Creativity to Women
3. Where's the Print? Photo Printing at Home versus Online versus Retail
4. Panel: Where's the Print?
5. The Future of Imaging Hardware for the SOHO World

#### Software for Imaging:

1. Going with the Flow: Optimizing Document Workflow Solutions
2. An Update on Vista and XPS: One Year Later
3. Discussion Panel: Vista—The Path to XPS

#### Commercial Printing:

1. Reenvisioning Commercial Printing Technology
2. Case Study: From Postcards to Billboards
3. Going Wide: Hot Trends Driving the Wide- and Superwide-Format Market
4. Digital Press Impressions: Lyra's Industry Assessment and Analysis

#### Home and Office Digital Imaging Supplies:

1. Charting a Course for Quality Consumables
2. *Hard Copy Supplies Journal* Consumables Industry Year in Review
3. Cartridge Consumables: Forecast and Analysis of Ink Jet and Toner Market Trends
4. Retail: What's Going Right? What's Going Wrong?
5. Panel: Survivor—Supplies Island

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#### A 10-Year Retrospective of the Lyra Imaging Symposium

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1. An Olympic Feat: Selling in China
2. Exploring the Future of the Chinese Consumables Market

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## Industry Roundup

### TRANSACTIONS

Vendor	Product/Asset	Buyer	Comment
Lanier	color products <sup>1</sup>	Univ. of California	service agreement
Siemens	maintenance serv.	Xerox	service agreement

<sup>1</sup> digital color products and document-management systems

### MERGERS AND ACQUISITIONS (continued)

Companies	Deal Type	Comment
Mondrian, Treck.Hall	merger	Sun Capital Partners has facilitated the merger of its affiliate Mondrian Canada with Treck.Hall Limited to form Mondrian-Hall, Inc.

### CORPORATE NAME CHANGE

Old Name	New Name
Minolta South Africa	Konica Minolta South Africa

### DISTRIBUTION DEAL

Vendor	Product	Reseller
Finch Paper <sup>1</sup> and envelopes	FSC-certified papers <sup>1</sup>	The Paper Mill Store

### PERSONNEL CHANGES

Company	Employee	Position
Catalyst Paper	Benjamin Duster IV	Board of Directors (N)
Catalyst Paper	Neal P. Goldman	Board of Directors (N)
Catalyst Paper	Jeffrey Marshall	Board of Directors (N)
Catalyst Paper	Amit Wadhwaney	Board of Directors (N)
Corporate Express	Jeffrey Crump	VP, Merchandising, Corporate Express Canada (N)
HP	G. Kennedy Thompson	Board of Directors (P)
Konica Minolta	Mat Stanley	Head of the Professional Services and Solutions Group, Konica Minolta Business Solutions UK (N)
Media Sciences	Ian Copsey	Director, Europe, Middle East and Africa (EMEA) Sales (N)
Sensient	Eric Sebok	Director, Commercial (N)
Verzo Paper	Mike Jackson	President & CEO (N)

N = new hire, P = promotion

### MERGERS AND ACQUISITIONS

Companies	Deal Type	Comment
Cascades, Domtar	acquisition	Domtar has reached an agreement to sell its 50 percent interest in Norampac to Cascades for a cash consideration of \$560 million
Docucorp, Skywire	acquisition	Skywire Software will acquire all of Docucorp's outstanding shares for approximately \$127 million

## ◆ RetailWatch ◆

We found some promotions on ink and toner cartridges this month at area office superstores. OfficeMax offered a free OfficeMax-brand strip-cut paper shredder, a \$19.99 value, with the purchase of any two HP toner cartridges. The store also offered a free 60-count package of 4 × 6-inch HP photo paper, ordinarily priced at \$9.99, with the purchase of any two HP ink jet cartridges. OfficeMax rearranged its photo paper aisle so that each vendor's products are now located in one area, rather than breaking products up by various sizes of packaging. It appears that Epson and Avery Dennison have lost some shelf space. There was a "buy one, get one free" deal on all HP photo papers. The family of OfficeMax-branded media products has been expanded to include 13 × 19-inch glossy professional photo paper. The new SKU contains 20 sheets of the 10 mil, 270 gsm paper and sells for \$29.99. There was a new aisle display in the specialty media section of the store that offered a free 256 MB USB drive with the purchase of two selected packages of Avery Easy-Peel clear mailing labels. We also noted that OfficeMax now offers an 11 × 17-inch, 20-count package

of Kodak Ultra Premium photo paper for \$29.99 and that Kodak has changed the ream wrap on its premium bright white paper.

