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FEB 15 1990

SAM FULLER

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f: DEC
fin. info.

TO: Sam Fuller

DATE: February 14, 1990
FROM: Gail S. Mann
DEPT: Law
EXT: 223-2206
LOC/MAILSTOP: MS0/M6

SUBJECT: Digital Equipment Corporation's Quarterly Report on Form 10-Q

Enclosed for your information is a copy of Digital Equipment Corporation's Quarterly Report on Form 10-Q for the fiscal quarter ended December 30, 1989.

/sel
Attachment - Form 10-Q

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
for the quarterly period ended December 30, 1989

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-5296

Digital Equipment Corporation
(Exact name of registrant as specified in its charter)

Massachusetts	04-2226590
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
146 Main Street, Maynard, Massachusetts	01754
(Address of principal executive offices)	(Zip Code)

(508) 493-5111
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES X NO.

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Number of shares of Common Stock, par value $1, outstanding as of December 30, 1989: 121,860,658

DIGITAL EQUIPMENT CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands except per share data)

	Three Months Ended	
	December 30, 1989	December 31, 1988
REVENUES		
Product sales	$ 2,006,793	$ 2,045,166
Service and other revenues	1,178,002	1,134,340
TOTAL OPERATING REVENUES	3,184,795	3,179,506
COSTS AND EXPENSES		
Cost of product sales	935,025	869,205
Service expense and cost of other revenues ...	724,461	686,966
Research and engineering expenses	391,877	376,405
Selling, general and administrative expenses..	961,304	891,024
Operating income	172,128	355,906
Interest expense	10,703	12,085
Interest income	32,721	29,853
INCOME BEFORE INCOME TAXES	194,146	373,674
PROVISION FOR INCOME TAXES...................	38,744	94,095
NET INCOME..................................	$ 155,402	$ 279,579
NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE(1)................................	$ 1.25	$ 2.20

(1) Net income per share is based on the weighted average number of common shares and common share equivalents outstanding during each period; 124,813,013 shares for the three months ended December 30, 1989 and 127,111,940 shares for the three months ended December 31, 1988. See page 8 of this report.

No cash dividends have been paid by the Company since its organization.

DIGITAL EQUIPMENT CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands except per share data)

	Six Months Ended	
	December 30, 1989	December 31, 1988
REVENUES		
Product sales	$ 4,001,201	$ 3,941,567
Service and other revenues	2,314,784	2,179,738
TOTAL OPERATING REVENUES	6,315,985	6,121,305
COSTS AND EXPENSES		
Cost of product sales	1,817,155	1,668,827
Service expense and cost of other revenues ...	1,454,259	1,336,634
Research and engineering expenses	796,008	740,401
Selling, general and administrative expenses..	1,900,271	1,739,283
Operating income	348,292	636,160
Interest expense	19,008	20,987
Interest income	63,261	64,493
INCOME BEFORE INCOME TAXES	392,545	679,666
PROVISION FOR INCOME TAXES....................	86,360	176,713
NET INCOME	$ 306,185	$ 502,953
NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE(1).................................	$ 2.44	$ 3.90

(1) Net income per share is based on the weighted average number of common shares and common share equivalents outstanding during each period; 125,290,571 shares for the six months ended December 30, 1989 and 129,036,762 shares for the six months ended December 31, 1988. See page 9 of this report.

No cash dividends have been paid by the Company since its organization.

DIGITAL EQUIPMENT CORPORATION

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

2B at $100/sh ⇒ 20M shares ⇒ 121M sh ⇒ 100M shares!

$16.36/share in cash

	December 30, 1989	July 1, 1989
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,980,236	$ 1,655,264
Accounts receivable, net of allowance of $73,845 and $74,345	2,997,057	2,965,408
Inventories, at lower of cost or market:		
Raw materials	396,004	360,135
Work-in-process	553,706	570,064
Finished goods	759,243	707,802
Total inventories	1,708,953	1,638,001
Prepaid expenses	310,613	255,195
Net deferred federal and foreign income tax charges	392,100	381,140
TOTAL CURRENT ASSETS	7,388,959	6,895,008
Property, plant and equipment, at cost	6,620,107	6,248,573
Less accumulated depreciation	2,889,073	2,602,677
Net property, plant and equipment	3,731,034	3,645,896
Other assets, net	134,666	126,875
TOTAL ASSETS	$ 11,254,659	$ 10,667,779

$93/share

$68 - book value

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES		
Bank loans and current portion of long-term debt..	$ 5,672	$ 29,755
Accounts payable..	603,716	553,818
Federal, foreign and state income taxes........	411,175	445,977
Salaries, wages and related items...............	493,799	300,393
Deferred revenues and customer advances........	783,040	833,831
Other current liabilities.........................	390,088	230,265
TOTAL CURRENT LIABILITIES........................	2,687,490	2,394,039
Net deferred Federal and foreign income tax credits...	103,500	102,048
Long-term debt	137,384	136,019
TOTAL LIABILITIES	$ 2,928,374	$ 2,632,106
STOCKHOLDERS' EQUITY		
Common stock, $1 par value; authorized 450,000,000 shares; issued 130,008,231 and 130,008,231 shares.........	130,008	130,008
Additional paid-in capital........................	2,489,628	2,469,711
Retained earnings......................................	6,573,352	6,366,418
Less treasury stock, at cost, 8,147,573 and 8,471,655 shares............	866,703	930,464
TOTAL STOCKHOLDERS' EQUITY........................	8,326,285	8,035,673
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY.....	$ 11,254,659	$ 10,667,779

yields book value at $68/share

DIGITAL EQUIPMENT CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

	Six Months Ended	
	December 30, 1989	December 31 1988
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income..................................	$ 306,185	$ 502,953
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization...............	365,317	307,719
Other adjustments to income.................	57,683	36,744
(Increase) in accounts receivable...........	(31,649)	(121,387)
(Increase) in inventories...................	(70,952)	(109,469)
(Increase) in prepaid expenses..............	(55,418)	(44,334)
Increase/(decrease) in accounts payable.....	49,898	(2,262)
(Decrease) in taxes.........................	(44,310)	(70,160)
Increase/(decrease) in deferred revenue & customer advances...........................	(50,791)	29,484
Increase in other liabilities...............	353,229	99,768
Total adjustments...........................	573,007	126,103
Net cash flows from operating activities....	879,192	629,056
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of plant, property and equipment..	(472,182)	(599,045)
(Increase) in other assets, net.............	(26,220)	(30,883)
Net cash flows from investing activities....	(498,402)	(629,928)
Net cash flows from operating & investing activities................................	380,790	(872)

CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of debt...............	0	7,563
Payments to retire debt.......................	(22,718)	(372)
Proceeds from issuance of treasury shares...	126,164	116,104
Purchase of treasury shares.................	(159,264)	(606,894)
Net cash flows from financing activities. ..	(55,818)	(483,599)
Net increase/(decrease) in cash and cash equivalents..........................	324,972	(484,471)
Cash and cash equivalents at the beginning of the period..............................	1,655,264	2,163,580
Cash and cash equivalents at the end of the period..............................	$ 1,980,236	$ 1,679,109

DIGITAL EQUIPMENT CORPORATION

COMPUTATION OF NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE

(Dollars in thousands except per share data)

	Three Months Ended	
	December 30, 1989	December 31, 1988
Net income applicable to common and common equivalent shares..............................	$ 155,402	$ 279,579
Weighted-average number of common shares outstanding during the period................	121,398,164	123,027,142
Common stock equivalents from application of "treasury stock" method to exercised and outstanding stock options....................	3,414,849	4,084,798
Total weighted-average number of common and common equivalent shares outstanding during the period............................	124,813,013	127,111,940
Net income per common and common equivalent share..	$ 1.25	$ 2.20

DIGITAL EQUIPMENT CORPORATION

COMPUTATION OF NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE

(Dollars in thousands except per share data)

	Six Months Ended	
	December 30, 1989	December 31, 1988
Net income applicable to common and common equivalent shares	$ 306,185	$ 502,953
Weighted-average number of common shares outstanding during the period	121,621,516	124,764,979
Common stock equivalents from application of "treasury stock" method to exercised and outstanding stock options	3,669,055	4,271,783
Total weighted-average number of common and common equivalent shares outstanding during the period	125,290,571	129,036,762
Net income per common and common equivalent share	$ 2.44	$ 3.90

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

As an aid to understanding the Company's operating results, the following tables indicate the percentage relationships of income and expense items included in the income statements for the most recent quarter and six months ended December 30, 1989 and the corresponding quarter and six months ended December 31, 1988 of the preceding fiscal year and the percentage changes in those items for such periods. Components of total costs of operating revenues are shown as percentages of their related revenues.

	Income and Expense Items as a Percentage of Total Operating Revenues			
	Three Months Ended		Six Months Ended	
Income and Expense Items	Dec. 30, 1989	Dec. 31, 1988	Dec. 30, 1989	Dec. 31, 1988
Product sales	63.0%	64.3%	63.4%	64.4%
Service and other revenues	37.0%	35.7%	36.6%	35.6%
Total operating revenues	100.0%	100.0%	100.0%	100.0%
Cost of product sales	46.6%	42.5%	45.4%	42.3%
Service expense and cost of other revenues	61.5%	60.6%	62.8%	61.3%
Total cost of operating revenues	52.1%	48.9%	51.8%	49.1%
Research and engineering expenses	12.3%	11.8%	12.6%	12.1%
Selling, general and administrative expenses	30.2%	28.0%	30.1%	28.4%
Operating income	5.4%	11.3%	5.5%	10.4%
Interest expense	.3%	.4%	.3%	.4%
Interest income	1.0%	.9%	1.0%	1.1%
Income before income taxes	6.1%	11.8%	6.2%	11.1%
Provision for income taxes	1.2%	3.0%	1.4%	2.9%
Net income	4.9%	8.8%	4.8%	8.2%

Income and Expense Items	Percentage Increases (Decreases) Three Months Ended Dec. 30, 1989 vs. Dec. 31, 1988	Six Months Ended Dec. 30, 1989 vs. Dec. 31, 1988
Product sales	(2%)	2%
Service and other revenues	4%	6%
Total operating revenues	0%	3%
Cost of product sales	8%	9%
Service expense and cost of other revenues	5%	9%
Total cost of operating revenues	7%	9%
Research and engineering expenses	4%	8%
Selling, general and administrative expenses	8%	9%
Operating income	(52%)	(45%)
Interest expense	(11%)	(9%)
Interest income	10%	(2%)
Income before income taxes	(48%)	(42%)
Provision for income taxes	(59%)	(51%)
Net income	(44%)	(39%)

REVENUES

Total operating revenues for the first six months of fiscal 1990 were $6,316 million, up 3% from the comparable period a year ago. Total operating revenues included product sales of $4,001 million, up 2% from a year ago and service and other revenues of $2,315 million, up 6%. Operating revenues from customers outside the United States were 56% of the Company total compared with 54% last year.

For the quarter ended December 30, 1989, total operating revenues were $3,185 million, essentially unchanged from the comparable period a year ago. Product sales were down 2% and service and other revenues were up 4%. Operating revenues from customers outside the United States grew slightly and were 55% of the Company total.

The slowing in the Company's growth is primarily attributable to the slow pace of business in the United States and certain of the Company's overseas markets. Revenues were also negatively impacted by the lack of high-end systems revenues as the Company prepares to ship its new VAX 9000 computer systems later this calendar year.

EXPENSES AND PROFIT MARGIN

Operating income decreased 52% for the second quarter and 45% for the first six months of fiscal 1990 from the comparable periods a year ago. The primary reasons for the decline were less than anticipated revenues, the negative impact of currency translation, and product mix issues as the Company shipped a higher proportion of low-end products which traditionally carry lower margins. While the rate of new investments has been declining over the past several quarters, research and engineering and sales and sales support expenses were still higher than a year ago, contributing to the operating income decline.

The effective tax rate for the quarter was 20% compared with 25.2% for the comparable quarter a year ago. The decrease was due principally to lower profitability in the United States.

Net income was down 44% for the quarter and 39% for the first six months.

AVAILABILITY OF FUNDS TO SUPPORT CURRENT AND FUTURE OPERATIONS

The Company believes it has adequate funds to support its current operations and that its financial performance, together with its substantial debt capacity and its high credit rating leave it well positioned to obtain the financing required to support future growth. Cash and cash equivalents at the end of the second quarter totaled $1,980 million. Short-term and long-term debt totaled $143 million. During the first six months inventories increased $71 million from the end of fiscal 1989. Accounts receivable in the same period increased $32 million. The increase in cash flows from operating and investing activities was $381 million in the first six months of the year. Capital spending was $239 million in the quarter and $472 million for the first half of fiscal 1990.

During the quarter the Company purchased 1,753,000 shares of its Common Stock in the open market for $159 million, completing a 10 million share repurchase authorized in October 1988.

****

The accompanying consolidated balance sheets, statements of income and statements of cash flows reflect all adjustments of a normal recurring nature which are, in the opinion of management, necessary to a fair statement of the consolidated financial position at December 30, 1989 and the consolidated results of operations and the consolidated statements of cash flows for the interim periods ended December 30, 1989 and December 31, 1988.

Part II. OTHER INFORMATION

Item 5. Other Information.

On December 11, 1989, the Board of Directors of the Company declared a dividend distribution of one Right for each outstanding share of Common Stock of the Company to stockholders of record at the close of business on December 21, 1989. The description and terms of the Rights are set forth in a Rights Agreement between the Company and First Chicago Trust Company of New York, as Rights Agent. A copy of the Rights Agreement has been filed with the Securities and Exchange Commission as an Exhibit to a Registration Statement on Form 8-A dated December 12, 1989.

On January 22, 1990, the Board of Directors amended the By-laws of the Company in certain respects. See Exhibit 3.

Item 6.

(a) Exhibits.

3. By-laws of the Company, as amended.

(b) Reports on Form 8-K.

During the period covered by this report, the Company filed one report on Form 8-K, dated December 12, 1989, reporting the adoption by the Company on December 11, 1989 of a Stockholder Rights Plan. See Item 5 above.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DIGITAL EQUIPMENT CORPORATION
(Registrant)

By s/s James M. Osterhoff
James M. Osterhoff
Vice President - Finance
(Duly Authorized Officer and
Principal Financial Officer)

February 13, 1990

PHONE MEMO

TO Carolyn

DATE 11/4 TIME AM PM

FROM Janice

AREA CODE

NO. 3-6979

OF Casker

EXT.

MESSAGE Here is the pkg. I spoke to you about last week. Let me know if you'd like any slides...

SIGNED

PHONED CALL BACK RETURNED CALL WANTS TO SEE YOU WILL CALL AGAIN WAS IN URGENT

Centr
Finan
Grou

Presentation Materials to Discuss Digital's Financial Performance

Q4 and Full Year FY91

Digital Confidential

Distribution

Fran Barton	GEC
Steve Behrens	AKO1-3/K5
Lyn Benton	MLO3-2/T98
Jeff Bergart	NKO1-2/E9
Geir Berg	NWO
Alain Biagi	EVO
Paul Biddle	REO
Mike Bilbao	MRO2-4/6F
Ken Burke	MSO2-1/G24
Rich Butler	OGO1-2/L17
Janice Casker	MLO3-5/T58
Lisa Cole	ACO/E49
George Cierans	GEO
George Chamberlain	MRO4-3/H20
Bob Cohen	ZKO1-3/D40
Jay Connor	OGO1-2/L17
Agnes Connors	MLO3-5/T58
Gora Dutta	MKO2-2/H15
Tom Esposito	MLO12-3/A16
Walter Eschler	GEC
Des Ellis	OLO
Bob Faulconer	AKO1-2/Q6
Terry Fink	MRO4-3/H22
Dick Fishburn	MLO12-2/T81
Pat Fiztgerald	TRC-19/1
Debarah Gamba	MLO6B-1/U53
John Gergely	RCO
Dorothy Gleason	MKO2-2/C12
Darrell Griffin	MLO6B-1/U53
Pam Hsia	MLO12-3/A16
Teddy Hopson	IVO
Bob Hult	MSO2-2/C22
Ilene Jacobs	MSO2-2/F17
Dick Jaillet	MLO6B-1/U53

Distribution, *cont'd*

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Dave Keleher	MLO12-3/A16
Peter Killilea	OFO
Karen Kupferberg	MRO1-3/T2
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Paul Mahoney	OFO
Tom McEachin	AKO2-2/E6
Karen McKay	MKO1-1/N27
Harry McKnight	GEO
Denise Mincet	APO-1/D7
Vin Mullarkey	MLO1-4/R14
Al Mullin	MSO1-1/N9
Alex Munn	MLO6B-1/U5
Achim Nowak	RTO
Henning Nygaard	DMO
Marian O'Leary	MLO1-5/T33
Jim Osterhoff	MLO12-1/A16
Werner Oppliger	GEO
Bob Palmer	MLO1-4/R14
Bjorn Plyhn	FCO
Barcy Proctor	MRO3-2/G6
Mick Prokopis	MLO10-2/A55
Leo Quinn	MSO2-2/E7
Richard Rackley	ALF-2/3K1
Frank Rameaka	MLO6B-1/U53
Don Resnick	MLO12-B/U49
Jean-Phillipe Rickenbach	ZUO
Bruce J. Ryan	MLO3-2/T98
Gerry Uva	MLO3-5/T58
Pierre Vandenplas	BRO/427
Michel Vandier	EVB

Distribution, *cont'd*

Rick Sample	MRO1-3/T2
Steve Smith	MSO1-1/L9
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Terry Stahmann	LAO
Dave Stevens	ACI
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Sue Streeter	MLO5-5/E71
Bill Vanatten	MRO3-3/J19
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Tony Wallace	MRO3-1/G18
Gerard Weyer	GEC
Steve Whitney	MLO3-5/T58
Jay Zager	MRO3-1/J18

INTEROFFICE MEMORANDUM

To: See Distribution List
cc:

Date: 20 August1991
From: David Wester
Dept: CFG
Phone: 223-0269
Loc: MLO3-5/T58
E-Mail: @ MLO

Subject: Q4 and Full Year FY91 Presentation Package

Enclosed is the package of quarterly presentation materials for Q4 and Full Year FY91.

Overhead Transparencies:

There are color overhead transparencies of this package which may be borrowed from our library at any time. If you wish to borrow them, please contact Debbie Dwyer at 223-9156.

Confidentiality:

Because the commentary and some of the slides include confidential information, it is important to use discretion in the handling of these materials.

If you have further questions, please call me.

Regards,

TABLE OF CONTENTS

TABLE OF CONTENTS, *cont'd*

Central Finance Group

Executive Summary

CFG:dd:QTRLYCOVS

Q4 and Full Year Summary

Industry Results

Results were mixed among major competitors. Mainframe sales continued to be weak due to lack of demand and deep discounting. PC sales were weak and profit was hurt by continuing, aggressive pricing actions. The shift to the low end continued. Sales of laptop and notebook computers continue to surge. Workstation sales are still strong, but the fault-tolerant market posted mixed results.

Strengthening of the U.S. dollar had an unfavorable effect on revenues and earnings for the majority of our competitors during the quarter. Digital, however, reported favorable currency translations during its fourth quarter. The negative impact of foreign currency translations is expected to continue for the balance of the year. Aggressive pricing actions continued in the low end. Compaq reduced U.S. suggested resale prices on its Compaq LTE and Compaq LTE/286 notebook PCs by 12.5% to 22%. Data General cut prices on its Dasher line of PCs, Novell servers and peripherals up to 17%.

IBM formed several strategic business relationships during the quarter. Wang will largely give up its role as a computer maker, acting as a sales agent for AS/400, an OEM reseller for the RS/6000 and a VAR for the PS/2 product lines for IBM. Wang will recast itself as a developer of software for office automation and imaging, tailoring its software for IBM's RS/6000 workstations and PS/2 PCs. IBM will make a $25 million investment in Wang and may make further investments of as much of $75 million, depending upon Wang's performance.

Apple and IBM will establish an independent, jointly-owned company to create a new standard operating system, based on object-oriented technology, for the desktop environment. IBM has agreed to tie Apple's Macintosh PCs much more closely to its own product line and will even consider selling Macintoshes if IBM customers want to buy them. Apple will consider selling IBM hardware and will work with IBM to develop a way to allow Macintosh programs to run on top of a modified version of IBM's UNIX-based operating system. Apple will consider using some leading-edge IBM microchip (RISC) technology for use in future models of its Macintosh computers.

Analysts view alliances in the computer industry as a way for firms to reduce risk. Analysts also say alliances have a miserable track record in the desktop computer business, especially when they involve IBM.

Several computer makers took restructuring charges in the quarter. Digital took a $1.1 billion charge, while IBM incurred a $200 million charge. Wang took a $235 million charge; Unisys incurred a $1.2 billion charge; and Apple took a $224 million charge.

The aggregate revenue of Digital and our top eleven competitors decreased by 3% compared to the year-ago quarter, driven by poor results from IBM (11%), Compaq (-17%), Unisys (-11%), and Wang (-24%). Excluding IBM, the aggregate increase in revenue was 5%. Digital exceeded the aggregate results with a 17% increase in revenue over Q4 FY90. For the second consecutive quarter, Digital's revenue growth was higher than its cost growth.

Revenue for the same group of competitors increased 6% in the June 1990 quarter and 2% in the March 1991 quarter. Results were varied across companies with Sun recording 35% growth and Wang posting a 24% decline. The low-end companies (Apple, Compaq and Sun) grew fastest, with growth by Sun and Apple (12%) offset by a 17% decline from Compaq.

For the second consecutive quarter aggregate operating profit fell, dropping 48%, driven by a 79% plunge by IBM. Excluding IBM, the aggregate increase in operating profit was 23%. Operating profit for the same group of competitors increased 7% in the June 1990 quarter and fell 33% in the March 1991 quarter. The low-end group recorded a 38% decrease in operating profits and posted an 8% operating profit margin. Full range vendors (Digital, Data General, Hewlett-Packard, NCR, Stratus, and Wang) increased operating income by 28% and recorded a 7% operating profit margin. High-end vendors (IBM, Tandem and Unisys) recorded a 65% decline in operating profits and a 6% operating profit margin.

Wall Street Reaction

According to Mark Steinkrauss, reaction of most stock analysts was generally favorable. There was extensive press devoted to the restructuring charge and resulting loss.

Favorable reaction from "Wall Street" focused on:

* Size of restructuring charge ($1.1 billion) larger than anyone expected. Convincing evidence that management is serious about profit improvement.

* Revenue growth, even with currency, still very positive.

* Margin improvements - gross up 2.6%, service up 3.5%, operating income up 62% before restructuring.

* Asset management - inventory declined, inventory turns increased, receivables declined, DSO down.

* Product momentum continues, particularly at low end.

* Strong service growth continues.

Analysts are concerned about:

* Current tone of business - no pick up in U.S., Europe and Japan slowing, worldwide economy.

* Currency impact turns negative in second half.

* Higher tax rate in FY92.

* Product sales and margins.

* U.S. revenues down three consecutive years.

Analysts are uncertain about:

* Restructuring how quickly will it be implemented, how disruptive to business, what will cost savings be?

* Impact of Kienzle and Philips.

* Uses of large cash balance.

Kienzle Partnership

At the end of Q2 FY91, Digital reached agreement with Mannesmann A.G. to acquire 65% of a new company to be formed from the Mannesmann Kienzle Computer Systems Division, and the PROCAD Gmbh and PCS Gmbh divisions of Mannesmann Kienzle. The new company, headquartered in Villingen, Germany will be called Digital-Kienzle Computer Systeme Gmbh and Co. K.G. This investment continues the Company's strategic thrust in selling to small and medium-sized businesses worldwide.

In Q4, Kienzle contributed $137 million, or 3.5% of total Digital revenue and reduced operating profit $10 million. For the year, Kienzle contributed $216 million in revenue, reduced operating profit by $25 million, increased headcount by 3900, and had an earnings per share impact of $(0.31).

Digital also acquired the engineering automation unit of Asea Brown Boveri LTD (EA) during the year. The affect on full year results was minimal.

Orders/Revenue

Worldwide orders (certs) for the quarter were $2734 million, down 2% from the comparable quarter last year. Excluding the impact of currency, orders were down 8%, year over year. The decline in orders was driven by softness in all areas with GIA performance weakest.

For all of FY91, certs were down 2% to $9014 million. As with Q4, the impact of currency was favorable. Certs were down 9% from FY90 levels when currency is factored out. For the full year, softness in orders was found across all areas.

Among products, PCs and workstations grew strongly, while VAX products saw weakening demand. This mirrors the industry trend of strength in the low end, and weakness among proprietary systems.

Unit order trends in Q4 saw PC certs grow 54%, year over year, and workstation certs jump 24%. Within workstations, RISC certs rose 94% while VAX certs fell 6%. VAX 6000 certs were down 31% from Q4 FY90 and VAX 9000 certs were off 27%. Efforts to boost VAX 9000 certs in Q4 were successful as certs increased to 66 from 18 in Q3 FY91.

For the full year, PC unit certs more than doubled with 128% year over year growth. Total FY91 workstation unit certs grew 16% with business in this space growing at an increasing rate each quarter. RISC workstation certs grew 124%, year over year, while VAX workstation certs fell 14% for the year. RISC workstation certs accounted for 42% of workstation certs for FY91 up from 22% in FY90. VAX 6000 certs declined 41% for the year and VAX 9000 certs were off 35%.

Total Q4 revenues were $3945 million, up 17% from Q4 FY90. Product revenue increased 14% to $2343 million. Service revenues were up 23% to $1602 million. Service revenues made up 41% of total revenues in Q4 FY91. Excluding currency, revenue grew 7%.

Excluding Kienzle and EA, revenue grew 13% to $3803 million, or 2% without currency. Worldwide service revenue grew 20% to $1568 million and was driven by Europe's 37% growth. Product revenue grew 8%, year over year, to $2235 although product revenue was down 2% when currency is factored out. The U.S. saw product revenue fall 7% from Q4 FY90 levels.

For all of FY91 Digital revenues grew 7% to $13911 million, or 2% growth excluding currency. Product revenues increased 2% to $8298 million and service revenues increased 17% to $5613 million. Services accounted for 40% of total revenues in FY91.

Total revenues excluding Kienzle and EA were up 6% to $13691 million, or zero growth when currency is factored out. Worldwide service revenues grew 16% to $5549 million and were driven by Europe's currency aided 29% growth. Worldwide product revenues were flat at $8142 million, down 5% minus currency. As in Q4, U.S. product revenues were down 7% for the full year.

Expenses/Profits

As reported, total gross margin was 48.7%, or $1921 million in Q4 FY91. That exceeded Q4 FY90 gross margin by 2.7 points or $374 million and was driven by strong gains in both product and service gross margins. The improvement in margins was due to favorable currency impact and improved manufacturing efficiencies. Product margin improved 2.6 points to 52.5% while service margins increased 3.5 points to 43.2%.

For all of FY91 total gross margin grew 0.2 points to 47.7% or $6633 million. The increase was driven by a strong gain of 1.8 points in service gross margin to 39.9% and favorable currency effect. Product gross margins stayed nearly flat from a year ago as a result of lower product prices offset by manufacturing productivity improvements.

In Q4 FY91, excluding Kienzle, R&E and SG&A expenses grew 6% and 15%, respectively, over Q4 FY90 levels. Without currency, Q4 FY91 R&E expense fell 3% while SG&A grew 4%. As reported, R&E grew 8% while SG&A grew 21% during Q4. As reported, R&E as a percent of revenue decreased 1 point in Q4 to 11.3%. SG&A increased 1.1 points to 32.5% of revenue.

Functional spending was up 6% for the quarter, compared to 17% revenue growth. Europe had the highest expense growth, up 26% due largely to currency. U.S. area decreased functional spending 4% and manufacturing reduced spending 3% from Q4 FY90 levels.

For the full year, excluding Kienzle, R&E spending grew 1% to $1633 million, or down 4% minus the currency impact. SG&A grew 10%, 4% without currency, to $4359 million in FY91. As reported, R&E spending grew 2% from the year, while SG&A grew 13%. R&E fell 0.6 point to 11.9% of revenue while SG&A grew 1.4 points to 32.1% of revenue.

Total functional expenses grew 5% for the year and were driven by Europe's 18% growth, while the U.S. and GIA saw functional spending grow 5%. Manufacturing saw functional spending decrease 9% for the year, while marketing spending grew 18%.

Operating profit for the quarter excluding restructuring and acquisitions increased 171% to $207 million. On the same basis, operating profit margin improved over 3 points to 5.4% of revenue.

Q4 FY91 operating profit, excluding restructuring and acquisitions, was $131 million higher than Q4 FY90. In explaining the variance, competitive pricing practices offset by higher volume resulted in an unfavorable variance to profit of $20 million, while favorable currency contributed an estimated $164 million. On the expense side it is estimated that economic factors (inflation, salary increases) were offset by the favorable impact of reduced headcount to net out to an estimated negative impact of $13 million.

Q4 FY91
Operating Profit Analysis
Excluding Restructuring and Acquisitions

	Profit
Q4 FY91 Actual	$ 207
Q4 FY90 Actual	76
Variance	$ 131
Explanation of variance	
Revenue related:	
Volume	$ 149
Uplift, Discounts, Allowance	(170)
Systems Mix	1
Total Revenue Related	$ (20)
Currency	$ 164
Expense Related:	
Economics (inflation, salary, fringe)	$ (102)
Restructure/Attrition	114
Other	(25)
Total Expense Related	$ (13)
Total Variance	$ (13)

Operating profit for the year fell 4% to $539 million after adjusting for restructuring and acquisitions. Operating profit margin decreased almost half a point to 3.9% of revenue.

