

A SQUEEZE AT STORAGE TECHNOLOGY

By ANDREW POLLACK

The Storage Technology Corporation, a leading manufacturer of large computer data storage devices, said yesterday that it expects to report a loss of more than \$20 million for the third quarter, thus violating the company's loan agreements with its banks.

Analysts said that if the banks call for repayment of their loans, it could conceivably force the formerly high-flying company into bankruptcy.

Storage Technology, which is based in Louisville, Colo., said it was trying to negotiate new agreements with the banks. It also said it was immediately laying off 1,500 nonproduction employees, about 10 percent of its total.

One of the company's directors, who asked not to be identified, said he was hopeful the cost-cutting measures would persuade the banks to extend the company's credit.

A Time for Prompt Action

"I don't think it's a dire situation at all," he said. "But we felt that certain actions should be taken promptly rather than assume things would get better without taking any actions."

Analysts said the banks are not likely to force Storage Technology into bankruptcy. Nevertheless, they said, the company is unlikely to regain its past strength, when it had revenues of more than \$1 billion a year and was a major challenger to I.B.M. in the market for computer data storage devices.

"It's going to be a smaller and vastly restructured company," said Stephen McClellan, computer industry analyst at Salomon Brothers.

Ulric Weil of Morgan Stanley & Company agreed. "Fallen angels in the high-technology sector rarely recover their former heights," he said.

The Company's Projection

Storage Technology, which earlier this year had predicted a profit for the fourth quarter, said yesterday that it would probably lose money in that quarter as well, but it predicted an improvement in 1985. Its stock was the most actively traded issue on the New York Stock Exchange yesterday, losing one-third of its value to close at \$6.75, down \$3.75.

The fall of Storage Technology reflects problems all companies are facing in the market for high-capacity disk drives for mainframe computers made by the International Business Machines Corporation. The companies have had extreme difficulty perfecting the intricate technology required amid severe price competition from I.B.M., the leader.

The Control Data Corporation withdrew from the business last month after experiencing production problems. Memorex, a unit of the Burroughs Corporation, has also experienced production problems but has said it will stay in the business.

Product Entry Was Late

Storage Technology was late in getting its newest disk drive, the 8380, to market. While the company is expected to ship several thousand units this year, the volume is not high enough to make the line profitable in the face of recent price cuts by I.B.M.

"Although we are shipping our new products in large volume, competitive conditions and price-cutting in our industry have eroded margins to the point where we must significantly reduce our overhead and product costs," Jesse I. Aweida, Storage Technology's chairman and chief executive officer, said in a statement.

"The message here is that I.B.M. compatibility at the high end is becoming a treacherous business," Mr. Weil of Morgan Stanley said.

One condition of the bank agreements was that Storage Technology become profitable in the third quarter. Gordon L. Swartzfager, a spokesman for the company, said it has been meeting with the banks since the weekend to try to get them to waive this condition.

Trying to Convince Banks

The director of the company said it does not need any more money because of the personnel cuts and other changes it is making. However, he said, the company is in technical default on its credit agreements and must persuade the banks not to call in the loans. The banks, led by Citibank, also include Chase Manhattan, Bank of America and Security Pacific as well as some foreign banks, according to company officials.

In addition to the layoffs, Storage Technology is said to be cutting officers' salaries by 10 percent and is suspending certain projects that do not have a speedy payoff.

Analysts speculated that the banks would require management changes, but the director and other knowledgeable people said that Mr. Aweida's job as chairman and chief executive officer seems to be safe for now.

Picking Operating Officer

But the company is recruiting a president and chief operating officer to oversee day-to-day operations. According to one source who is close to the situation, a person has already been chosen and will be announced in November. The presidency is now held by Naim S. Aweida, the chairman's brother.

Storage Technology once seemed destined to become a great success story. Founded in 1969 by Mr. Aweida, a former product manager at I.B.M., the company began to challenge I.B.M. in the market for tape storage devices and later disk storage devices used to store data on mainframe computers made by I.B.M.

Storage Technology's profits grew faster than 40 percent a year for more than 10 years, and its revenues topped \$1 billion in 1982.

Problems With Disk Drive

That year, however, problems arose. Difficulties with a new disk drive damaged the company's reputation and hurt its earnings.

Last January the company gave up a costly effort to develop an innovative mainframe computer after the project had suffered from numerous delays. The company reported a 1983 loss of \$40.9 million, mainly a result of ditching the computer project, while revenues were \$560.3 million.

The company's key product now is the 8380 disk drive, which competes with I.B.M.'s 3380 disk drive. Each of these stores 2.5 billion characters of information, or the equivalent of about a million typewritten pages.

The technology is so difficult to master that I.B.M. itself was a year late in introducing its drive.

Thin-Film Technology Used

The devices use a semiconductor technique known as thin-film technology to make the tiny heads that read and write magnetic information on the disks. Because so much information is crammed onto the disk, each bit of data is allotted only a tiny space. To distinguish one bit from another, the head hovers only 12-millionths of a meter - less than the thickness of a human hair - above the whirring disk. A particle of dust on the surface of a disk looms like a mountain and is enough to cause the head to "crash."

Storage Technology, like the others, was late with its product and did not begin shipments until late last year. Thomas J. Crotty, an analyst with the Gartner Group, said "users are taking a wait-and-see attitude" about Storage Technology's products because of past quality problems. This has forced the company to discount below I.B.M.'s prices.