

Digital Disbands Group, Sidelines Three Officials

Move Suggests Air of Crisis As Concern Reorganizes Second Time This Year

By JOHN R. WILKE

Staff Reporter of THE WALL STREET JOURNAL
 Digital Equipment Corp. sidelined three senior executives in the besieged computer maker's second sweeping reorganization in as many months.

The surprise move underscored an air of crisis at the nation's second largest computer maker, based in Maynard, Mass., and set the stage for a new round of layoffs as it scrambles to stanch further losses.

Digital said it would disband a newly created engineering group and distribute its tasks to marketing units, stripping chief engineer William D. Strecker of his duties. While Mr. Strecker remains a vice president, he appears to have lost the influence he wielded as a member of Digital's core executive committee and a key architect of the VAX computers that fueled wild growth in the 1980s.

Mr. Strecker, 47 years old, "has been part of the backbone of Digital's culture for two decades," said Marc Schulman of UBS Securities Inc.

Also derailed in the move were F. Grant Saviers, who headed personal computer and peripherals operations, and Domenic LaCava, who built computer systems based on Unix operating software.

A spokesman portrayed the reorganization as an effort to bring product engineering closer to customers. But to some, it suggested disarray. "It's incredible," said Jay P. Stevens, an analyst with Dean Witter Reynolds Inc. "They had just created this organization in February" and given Mr. Strecker significant new responsibility.

But Digital was stunned by an unexpectedly deep third-quarter loss of \$294.1 million, as revenue fell 7.6%, to \$3.25 billion for the period ended March 28. When the loss was disclosed April 9, executives hinted at sweeping new measures to restore profitability.

A senior Digital manager said president

and founder Kenneth H. Olsen "feels we haven't gotten the revenue growth we should have from the \$1.6 billion a year we've been spending lately on product engineering." Mr. Olsen had earlier told managers he thought \$400 million could be squeezed from engineering and research costs.

Some analysts said the moves may mean Digital is getting serious about dumping strategies that haven't worked in today's intensely competitive market. But others have lost patience with the slow pace of change and Digital's reluctance to carry out tough actions they say are needed. "Please tell us what you want to be when you grow up," asks analyst Shao F. Wang of Smith Barney, Harris Upham & Co.

Analysts expect Digital to take its third major restructuring charge in the fourth

quarter, which ends June 30, to cover the cost of additional work force reductions and plant closings. The company still had \$694 million in reserve as of March 28—representing the unused portion of a \$1.1 billion charge taken in last year's fourth quarter—but now says it may need even more for the coming year.

Digital has said dismissals will resume May 1 after it assesses results of an existing early-retirement program. Digital employed 116,000 people as of March 28, down from a peak of 126,000 in 1989.

Mr. Stevens of Dean Witter expects Digital to take a new charge of at least \$800 million and figures the company will try to cut its work force to about 100,000 by next December 31. "There's only so much cut

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education programs use similar techniques.

Using police makes DARE more effective than other anti-drug programs, supporters say. DARE police not only teach children about the dangers of drugs, but also befriend students on the playground and in extra-curricular activities. "The experience of seeing a uniformed police officer as a loving, caring and concerned human being has to make a tremendously positive impression on the child," says Chris Ringwalt, a DARE analyst for the

compelling evidence that DARE works, says Dr. Howard Sypher, an editor of a book detailing the research. Results showed that usage of marijuana, alcohol and tobacco among DARE graduates was about the same as other students.

No one knows exactly how many DARE students tip police to drug use by parents. Police don't compile national statistics and often aren't willing to volunteer information on cases. Moreover, parents who are charged usually want to avoid publicity. But calls to a number of police depart-

and related paraphernalia. Her daughter, a DARE student, had tipped police. Mrs. Brummell lost her job. "The wounds won't disappear like that," says Stephen Brummell, the girl's stepfather, who also was charged. "It will take time to heal."