For all of FY91, excluding restructuring and acquisitions, operating profit of $539 million shows an unfavorable variance to FY90 of $24 million. Revenue related factors such as systems mix and allowances negatively contributed to the variance with an impact of $181 million. Currency positively contributed $273 million while expense related factors negatively contributed $116 million.

FY91
Operating Profit Analysis
Excluding Restructuring and Acquisitions

	Profit
FY91 Actual	$ 539
FY90 Actual	563
Variance	$ (24)
Explanation of Variance	
Revenue Related:	
Volume	$ 132
Uplift, Discounts, Allowance	(253)
Systems Mix	(60)
Total Revenue Related	$ (181)
Currency	$ 273
Expense Related:	
Economics (inflation, salary, fringe)	$(406)
Restructuring/Attrition	295
Other	(5)
Total Expense Related	$(116)
Total Variance	$ (24)

Staffing

Total company staffing ended the quarter and year at 116,928 employees, excluding acquisitions. During Q4 FY91, total staffing decreased 1,901. For the full year, excluding acquisitions, headcount was down 7,072 or 6%. In Q4, staffing was down in all groups except GIA, Central Engineering, and Corporate Operations. For the year, GIA was the only group to have increased headcount. Including acquisitions, FY91 ending headcount was 120,986.

Restructuring

Work force reductions totalled 2100 for the quarter, 6000 for the year, and 9000 since inception of the program of voluntary and involuntary employee separations. Since the end of Q2 FY90, the high point in population, headcount has been reduced 8% (excluding acquisitions). An annual savings of approximately $425 million is forecast as a result of the employee reductions already completed .

In FY91, 3.5 million square feet of space was eliminated. Annual savings from this space reduction will total $65 million.

A Q4 FY91 restructuring reserve of $1100 million was taken. Half of the money is to be used for personnel reductions and the bulk of the remainder is to be used for facility and equipment consolidation spread throughout FY92 and FY93.

Annualized savings from the actions taken with the $1100 million reserve are forecast at $940 million. Total annualized savings from all actions taken since FY90 are estimated at $1400 million.

Capital Spending

Capital spending in Q4 FY91 continued the pattern of constraint seen throughout the year. Capital spending was $183 million in Q4, down 40% from Q4 FY90 levels. Spending decreased slightly from Q3 FY91 levels, excluding Kienzle. The slowdown in capital spending has helped depreciation expense slow. For the first time in recent history, depreciation declined on a year over year basis in Q4.

For the full year, excluding Kienzle, capital spending was down $290 million to $738 million. That's the lowest total since FY86 and represents the third consecutive year of reduced capital spending. The Kienzle acquisition contributed $51 million in assets when acquired in Q3 FY91, and brings total capital spending for the year to $789 million.

Inventory

Q4 net inventory totaled $1595 million, $249 million lower than Q3 FY91. This reflects improved sales and continued asset management. Total inventory was up only slightly from Q4 FY90's $1538 million despite a 17% revenue increase. Inventory turns improved to 4.7 times for the quarter, up from 4.1 times in Q3 FY91 and 4.6 times in Q4 FY90.

For the full year, inventory was up just $57 million on a $969 million revenue increase. Improved inventory management and increased turns were the drivers. The 4.6 inventory turns is up from 4.3 in FY90 and is up from 3.6 turns in FY88.

Days Sales Outstanding

In Q4, increased revenues, collection efforts, and currency impact resulted in a 9 day improvement over Q3 FY91 to 76 days. Improvement was spread across all areas but Europe's 15 day decrease led the way. Currency adjusted Q4 DSO is estimated to have improved 2 days to 79 days from Q3 FY91. Compared to Q4 of FY90 DSO improved 10 days.

Full year DSO improved 10 days to 76. Again, Europe showed the most improvement with a currency driven 16 day reduction from FY90. Excluding currency, it is estimated that Europe was 3 days worse than FY90, GIA was 2 days worse, while the U.S. improved 2 days.

Cash Flow

In Q4 FY91 cash flow was driven by $246 million cash from operations versus $(225) million in Q4 FY90. The net loss of $871 million was offset by the $1105 million change in working capital. Capital spending was also lower than the same quarter a year ago.

For all of FY91, cash from operations contributed $14 million, versus $331 million in FY90. Financing activities and the Kienzle acquisition adversely impacted cash flow with a full year net change in cash of $(85) million.

ROA/ROE

Q4 FY91 return on assets excluding restructuring, was 4.5%, approximately 1.6 points higher than ROA in the comparable FY90 quarter. Improvement was found in both after tax profitability and asset utilization.

ROA for FY91, excluding restructuring, was 3.3%, down over a point from Q4 FY90. Decreased profitability was partially offset by improvements in asset utilization.

Q4 FY91 return on equity excluding restructuring improved to 6.8% from 4.0% in Q4 FY90. ROE for FY91, excluding restructuring, was 4.9%, down 1.6 points from Q4 FY90.

Ten Year Summary

Revenue

Total revenue has grown at a compound annual growth rate of 14% over the past ten years. The past two years have seen a slowdown in growth as the cost of computing power has continued to shift downward for the industry.

Revenue growth has been strongest outside of the U.S. and in the service businesses.

Digital ranked thirtieth in total revenues on the 1990 Fortune 500.

Composition of Revenue - Domestic and International

In FY91, 60% of Digital's revenue came from outside the United States. That's 11 points higher than in FY88 and 24 points higher than FY82.

International market growth has started to slow reflecting a downturn in overall economic activity.

The addition of Kienzle and Philips should help European revenue in years to come.

Eastern Europe and the Far East represent new or faster growing areas for Information Technology spending.

Composition of Revenue - Products and Services

Over the past ten years service revenue has increased from 29% of revenue to 40%. In FY91 service revenues grew 17% while product revenues grew 2%.

Digital is seeing service revenues driven by strong growth in businesses such as Systems Integration, Software services, and Network and Desktop services.

Product revenues had a compound annual growth rate of 6% over the past five years while the comparable service revenue growth was 12%.

Revenue and Cost Growth

Strong focus on cost controls held cost growth to the lowest level since 1986 despite the negative impact of currency.

Revenue growth has averaged 7% the last three years despite double digit unit volume growth. The market has shifted towards lower end products requiring higher volume but carrying a lower price per unit.

Slowing industry growth combined with a shift towards desktop solutions has resulted in intense price competition and profit margin pressures over the past two years. Digital's fast growing software and service businesses should help margins in the future.

Research and Engineering Expense

FY91 saw record levels of R&D investment with $1.6 billion spent. The last three years have seen R&D average over 12% of revenue. Digital remains committed to investing in new products and technology to gain a competitive advantage.

The last three years Digital has invested $4.8 billion into R&D and over 10,000 employees are engaged in research, engineering, and programming activities.

Sales, General and Administrative Expense

Over the past five years, SG&A expense has seen a 15% compound annual growth rate. The Company invested heavily in all facets of its operations for several years in anticipation of higher revenue growth than has been achieved. The SG&A growth reflects investments in the field organizations and increased levels of spending on marketing and advertising as the Company renewed efforts to get closer to the customer.

Operating Profit Margin

Operating profit margins peaked at 17.2% in FY87. Investments made in resources and facilities based on expected future products and volumes have cut into operating profit margins the last two years.

Three years of stagnant U.S. revenue , a product mix shift to the low end, and excess capacity and resources have hurt margins.

Restructuring charges in FY90 and FY91 totalling $1.65 billion show Digital is committed to returning to higher profitability. The charges are intended to cover the cost of employee separations, reskilling, retraining, relocation, as well as facilities consolidations, retirements of equipment and related administrative costs.

Operating Assets

Increased focus on operating asset management has helped return on asset performance during recent periods of decreased profitability. Asset turns improved from 1.00 in 1983 to 1.18 in 1991.

Since 1985 improved inventory management has held inventory to a compound annual growth of 2% while revenue increased 8%. Inventory turns have more than doubled from 2.1 in 1983 to 4.6 in 1991.

PP&E has grown during the latter half of the 80's as the company prepared for higher volumes which required more capacity. FY91 saw a reduction in facility and equipment spending and the latest restructuring charge will eliminate more excess capacity. PP&E turns have increased from 3.4 in 1983 to 3.6 in 1991.

Receivables have grown at a pace similar to revenue over the past 10 years while DSO has improved from 82 days in 1983 to just 76 days in 1991, well below the industry average.

Capital Spending

Excluding Keinzle, capital spending in FY91 fell dramatically to levels last seen in FY87.

Expecting higher sales volumes, capital spending between FY88 and FY91 equaled the sum of all capital spending between FY80 and FY87.

Cash Flow from Operations

Cash flow from operations was positive for the seventh year in a row even with close to $1.9 billion in restructuring charges and external acquisitions.

Revenue per Employee

Although still well below the industry average, Digital's revenue per employee has almost doubled since 1982. The per employee figure has increased from $60,000 in 1982 to $114,000 in 1991.

Cash and Long Term Debt

Digital consistently maintains high cash balances and low levels of debt relative to other industry participants. Digital's debt to debt plus equity ratio, at 2%, is significantly lower than the 34% average of our top twelve competitors.

Return on Assets and Equity

Return on average assets and average equity have declined each year since the high in 1987. Decreased profitability has been the driving force behind the declines.

Competitor Comparison

Revenue growth exceeded that of IBM and HP for most of the ten year period up until 1989. Fueled by high growth in the peripherals business and the Apollo acquisition, HP has continued to show better than average revenue growth over the past several years.

Over the period from 1980 to 1990 IBM has consistently maintained the highest profit margins of the top three US computer vendors. HP's profitability is the most consistent. Digital's margins have been volatile and lagged behind IBM but ahead of most of the other competitors.

Digital's performance in asset utilization helped edge return on assets over both HP and IBM during the 1986 to 1989 timeframe. The economic and industry conditions in 1989 and 1990 are reflected in the big declines in return on assets and equity. Losses and restructuring charges resulted in sharp declines for many industry players.

Central
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Q4 FY91

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Q4 FY91 Results
Order Performance
(Excluding External Investments)

	Actual ($ Mils)	Growth Over Q4 FY90	Adjusted for Currency
United States	$ 1026	(4)%	(4)%
Europe	1327	2 %	(10)%
GIA	381	(14)%	(16)%
TOTAL	$ 2734	(2)%	(8)%

Q4 FY91 Results
Compared with Q4 FY90
($ Mils)
(As Reported)

	Q4 FY91 Actual	Percent Growth Over Q4 FY90
Revenue	$ 3945	17 %
Gross Margin	$ 1921	24 %
(% of Revenue)	48.7 %	2.7 pts.
Research & Development	$ 446	7.8 %
(% of Revenue)	11.3 %	(1.0) pts.
Selling, General & Admin.	$ 1281	21 %
(% of Revenue)	32.5 %	1.1 pts.
Restructuring Charge	$ 1100	175 %
Operating Profit	$ (906)	(180) %
(% of Revenue)	(23.0) %	(13.3) pts.
Net Interest (Income)/Expense	$ (16)	(47) %
Income Before Income Taxes	$ (890)	(203) %
Income Taxes	$ (19)	50 %
Net Income	$ (871)	(239) %
EPS	$ (7.08)	(236) %

Q4 FY91 Results
Compared with Q4 FY90
($ Mils)
(Excluding Restructuring Charges and Acquisitions)

	Q4 FY91 Actual	Percent Growth Over Q4 FY90
Revenue	$ 3803	13 %
Gross Margin	$ 1846	20 %
(% of Revenue)	48.7%	2.7 pts.
Research & Development	$ 438	6 %
(% of Revenue)	11.5%	0.8 pts.
Sales, General & Admin.	$ 1201	15 %
(% of Revenue)	31.6%	0.3 pts.
Operating Profit	$ 207	171 %
(% of Revenue)	5.4%	3.1 pts.
Net Income	$ 151	82 %
EPS	$ 1.23	81 %

Q4 FY91 Results
Total Company Staffing
(Includes Regular and Other)
Net Hires (Gross)

	Beginning	Net Adds	Ending
Field	73,618	(408)	73,210
Manufacturing*	26,839	(1,373)	25,466
Engineering	12,481	77	12,558
Product Marketing*	2,295	(210)	2,085
Corporation Operations	3,596	13	3,609
Total	118,829	(1,901)	116,928
Acquisitions	3,900	158	4,058
Total Including Acquisitions	122,729	(1,743)	120,986

*Excludes 9-week cycle people

Q4 FY91 Results
Functional Spending Growth*

	Actual ($ Mils)	Percent Growth Over Q4 FY90
U.S.		
Products	$ 370	(4) %
Services	119	(2)
Total	$ 489	(4) %
EUROPE		
Products	$ 498	31 %
Services	98	4
Total	$ 596	26 %
GIA		
Products	$ 158	11 %
Services	41	(7)
Total	$ 199	7 %
Services Headquarters	$ 56	(11) %
Manufacturing	$ 345	(3)
Engineering	$ 361	3
Marketing & Advertising	$ 127	18
Corporate Operations/Other	$ 51	(7)
Total Functional Spending	$ 2224	6 %

*Excludes OI/E, Transfer Cost, Corporate Adjustment, and Restructuring

Q4 FY91 Results
Asset Summary
($ Mils)
(Includes External Investments)

	Q4 FY91	Q4 FY90
Cash Balance	$ 1924	$ 2009
Net Inventory	$ 1595	$ 1538
Inventory Turns	4.7 x	4.6 x
Accounts Receivable	$ 3317	$ 3207
DSO	76 days	86 days
Capital Expenditures	$ 183	$ 304
PP&E Turns	4.1 x	3.5 x

Q4 FY91 DSO
Summary

	Q4 FY91 Actual	B/(W) Q4 FY90
DSO:		
United States	72	3
Europe	76	16
GIA	78	0
Total Company	76	10
Note:		
Total Company including External Investments	76	10

Q4 FY91 Net Inventories Compared with Q4 FY90

	FY91 ($ Mils)	1991 Percent of Total	FY90 ($ Mils)	1990 Percent of Total
Raw Materials	$ 360	23%	$ 353	23%
Work-in-Process	$ 502	31%	$ 479	31%
Finished Goods	$ 733	46%	$ 706	46%
Total	$1595	100%	$1538	100%
Inventory Turns	4.7x		4.6x	

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Q4 FY91 Results
Cash Flow
($ Mils)

	Q4 FY91	Q4 FY90
Operating Activities:		
Net Income	$ (871)	$ (257)
Depreciation/Amortization	227	224
Changes in Working Capital	1105	138
Subtotal	$ 461	$ 105
Investing Activities:		
Capital and Other	$ (215)	$ (330)
Cash from Operations	$ 246	$ (225)
Financing Activities	$ 8	$ 72
Net Change in Cash	$ 254	$(153)

Q4 FY91 Results
Total Assets
($ Mils)

	Balance As Of		
	Q4 FY91		Q4 FY90
Current Assets:			
Cash	$ 1,924		$ 2,009
Accounts Receivable	3,317		3,207
Inventories	1,595		1,538
Prepaid Expenses	395		346
Deferred Income Taxes	576		522
Total Current Assets	$ 7,807		$ 7,622
Property, Plant & Equipment	$ 3,778	3823	$ 3,868
Other Assets	$ 443		$ 165
Total Assets	$ 12,028		$ 11,655

Q4 FY91 Results
Liabilities & Equity
($ Mils)

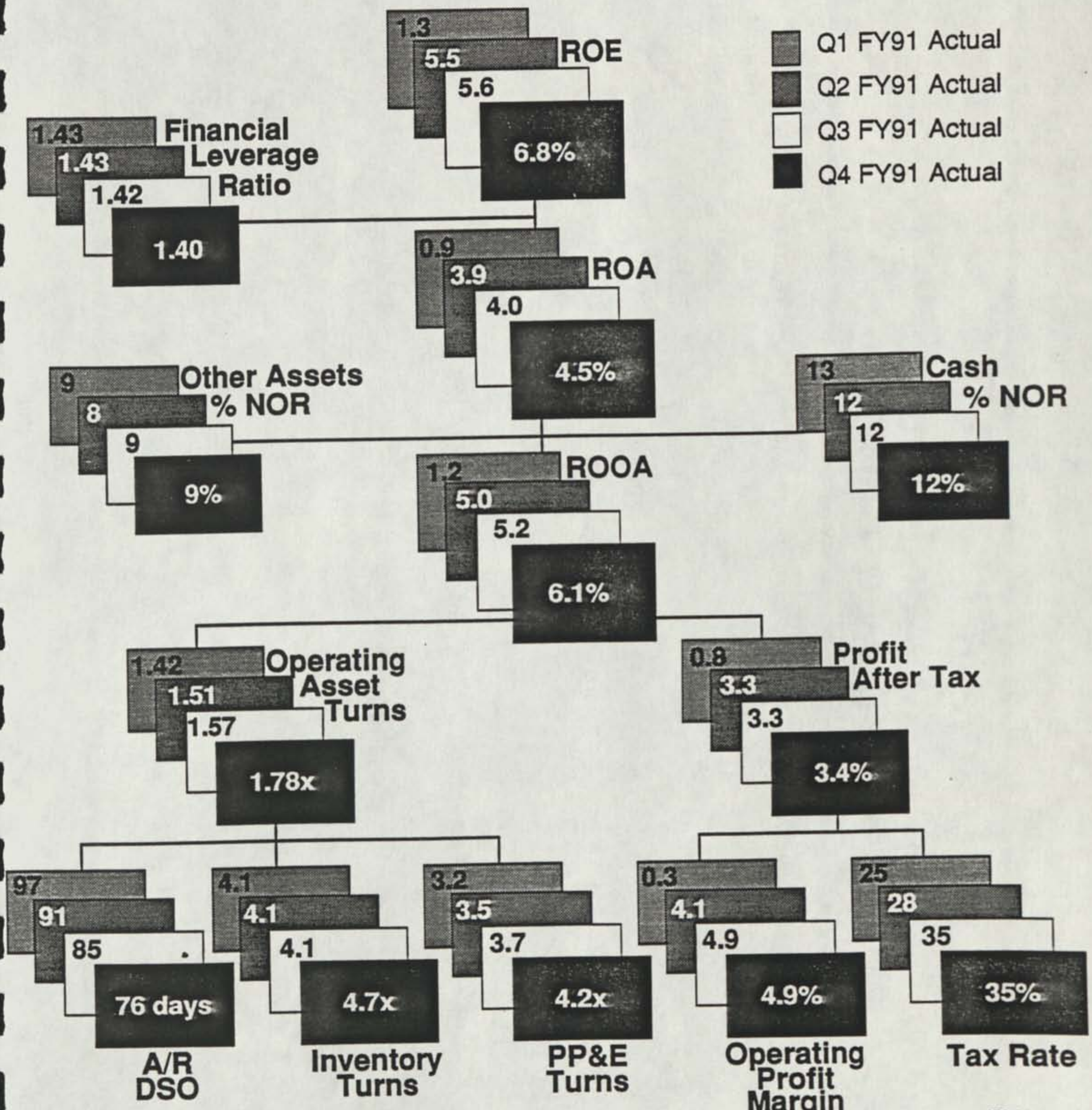
	Balance As Of	
	Q4 FY91	**Q4 FY90**
Liabilities:		
Accounts Payable	$ 723	$ 661
Salaries, Wages Payable	576	472
Deferred Revenue	1,052	903
Deferred Taxes	436	487
Debt & Loans Payable	173	163
Other Liabilities	1,444	787
Total Liabilities	$ 4,404	$ 3,473
Stockholder's Equity	$ 7,624	$ 8,182
Total Liabilities & Stockholder's Equity	$12,028	$ 11,655

Q4 FY91 Results
Inventory Performance
($ Mils)

	Q4 FY91*	Q3FY91*	Change from Q3 FY91	Q4 FY90
Gross Inventory:				
Manufacturing	$ 954	$1083	$ (129)	$ 988
Field	760	847	(87)	665
Other	25	28	(3)	32
Total	$1739	$1958	$ (219)	$ 1685
Reserves				
Timing	$ 77	$ 135	$ (58)	$ 38
Valuation	(220)	(249)	29	(185)
Total	$ (143)	$ (114)	$ (29)	$ (147)
Net Inventory	$1596	$1844	$ (248)	$ 1538
Inventory Turns	4.7	4.1	0.6	4.6

* Includes External Investments

Digital Business Model



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Competitor Results for Quarter ended June 1991

(Adjusted for One-Time Charges)

	Revenue (% Change)	Operating Profit (% Change)	Operating Profit (% Revenue)	Net Income (% Revenue)
DIGITAL	**17%**	**154%**	**5 %**	**3%**
IBM (Q2)	(11)	(79)	4	2
Apple (Q3)	12	(26)	9	6
Hewlett-Packard (Q3)	9	10	9	5
Stratus (Q2)	14	33	12	10
Tandem (Q3)	2	(74)	3	2
Wang (Q4)	(24)	(120)	(14)	(16)
NCR (Q2)	(3)	(24)	10	6
Unisys (Q2)	(11)	287	18	(5)
Compaq (Q2)	(17)	(90)	2	3
Sun (Q4)	35	41	11	7
Data General (Q3)	—	240	9	8

*Quarter ended July 31, 1991

Central
Finance
Group

Full Year
FY91

FY91 Results
Order Performance
(Excluding External Investments)

	FY91 ($ Mils)	Growth Over FY90	Adjusted for Currency
United States	$ 3490	(6)%	(6)%
Europe	4279	3 %	(12)%
GIA	1245	(7)%	(9)%
TOTAL	$ 9014	(2)%	(9)%

FY91 Results
Compared with FY90
($ Mils)
(As Reported)

	FY91 Actual	Percent Growth Over FY90
Revenue	$ 13,911	7 %
Gross Margin	$ 6,633	8 %
(% of Revenue)	47.7 %	0.2 pts.
Research & Development	$ 1,649	2 %
(% of Revenue)	11.9 %	(0.6) pts.
Selling, General & Admin.	$ 4,472	13 %
(% of Revenue)	32.1 %	1.4 pts.
Restructuring Charge	$ 1,100	100 %
Operating Profit	$ (588)	N/M
(% of Revenue)	(4.2) %	(4.3) pts.
Net Interest (Income)/Expense	$ (69)	(38) %
Income Before Income Taxes	$ (520)	(519) %
Income Taxes	$ 98	97 %
Net Income	$ (617)	(930) %
EPS	$ (5.08)	(961) %

FY91 Results
Compared with FY90
($ Mils)
Excluding Restructuring and Acquisitions

	FY91 Actual	Percent Growth Over FY90
Revenue	$ 13,691	6 %
Gross Margin	$ 6,531	6 %
(% of Revenue)	47.7%	0.2 pts.
Research & Development	$ 1,633	1 %
(% of Revenue)	11.9%	(0.6) pts.
Selling, General & Administrative	$ 4,359	10 %
(% of Revenue)	31.8%	1.1 pts.
Operating Profit	$ 539	(4)%
(% of Revenue)	3.9%	(0.4) pts.
EPS	$ 3.50	(16)%

FY91 Results
Total Company Staffing
(Includes Regular and Other)
Net Hires (Gross)

	Beginning	Net Adds	Ending
Field	75,128	(1,918)	73,210
Manufacturing*	29,615	(4,149)	25,466
Engineering	12,913	(355)	12,558
Product Marketing*	2,589	(504)	2,085
Corporation Operations	3,755	(146)	3,609
Total	124,000	(7,072)	116,928
Acquisitions		4,058	4,058
Total Including Acquisitions	124,000	(3,014)	120,986

*Excludes 9-week cycle people

FY91 Results
Functional Spending Growth*

	Actual ($ Mils)	Percent Growth Over FY90
U.S.		
Products	$ 1460	9 %
Services	474	(6)
Total	$ 1934	5 %
EUROPE		
Products	$ 1693	20 %
Services	381	9
Total	$ 2074	18 %
GIA		
Products	$ 577	10 %
Services	147	(9)
Total	$ 724	5 %
Services Headquarters	$ 228	--- %
Manufacturing	$ 1181	(9)
Engineering	$ 1342	2
Marketing & Advertising	$ 401	18
Corporate Operations/Field HQ	$ 178	(22)
Total Functional Spending	$ 8062	5 %

*Excludes OI/E, Transfer Cost, Corporate Adjustment, Restructuring, and Service COD

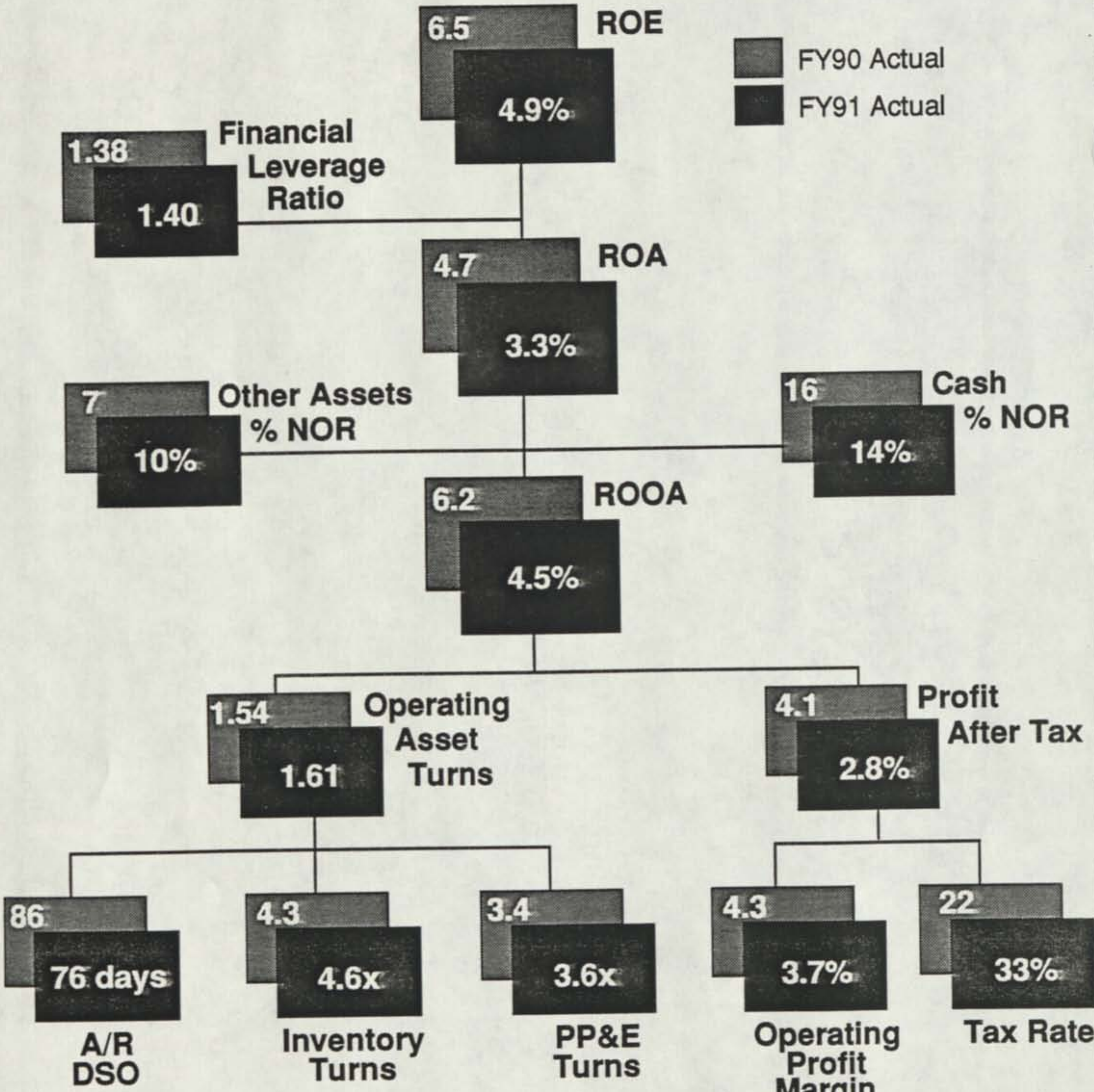
FY91 Results
Asset Summary
($ Mils)
(Includes External Investments)

	FY91	FY90
Cash Balance	$ 1924	$ 2009
Net Inventory	$ 1595	$ 1538
Inventory Turns	4.6 x	4.3 x
Accounts Receivable	$ 3317	$ 3207
DSO	76 days	86 days
Capital Expenditures	$ 789	$ 1028
PP&E Turns	3.6 x	3.4 x

FY91 Results
Cash Flow
($ Mils)

	FY91	FY90
Operating Activities:		
Net Income	$ (617)	$ 74
Depreciation/Amortization	829	796
Changes in Working Capital	641	471
Subtotal	$ 853	$ 1341
Investing Activities:		
Capital and Other	$ (839)	$(1010)
Cash from Operations	$ 14	$ 331
Financing Activities	$ (99)	$ 23
Net Change in Cash	$ (85)	$ 354

Digital Business Model
FY90 and FY91



Excludes restructuring
Includes external investments

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91ACT-B

Competitor Results for Latest Four Quarters Ended June 1991

(Adjusted for One-Time Charges)