This month, Staples offered \$15 off any purchase of HP inkjet cartridges totaling \$60 or more. The store also had a promotion offering a free pack of Lexmark 4 × 6-inch photo paper, which ordinarily sells for \$9.99, with the purchase of any of the OEM's ink cartridge twin-packs. We noted that selected Simply-branded refilled Dell cartridges were marked for clearance. In the paper aisle, we spotted Kodak premium bright white paper dressed up in its new ream wrap. It also appears that Epson is introducing new packaging on its photo papers. The packs feature a set of stars to rate the papers, which is similar to the method that Kodak uses on its photo paper packaging. Staples had a steep price reduction on its own brand of glossy photo paper: a 30-count package of the 8.5 × 11-inch paper was marked down from \$9.98 to \$3.98. A 120-sheet package of 4 × 6-inch matte Canon photo paper was reduced from \$13.99 to \$9.99, and 8.5 × 11-inch, 50-

count packs of the same product, which usually sell for \$19.99, sold for \$12.99. Two 150-sheet packages of Hammermill premium photo laser paper sold for \$36, and a single pack sold for \$19.99. Two five-ream cases of Staples-branded printing paper were priced at \$35.98, with a single case priced at \$34.98.

Office Depot offered a free HP marketing kit with the purchase of any two HP ink cartridges or a twin- or combo-pack. The store had a "buy one, get one free" promotion on 100-sheet packages of 4 × 6-inch Kodak Ultra Premium high-gloss photo paper, which sold for \$22.99, and 50-count packs of the same paper in 8.5 × 11-inch sheets, which sold for \$31.99. The office superstore offered the same deal on 8.5 × 11-inch, 25-sheet packages of HP Advanced photo paper, which sold for \$20.99, and 60-count packages of the 5 × 7-inch paper, which sold for \$14.99. We noted that two reams of Office Depot-branded laser paper sold for \$10, and a single ream sold for \$7.39. There was also a deal on two reams of ink jet paper for \$8, while the price of a single ream was \$5.79. ☺

# Xerox Demonstrates Prototype of Self-Erasing Paper

On November 27, Xerox announced that it has invented a paper for use in short-lived applications such as cover sheets. The experimental paper supports images for approximately a day before reverting to its original state so the paper can be imaged again. The company says that its experimental printing technology, which was developed as part of a collaborative effort with the storied Palo Alto Research Center (PARC), has the potential to significantly reduce paper use.

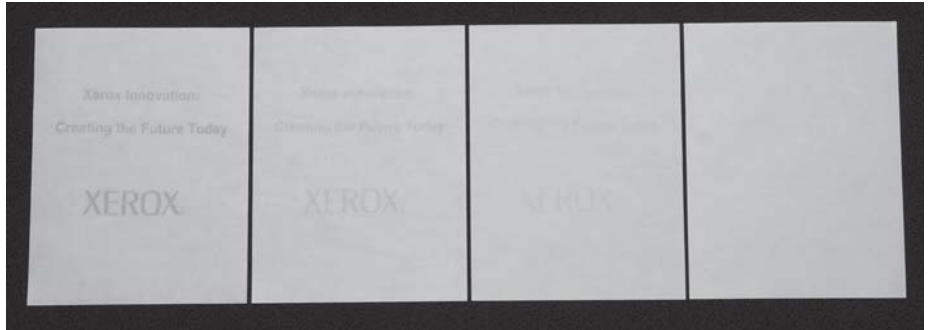
"We are interested in how people use documents," explains Paul Smith, laboratory manager of the Toronto-based materials design and synthesis lab at Xerox Research Center of Canada (XRCC), where the prototype was developed. "This new paper comes as a result of what we learned about how people manage and print documents." He claims that the company's research revealed that as many as two out of five printed documents are for "daily" use, such as reference materials that are printed, viewed once, and then discarded. "We discovered that people really like printing things out, but they would also like to use less paper. This technology allows for both."