In another case, a professor at a small college in Iowa was arrested for possession of marijuana by police who were tipped by his DARE-tutored stepdaughter. The professor, who asks that he not be named, says he had to leave the state to find work after his arrest. "As a result of this act of turning us in to the police," the professor told a judge, "an emotional door was closed [in the family] and she felt virtually alienated from her mother and has gone to live with her father."

The Grendell Case

For the Grendell family here in Searsport, the role of DARE in Crystal becoming an informant against her parents is not just a matter of private anguish, but public debate. A Maine House subcommittee recently heard testimony on the case as part of a broader inquiry into drug enforcement activities. Here in this working-class town 110 miles north of Portland, the incident has been a topic of spirited discussion, with opinion split over whether police acted properly.

In a column in a local newspaper, eight residents were asked recently, "Should children be encouraged to report their parents for growing marijuana?" Lauretta Seay agreed: "If the children are affected by it, yes, they should turn them in." But two others had mixed feelings and five people disagreed. "It reminds me of the former Soviet Union when people who weren't good communists were at risk of being turned in by their child," says Roxanne Morse, a high school teacher in Searsport.

Searsport school officials continue to support DARE, but won't discuss it. "As far as we're concerned," says Douglas Lockwood, the elementary school principal, "DARE is an extra-curricular activity that received school board approval. I don't think it's something for us to get involved in."

School board directors haven't discussed the Grendell case. But the issue may come up at the program's annual review in July, says Donald Shaw, a director. "Sure, cops want convictions, but at what price?" wonders Mr. Shaw, a former Searsport police officer.

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ting you can do at once without disrupting operations," he said.

Digital also may elect to take a separate charge to conform with new accounting regulations for post-retirement health care costs, a move many large companies have been forced to take in recent months.

Barry F. Willman, an analyst with Sanford C. Bernstein & Co., estimates the added charge for post-retirement health care could total another \$750 million, prior to any applicable tax benefits.

In the engineering reorganization disclosed Friday, two little-known executives gained significant new responsibilities. Frank McCabe, who headed a marketing unit responsible for large computer systems, will oversee most VAX engineering. And Charles F. Christ, who ran the departmental and small to mid-sized systems unit, has added personal computer and peripheral engineering to his portfolio.

Two additional senior executives, manufacturing chief Robert Palmer and software chief David Stone, also take on parts of Mr. Strecker's realm.

A spokesman said that Messrs. Strecker, Saviers and LaCava would likely find new positions in the company. But it wasn't clear what roles they might play and they couldn't be reached for comment.

Mr. Willman of Sanford Bernstein said Mr. Strecker's apparent demotion was a surprise because he had been so influential and recently had a lead role shaping a close relationship with Microsoft Corp., a Redmond, Wash., computer software maker.

Next Monday, Microsoft's chairman, William H. Gates, is expected to address a

huge Digital sales exposition in Boston to give details of the companies' emerging relationship. Mr. Gates has said he wants to make Microsoft's forthcoming Windows NT software operating system available on Digital's next-generation computer design, code-named Alpha. The alliance is expected to provide a strategic advantage to Digital as the first Alpha products become available late this year.

The reorganization apparently shifts this relationship — and most other operating-system software — to Mr. Stone's purview. The change is a welcome one, says Mr. Schulman, the UBS analyst, because it recognizes software's rising strategic importance to Digital.

"Software now drives corporate strategy, instead of hardware and software being equal," Mr. Schulman said. That's a direct result of listening to customers, rather than letting engineering dictate decisions. In that light, he said, "these moves make good sense."

Terry Shannon, a consultant in Ashland, Mass., said he was surprised by the changes, because he didn't think Mr. Strecker could be held responsible for Digital's recent calamitous results. "He was in the wrong place at the wrong time," Mr. Shannon said.

Separately, a Digital insider said Senior Vice President Winston R. Hindle has taken on the duties of acting chief financial officer. Others said efforts to find a successor to James M. Osterhoff, who resigned last year, have begun to focus on outside candidates at the insistence of the board of directors. Earlier, analysts predicted that Digital's corporate controller, Bruce J. Ryan, would be named.

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