	Revenue (% Change)	Operating Profit (% Change)	Operating Profit (% Revenue)	Net Income (% Revenue)
DIGITAL	**8%**	**(9)%**	**4 %**	**3%**
IBM (Q2)	2	(22)	12	7
Apple (Q3)	10	(11)	11	8
Hewlett-Packard (Q3)	9	4	9	6
Stratus (Q2)	19	16	13	10
Tandem (Q3)	6	(48)	5	3
Wang (Q4)	(15)	10	(5)	(8)
NCR (Q2)	5	(17)	10	6
Unisys (Q2)	(5)	153	5	(5)
Compaq (Q2)	11	(1)	15	11
Sun (Q4)	31	66	9	6
Data General (Q3)	(2)	200	4	3

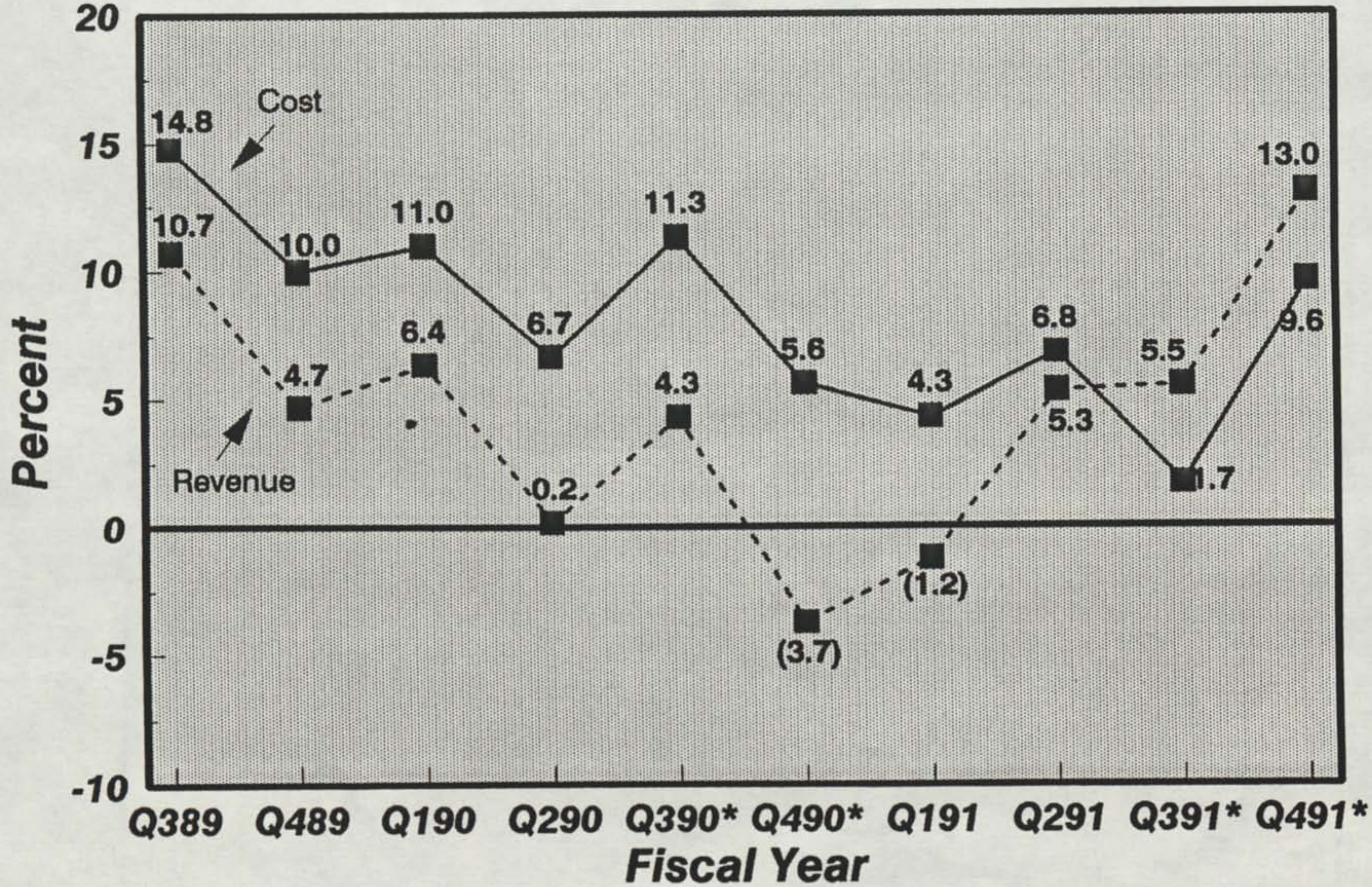
*Quarter ended July 31, 1991

Central Finance Group

Latest Ten Quarters

CFG:dd:QTRLYCOVS

REVENUE AND COST GROWTH

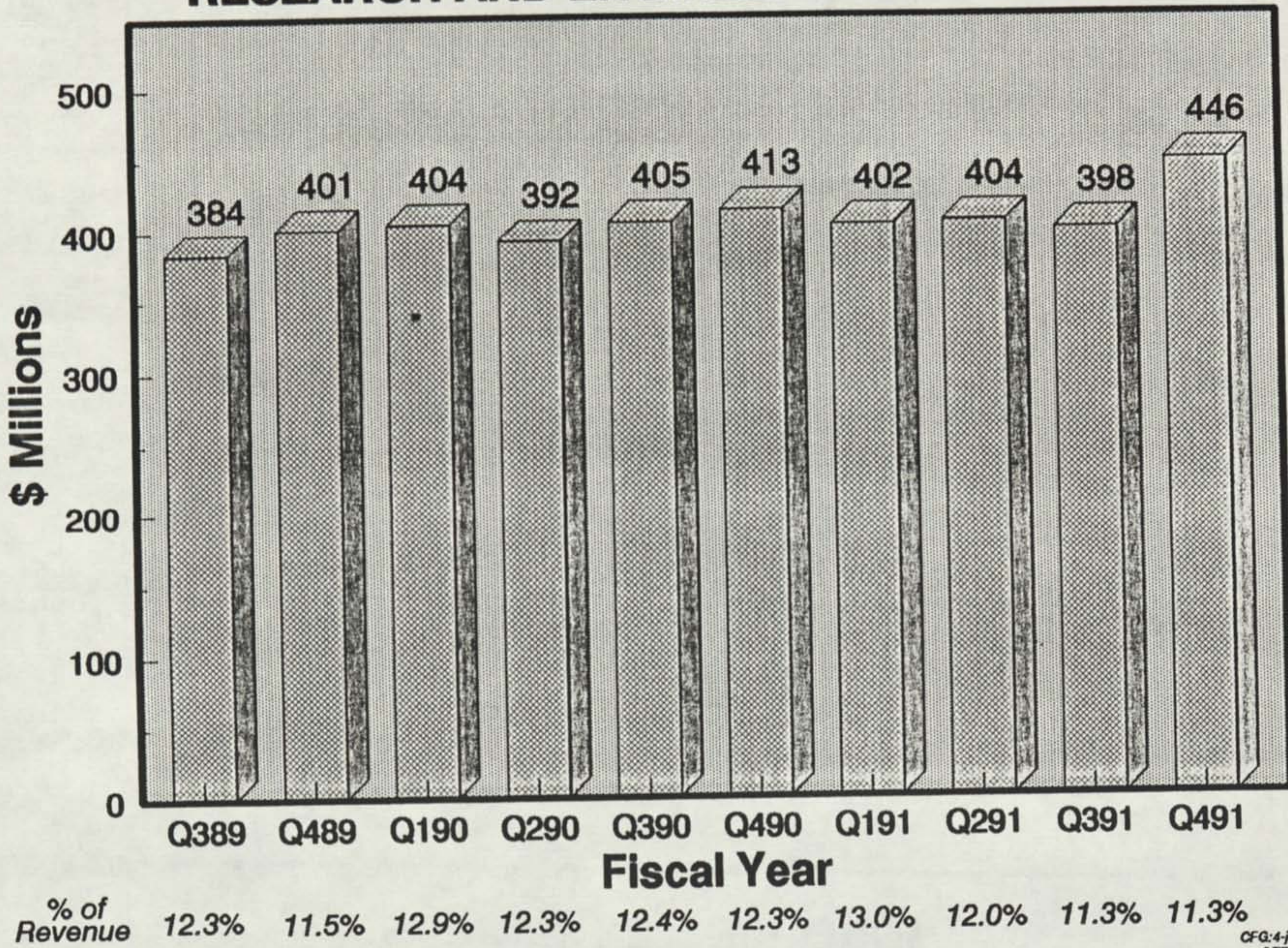


Operating Profit Margin	10.2%	10.9%	5.6%	5.4%	4.2%	2.3%	0.3%	4.1%	5.4%	5.4%

* Excluding Restructuring and Acquisitions

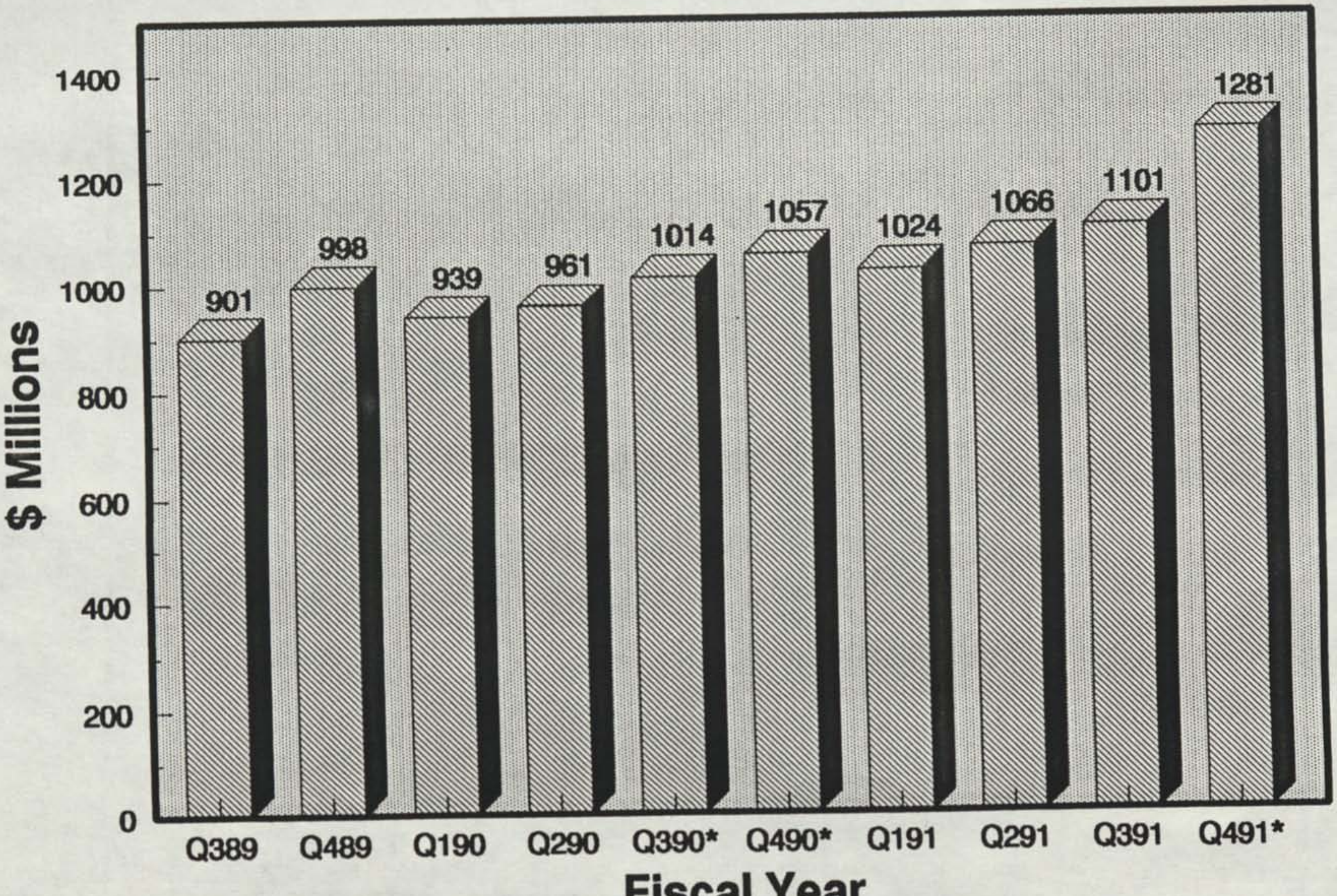
CFG:4-jc/dw
QTRLY-A

RESEARCH AND ENGINEERING EXPENSE



CFG:4-jc/dw
QTRLY-D

SALES, GENERAL AND ADMINISTRATIVE EXPENSE

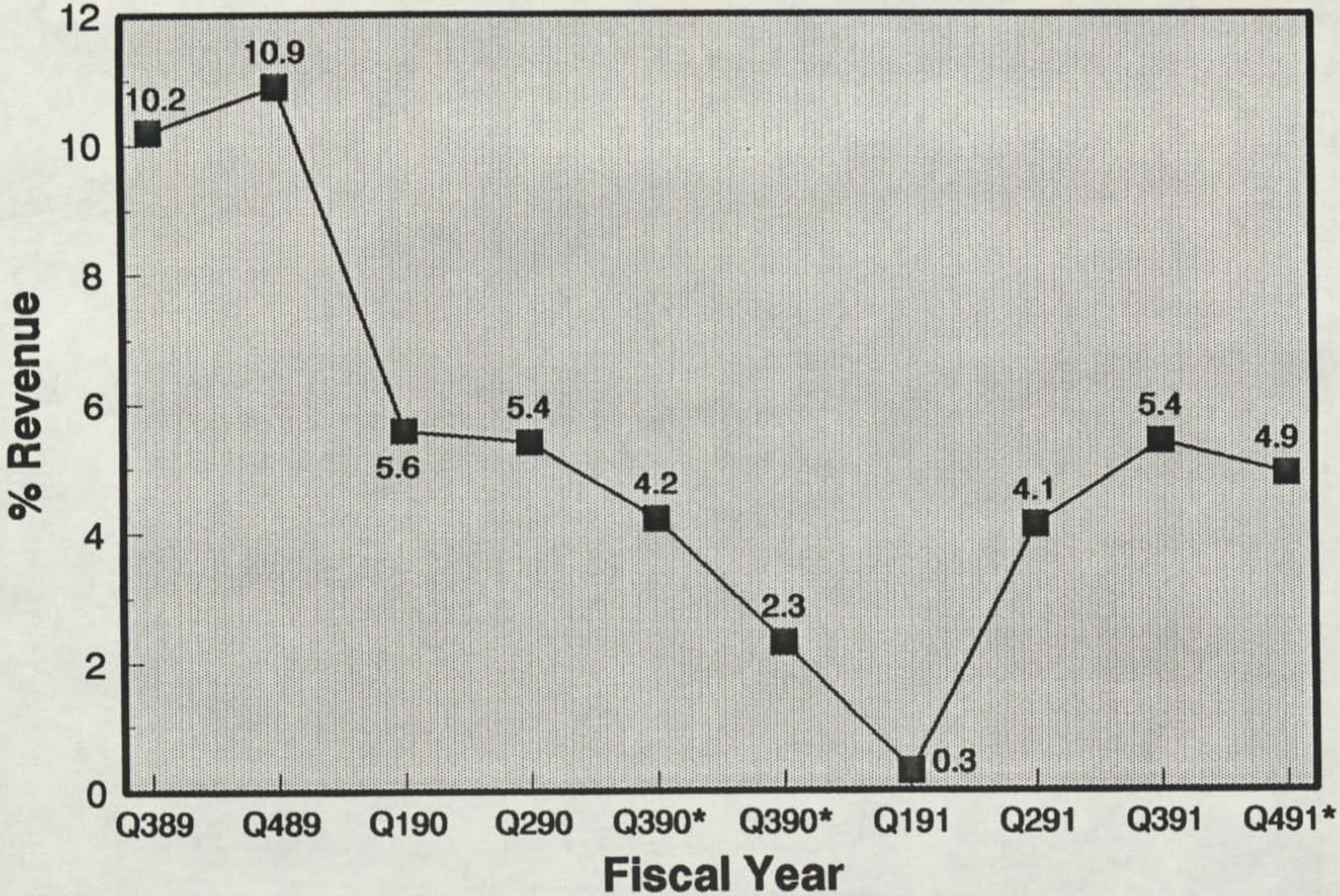


% of Revenue	28.8	28.6	30.0	30.2	31.1	31.4	33.1	31.8	31.3	32.5

*Excluding Restructuring

CFG:4-jc/dw
QTRLY-E

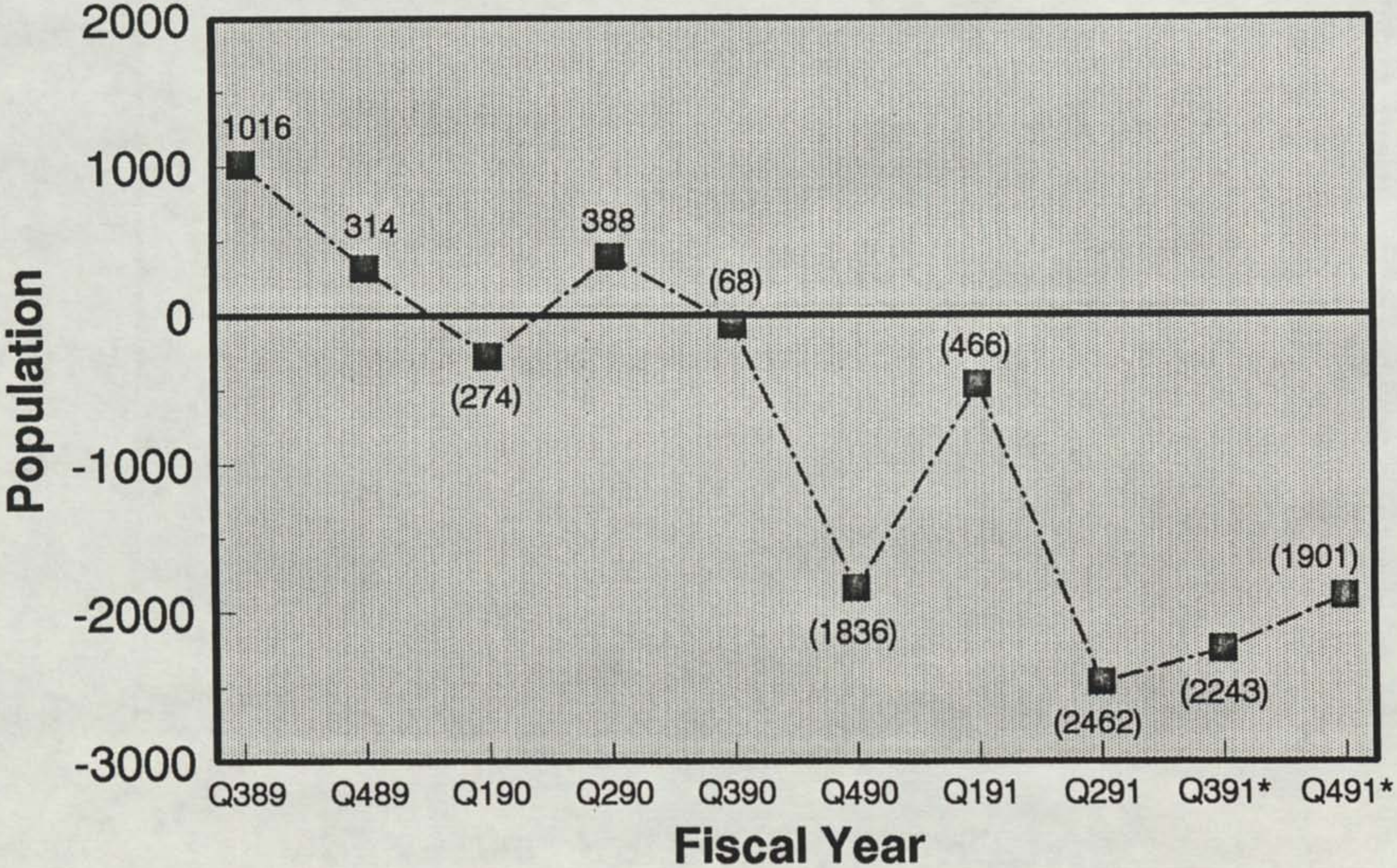
OPERATING PROFIT MARGIN



*Excludes restructuring and acquisitions

