

Storage Technology Files for Chapter 11 Protection; Move Underscores IBM's Dominance in the Market

Troubled Colorado Firm Says 3rd-Period Operating Loss Is More Than \$60 Million

By KAREN BLUMENTHAL

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Storage Technology Corp., which two years ago was the nation's 10th largest computer-equipment company, said it filed for protection under federal bankruptcy laws.

The Louisville, Colo.-based maker of tape drives and disk drives for large computers said it expects to report an operating loss of more than \$60 million for the third quarter, triple the deficit it had anticipated. The company said it also might write off some of its assets, which it valued at about \$1 billion Aug. 31.

Storage Technology acknowledged that it has been feeling pressure from some creditors. The company is in technical default on its \$125 million credit line and hasn't been able to reach a new agreement with its 10-member bank group. Moreover, the company has reported losses for five consecutive quarters and increasingly has been strapped for cash as it sought to increase production of a new disk drive and finish development of storage devices using laser technology.

According to the Chapter 11 filing, the company had about \$694.5 million in liabilities at Aug. 31, of which only \$15.7 million represented secured debt.

The company's filing for court protection from creditors is the latest surprise in a 15-year history that has included spectacular growth and a recent sharp slide. Storage Technology's stock fell yesterday to \$2.625, off \$1.375 in composite New York Stock Exchange trading. In late 1981, it traded at a high of \$40.375 a share.

Founder Jesse I. Aweida, who started the company in 1969 to take on International Business Machines Corp., boldly built Storage Technology into a major player, with more than \$1 billion in revenue in 1982. But in the past two years, technological blunders, combined with increasing competition from IBM and Mr. Aweida's ambitious expansion efforts, have cost the company its market share and created huge losses, including a \$21.5 million deficit for the first six months of this year.



Jesse I. Aweida

In January, the company discontinued a \$75 million effort to build a mainframe computer, which cost it \$31.5 million in last year's fourth quarter. The company also is a few months behind schedule on a \$40 million program to build a storage device using lasers to read and write data. The initial money for that project was raised from a limited partnership, but the company must fund the remainder of the effort.

Storage Technology plans to continue making its tape drives and disk drives while under Chapter 11. But it almost certainly will emerge from bankruptcy proceedings either as a much smaller and more narrowly focused company. Or, some analysts say, it could be acquired and become a division of another company.

"It won't be anything resembling the current form of the company," said Stephen T. McClellan, a Salomon Brothers analyst.

A company spokesman said Storage Technology will consider selling off some of its assets as part of its restructuring, but said a decision on which ones hasn't been reached. The company also said it currently

is negotiating a "significant capital commitment" to fund its operations while it reorganizes. The spokesman wouldn't elaborate on whether the funds would come from another company or a bank.

The bankruptcy filing didn't break down the company's assets and liabilities. But at the end of the second quarter, inventories and plants and equipment made up more than half its assets. The company had long-term debt of \$265.4 million, short-term debt of about \$102.9 million and accounts payable of \$184 million.

The three holders of the secured debt weren't identified in the filing. But among the unsecured creditors are Citibank, a unit of Citicorp, which is owed \$38 million; Chase Manhattan Bank of New York, a unit of Chase Manhattan Corp., which is owed \$22.8 million; Comerica Bank-Detroit, a unit of Comerica Inc., \$20.2 million; First National Bank of Chicago, a unit of First Chicago Corp., \$15.8 million; and Continental Illinois National Bank & Trust Co. of Chicago, a unit of Continental Illinois Corp., \$6.1 million.

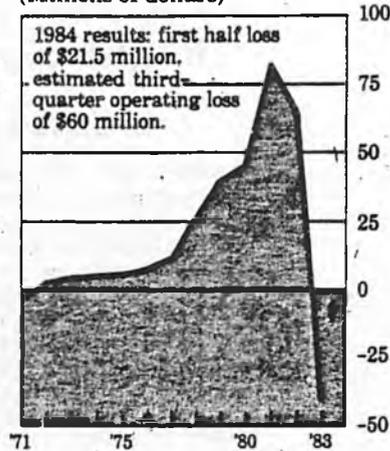
Business and Finance

STORAGE TECHNOLOGY filed for Chapter 11 protection. The computer-equipment firm also expects to post an operating loss of more than \$60 million for the third quarter, and may write off some assets, which it had valued at about \$1 billion.

The bankruptcy-law filing illustrates the problems of many competitors of IBM, which has a tight grip on the computer and accessory market.

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Storage Technology Net (Millions of dollars)



Industry analysts and sources close to the company suggest that what Storage Technology needs most right away is an infusion of cash, as well as some new management. At the end of the second quarter, the company had about \$4.1 million in cash. A recent agreement to sell its semiconductor operations to Plessey Co. of Britain for an estimated \$12 million, fell through last week.

To bring in more cash, Storage Technology probably will have to sell its printer division, which had about \$99 million in sales last year, because that unit is the farthest removed from its data storage business.

The company also has been looking for a new president for several months to succeed Naim Aweida, Jesse Aweida's brother. Analysts say Jesse Aweida hasn't been as active as necessary in day-to-day operations and that his brother, while an excellent negotiator, hasn't proven to be a good manager.

Sources say, however, that Storage Technology has chosen the head of a data processing unit of a large company as its new president, but it hasn't announced the appointment.

The company spokesman said Storage Technology's third-quarter results were so much worse than originally expected because some of the sales it was counting on didn't materialize. As previously reported, Storage Technology has been badly stung by IBM's recent price cuts on its newest disk drive system.

In reaction to Storage Technology's Chapter 11 filing, the New York Stock Exchange said it would review the company's common stock, its 11% notes due May 1, 1993, and its 9% convertible debentures due 2001 for possible delisting.

WST 11/1/84