## Temporary Printing Technology

According to Smith, his lab developed a coating that works in concert with a unique printing technology pioneered by PARC. The hardware employs an LED light bar that radiates light with a specific wavelength, which reacts with the colorless compound formulated by Smith and his team. The compound turns black when exposed to the light wave from the printer and then fades over a one-day period. Exposing the material to heat accelerates the fading process.

To produce self-erasing paper, traditional copier paper is treated with a special coating that contains the compound that Smith's team designed. Two versions of the coating were developed, one with a yellow hue and one clear to produce yellow and white office papers. According to the Xerox press release, the firm has filed for patents on the coatings and the "erasable papers."

The printing station that PARC developed can be added to a regular printer. For print jobs that require permanent imaging,



*Going, going, gone: Xerox has developed a prototype paper that supports printing transient output*

normal printing processes can be employed. When users need to print a job with temporary imaging, they can use the light-bar print station, which accesses the special self-erasing paper from a dedicated input tray.

In its press release, Xerox described the temporary printing technology as part of its ongoing investment in so-called green products. The company says that it currently offers many eco-friendly products, including solid-ink printers, which generate "90 percent less waste than comparable laser printers," according to Xerox. The firm also markets energy-efficient printers, copiers, and MFPs, as well as other paper-saving innovations.

Smith says that the new reusable paper is designed to be a low-cost alternative to traditional papers. While the specialty Xerox paper will not be on the market in the near term, the firm has developed some price models. Smith says that Xerox offers a wide variety of digital imaging materials ranging from inexpensive traditional copier papers to high-end flexible displays for PDAs. He adds, "We realize that costs must be toward the cost of office paper, and we are costing toward the paper end of the display range."

Ultimately, going to market with an eras-

able paper priced similarly to other office papers makes sense and may spell the difference between success and failure. We are aware of similar self-erasing sheets such as those designed by Toshiba for use with its B-SX8R thermal printers, but these sheets seem to be rather pricy. The Toshiba "papers" are made of PET (polyethylene terephthalate), which is the same material used to make labels for soft-drink bottles and other products, and sell for approximately \$10 per sheet. The PET papers revert to white when exposed to heat and can be reused more than 500 times, but the initial cost is high for most offices, which would be required to purchase a number of sheets for daily printing. Regardless, the B-SX8R is currently available in Japan, and Toshiba recently announced plans to introduce the machine into European markets.

The imaging technology used by both Toshiba and Xerox could have implications for marking supplies vendors if self-erasing papers become popular with end users. Neither technology requires the use of traditional toner or ink. If Xerox's research is accurate and two out of five printed pages are read only once, then some 40 percent of all printed pages could be affected. <sup>1</sup>

## New Products

The following firms recently introduced new media products:

- 3M
- Cascades
- Hexis
- Kodak
- Magellan
- Sony

For more information on these products, visit *The Hard Copy Supplies Journal* on the Web at [www.hardcopyjournal.com](http://www.hardcopyjournal.com).

## Epson settlements ...

(continued from page 1)

became the sixth firm to settle with Epson. Nectron agreed to settle both the ITC matter and the complaint before the Portland court.

While the announcement marks an important milestone in what has become one of the industry's most talked about lawsuits, the legal battle is far from over (see table to the right for more on the status of various cases). Despite Epson's initial victories, some companies say that they will contest the complaints filed with both the ITC and the U.S. district court. Furthermore, some firms that have reached agreements with the ITC may contest the pending district court cases. These defendants have agreed to conditions set forth in ITC-issued consent orders, which require them to stop importing offending products and follow other stipulations such as cooperating with the ITC as it completes its investigation. It is unclear, however, how these defendants will proceed in U.S. district court.