CFG:4-jc/dw
QTRLY-B

STAFFING TRENDS
NET HIRES

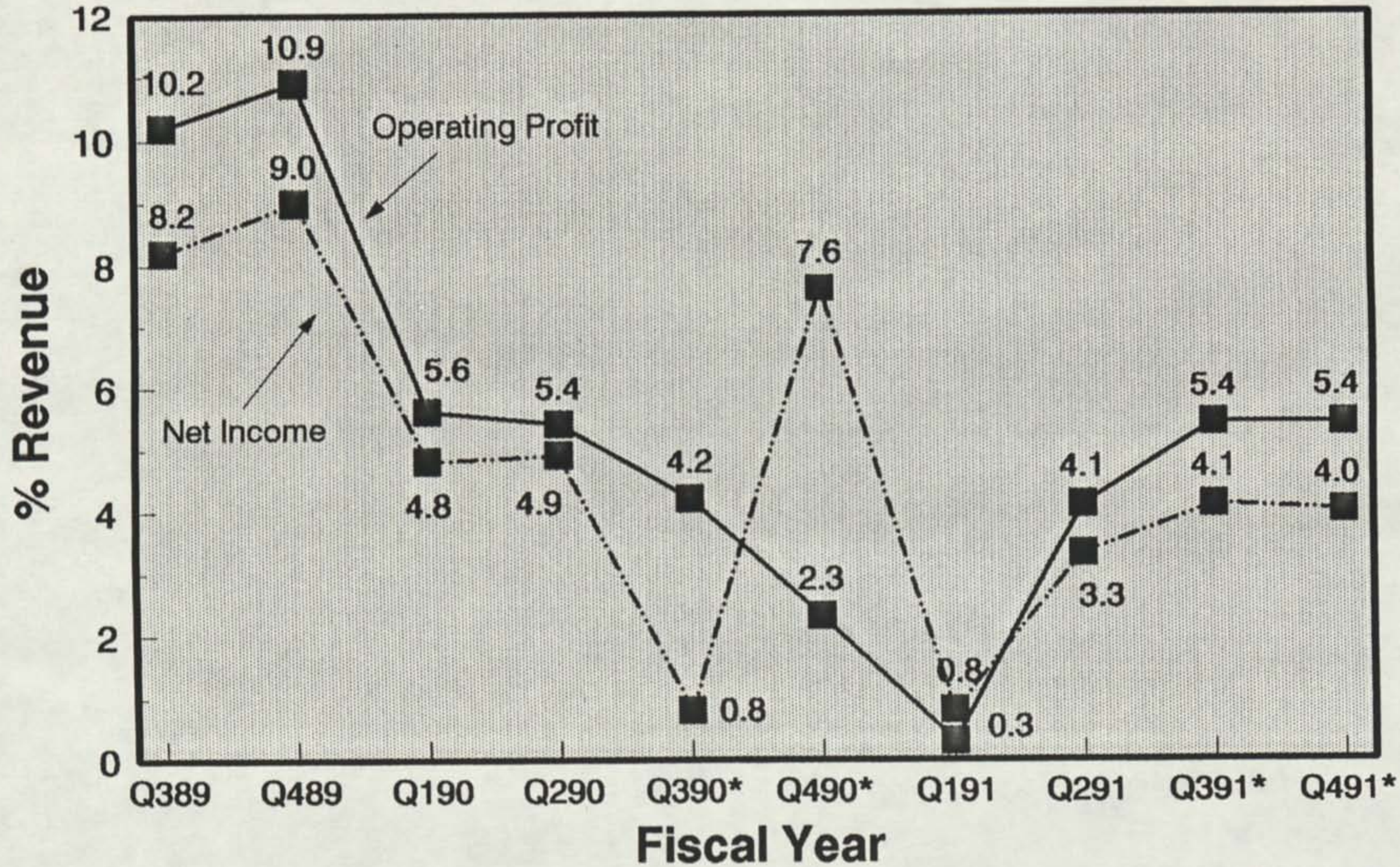


*Excluding Acquisitions

CFG:4-jc/dw
QTRLY-F

OPERATING PROFIT & NET INCOME

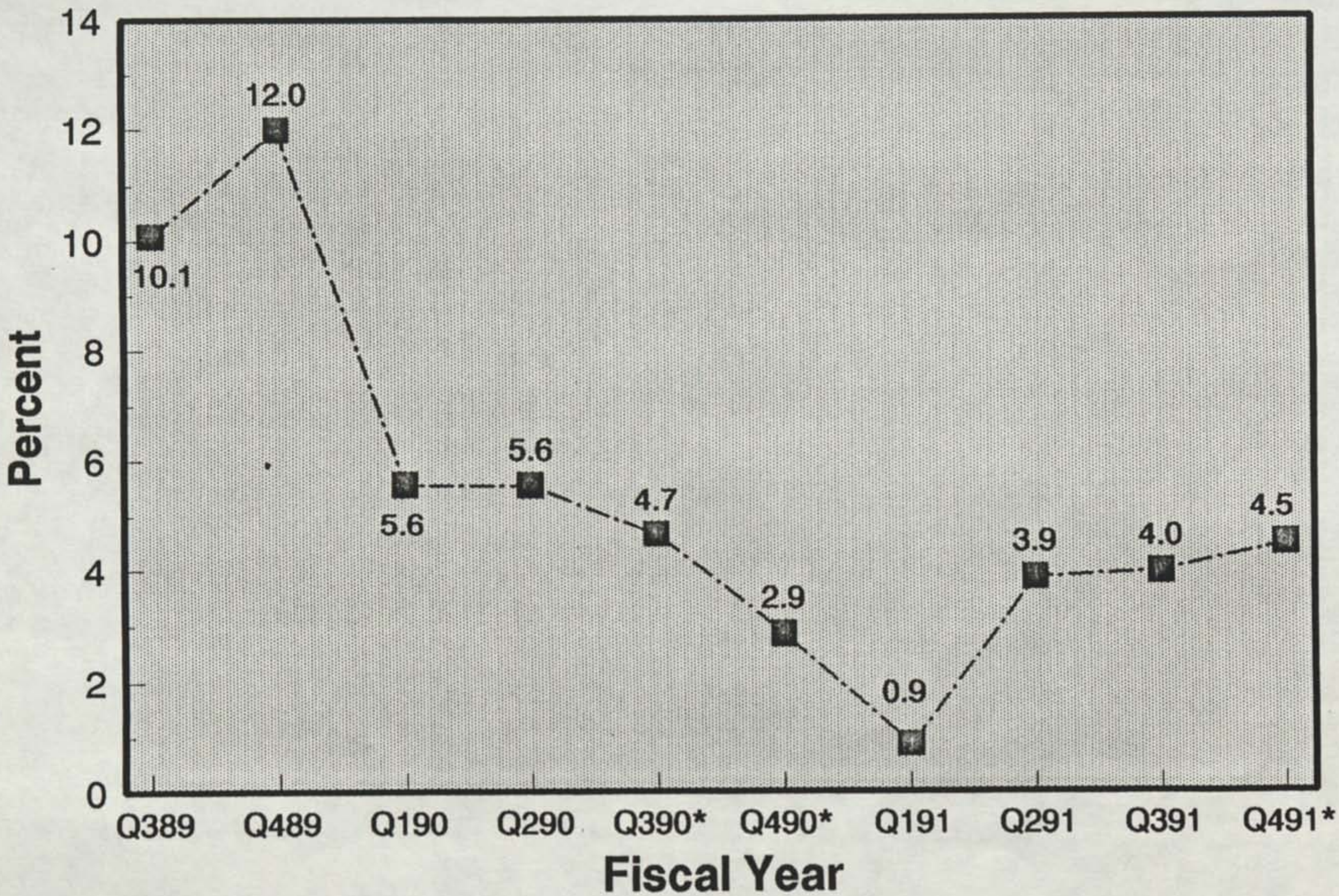
Percent of Revenue



** Excludes restructuring and acquisitions*

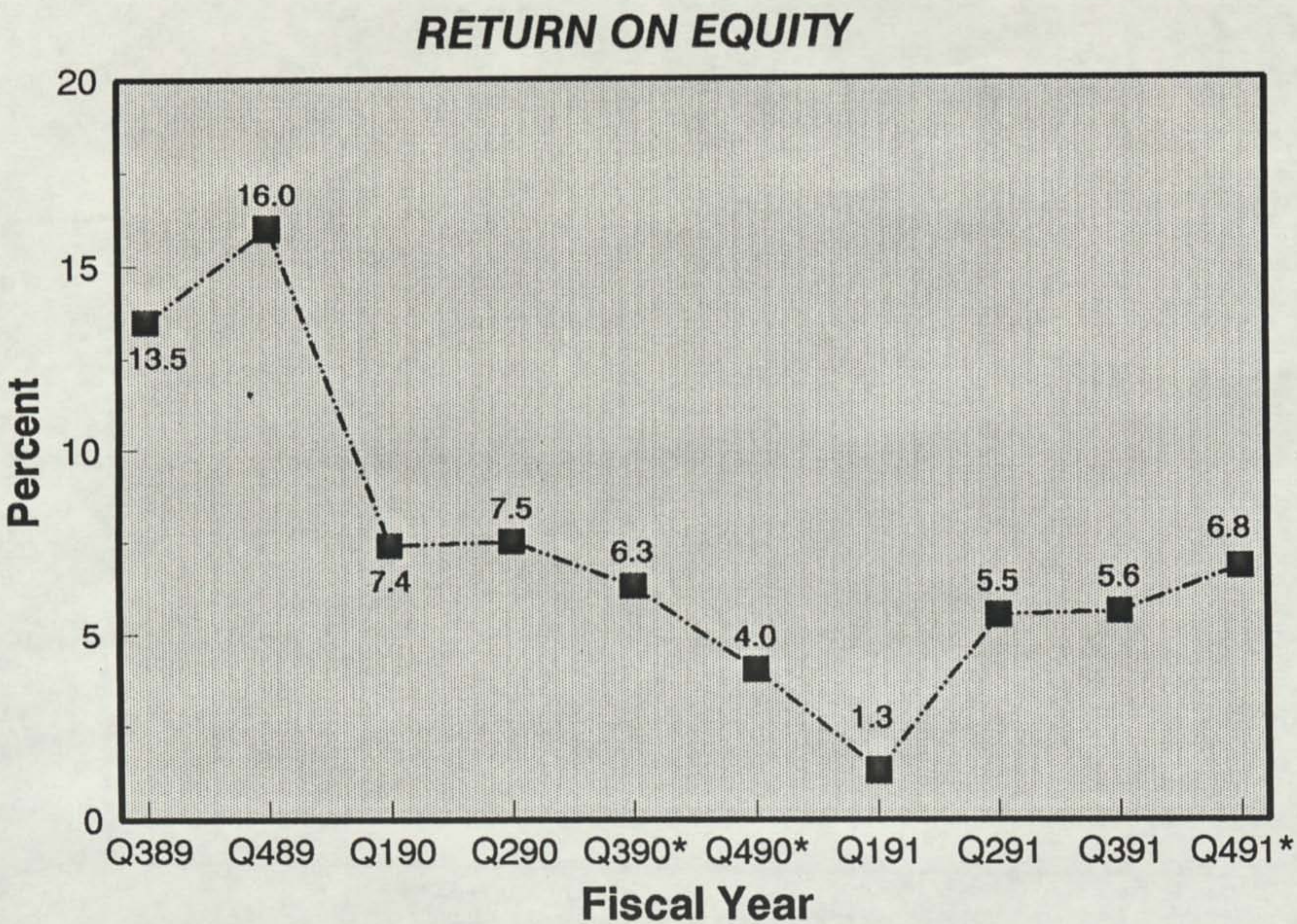
CFG:4-jc/dw
QTRLY-C

RETURN ON ASSETS



*Excluding Restructuring

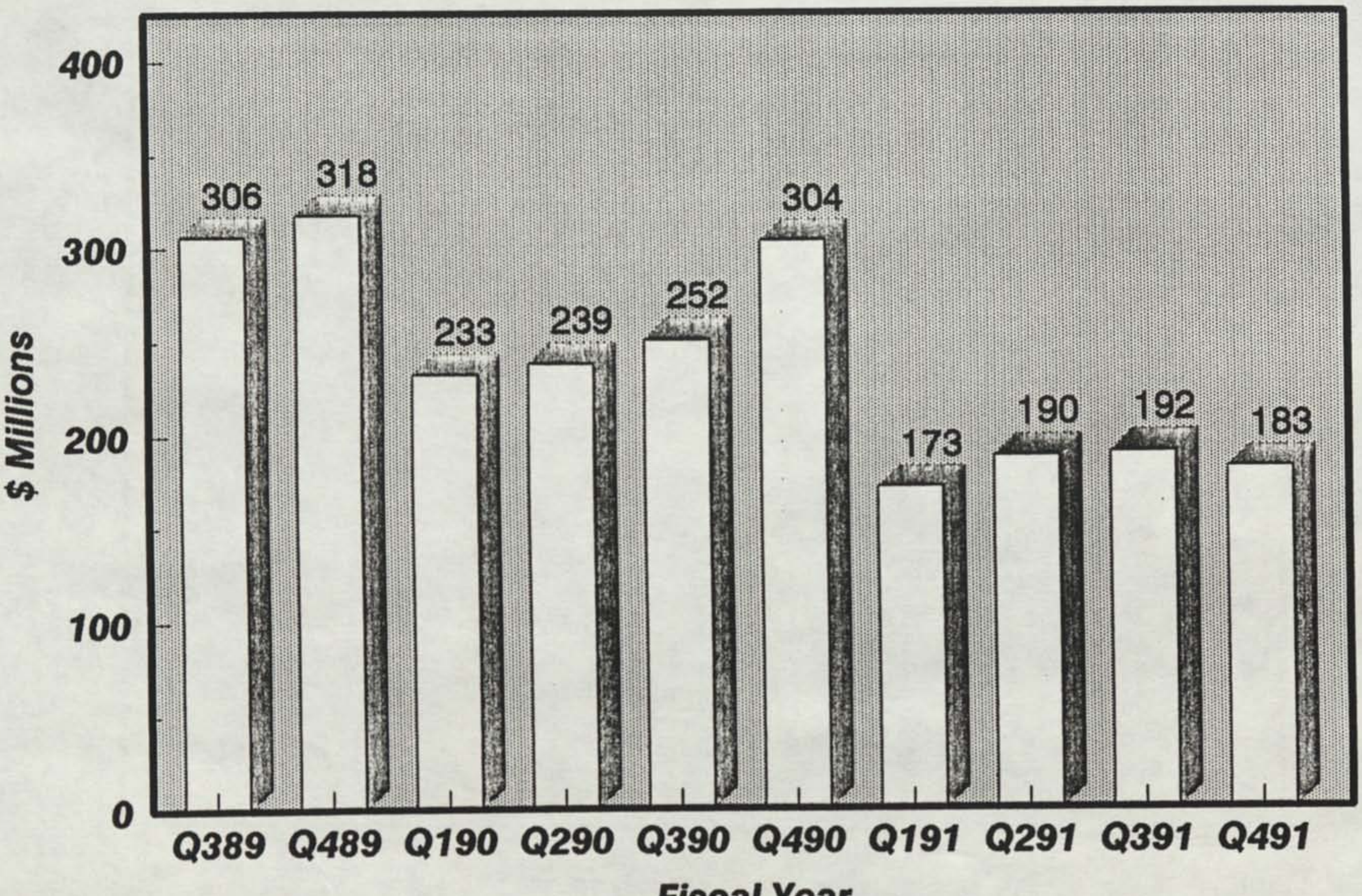
CFG:4-jc/dw
QTRLY-L



*Excluding Restructuring

CFG:4-JC/DW
QTRLY-M

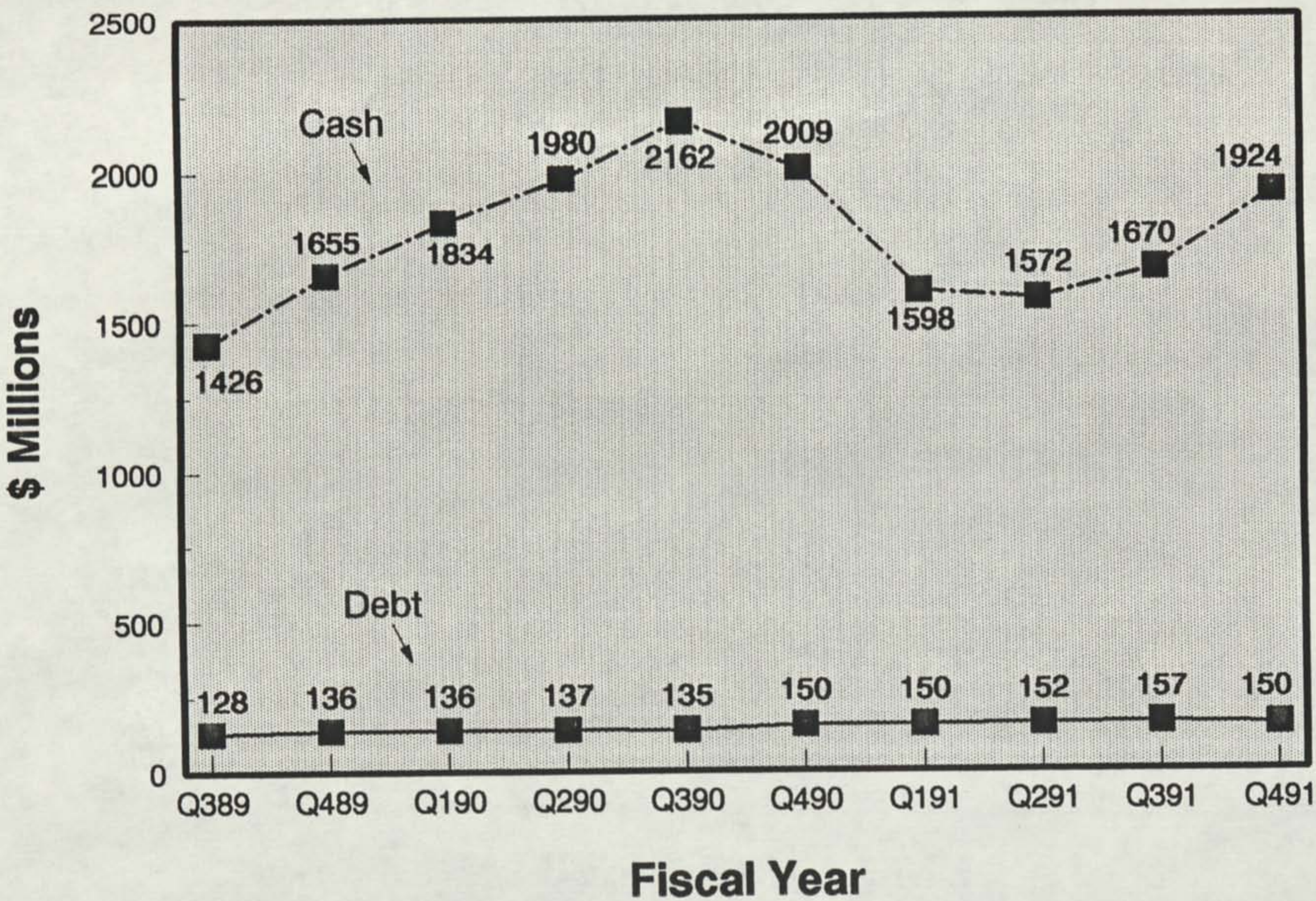
CAPITAL SPENDING*



*Excludes acquisitions

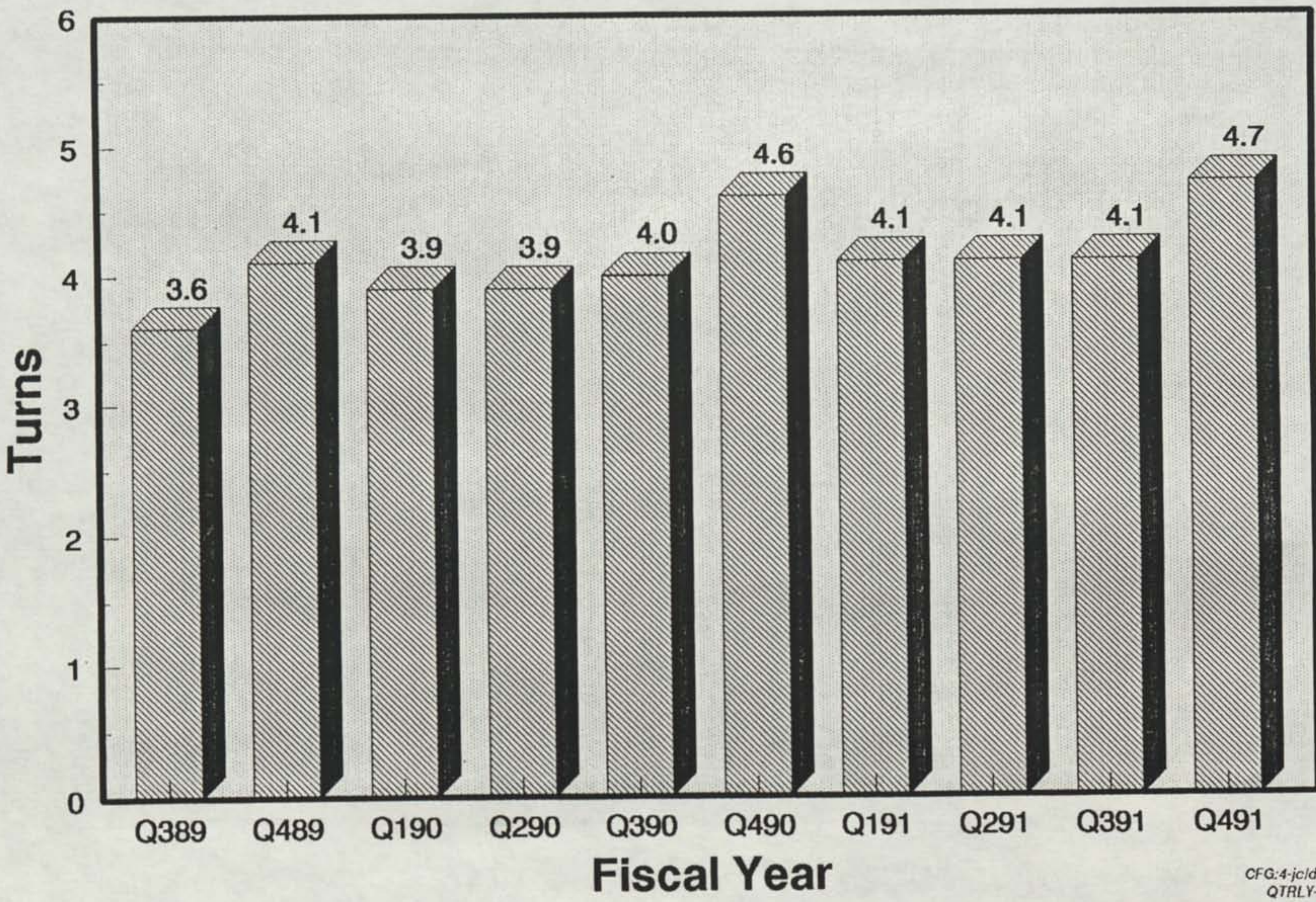
CFG:4-jc/dw
QTRLY-J

CASH AND LONG TERM DEBT



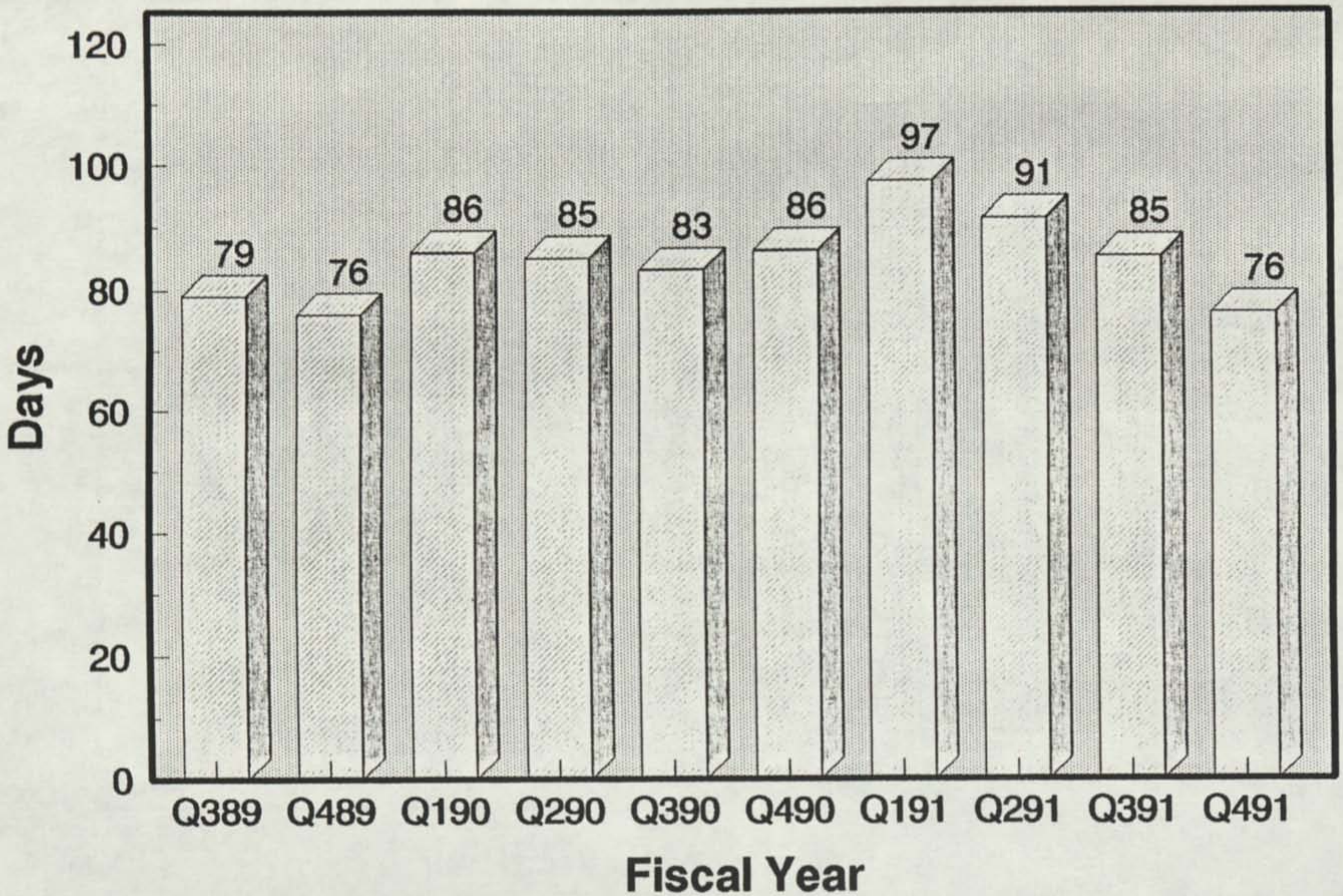
CFG:4-jc/dw
QTRLY-K

INVENTORY TURNS



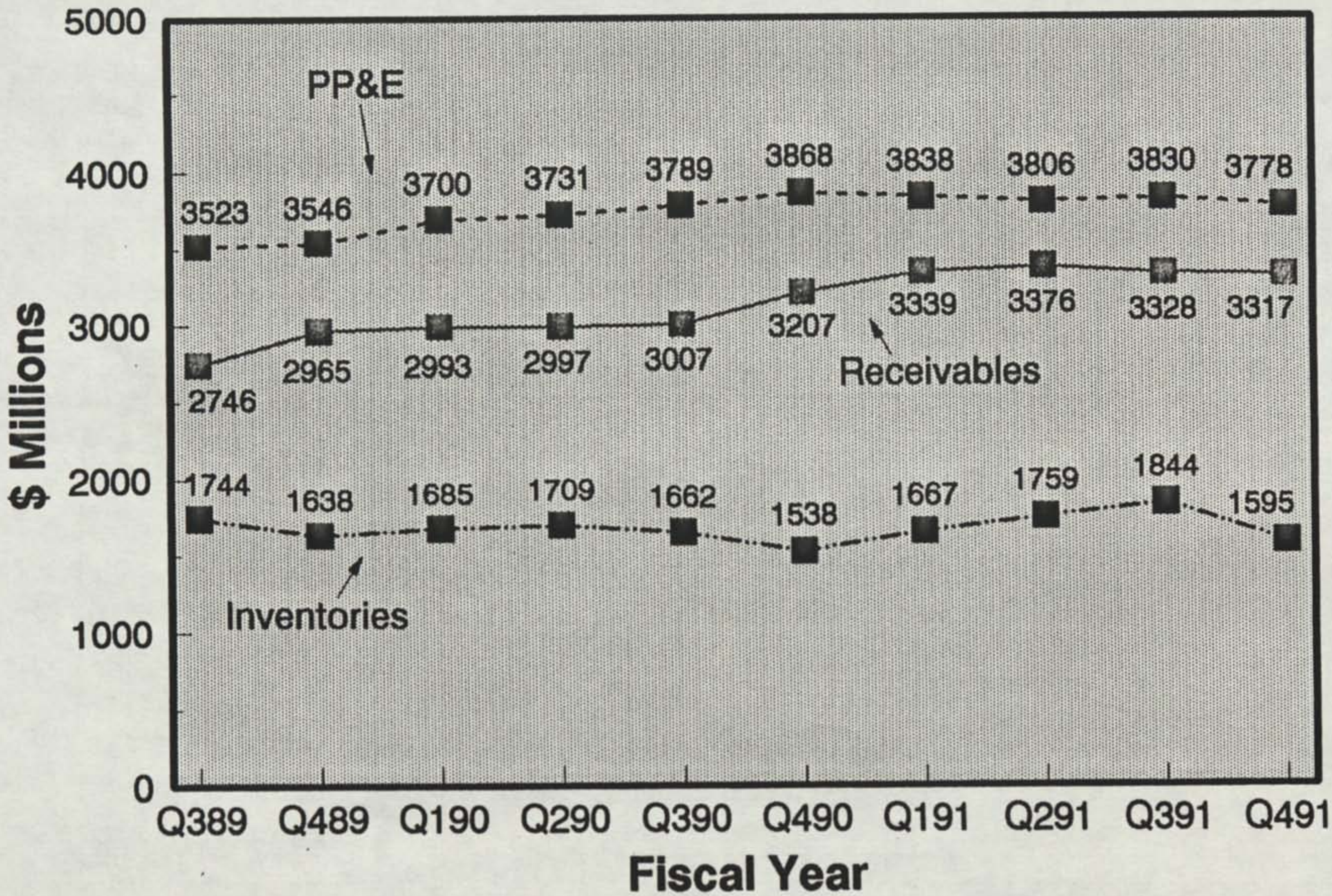
CFG:4-jc/dw
QTRLY-H

DAYS SALES OUTSTANDING



CFG:4-jc/dw
QTRLY-I

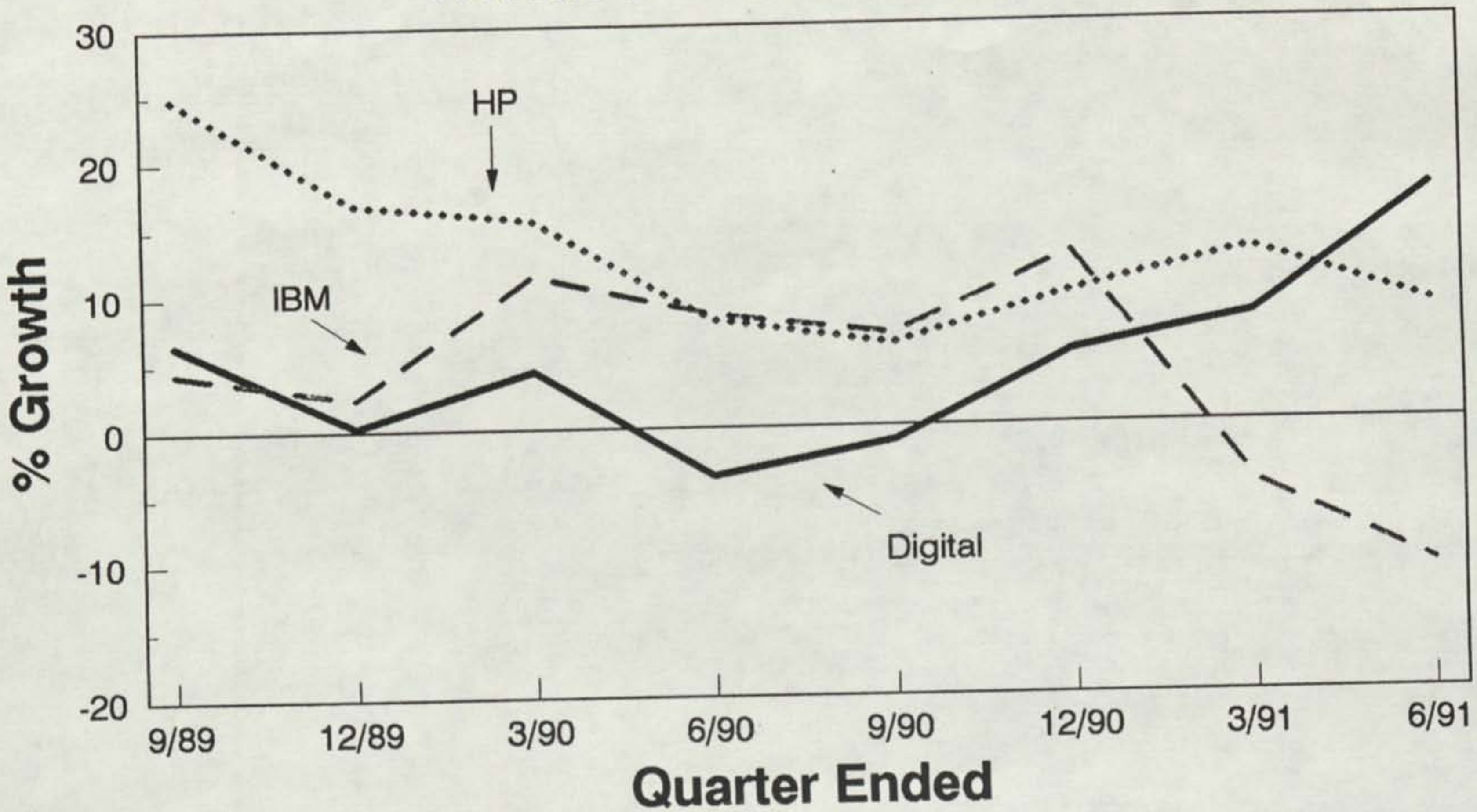
Operating Assets



CFG:4-jc/dw
QTRLY-G

Digital versus IBM and HP

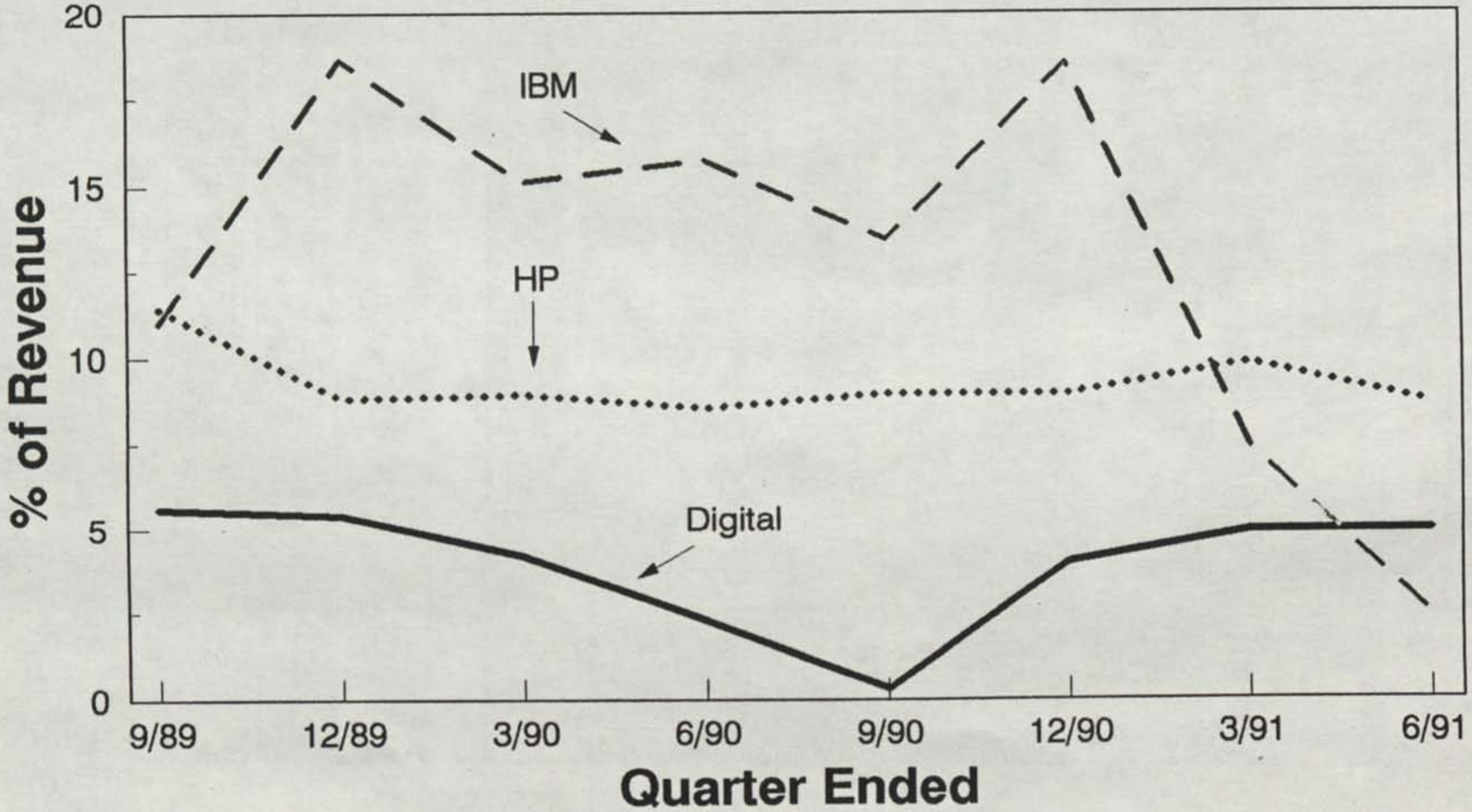
Revenue Growth Trends



CFG:RH1-REVGRO:8/21/91

Digital versus IBM and HP

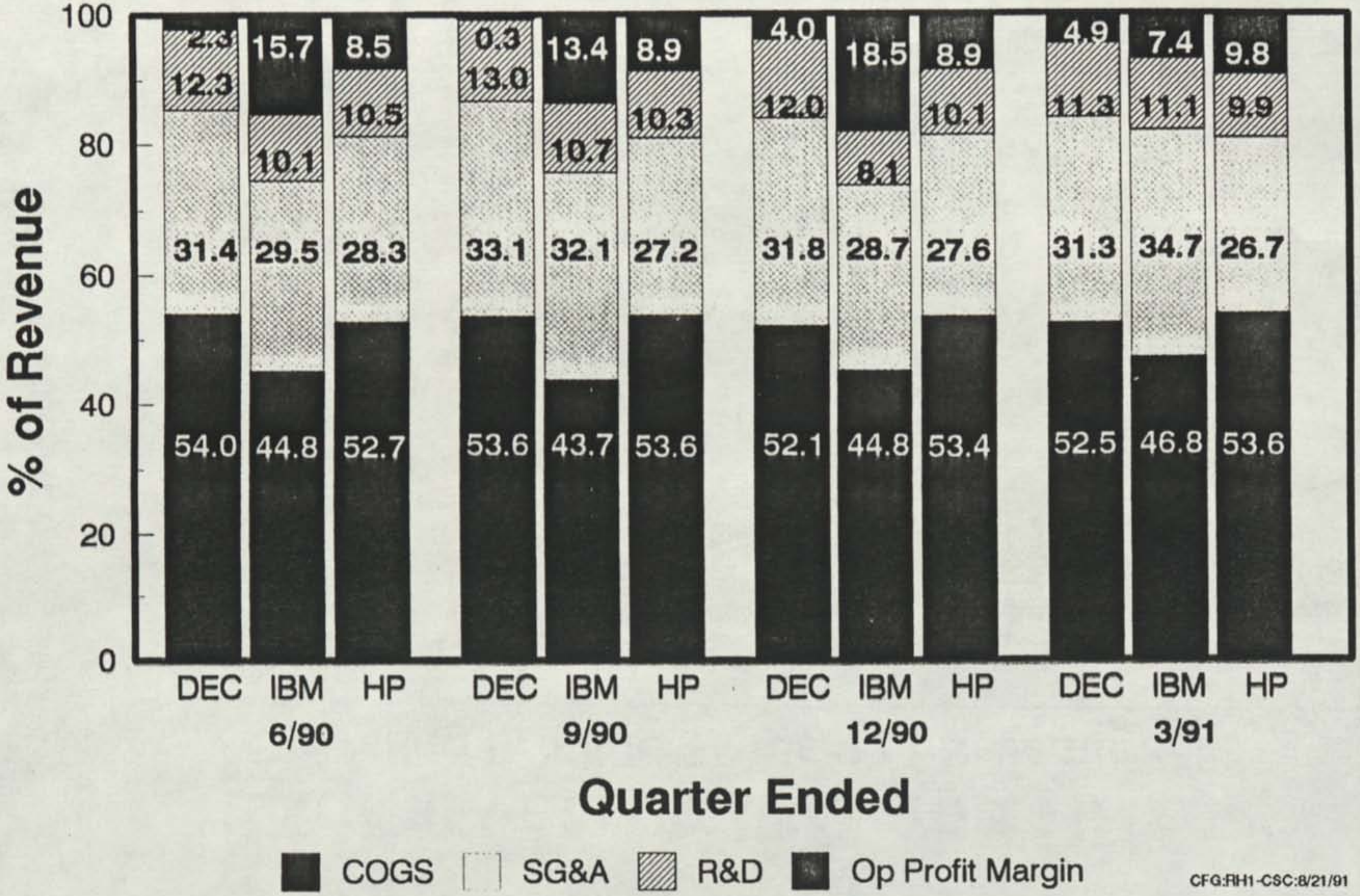
Operating Profit as Percent of Revenue



