

# Xerox to Stop Making, Selling Basic Computers

## Acquisition Called 'Mistake'; \$84.4 Million Is Charged Against Quarter's Profit

By a WALL STREET JOURNAL Staff Reporter

NEW YORK — Conceding that its \$910 million acquisition of Scientific Data Systems Inc. in 1969 was "a mistake," Xerox Corp. decided to withdraw from the basic computer business.

The big copier maker said it took an \$84.4 million charge against second quarter profit to cover the estimated net loss from discontinuing the manufacture and marketing of computers over the next 12 to 18 months. That provision cut second quarter net income to \$4.2 million, or five cents a share, compared with the year-earlier \$87.5 million, or \$1.10 a share.

The special charge included the estimated operating loss that Xerox expects from computer operations in this year's second half. However, at an unusual news conference, C. Peter McColough, chairman, said that eliminating the computer operating losses won't be enough to prevent net income in the third and fourth quarters from slipping from the like 1974 periods.

Xerox called the late-afternoon news conference to announce its withdrawal from the basic computer business and to report second quarter results.

### Sees "Modest Decline" for Year

In a news release, Xerox said it expects profit from continuing operations, principally copiers and duplicators, in all of 1975 to show "a modest decline" from 1974's record net income of \$331.1 million, or \$4.18 a share.

At the news conference, Mr. McColough, who also is chief executive officer, noted that this was a more pessimistic appraisal of the company's outlook than the one he gave at the annual meeting May 15. Then, he looked for declines in profit in the third or fourth quarters, or both, and said that Xerox "probably will be able to show little, if any, profit growth over 1974."

Yesterday, Mr. McColough cited worldwide inflation and recession for his revised outlook. Other constraints on Xerox profits included higher interest costs to finance investments in rental equipment, inventories and plant and associated equipment. Orders for copiers and duplicators in the U.S. are "very much softer" than expected, Mr. McColough said, while order rates abroad, although "soft," are comparatively good.

Xerox invited reporters at midafternoon to the news conference scheduled for 4 p.m. EDT, when trading closes on the New York Stock Exchange. However, the company's stock was actively traded during the day. It was the fifth most active issue, closing at \$65 a share, down \$2.125 from Friday, on volume of 135,000 shares.

### Only 2% of Total Revenue

Despite the \$910 million that Xerox issued in common stock—9,989,091 shares valued then at about \$91 each—for Scientific Data Systems, the burden of the computer business was relatively light. Basic computer revenue was only about 2% of Xerox's total revenue of \$3.58 billion in 1974. And the continuing operating losses that began in 1970 didn't prevent Xerox from showing an average annual increase in profit of 16% in the past six years.

The closing or sale, if possible, of Xerox's computer operations won't have anywhere near as great an impact on the computer industry as did the withdrawal of General Electric Co. in 1970 and of RCA Corp. in 1971. RCA, for example, set up a \$250 million net reserve to cover its costs.

Whether Xerox's action will become a factor in the Justice Department's monopoly suit against International Business Machines Corp. remains to be seen. Asked if he would testify that IBM's competitive practices were a factor in Xerox's decision, Mr. McColough neatly evaded a direct answer: "This was a purely business decision," he said. "I haven't looked at any legal aspects of it."

### Directors Acted Yesterday

The decision, which was "recommended unanimously" by Xerox's management and approved "unanimously" by its directors yesterday, stemmed simply from the issue of "profitability," Mr. McColough said. Xerox wanted and has acquired some basic data-processing capabilities, he said, and it will continue in certain areas of the computer business.

Its Diablo subsidiary will continue to make disk data-storage equipment, computer printers and terminals; Xerox's computer service centers will be maintained, and the company will continue to make a xerographic printer that operates on principles similar to those of its plain-paper copiers. These operations employ 2,400 to 2,500 persons.

Affected by yesterday's decision is the so-called "main-frame" business, the marketing of central processors, other basic hardware and programming for computer systems. Xerox employs about 2,700 persons at manufacturing and headquarters facilities in El Segundo, Calif., for that business and has an additional 1,400 in offices around the U.S. and 425 abroad. Some of those employees will find jobs in other Xerox operations, but Mr. McColough said most will have to be laid off.

He estimated that the operation has about 100 orders on hand, or enough work to keep going through 1976, unless orders are canceled.

Xerox has about 1,700 computers installed in the U.S. and about 400 abroad, Mr. McColough disclosed, and it will continue to maintain the equipment for rental customers for "at least seven years."

Xerox hasn't approached any potential buyers for its computer business, Mr. Mc-

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Colough said, but it will make the effort. However, he added, he isn't "overly optimistic" that a sale will be made, primarily because Xerox wants to be absolutely sure that its customers "would be well looked after."

GE sold its computer business to Honeywell Inc., and RCA sold its to Sperry Rand Corp.

Xerox may use small processors in future copying and communications equipment, Mr. McColough said, and it will be able either to make them or to buy them from other manufacturers. The company has decided it isn't desirable any longer to be able to make "stand-alone" computers.

Scientific Data Systems was a relatively small but profitable concern with a good reputation for scientific processors when Xerox acquired it. It had about 1% of the computer market. Over the years, though, its share shrank, Mr. McColough said, and Xerox consciously refrained from gambling large investments on the possibility of making the business bigger.

"With hindsight—always a great advantage—I can say that I wouldn't have acquired it at that price in 1969," Mr. McColough told the news conference. He said that the operation could have reached the break-even point by about 1980, but that Xerox would have had to invest \$150 million to \$200 million in developing a new computer line to introduce then.

Xerox has been investing relatively small sums of \$15 million to \$20 million a year in computer development, Mr. McColough said.

Mr. McColough said Xerox expected computer operations to show a loss of about \$44 million for all 1975. They had a net loss of \$13 million in the first half, compared with a net loss of \$8.8 million a year before. The company had been evaluating the possibility of making a profit in the business for some time, the executive said.

Without the special computer charge, Xerox's second quarter net income would have risen slightly to \$88.5 million, or \$1.12 a share, from the year-earlier \$87.5 million, or \$1.10 a share. The company also reported that second quarter earnings from continuing operations rose 6%, to \$96.1 million from \$90.7 million, the year before. Revenue from continuing operations alone jumped nearly 19%, to \$1.02 billion from \$864.6 million.

Xerox hadn't shown a year-to-year decline in quarterly profit since the second quarter of 1958. It hasn't reported a drop in full-year profit since 1951.

In the first half, reflecting the computer charge, net income dropped nearly 48% to \$86.7 million, or \$1.09 a share, from the year-earlier \$165.8 million, or \$2.09 a share. Revenue from continuing operations rose more than 19%, to \$1.97 billion from \$1.65 billion. Earnings from continuing operations, the company said, rose more than 5%, to \$184 million from \$174.5 million. Xerox previously reported a 5% increase in first quarter net, which included results of the computer operations.

The company said favorable changes in currency-exchange rates added four cents a share to profit in the second quarter and six cents in the first half.

The volume of copies made on Xerox machines "continued strong" in the quarter, the company said, and foreign business showed good revenue gains.

Having decided to eliminate the computer operation, Xerox's directors also voted to continue the quarterly common stock dividend at 25 cents a share, declaring a payment Oct. 1 to stock of record Sept. 5.