For those that have not settled or defaulted, the ITC judge will hear the matter next month. The case before the U.S. district court is stayed until the ITC matter is resolved. A few major aftermarket industry players such as Dataproducts and Ninestar Imaging have not settled and are preparing to go to court. The stage is set for some courtroom action in the year ahead, and the stakes are high for various participants in the digital imaging supplies industry (see "Request for an Exclusion Order" on page 1 for details).

According to Epson, its legal actions have already proven successful in that they have limited distribution of infringing products sold under some of North America's best-recognized aftermarket brand names, including Amazon Imaging, Basix, InkTec, Rhinotek, and Staples. Alf Anderson, Epson general counsel, says that while not all parties have settled, the early results are good. "We have a number of firms that agree to the validity of our patents and that [their] product infringes. Many have agreed to cease and desist importation, and some have agreed to [ITC] consent orders." Other companies have defaulted in the ITC complaint and are no longer eligible to contest those allegations. Anderson

Defendant Status in Epson Lawsuits as of December 2006

Manufacturer	Brand	ITC Status	U.S. District Court Status
Artech	Staples	Settled	Settled
Butterfly Print Image Corp.	Butterfly	Defaulted	Suit pending
Ink Lab (Hong Kong)	Extra Print	Settled	Settled
Ink Tec Co.	Ink Tec	Settled	Settled
Master Ink Co.	Dataproducts, Acujet	Agreed to consent orders	Suit pending
Mipo International	Mipo	Defaulted	Suit pending
Nine Star Image Co.	G&G, OA100	Expected to contest	Expected to contest
Ribbon Tree (Macao) Trading Co.	Niko, Color Jet	Defaulted	Suit pending
Tully Imaging Supplies	Generic products	Defaulted	Suit pending
Wellink Trading Co.	Niko, Color Jet	Defaulted	Suit pending
Zhuhai Gree Magneto-Electric Co.	MCC	Expected to contest	Expected to contest
Distributor	Manufacturer/Brand	ITC Status	U.S. District Court Status
Acujet U.S.A.	Acujet	Defaulted	Suit pending
Apex Distribution	Niko, Color Jet	Agreed to consent orders	Suit pending
Dataproducts	Dataproducts	Expected to contest	Expected to contest
Glory South Software Manufacturing	Butterfly	Defaulted	Suit pending
Ink Tec America	Ink Tec	Settled	Settled
Inkjetwarehouse.com	Tully	Settled	Settled
Mipo America	Mipo	Defaulted	Suit pending
MMC Consumables	MCC	Expected to contest	Expected to contest
Nectron International	Tully, Ink Lab, Nine Star Tech	Settled	Settled
Nine Star Technology Company	G&G	Expected to contest	Expected to contest
Rhinotek Computer Products	Rhinotek	Settled	Settled
Ribbon Tree (USA) Trading Co. (Cano-Pacific Ribbons)	Niko, Color Jet	Agreed to consent orders	Suit pending
Town Sky	OA100	Expected to contest	Expected to contest

Source: Dataproducts, Epson, ITC, Ninestar, and U.S. District Court, Portland

points out that Nectron International's recent decision to settle indicates that Epson is continuing to make progress.

## Sigh of Relief

The majority of companies that settled with Epson are expressing relief that the matter is resolved. Gerald Chamales, founder and former president of Rhinotek Computer Products, which was named in the Epson complaint before Chamales sold the firm, is upbeat that the case is closed. "I am very pleased to have finally settled with Epson and believe that it was in the best interest of all concerned to complete the settlement." He calls the resolution a "win win" both for Epson and for Chamales and his former company. Albert Fontenot, Jr., Rhinotek's current president, says that Rhinotek was able to resolve the issue quickly. "They [Epson] were mostly trying to protect their [supplies] investment, and I respect that."

French third-party supplies vendor Armor and its German manufacturing sub-

sidary Artech have been wrangling with Epson over intellectual-property issues since 2005. In April of that year, Epson filed suit against Armor and some of its subsidiaries, alleging intellectual-property violations (*Journal*, 5/05). The complaint was filed in the same Portland court where Epson filed its most recent legal actions, and, when filing against Armor in February, Epson added a new list of allegations pertaining to Armor's Epson compatibles.