CFG:RH1-OP:8/21/91

Digital versus IBM and HP

Cost Structure Comparison



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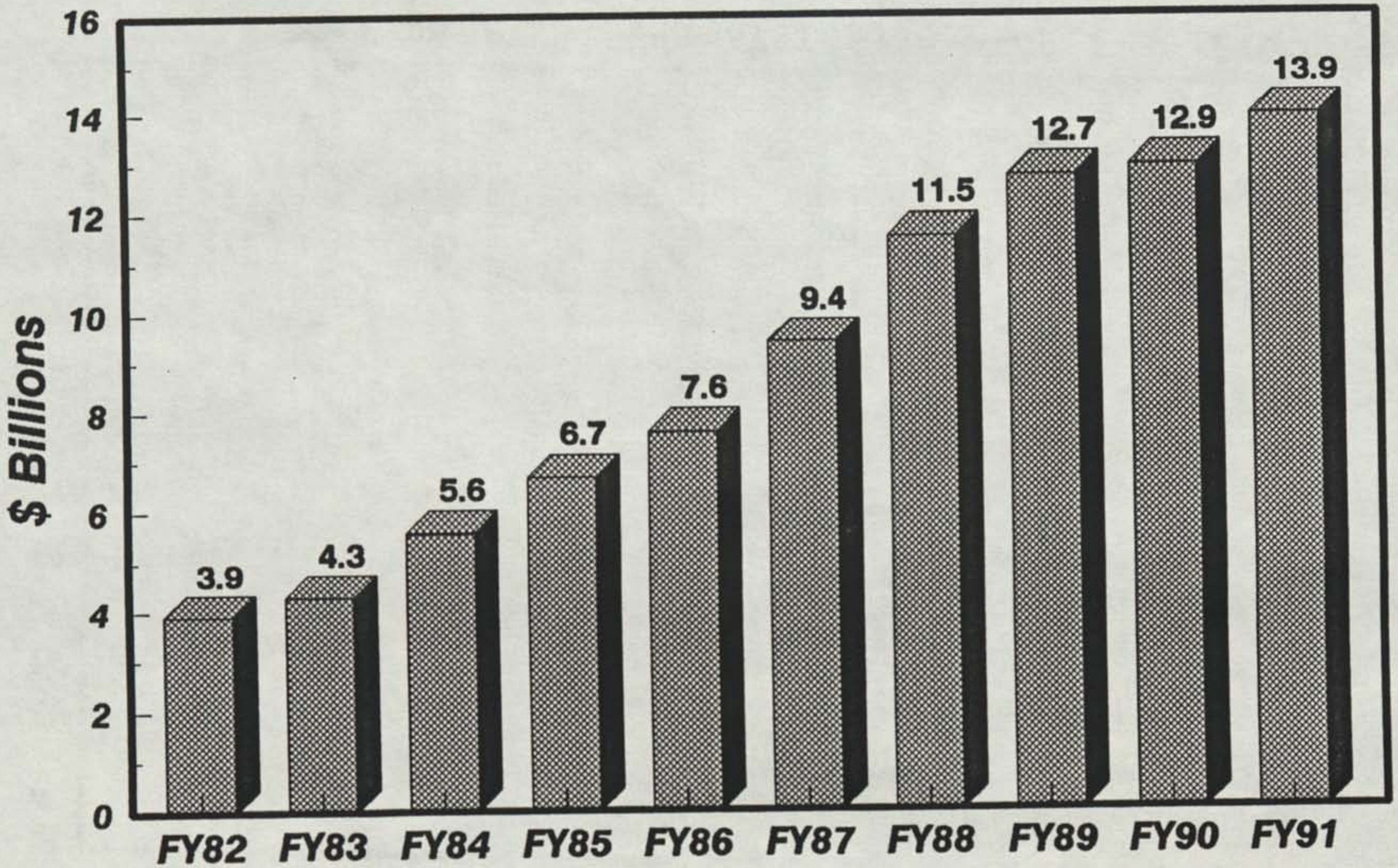
Central
Finance
Group

Ten Years

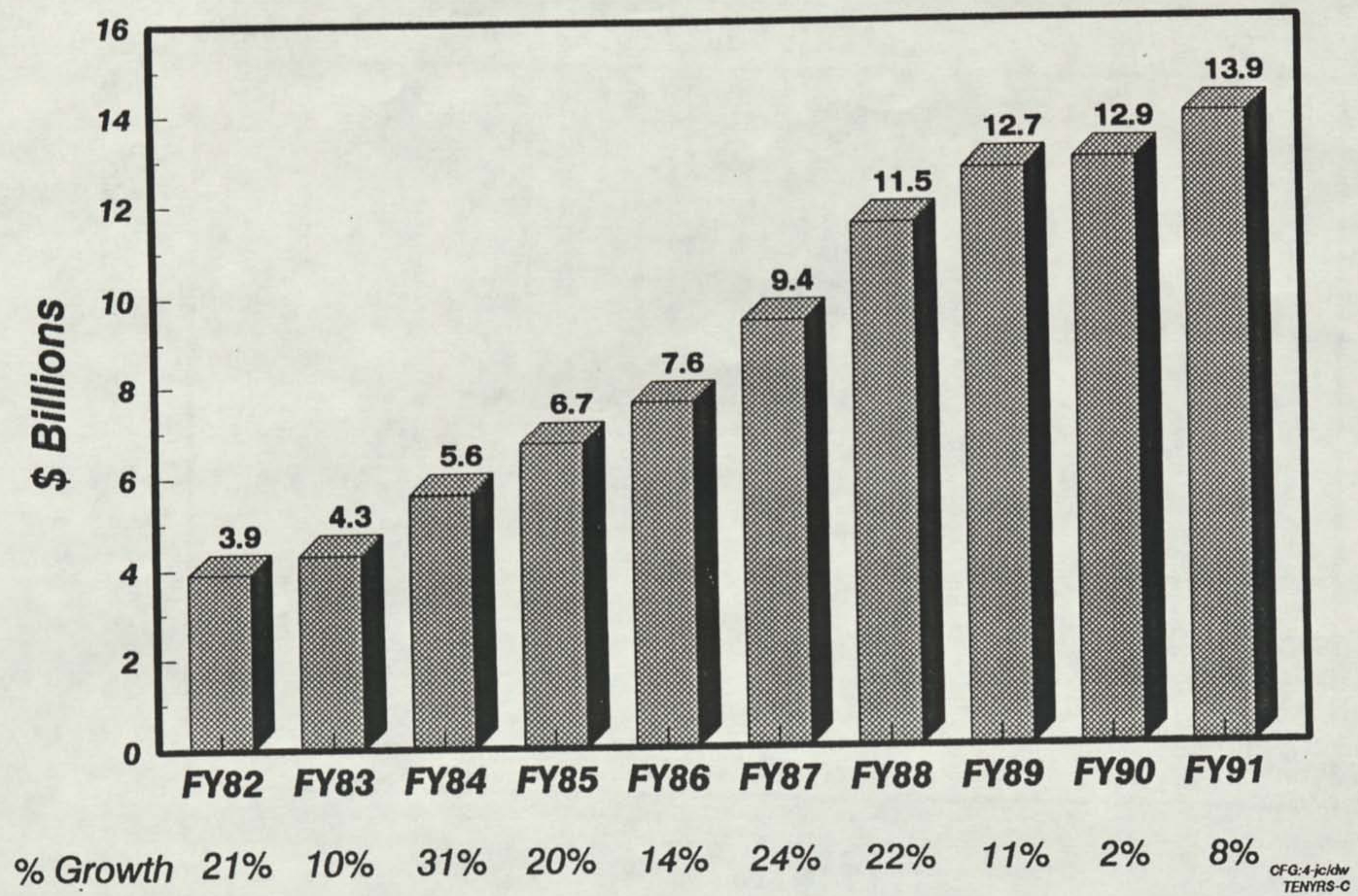
CFG:dd:QTRLYCOVS

REVENUE



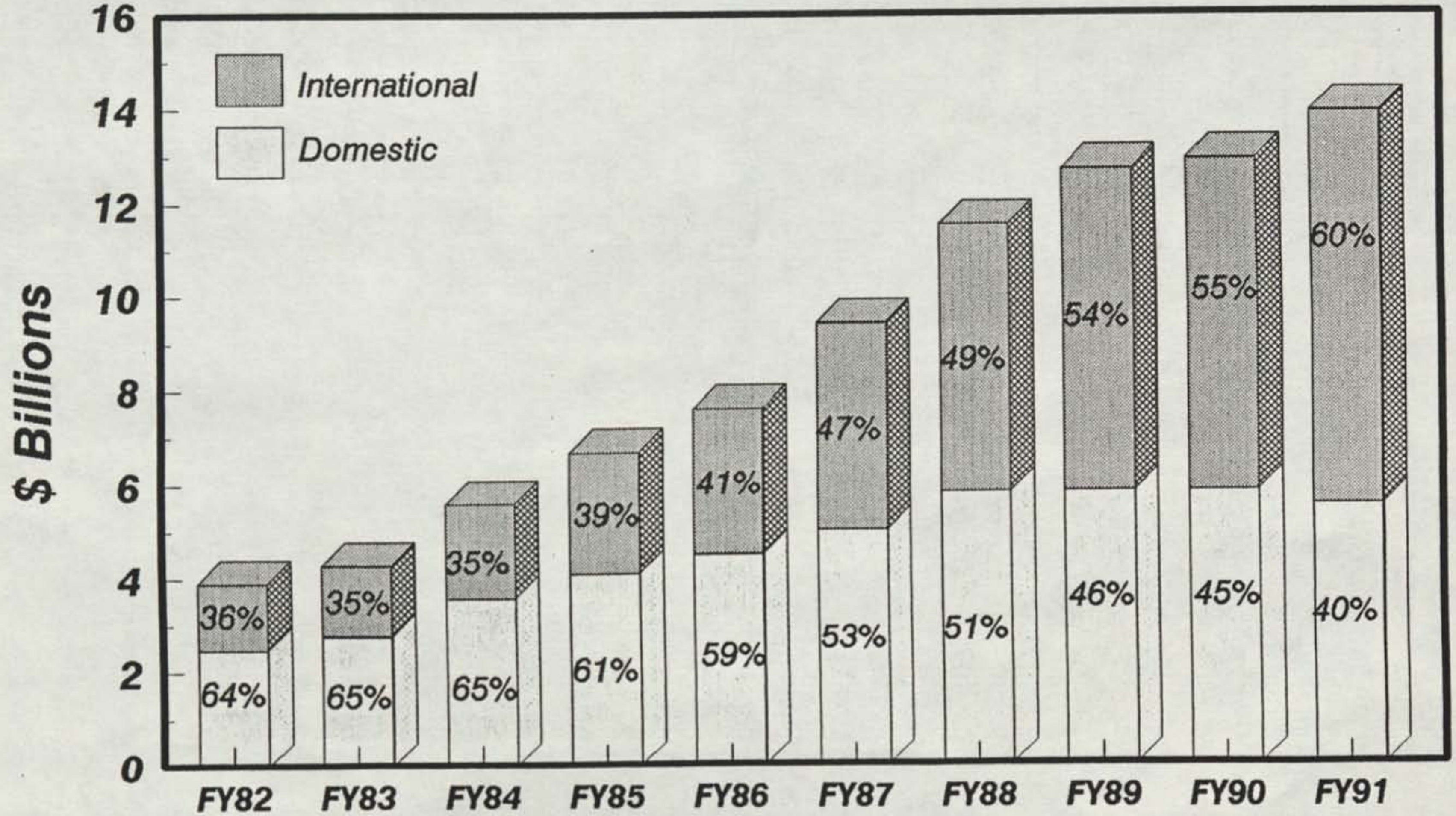
CFG:4-jc/dw
TENYRS-B

REVENUE AND REVENUE GROWTH RATES



COMPOSITION OF REVENUE

Domestic and International

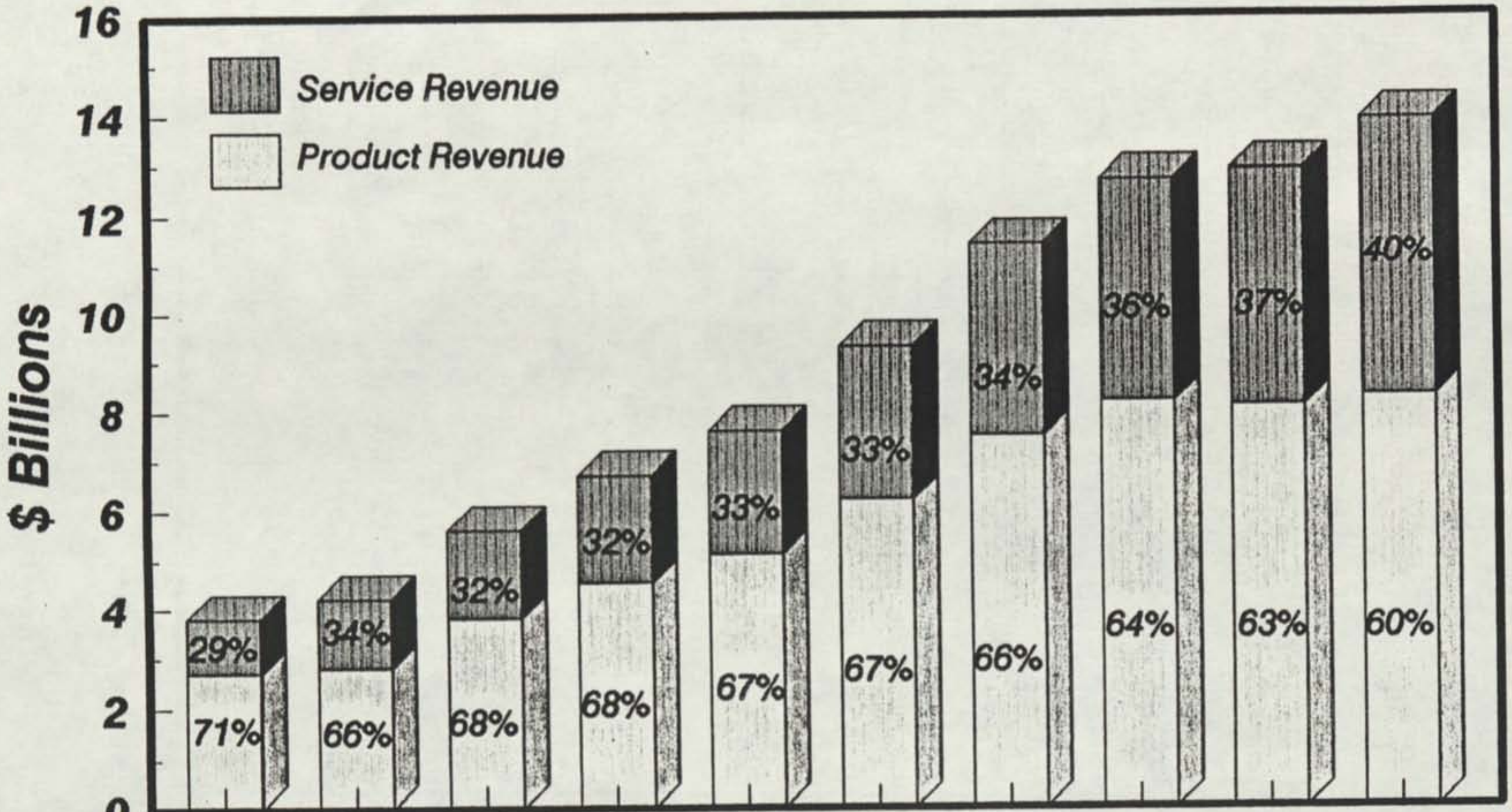


	FY82	FY83	FY84	FY85	FY86	FY87	FY88	FY89	FY90	FY91
Domestic $B	2.5	2.8	3.6	4.1	4.5	5.0	5.8	5.8	5.8	5.5
International $B	1.4	1.5	2.0	2.6	3.1	4.4	5.7	6.9	7.1	8.4

CFG:4-jc/dw
TENYRS-D

COMPOSITION OF REVENUE

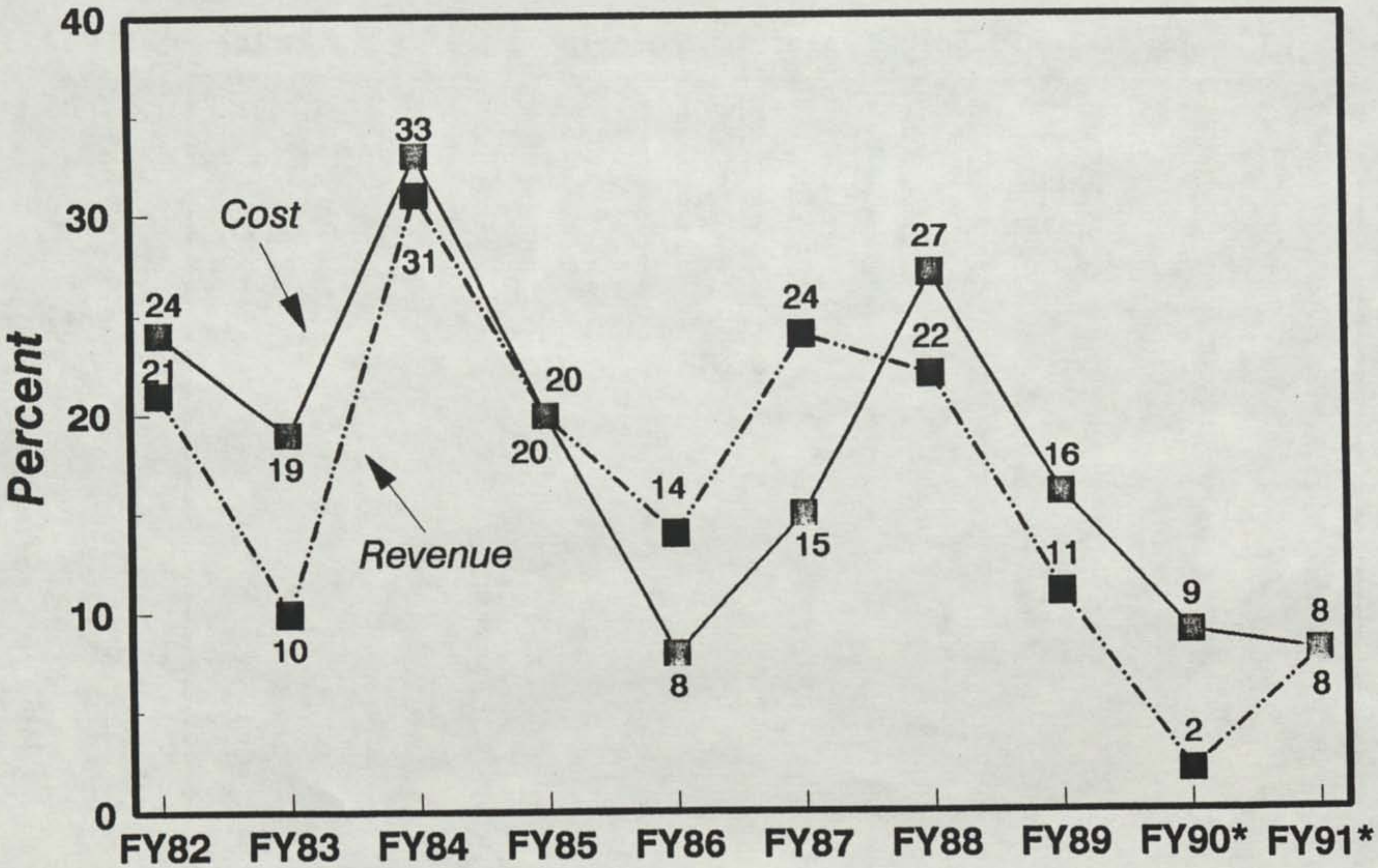
Products and Services



	FY82	FY83	FY84	FY85	FY86	FY87	FY88	FY89	FY90	FY91
Product $B	2.7	2.8	3.8	4.5	5.1	6.2	7.5	8.2	8.1	8.3
Service $B	1.1	1.4	1.8	2.2	2.5	3.1	3.9	4.5	4.8	5.6

CFG:4-jc/dw
TENYRS-E

REVENUE AND COST GROWTH RATES

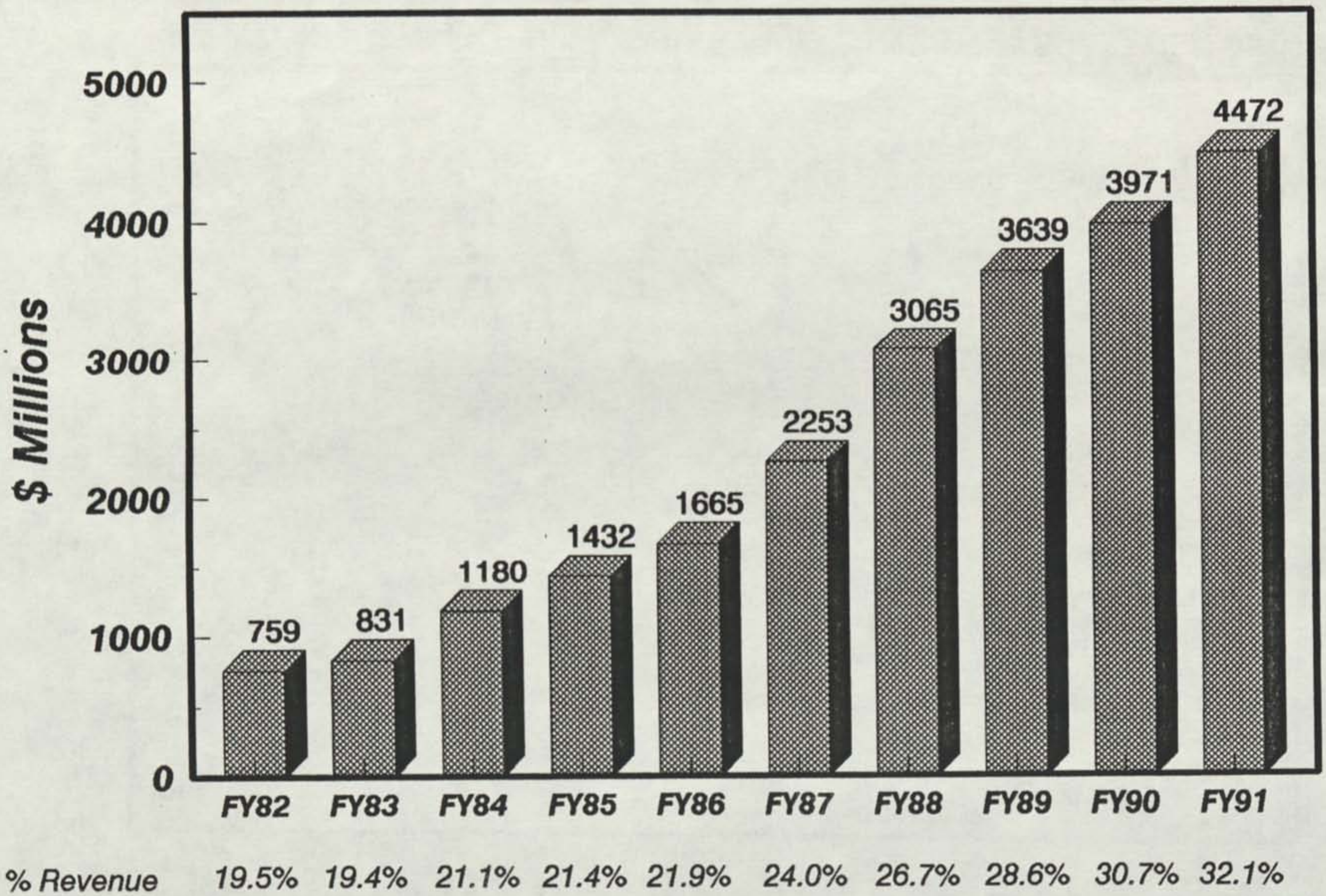


	FY82	FY83	FY84	FY85	FY86	FY87	FY88	FY89	FY90*	FY91*
Operating Margin %	*15.1%*	*8.5%*	*7.1%*	*6.7%*	*10.9%*	*17.2%*	*14.2%*	*10.5%*	*4.3%*	*3.7%*

*Excluding Restructuring

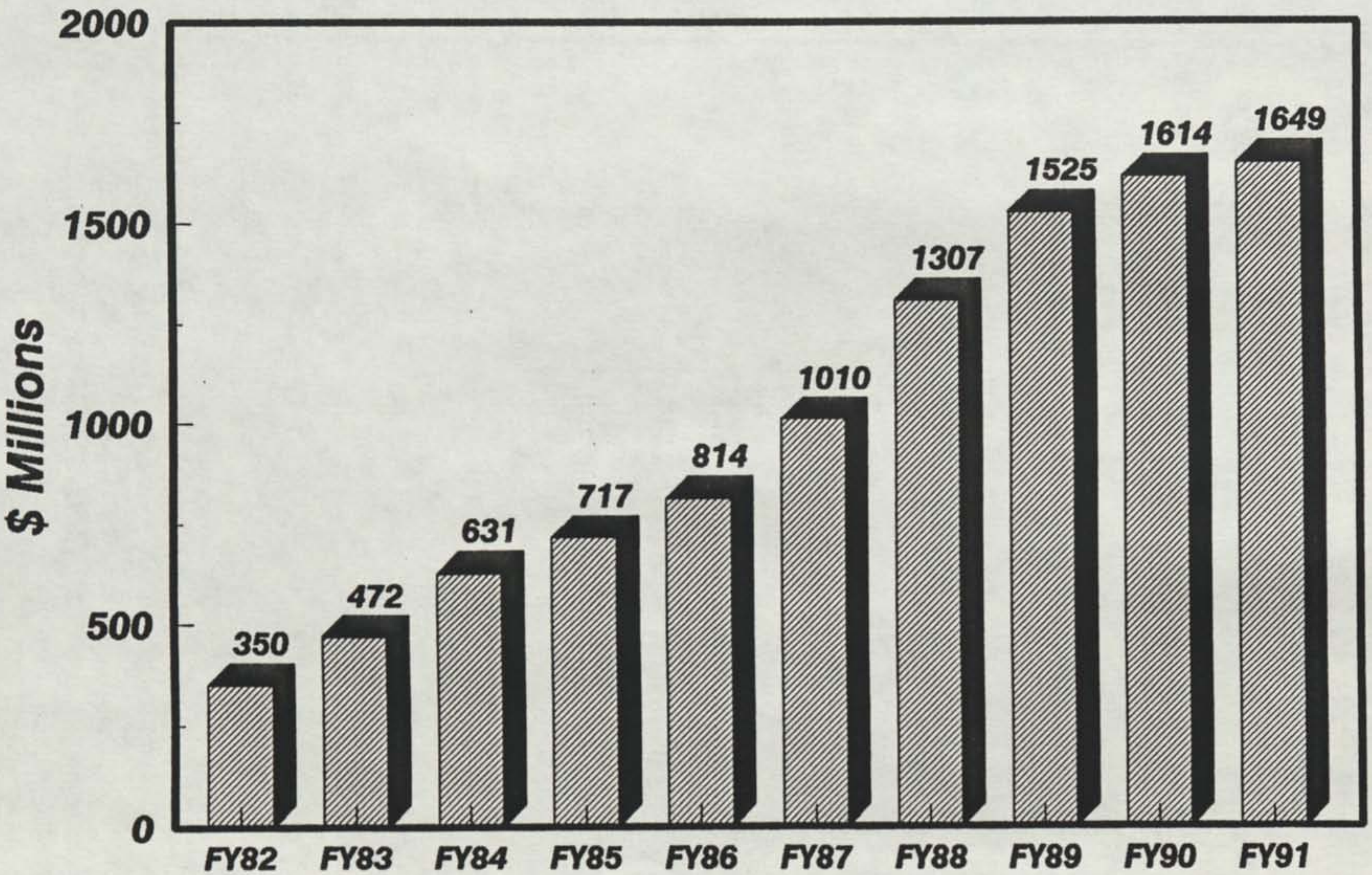
CFG:4-jc/dw
TENYRS-A

SALES, GENERAL & ADMINISTRATIVE



CFG:4-jc/dw
TENYRS-H

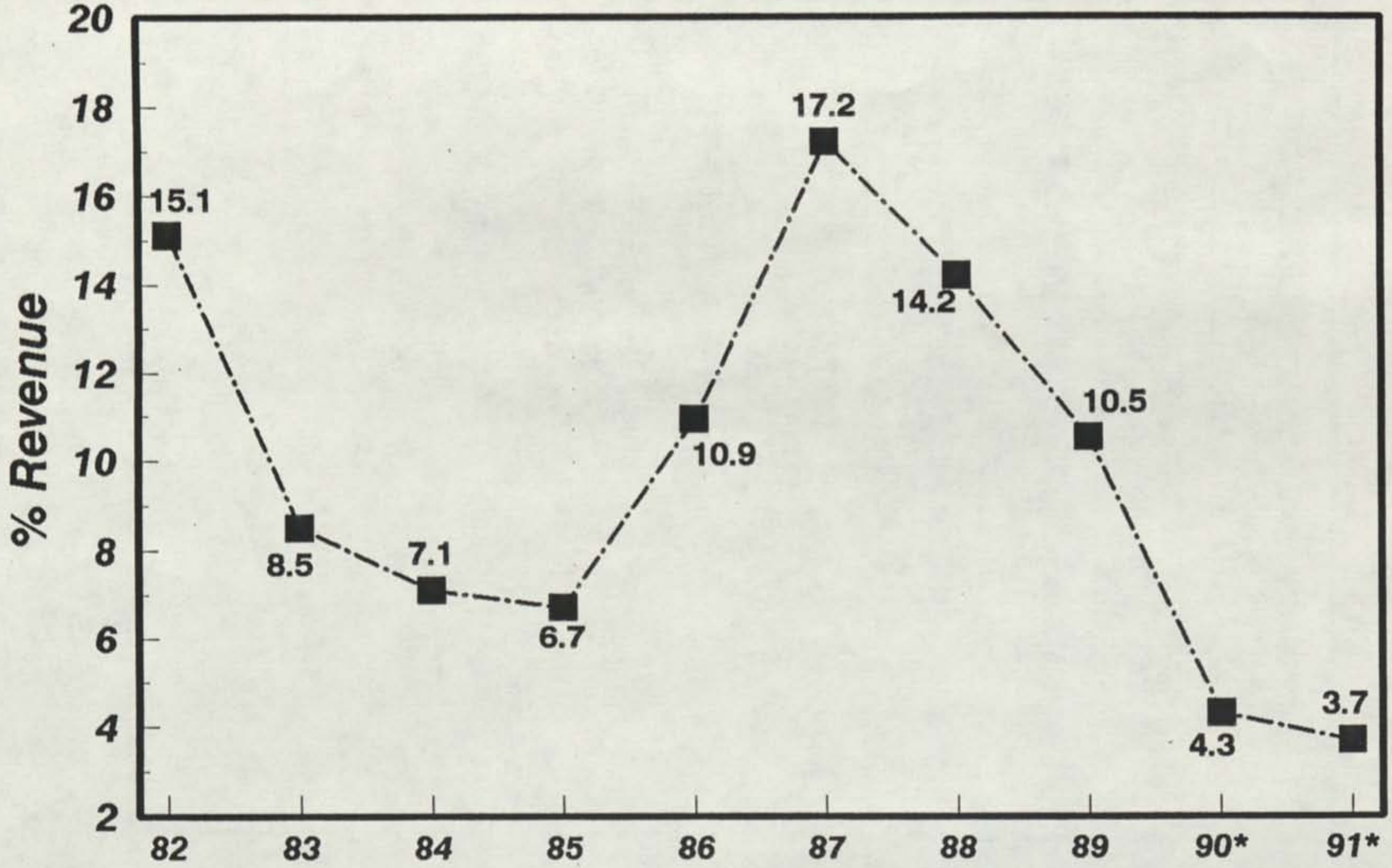
RESEARCH & ENGINEERING EXPENSE



% Revenue 9.0% 11.1% 11.3% 10.7% 10.7% 10.8% 11.4% 12.0% 12.5% 11.9%

CFG:4-jo/dw
TENYRS-G

OPERATING PROFIT MARGIN

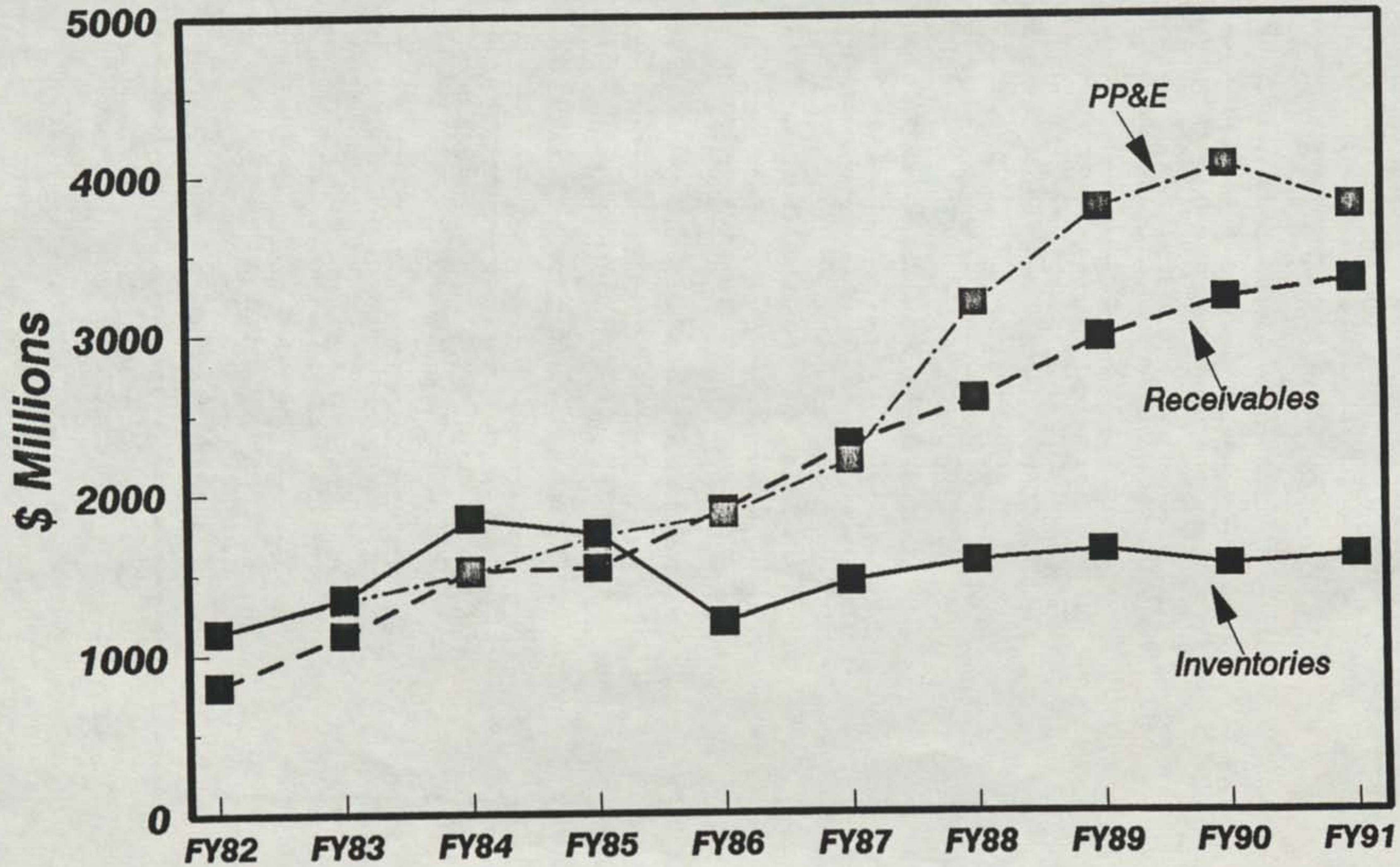


Operating Profit $ Mils	$585	$363	$395	$450	$829	$1612	$1635	$1336	$563	$512

*Excluding Restructuring

CFG:4-jc/dw
TENYRS-F

OPERATING ASSETS



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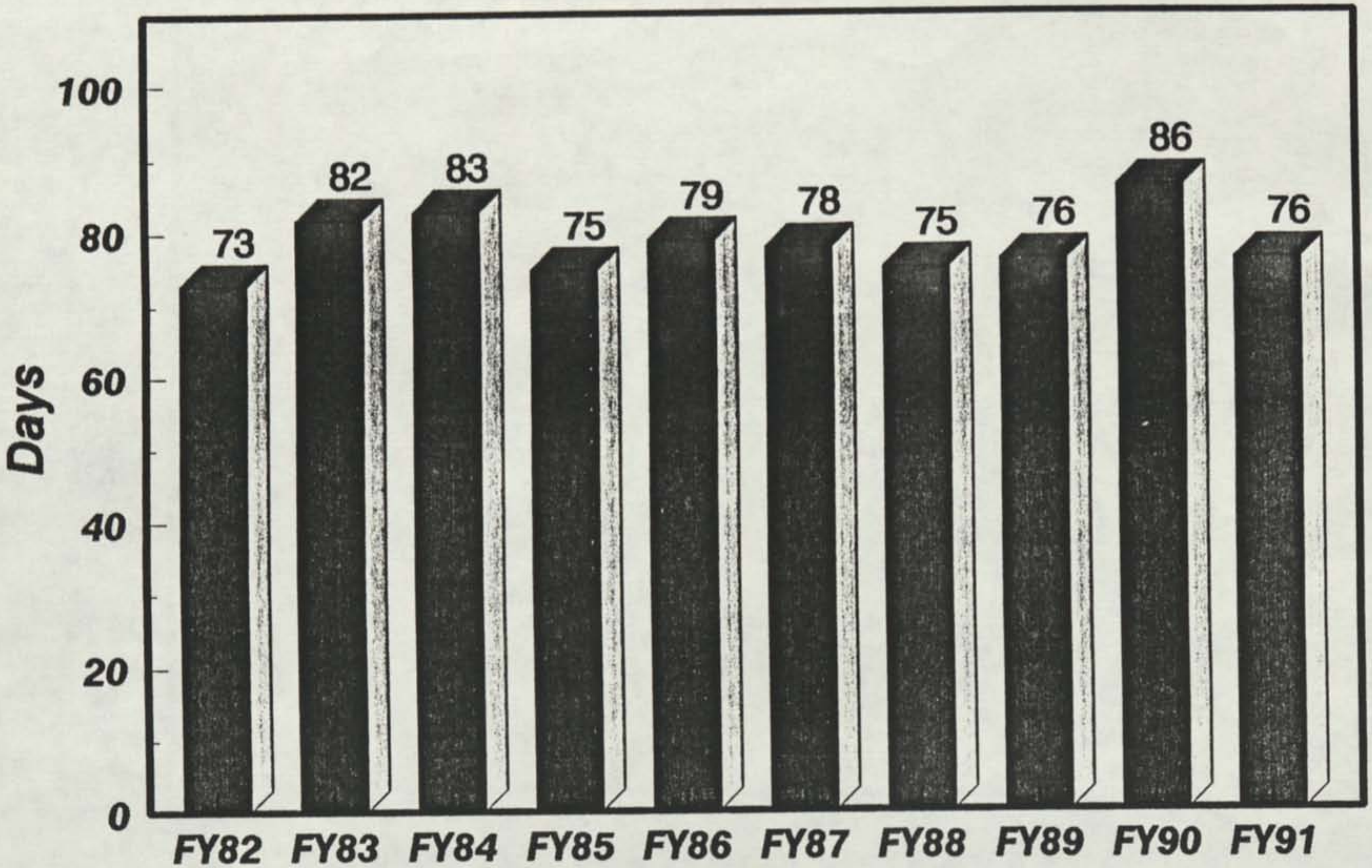
TENYRS-I

DAYS SALES OUTSTANDING



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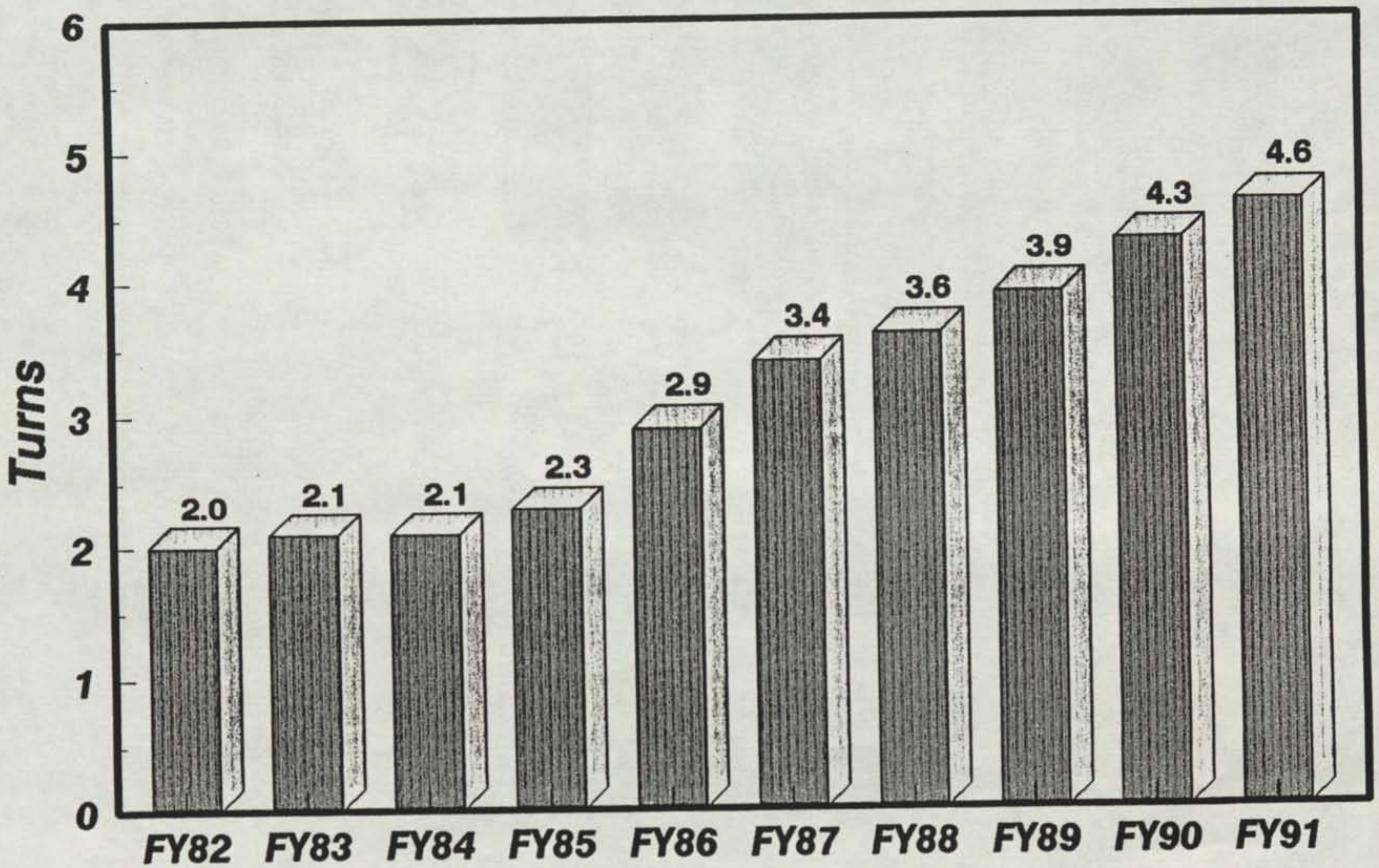
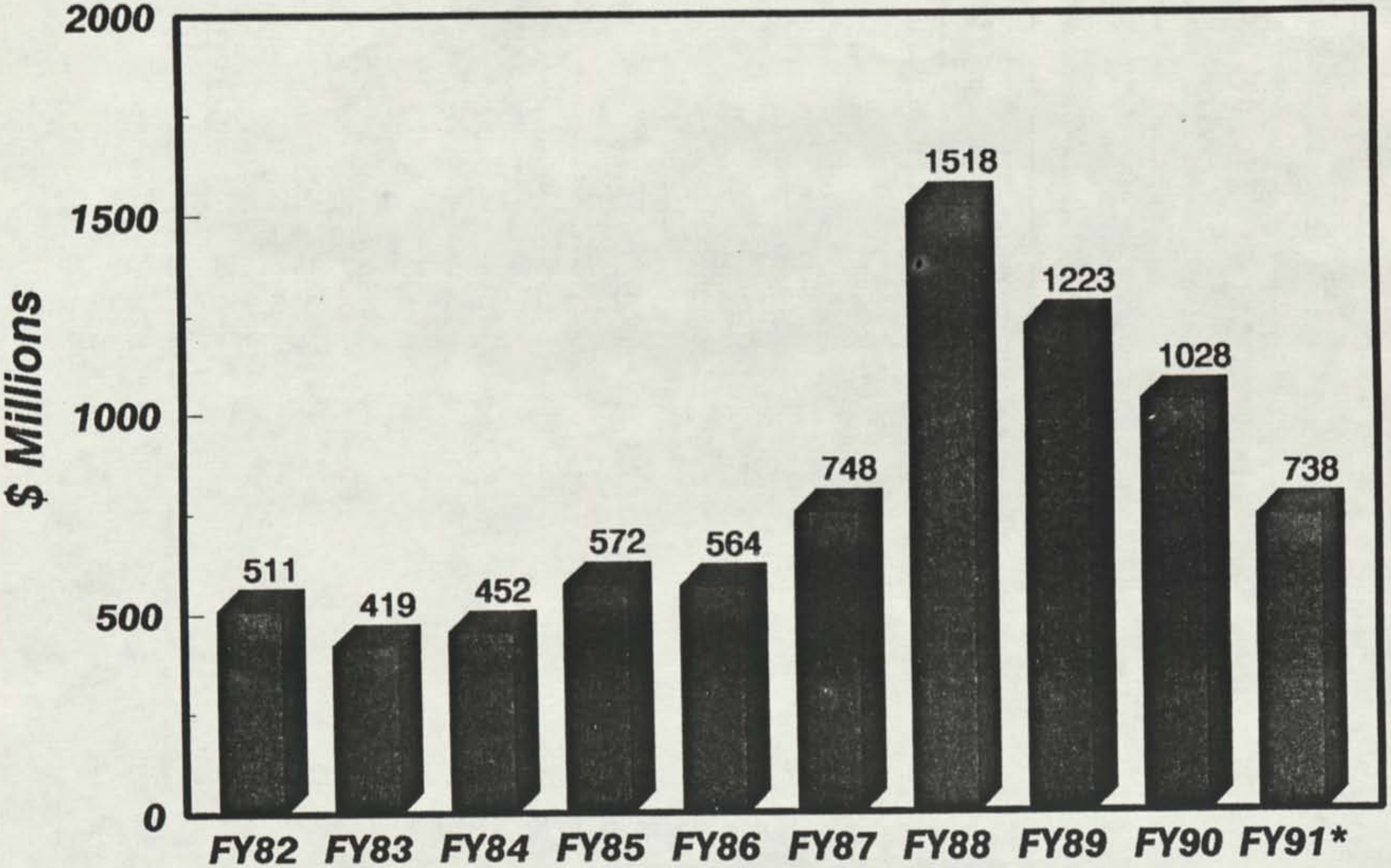
TENYRS-J

INVENTORY TURNS



CFG:4-jc/dw
TENYRS-K

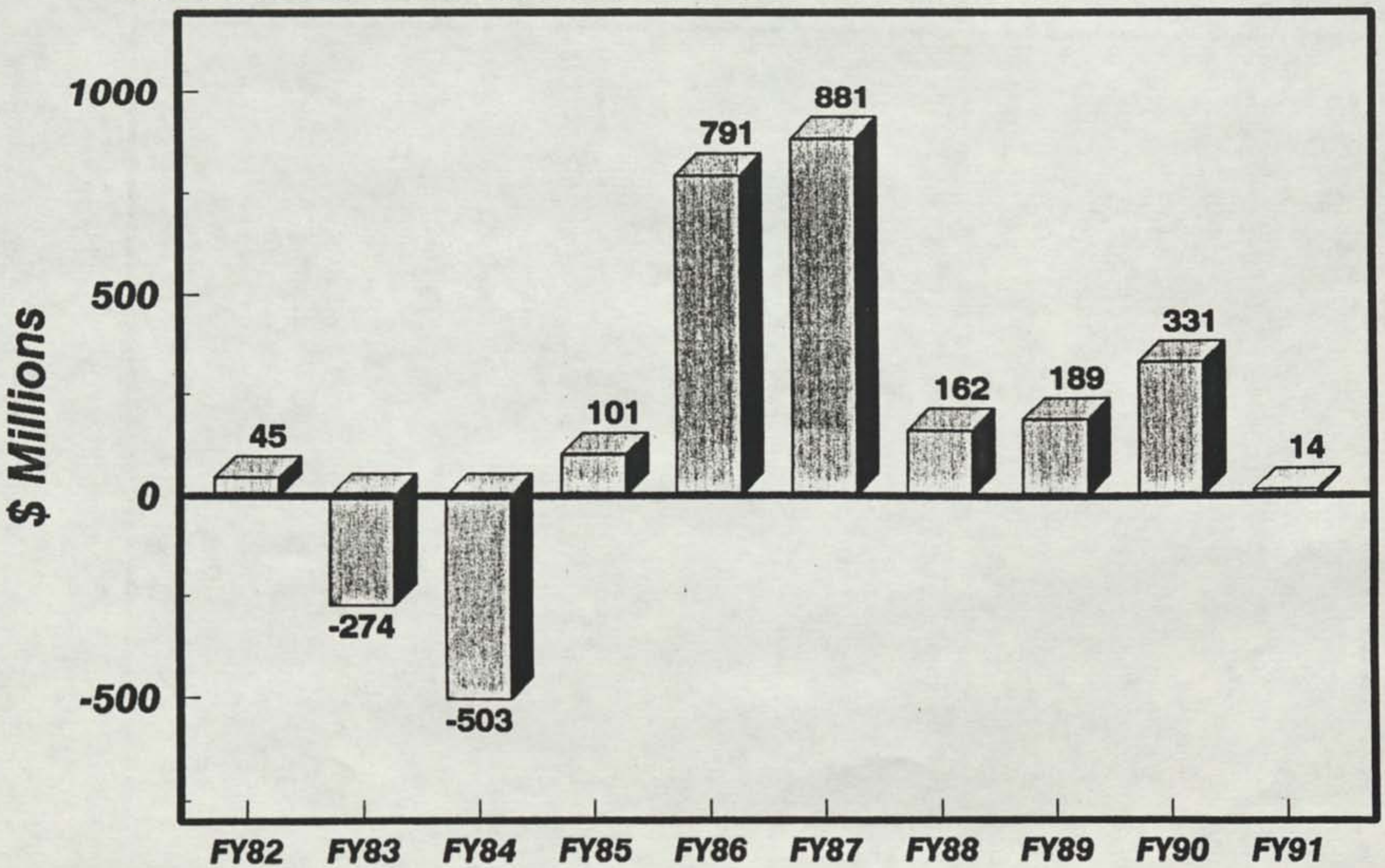
CAPITAL SPENDING



*Excluding Kienzle acquisition

CFG:4-jc/dw
TENYRS-L

CASH FLOW FROM OPERATIONS



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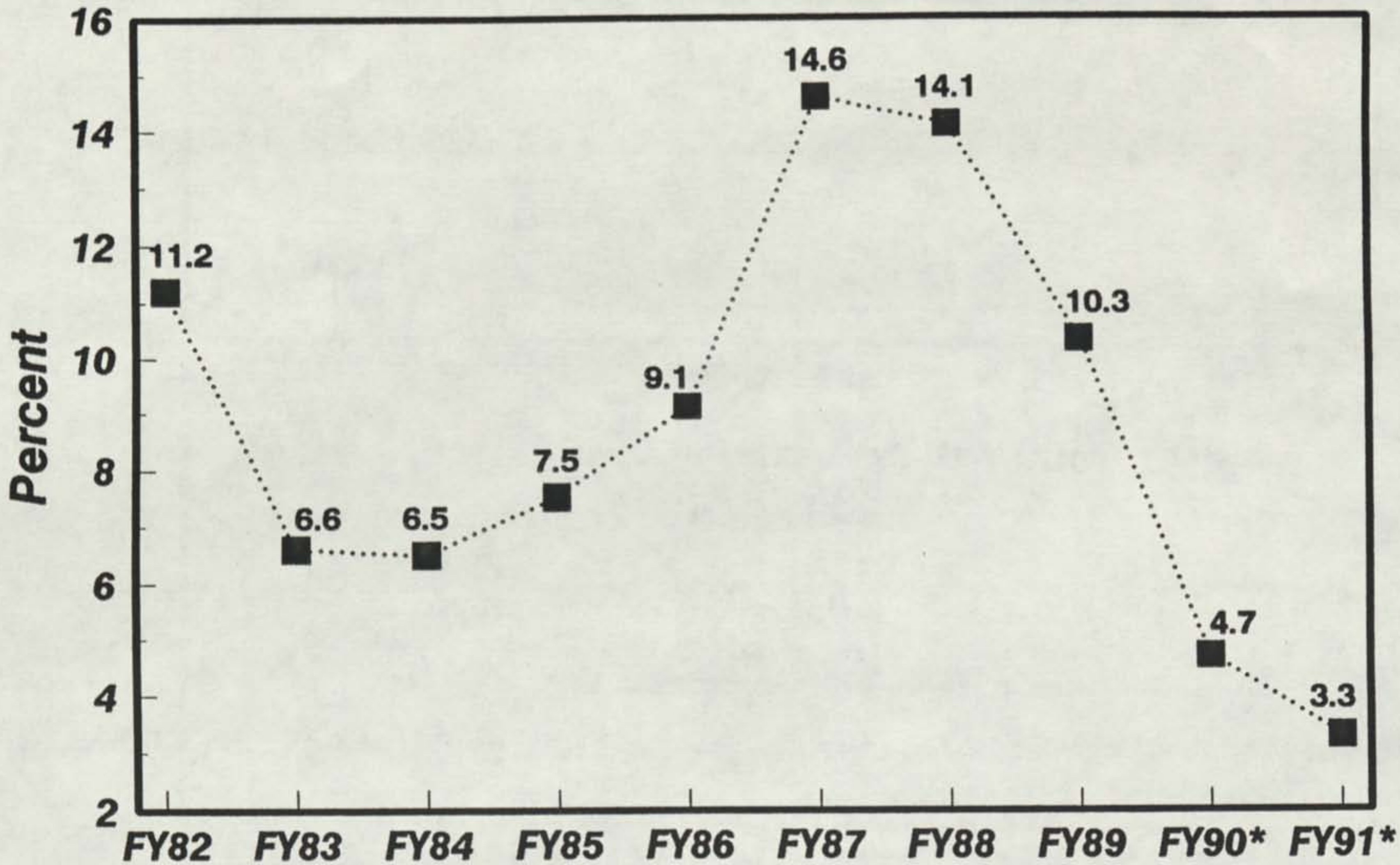
TENYRS-V