On November 29, 2006, Armor announced that all pending legal matters related to Epson's various complaints had been resolved, saying, "The two leading ink jet cartridge manufacturers [Armor and Artech] have settled all claims and disputes relating to Epson's allegations of patent infringement by certain Artech manufactured ink jet cartridges." The firm explained that the settlement ends Armor's and Artech's involvement in all lawsuits filed in the district court and "is expected to result in termination of Artech GmbH as a

respondent in the United States International Trade Commission investigation currently underway regarding certain Epson compatible imported ink jet cartridges.” “We are happy to have this behind us,” claims Hubert de Boisredon, general manager of the Armor Group. “Now we can focus on our strategy to be the preferred supplier of patent-free products for all of our customers.”

Walter Derungs, president of Canton, CT-based Inkjetwarehouse.com, is more ambivalent about the settlement. “It gives us some certainty,” Derungs says, but he adds that in the end the settlement is not good news. “I think we will survive but everyone is getting hurt.” Derungs laments that the lawsuits have had an adverse impact on the various firms involved and have limited the number of products available to end users. “It is the consumer that really gets hurt in all of this,” he points out.

## Protecting Its Investment

Representatives from Epson concur with the assessment of Rhinotek’s Fontenot and candidly explain that the company is now unyielding when it comes protecting its patents. Liz Leung, director of consumer supplies and corporate strategy for Epson, says, “We want to make sure we don’t get ripped off on our intellectual property.” Anderson agrees and says that taking a more aggressive stance is having an impact. “We are seeing less infringing product.”

It is not surprising to see Epson become increasingly intolerant of patent infringement. Because its ink tanks are easy to clone, the company’s consumables business has been the target of many third-party supplies vendors. Moreover, according to the recently released report *Supplying the Profits: Chasing Cash with Consumables at HP, Canon, Epson,*

*and Lexmark*, Epson depends on ink jet cartridge sales for three-quarters of its total supplies revenue (see “*IPG Helps Boost HP’s Profits*” on page 1 for more details). Until several years ago, Epson seemed rather subdued in its response to aftermarket competition. We have often commented in this newsletter that the company seemed oblivious to a growing industry that was exploiting its intellectual property and flooding the market with products that appeared to violate Epson’s patents.

Obviously, all that has changed. As market conditions have pushed hardware profits into the red, Epson and other OEMs have become reliant on their consumables business for profits. Epson has done an about-face and now guards its consumables business as closely—or perhaps more closely—than any other OEM. It has established internal teams to monitor its intellectual property in various markets and has filed complaints in courtrooms around the world.

The company is beginning to see the fruit of its efforts. Aftermarket companies appear to have new respect for intellectual property, and many have grown vocal in their promotion of noninfringing products. Epson’s lawsuits may have had a positive effect on the OEM’s bottom line, which appears to be improving thanks in part to stronger demand for its supplies.

## Not Everyone Is Happy

While we are certain that Seiko Epson shareholders are applauding the company’s legal vigor, some of Epson’s aftermarket competitors are preparing themselves for a fight. Anderson confirms that several defendants have indicated that they will contest the ITC complaint and the matter in the U.S. district court. Perhaps the two most notable contestants are Chinese heavyweight Ninestar and

the well-known U.S. aftermarket firm Dataproducts, which is owned by Clover Technologies, one of the world’s largest re-manufacturing companies.

It appears that Dataproducts is teaming up with Ninestar and Town Sky, which is based in Silicon Valley. According to a December ITC filing, the three companies are now represented by the law firm of Schulte Roth & Zabel, which appears to be a formidable foe. The litigator has offices in New York City and London and employs more than 400 lawyers. The Washington, DC-based firm of McDermott, Will & Emery represented Dataproducts in previous legal matters, and Anderson confirms that there have been some changes in Dataproducts’ legal team. “Dataproducts has tendered its defense to Ninestar,” he says, adding, “There’s a supply relationship between Ninestar and Clover.”

We contacted Ninestar to discuss the case. The firm confirmed that it plans to defend itself in both the ITC and the district court suits. However, the company representative declined to discuss the case and would say only that the ITC case is currently in the discovery stage. Similarly, Dataproducts did not wish to comment on the matter.