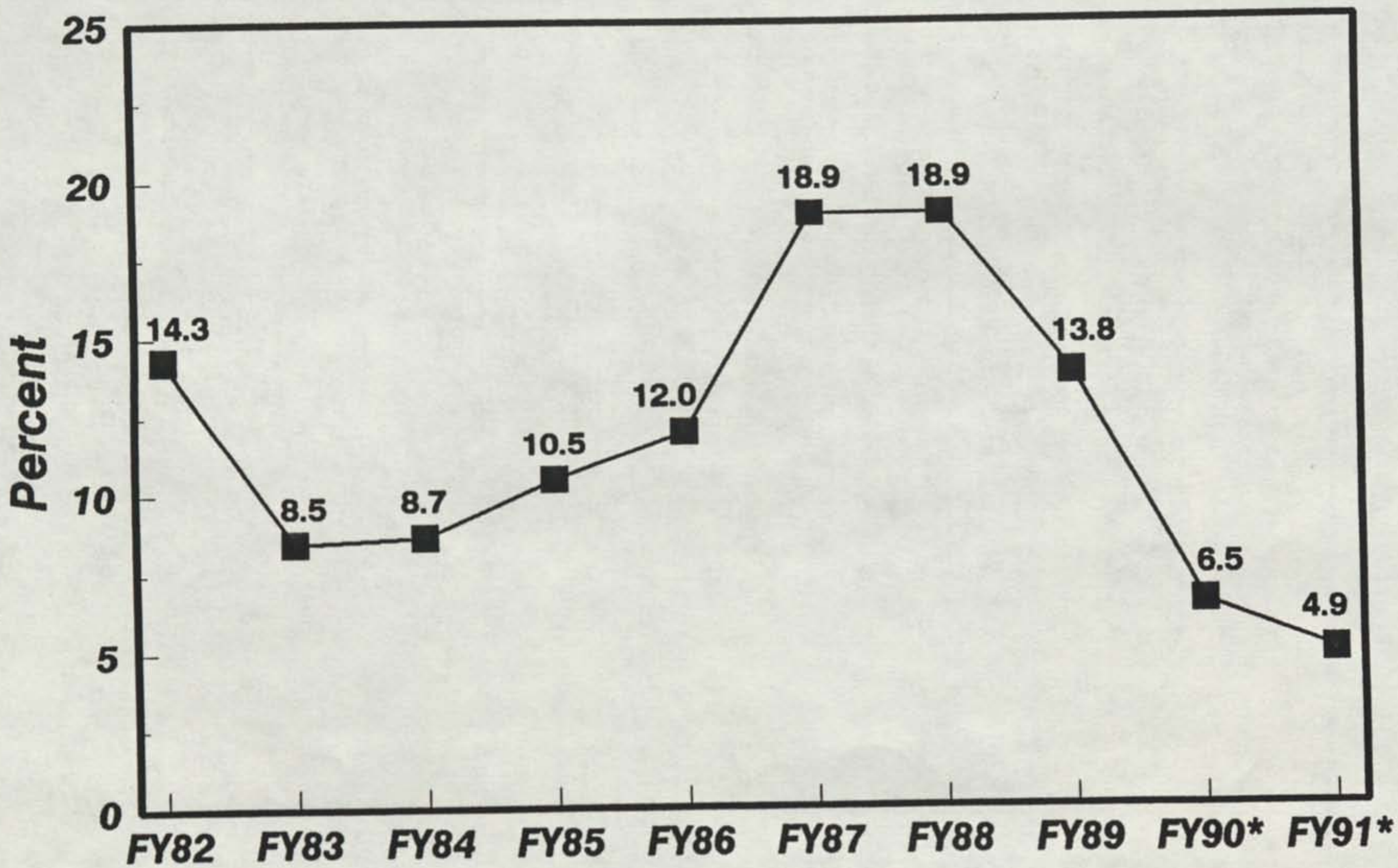
RETURN ON ASSETS



*Excludes restructuring

CFG:4-jc/dw
TENYRS-N

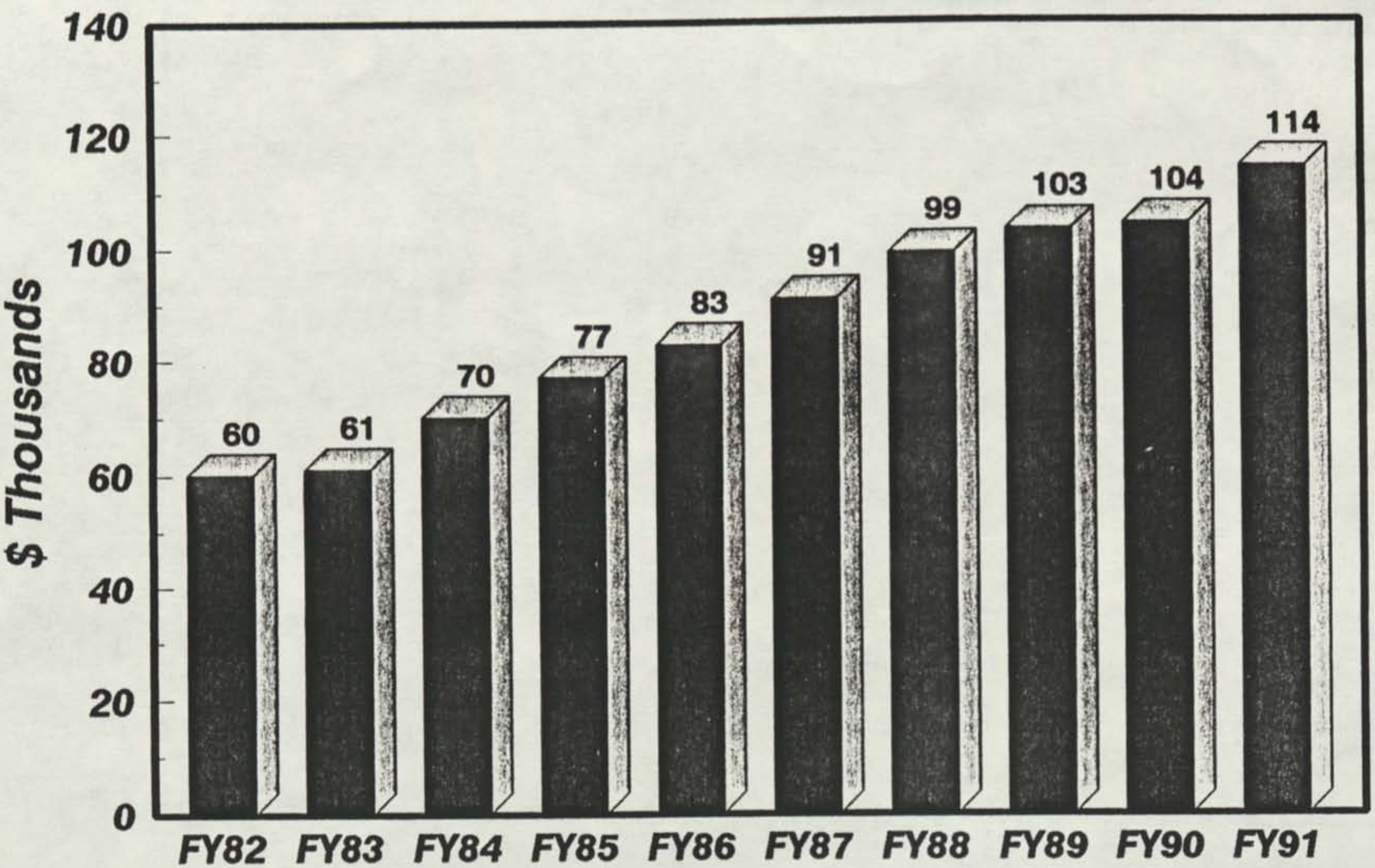
RETURN ON EQUITY



*Excludes restructuring

CFG:4-jc/dw
TENYRS-O

AVERAGE REVENUE PER EMPLOYEE



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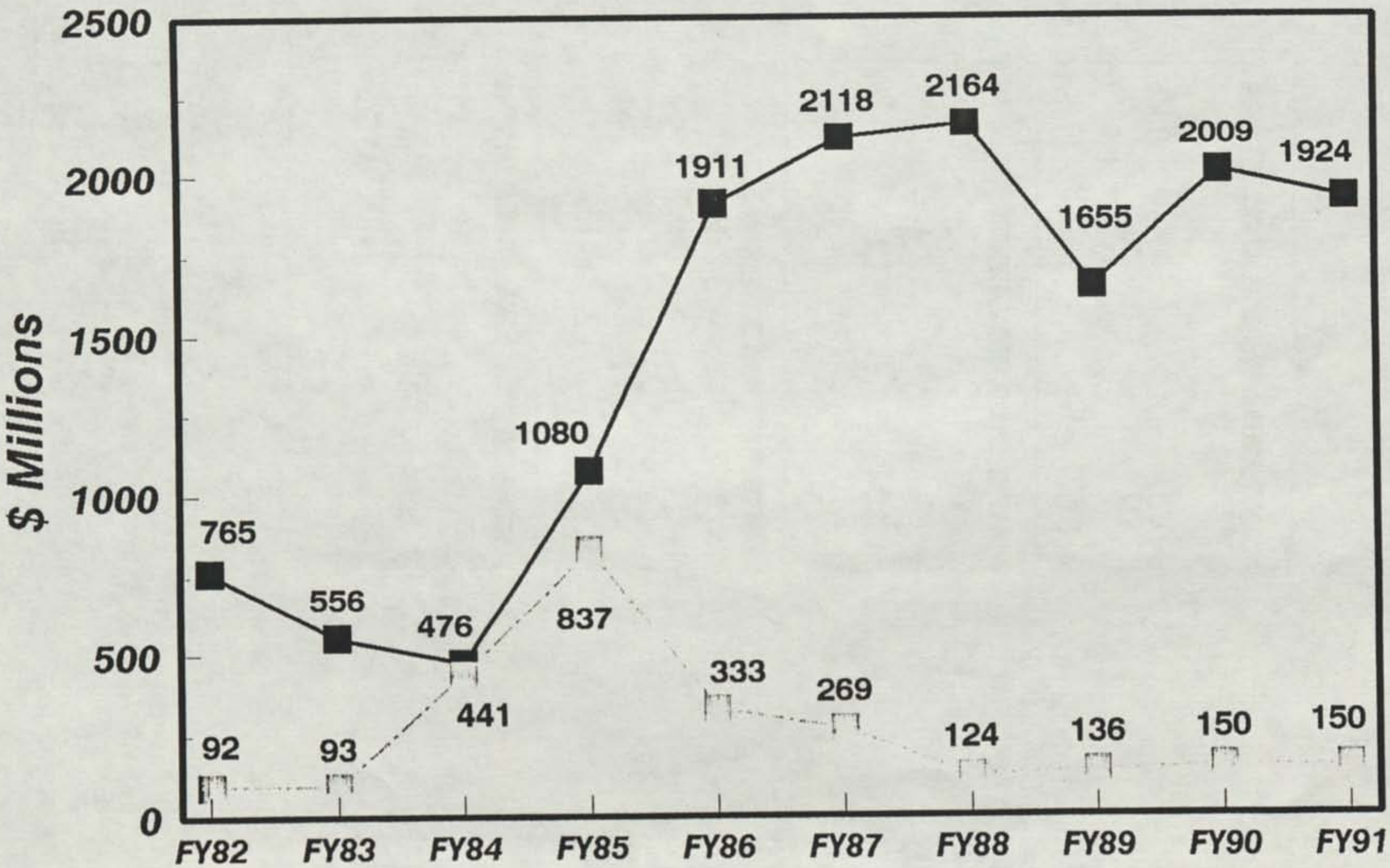
TENYRS-Q

CASH AND LONG TERM DEBT



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TENYRS-M

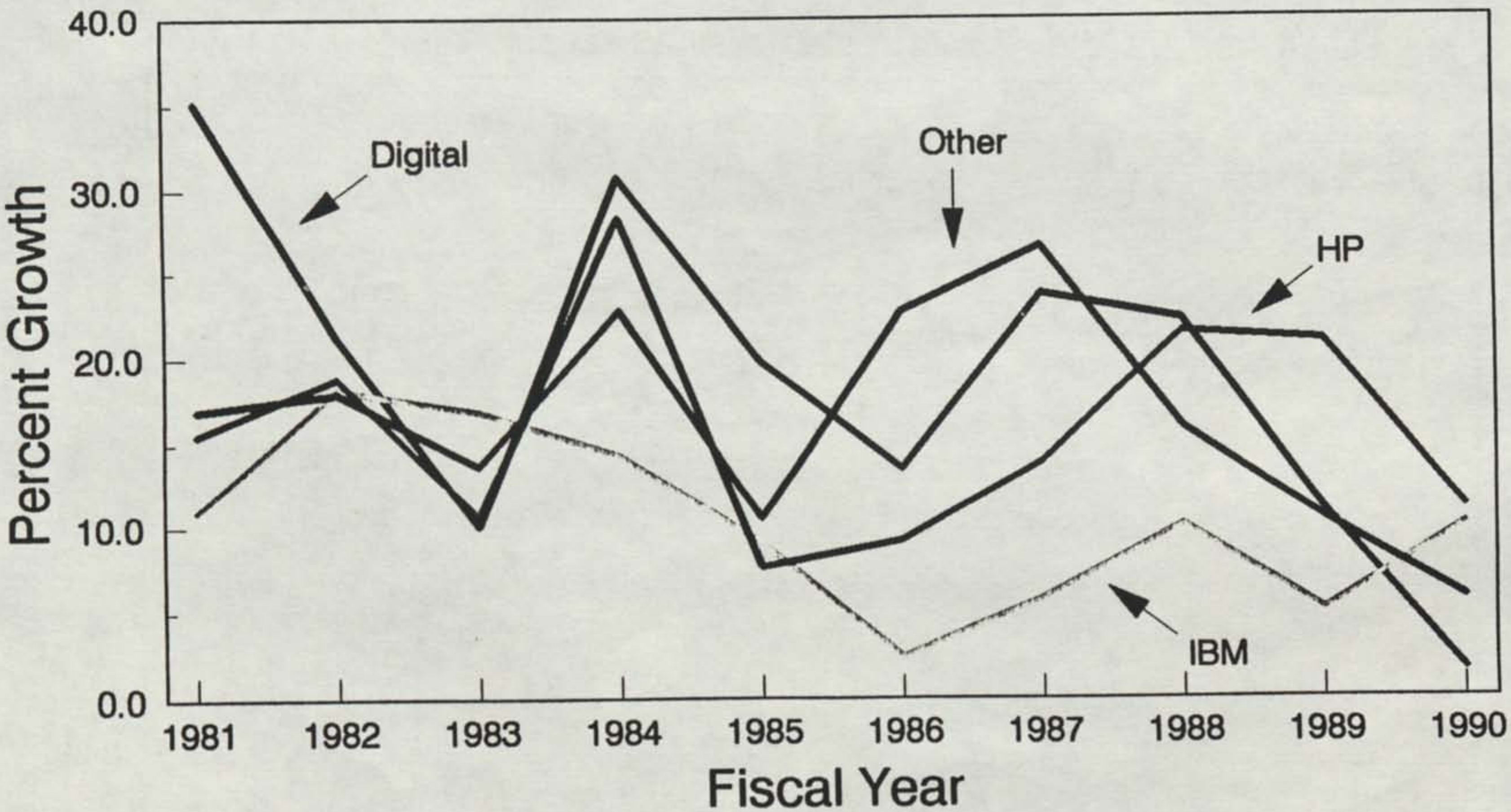
FORTUNE 500 RANKING
AMONG U.S. INDUSTRIAL CORPORATIONS

	1970	1975	1980	1988	1990
Sales	730	326	162	30	30
Net Income	423	257	74	16	224
Assets	737	188	102	34	36
Employees	N/A	212	71	12	11