The ITC trial is slated to begin next month in Washington, DC, and the U.S. district court case in Portland will not go forward until the ITC matter is resolved. Anderson says that Epson seeks a general exclusion order from the ITC barring all imports of infringing cartridges by the respondents and all other importers. A finding is expected by next summer. The implications for the aftermarket, of course, are enormous (see “*Request for an Exclusion Order*” on page 1). Epson also seeks a permanent injunction and treble damages for willful infringement in the district court case. <sup>23</sup>

## Will Edgeline Finally Give HP the Edge in the Copier Wars?

HP has stated that it will launch a departmental color copier based on its new Edgeline technology in the spring of 2007. Assuming that the machine has the same color print speed (70 ppm) as the device that was demonstrated at the firm’s October 3 press conference, the new model will be competitive with the fastest of the convenience color copiers that are currently on the market. Lyra forecasts that HP will claim a 2 percent share of the

worldwide market for convenience color copiers in 2007, based on sales of approximately 7,000 units.

Lyra’s new report, **Will Edgeline Finally Give HP the Edge in the Copier Wars?** examines HP’s previous assaults on the copier market, the breakthrough LaserJet 4345mfp, new MFP models that HP announced during the October briefing, and Edgeline technology and its prospects.

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## Exclusion order ...

(continued from page 1)

restrict the importation of products from a defined source, a general exclusion order can end virtually all importation of a product regardless of its origin. "A general exclusion order directs the U.S. Customs Service to exclude all infringing articles, without regard to source," she says. For the many companies that have built a significant portion of their business on imported Epson compatibles, the fact that Epson is seeking a general exclusion order must be disquieting, to say the least.

### General Exclusion Justified

Alf Anderson, Epson general counsel, says that a general exclusion order is necessary because Epson's previous legal actions have resulted in few lasting changes in the supplies industry. "Past federal court rulings didn't provide the change in actions we would have liked to see," he claims. We suspect that the ruling to which Anderson refers is the one resulting from the lawsuit that Epson filed against Multi Union Trading Company in April 2001 (*Journal*, 5/01). Epson prevailed in that action, which led to the Hong Kong-based firm pulling most of its Print-Rite-branded Epson-compatible products from the North American market. While the suit removed the Print-Rite products, numerous other infringing Epson compatibles have surfaced since that time. Anderson suggests that past lawsuits have really had little lasting impact on limiting products that violate Epson's intellectual property.

Anderson implies that if even a high-visibility case such as the Multi Union action brought little relief, more stringent measures are needed to rectify the situation. He suggests that the aftermarket as a whole has proven it is more than willing to ignore Epson's intellectual property and that the general exclusion order is the appropriate remedy because there is no way for Epson to identify all infringing firms. "It's a way of establishing fair competition," Anderson maintains. "The general exclusion order can go beyond just those companies named in the complaint."

Edward O'Connor of the O'Connor, Christensen, and McLaughlin trial division of the Eclipse Group, an intellectual-property law firm, feels that the general exclusion order is overkill. According to O'Connor,

under a general exclusion order, aftermarket manufacturers will have the burden of proving that their products do not infringe before their products can be imported and sold in the United States. "It's just too broad to be fair," O'Connor insists. "It has to be more strictly defined to make it reasonable." He believes that the onus of proving a product infringes should rightly be placed on the intellectual-property holder.

O'Laughlin says that the evidentiary hearing in Epson's ITC complaint is scheduled to begin in mid-January. "The target date for the judge's ID [initial determination] in this case is March 23, 2007, and the target date for final Commission action is June 25, 2007," she adds. O'Laughlin explains that once the so-called ID has been rendered, it is usually reviewed by ITC commissioners, who may or may not modify the determination. "If the Commission chooses not to review the ID, then it becomes the Commission's determination." ITC determinations may be appealed to the court of appeals for the federal circuit, she adds.

### Early Effects

Even without the general exclusion order, Epson has succeeded in limiting the number of infringing Epson compatibles available in the U.S. market. The OEM has settled several pending suits with some of the larger third-party firms in the region, which have admitted to violating Epson patents (*see "Some Settle Suit with Epson" on page 1*). While the terms of the settlements do not require the aftermarket supplies vendors to discon-

tinue sales immediately, these companies have agreed to stop selling their current portfolios of Epson compatibles after existing inventories are exhausted because these SKUs breach the OEM's patents. Some of these firms told us that they remain interested in marketing noninfringing Epson compatibles, but we suspect that most of the companies that settled with Epson will not sell compatibles for the OEM's printers in the short term.

By successfully protecting its intellectual property, Epson has also affected one of North America's largest distribution channels for aftermarket supplies. French third-party supplies vendor Armor and its German manufacturing subsidiary Artech, have settled with Epson, denying Staples its long-established source for Staples-branded compatible Epson products in the United States. We wonder what the future holds for Staples as an aftermarket supplies vendor. The rumor persists that Staples and HP have reached a deal that will result in the office superstore eliminating its Staples-branded remanufactured cartridges for HP printers (*Journal*, 10/06). Although Armor General Manager Hubert de Boisredon contends that his firm will continue to supply Staples with Canon compatibles, we wonder how viable the office superstore's branded ink line can be without HP or Epson SKUs. Staples declined to discuss the settlement or its aftermarket supplies business with us.

Of course, not all makers of Epson compatibles are exiting the market because of the OEM's lawsuits. Along with firms such as Ninestar and Dataproducts, which appear to be contesting the suits, a number of other third-party vendors market Epson compatibles, and we suspect they are doing a thriving business.

You can be confident that other OEMs have taken note of Epson's initial string of successes. One third-party ink cartridge vendor told us that OEMs will now feel emboldened to become more litigious. A new round of OEM lawsuits is not a sure bet but not a risky one, either. Printer makers have learned how to protect their patents and are now more likely to turn to the courts to find relief from violators. Third-party supplies vendors should see Epson's lawsuits as a wake-up call that OEMs will aggressively defend their intellectual property, so, from this time forward, patents matter. And they matter a lot. ☞

### New Products

The following firms recently introduced new marking products:

- Canon
- Dell
- Kodak
- Lexmark
- Media Sciences
- Oki
- Sony

For more information on these products, visit *The Hard Copy Supplies Journal* on the Web at [www.hardcopiesuppliesjournal.com](http://www.hardcopiesuppliesjournal.com).

## Armor to Launch Chipped Solution for Canon's Troublesome CLI-8 Tanks

In December, Armor announced that it will soon begin marketing a kit with consumables for use in the Canon PIXMA iP4200 (*Journal*, 7/05), the Canon PIXMA MP500 (*Journal*, 9/05), and other Canon devices that employ CLI-8 and PGI-5 ink tanks. The kit features a unique adapter that is installed in a Canon ink jet and allows the Armor tanks to be fully operational without any user intervention. Third-party supplies vendors have not been able to market fully functional equivalent cartridges for Canon's latest printers because the chips for the CLI-8 and PGI-5 have proven to be difficult to reverse-engineer. The task has proven so daunting, in fact, that we are not aware of any company that currently sells chips for the CLI-8 and PGI-5, even though the tanks have been on the market for a year and a half.

Hubert De Boisredon, general manager of Armor Group, credits the firm's research and development (R&D) team for allowing Armor to bring the new kits to market. "We have over 20 people on our R&D staff, so the more complicated the OEMs make supplies, the better it is for us. We have a competitive advantage thanks to our strong R&D [resources]." The firm claims that its chemists, engineers, physicists, and other R&D personnel are overseen by a patent attorney who is "involved in each development stage."

Other third-party solutions currently on the market require end users to remove chips from spent CLI-8 and PGI-5 tanks and reapply them to the aftermarket tanks before they can be used. The new kits from the Nantes, France-based firm do not. According to Sophie Lansac, marketing director for Armor's office printing unit, the secret is in the so-called intelligent adapter that is inserted into a printer to house the aftermarket tanks. "Only the Armor compatible cartridge solution can be used once the adaptor is in place," Lansac points out. The adapter features a single chip collected from OEM CLI-8 and PGI-5 ink tanks and circuitry designed by Armor to allow its tanks to communicate with the printer via the OEM chip. She



*Armor's CLI-8 solution is based on a tank carrier that features a recycled OEM chip and technology that allows the tanks to communicate with the printer. Once the tank carrier is installed only Armor aftermarket cartridges can be used.*

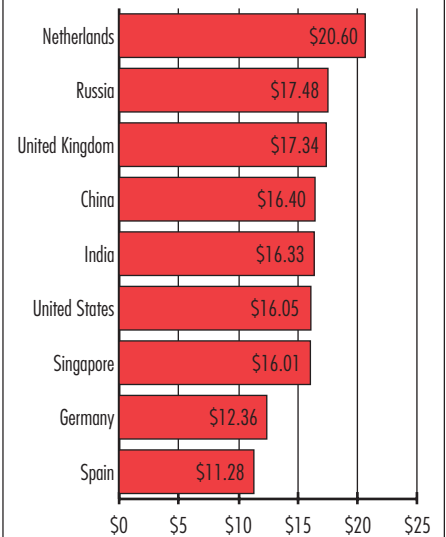
explains, "Because the adapter is fully equipped already with the [OEM] chip, after ... [it] has been placed in the printer, the consumer just needs to click in his or her Armor compatible cartridges. No mess!"

The kits ship with separate pigment- and dye-based black ink tanks and two sets of tanks with cyan, magenta, and yellow dye-based inks. Lansac says that Armor will market replacement tanks for use in the adapters after the initial set of tanks is exhausted. The replacement SKUs include separate 16 ml black, cyan, magenta, and yellow tanks and a 29 ml tank to be used as a replacement for the black pigmented ink tank.

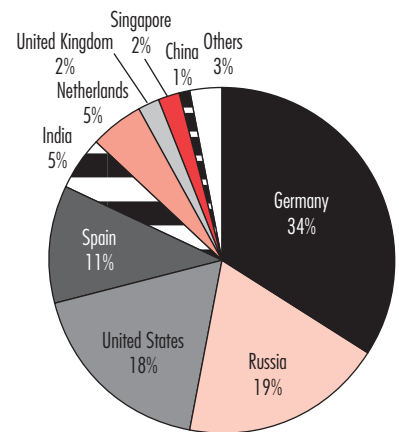
The new kit is expected to be available in the first quarter of next year at a price of €42 (\$55.72). Lansac claims that the starter package sells for 25 percent less than a package of five OEM tanks and represents a savings of 50 percent on the OEM tanks on a per-unit basis. The individual replacement tanks will sell for €7.5 (\$9.95) apiece, and the company is considering offering a package with a complete set of five tanks at a price of €32 (\$42.45) at some future date. The Armor alternative products to Canon's latest ink tanks will be available at retailers across Europe. ☞

### Aftermarket Monitor

Average Empty HP C4096A Price by Country



Empty HP C4096A Volume of Trade by Country



Source: Empties.com

For more information, contact Mark Ansier at 512-339-8213.

## Conference Agenda

### Overview of the Lyra Imaging Symposium

Charles LeCompte, President, Lyra Research

### Overview of the Desktop Printer Market

Larry Jamieson, Director of the *Hard Copy Industry Advisory Service*

### Overview of the Supplies Market

Grey Held, Director of the *Hard Copy Supplies Advisory Service*

### Overview of Office Printing: Will Edgeline Take Over?

Larry Jamieson and Charles LeCompte

### Balancing Forecasts with Real-World Print Data

Grey Held

### Where's the Print? Photo Printing at Home versus Online versus Retail

Charles LeCompte

### Going Wide: Hot Trends Driving the Wide- and Superwide-Format Market

Grey Held

### Overview of the China Market: Is China Becoming the New Japan?

Larry Jamieson and Charles LeCompte

*Lyra Research and JDS Company Ltd. present*

# The 2007 Lyra Imaging Conference

**Tuesday, February 20, 2007**

**Kalun Club**

**Tokyo, Japan**

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