CFG:jc/dw/4
TENYRS-T

Competitive History

Revenue Growth

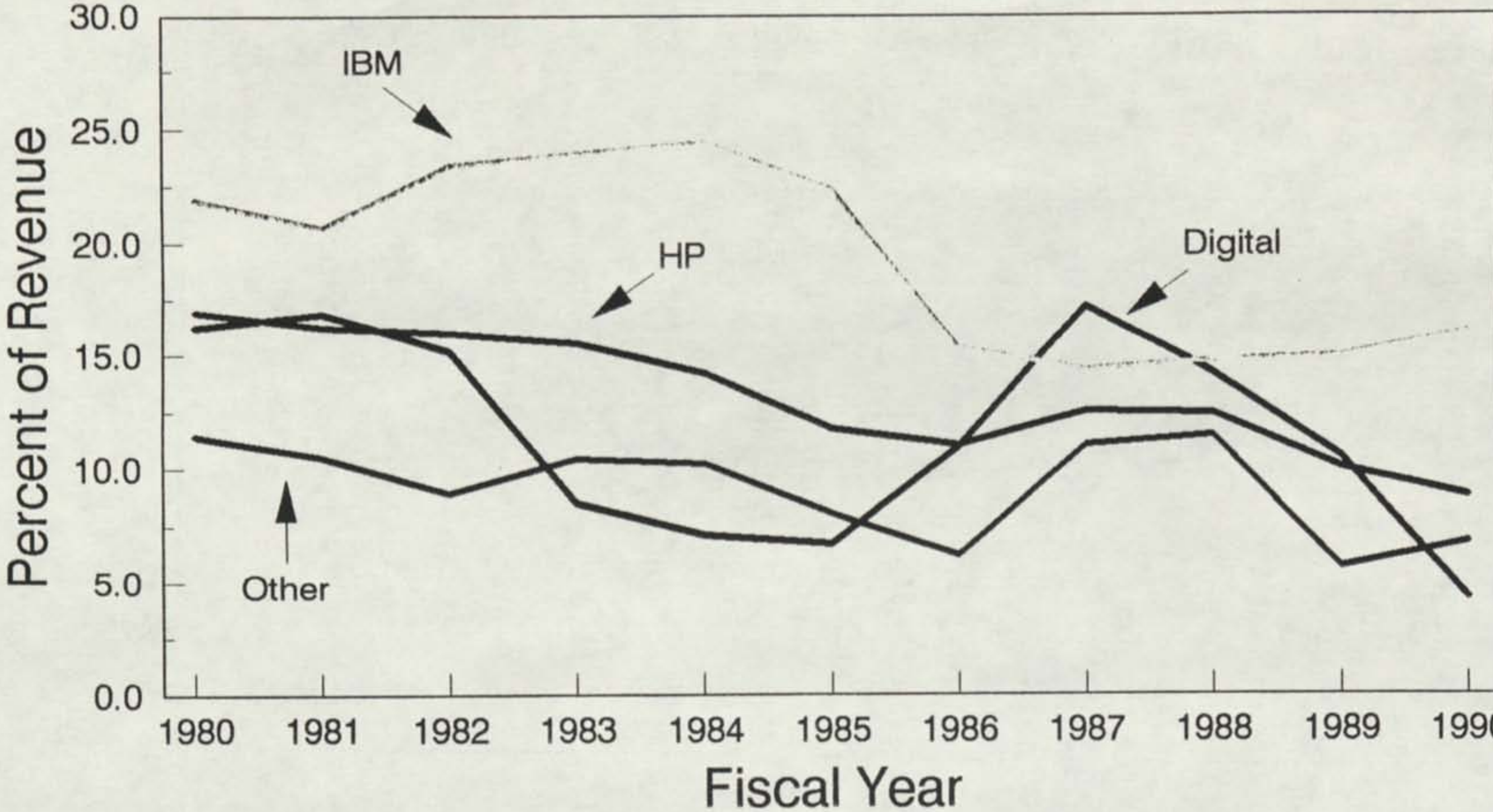


* Other Includes Unisys, Wang, DG, NCR, Tandem, Stratus, Sun, Apple, Compaq

CHREVSUB 6/20/91

Competitive History

Operating Profit Margin

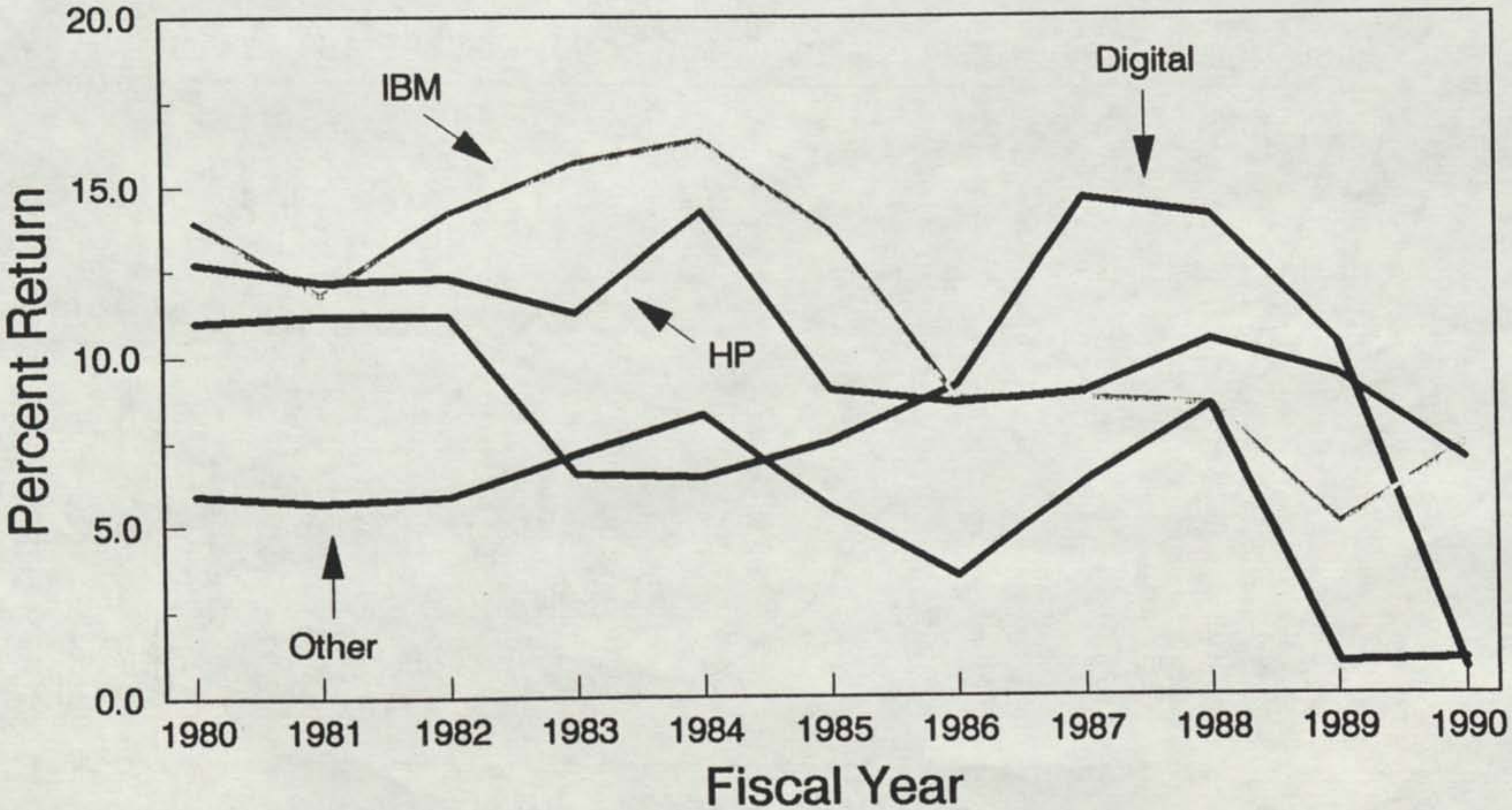


* Other includes Unisys, Wang, DG, NCR, Tandem, Stratus, Sun, Apple, Compaq

CHOPMSUB 6/20/91

Competitive History

Return on Average Assets

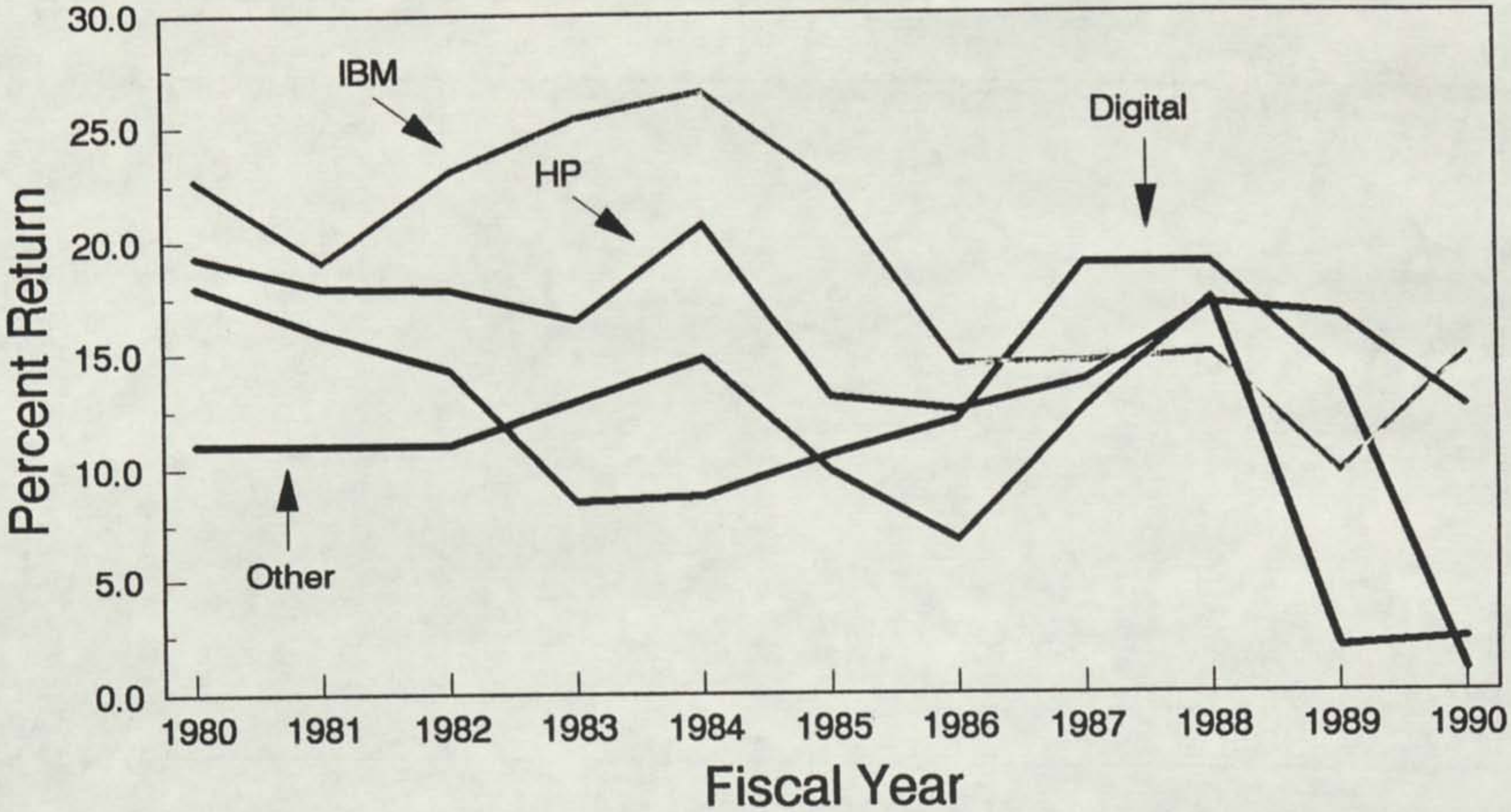


* Other includes Unisys, Wang, DG, NCR, Tandem, Stratus, Sun, Apple, Compaq

CHROASUB 6/20/91

Competitive History

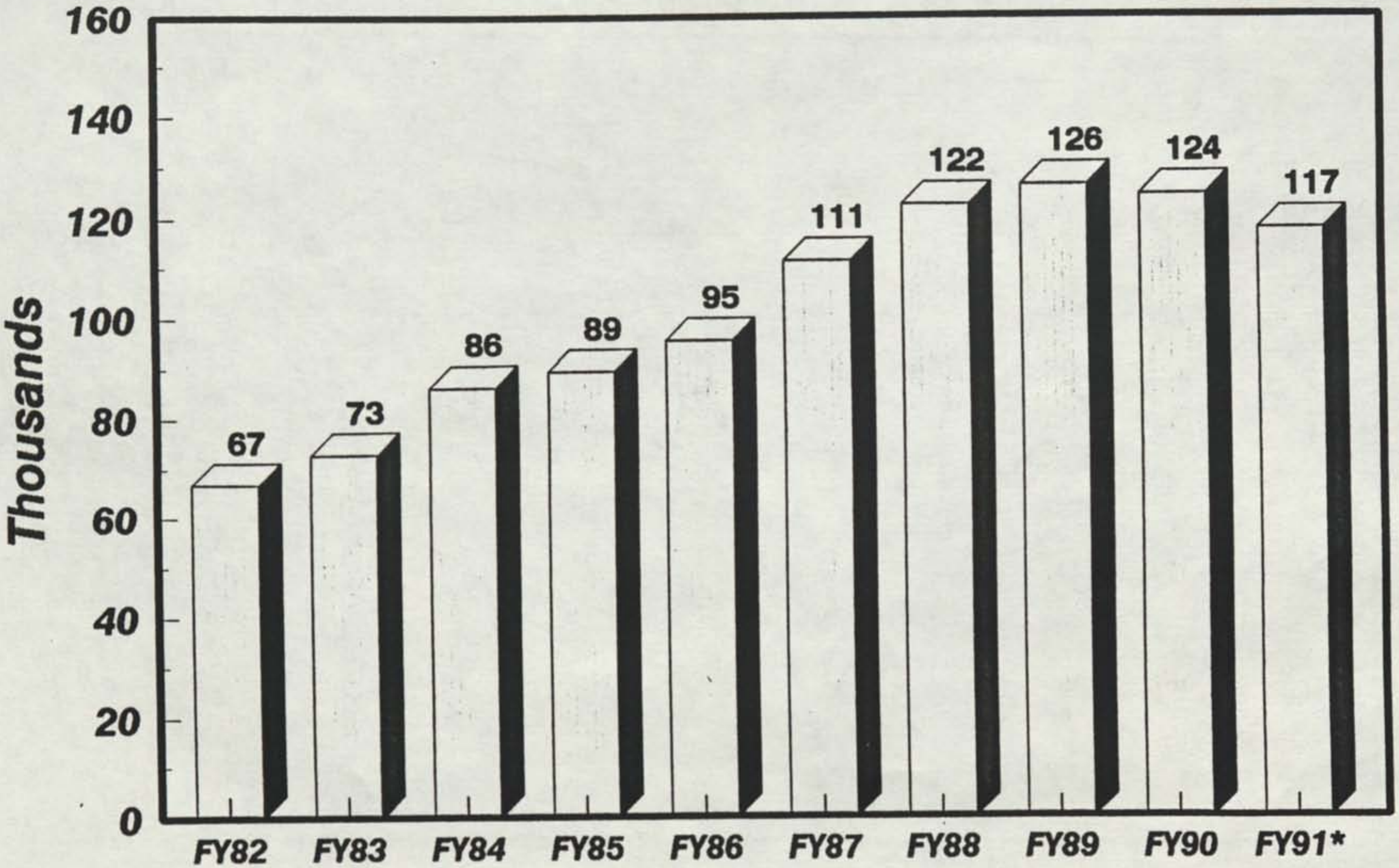
Return on Average Equity



* Other includes Unisys, Wang, DG, NCR, Tandem, Stratus, Sun, Apple, Compaq

CHROESUB 6/20/91

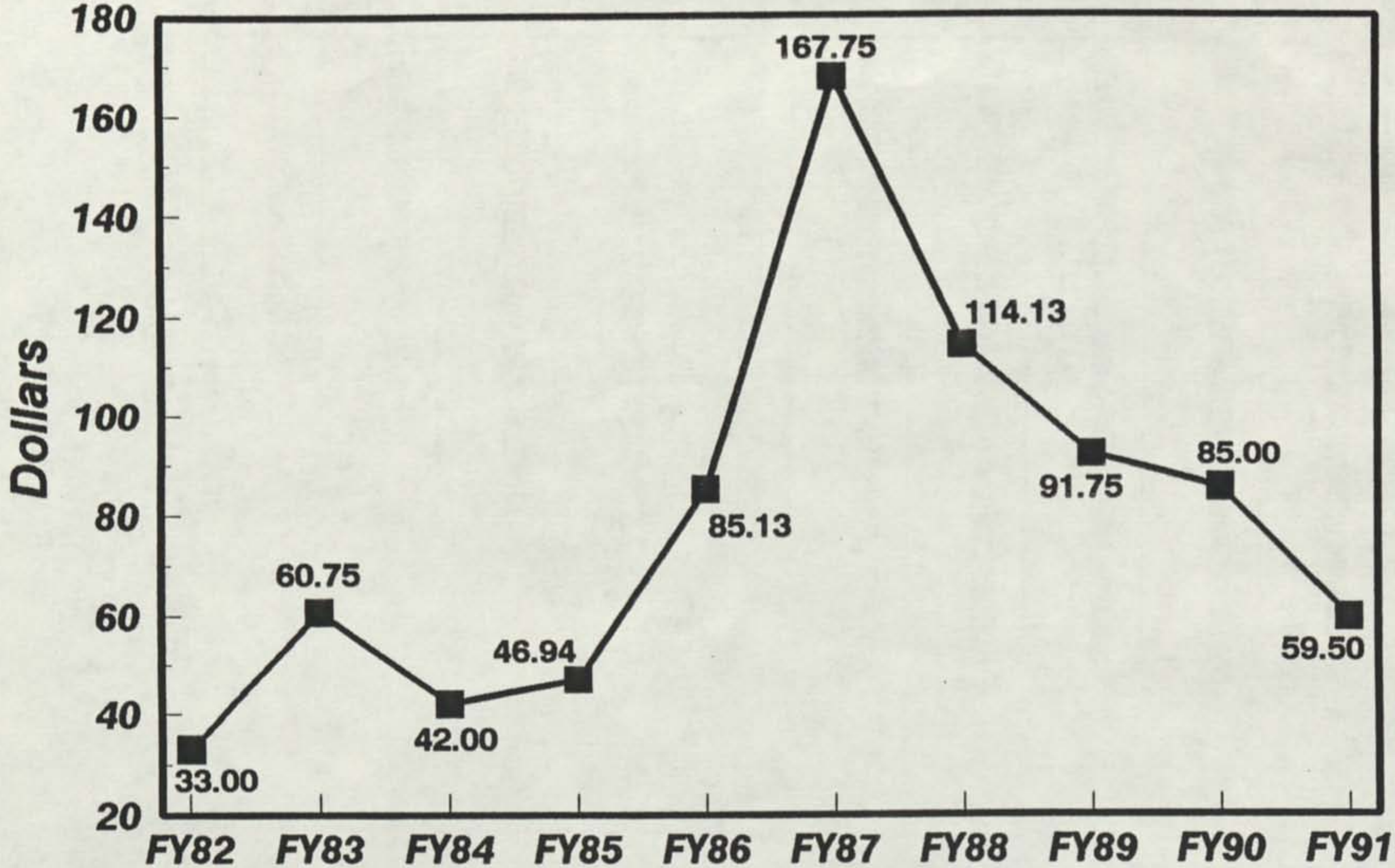
EMPLOYEES



*Excluding acquisitions; 121,000 inlcuding acquisitions

CFG:4-jc/dw
TENYRS-P

FISCAL YEAR END STOCK PRICE



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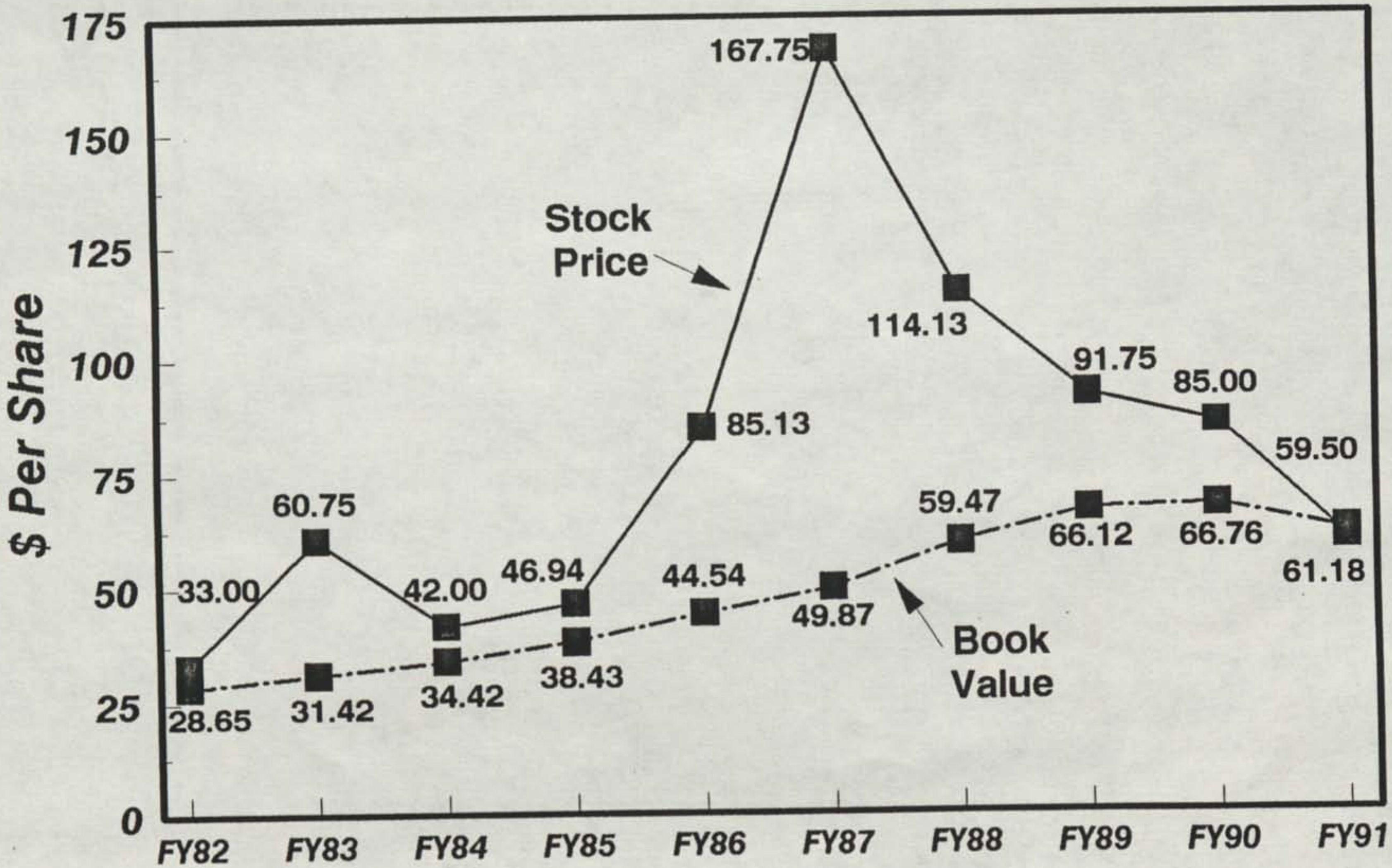
TENYRS-S

STOCK PRICE AND BOOK VALUE TREND

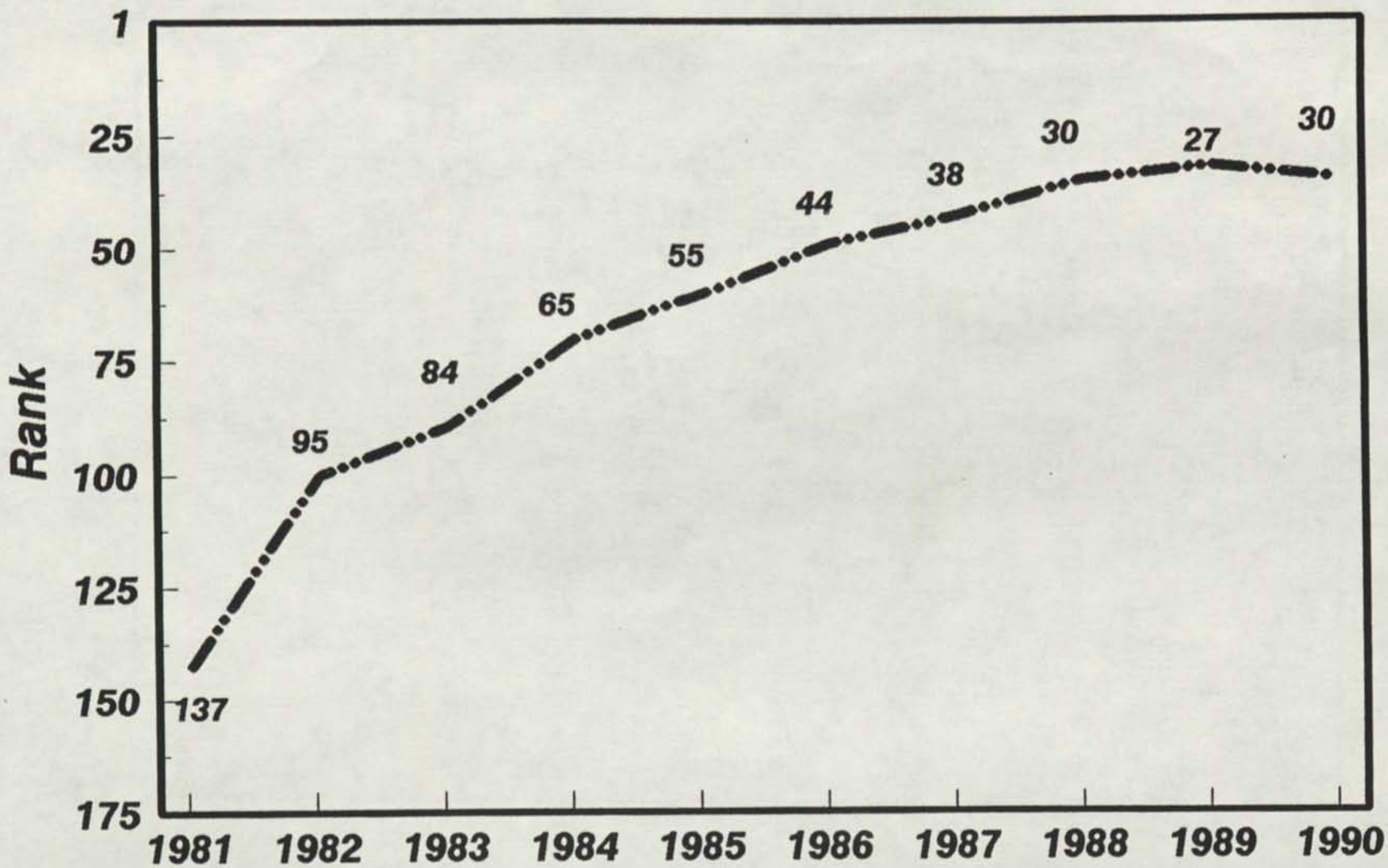


Price/Book	*1.2*	*1.9*	*1.2*	*1.2*	*1.9*	*3.4*	*1.9*	*1.4*	*1.3*	*1.0*

Note: Stock price is yearly close

CFG:6-jc/dw
TENYRS-R

FORTUNE 500 RANK



CFG:jc/dw/4
TENYRS-U

TO: Ron Smart ? f: Japan Proposal

Good review of DEC Japan proposal. I hope you (or Alexp) can help them. 1/26

Sam

INTEROFFICE MEMORANDUM

CORMTS ALL-IN-1 SYSTEM

Date:	24-Jan-1989 04:17pm EST
From:	RON SMART SMART.RON
Dept:	
Tel No:	223-7011

TO: Remote Addressee (DICK POULSEN @AKO)

CC: Win Hindle (HINDLE.WIN)
CC: Sam Fuller (FULLER.SAM)

Subject: MEETING WITH YOU REGARDING MGMT SYSTEMS RESEARCH/APPLICATION

Dick, I'd like to discuss three items with you and find out if it makes sense to further explore a working relationship.

1. MY MANAGEMENT SYSTEMS BOD

I want to firm up a "Management Systems BOD" with the task of applying my group's Management Systems Research (and any other concepts) to improving DIGITAL's management practice. A special focus is our investment planning and management systems. Win has urged me to add you to this BOD and I would like to do that. The BOD is not yet firmed up but the proposed members who are known to be interested are:

Win Hindle
Bill Hanson
Bob Glorioso
Harvey Weiss

Win is also suggesting Grant Saviers as well as yourself. My concept of the BOD's modus operandi is to work on concrete issues of BOD members as examples of how to improve DIGITAL's management systems generally. I'll explain.

2. JAPAN INVESTMENT PLAN:

I'm attaching my feedback to Ed Reilly on his Japan plan. Perhaps this plan could be improved as a MS/BOD example.

3. SPR MANAGEMENT SYSTEMS RESEARCH/APPLICATION:

I've just returned from my annual vacation in Australia and want to tell you "what I'm up to" in my contacts with the business there.

Could we spend a little time on this at your early convenience?

MARGXXX.30
Attachment: 1

COMMENTS ON JAPAN INVESTMENT PLAN VERSION 1 DECEMBER 1988

The proposal will need an executive summary giving the reason it will succeed (1. below) and summarize the management plan as well as the investment plan.

1. The copy of the proposal which I saw doesn't really describe our strategic advantages, for example, exploiting our leadership in networking and in global support for Japanese companies wanting to expand globally. Is this or something else the overall reason why we can beat IBM and the Japanese companies in selling to Japanese customers? We would like to have something really going for us, instead of simply slogging it out by investing more heavily than competitors. The proposal should clearly state our advantage and how we will exploit it.

2. How much of what is needed from "Maynard" is needed anyway by everyone, for example, Engineering base products suitable for international markets and coordinated global marketing/selling. These would then be management or priority problems rather than investment issues.

3. What is DEC Japan's history of Asset Productivity? If they are better than other countries, then they deserve a higher rate of investment than other countries anyway. If they do not have a better historical Asset Productivity history then this performance problem will have to be addressed before investment levels are increased. (I don't have comparative figures to make this determination but Alex could do it given the data.)

4. Not surprisingly, getting and training good (experienced) people is shown as a general risk for this plan. There's no mention of strategies to contain this risk. The risk includes management!

5. Perhaps the proposal can be structured from an executive viewpoint, with the details put in a backup section. For example:

   a) Why is DECJ a priority investment opportunity?

      - Market opportunity in Japan and globally with Japanese companies. What percentage is this of the world market by 1995 say.

      - Our kinds of products and services have a special advantage in this market (if they do, what is it, how long will this advantage be sustainable?) Only modest additional investments are needed to adapt our products to this market, or at least the investment is attractive in terms of the expected incremental revenue result.

      - Our organization (Engineering, Manufacturing, Marketing, Selling, Servicing) has capabilities which give us a sustainable advantage versus all other competitors for this

Japanese market (is this true - can it be made true?).

- DECJ is already a very productive subsidiary compared with others (is this true?) and will raise the average productivity of the company following the initial lag while the investment takes hold.

- Not to compete strongly against the Japanese manufacturers in the Japanese markets (home and overseas) means granting them more profits and experience to further enhance their ability to compete with us in other markets. There is a contrary risk in teaching them how they'll have to compete with us, unless we continually improve ourselves.

b) What, in summary, is the investment strategy for getting the benefit of this opportunity, for doing the few critical things which will secure our advantage?

c) What is the investment and management plan segmented by who needs to agree:

- What "Maynard" needs to do in terms of investments, priorities and management?
- What DECJ needs to do in terms of investments, priorities and management?
- What critical new resources are required (e.g. people) and what are the alternatives and preferences for obtaining and developing these?

d) Does the plan exploit the special company/company relationships available with really innovative Japanese partners? Japan may offer us unique opportunities to get into new markets with non-competing partners, for example a Toppan Printing, to get a jump on the Knowledge Business. Is there some way to make the proposal more creative than margin relief to buy our way in?

fi Corp. Overview / Folder

Presentation Materials To Discuss
Digital's Financial Performance - Q3 FY92
Table of Contents

CFG:3-bfm/dw/dd
QTRTOC 5/1/92

Central Finance Group

Executive Summary

Digital Confidential

Q3 FY92 Summary

Wall Street Reaction

Digital's Q3 FY92 net loss of ($294) million, or ($2.36) earnings per share (EPS), was more than twice as large as the lowest analyst estimate. The reaction to the loss from Wall Street was severe. After the 2 PM press release of the results on Thursday April 9, the stock closed down $5.25 to $48.25. By the close of the stock market on Friday April 10, Digital stock fell another $3 to $45.25 on volume of 3.5 million shares, the most actively traded stock on the NYSE. Digital stock lost 15.4% of its market value from the time of the earnings announcement until Fridays close.

In his memo outlining the investment community's reaction to the earnings, Mark Steinkrauss described the teleconference with about 205 participants, including 25-30 members of the press. According to Mark, press coverage was wide and generally balanced. Many positive comments were received regarding Digital's efforts to get the news a full week ahead of schedule while still providing full details and analysis.

With the loss and its unexpected depth, Investor Relations handled extensive and in depth questioning after the announcement. Mark highlighted many of these issues in his memo.

Investment Community Reactions:

* Analysts lowered their ratings on Digital stock due to the depth of the loss and the short term outlook. Comments included "No more illusions...sell" and, "The bottom line is something is wrong with VMS...it's not economy related."

* Decline in revenues - both product and service. Product transition issues were brought up most often.

* Gross margins - expectation that deterioration may be ending.

* Loss of market share - HP, Sun and IBM are reporting higher revenues and profits, why isn't Digital?

* Expenses - shareholders say any upward movement in Q4 expense growth will meet with an uproar. When will clear-cut evidence of the $1.65 billion in restructuring charges to date become evident? Expectation that FY93 will see a reduction in absolute spending in all areas.

* Alpha - constant requests for more information about technology, migration paths, availability. Some analysts feel Alpha announcement was premature and has caused product transition problems reflected in lower revenues now.

* Balance sheet - deterioration evident including reduced cash, finished goods inventory up, DSO unchanged despite 17% drop in product sales. Expectation of future reductions in cash balance. Expectations that book value of stock will fall to the $40 range.

* Outlook - uncertain time frame for return to profitability disturbing many analysts and investors.

Industry Results for Quarter end 3/31/91

The quarter brought mixed results for the largest players in the Information Technology (IT) industry, while some smaller niche companies continued to register impressive revenue and profit growth. In advance of most companies earnings, analysts were saying "the worst is probably behind" for the computer industry. Analysts feel results should improve with each successive quarter but the strength of those improvements will be tied to the health of the economies in the U.S. and Europe.

Many vendors reported weakness in European business and strength in the Far East with mixed results in the U.S. and Japan. One trend noticed among many of the larger IT vendors was reduced operating expenses as a result of prior restructuring activities and cost controls.

IBM, Apple, and Stratus were three firms reporting single digit revenue increases but double digit operating profit growth reflecting the positive effects of cost control activities. IBM reported it's first year over year growth in revenues after four straight declines, and they exceeded expectations by posting a $1.04 EPS. Unisys reported net income growth of 149% due to cost reductions outpacing a (2%) fall in revenues. Wang and Compaq also reported lower costs during the quarter, although revenue also fell.

In the workstation segment, Sun reported revenue growth of 12% which was below Wall Street estimates, although they surprised analysts with 17% growth in gross margins. IBM reported strong growth in its line of RS/6000 workstations, while Hewlett Packard's quarter ending 1/24/92 results saw strong sales in the workstation area. Analysts expect strong workstation and printer sales for HP's quarter ending April 30.

Among niche companies Dell, Microsoft, and Novell all reported revenue and net income growth of 40% to 80%, year over year. These firms have continued to report strong growth despite increased competition. Intel reported revenue growth of 10% but profits slid (7%) due to two litigation charges. Intel reported higher revenues for the 486 chip line which now accounts for 40% of Intel's revenues. Advanced Micro Devices (AMD) reported revenues up 49% and profits up twenty fold due to rapid growth in their "cloned" 386 chip line, all at Intel's expense.

It was reported in the March quarter that Gateway 2000 eclipsed Dell in 1991 as the number one Personal Computer mail order dealer with revenues more than doubling to $627 million. Gateway also appears to have been more profitable with a pre-tax profit margin of 9.5% compared to Dell's 8.2%. Digital's PC sales experienced sharp growth in the March quarter, although DEC is estimated to account for well under 1% of total PC industry sales. Analysts feel that 1992 will continue to see margins under pressure for PC vendors as competition remains intense.

Services continued to grow faster than hardware in the March ending quarter, with IBM, Digital, and Stratus reporting that service revenues outpaced hardware growth.

Data General took a $46 million restructuring charge in the quarter for a reduction of 1,000 jobs. No other significant restructuring charges were noted, although employment cuts continued through out the industry. Digital announced an early retirement program and layoffs resuming in May, IBM announced it was planning to reduce its U.S. marketing division by 4500 people, Siemens AG announced elimination of 2000 positions in its semiconductor division, Olivetti announced plans for 2500 job cuts, and AT&T said they plan to cut 6000 positions.

Alliances and partnerships remained in the news led by the merger of Mips and Silicon Graphics. Microsoft purchased Fox software, and Compaq officially backed out of the ACE consortium.

Digital Results

Orders/Revenue

In value, worldwide systems orders, certs, fell (15%), year over year, to $1.7 billion in Q3 FY92. Weakness was spread across all areas of the company. Through the first three quarters of FY92, certs are down (19%). Excluding currency, Q3 FY92 certs fell (12%).

Q3 FY92 unit certs grew 19% from year ago levels. PC's, up 25%, and workstations, up 24%, were the main drivers of unit growth. Together, PC's and workstations accounted for 84% of total unit certs and offset weakness in the VAX 9000 and 6000 lines which fell (31%) combined. In year over year comparisons, both VAX and RISC workstations grew strongly in unit growth. Versus Q2 FY92 however, VAX workstation unit growth fell 8% while RISC workstations grew 11%.

Total net operating revenue (NOR) fell (8%), year over year, to $3.3 billion in Q3 FY92. Excluding currency impact, NOR would have fallen (3%). Excluding Philips, NOR would have fallen (13%) from prior year levels. Systems revenue fell (17%), year over year, and (21%) excluding Philips. Service revenues were up 6%, year over year, and flat excluding Philips. Systems Integration and Training/Consulting were the two strongest areas of service revenue growth. Software revenue fell (3%) due to weakness in VMS sales, although Layered and PCI software products reported strong growth.

Expenses/Profits

Total gross margin in Q3 FY92 was 39.2%, down (8.2) percentage points, year over year. Systems gross margin fell (11.2) points with pricing and currency accounting for more than (7) points of the (11.2) point drop. Services gross margin fell (3) points vs. Q3 FY91 due in large part to mix issues. Philips impacted total gross margin by (0.7) point.

Research & Development spending in Q2 was $429 million, up 8%, year over year, and up 9% minus currency. As a percentage of revenue, R&D spending rose 1.9 points, year over year, to 13.2%. Selling, General & Administrative expenses were $1133 million, up 3%, year over year, and up 7% excluding currency impact. As a percent of revenue, SG&A expense rose 3.6 points, year over year, to 34.8%. Total R&D and SG&A spending, excluding Philips, was up 1%, year over year, and up 4% excluding currency impact.

As an indication of controllable expenses, Q3 FY92 functional spending grew 2%, year over year. Favorable currency impact reduced expense growth. Europe, the largest component of functional spending, registered 5% year over year growth with favorable currency impact offset by the addition of Philips. U.S. field spending decreased (2%), year over year and Engineering, the third largest function saw an 11% rise in spending. Manufacturing spending decreased a significant 7%, while GIA spending fell (2%).

The Q3 FY92 operating loss was ($286) million versus an operating profit of $172 million in Q3 FY91. That represents a decline of (266%), year over year. The next page presents an operating profit analysis to identify issues behind the downturn. From the chart it's clear that the decrease was driven primarily by revenue related factors. Product pricing was responsible for the majority of the year over year revenue related variance of ($350) million, while the negative systems volume and systems mix factors also contributed to the drop. Q3 FY92 year over year currency impact to operating profit was ($77) million . The overall variance for expense related items was ($31) million, with the positive effects of restructuring and attrition offset by increased economic factors.

Q3 FY92
Operating Profit Analysis

($ Millions)	Profit
Q3 FY92 Actual	(286)
Q3 FY91 Actual	172
Variance	$**(458)**
Explanation of Variance	
Revenue related:	
Volume	(83)
Pricing	(167)
Mix	(99)
Total Revenue related	**$(350)**
Currency	**$(77)**
Expense related:	
Economics (salary, fringe, inflation)	(139)
Restructure/Attrition	110
DEE	20
Other	(22)
Total Expense related	**$(31)**
Total Variance	**$(458)**

Operating profit margin was negative as a result of the operating loss of ($286) million. Revenues fell (8%), while total costs grew 6%, producing the loss.

Staffing

Total company staffing decreased (2079) to 117,451 from Q2 FY92. Excluding the Philips acquisition total headcount has fallen (7296), or 6%, since year-end FY91. Reductions in the quarter were spread across all functions when adding in the 9-week cycle transition people. Q3 FY92 restructuring actions reduced staffing just over (1450). Job reductions have totalled almost (13,900) since the beginning of restructuring activities, resulting in an estimated savings of $665 million per year.

Capital Spending

Capital spending of $157 million, excluding the Philips acquisition, was down (14%) from Q3 FY91 levels excluding the Q3 FY91 Kienzle acquisition. Restructuring activities in Q3 FY92 resulted in the elimination of one million square feet of space. Annual savings from restructuring actions for facilities since the beginning of the program are approximately $87 million.

Inventory

Q3 FY92 inventory was $1824 million, (1%) lower than Q3 FY91, although 2% higher than Q2 FY92 levels. Year over year, inventory turns improved 0.3 times to 4.4 times. Excluding Philips, inventory was 9% lower than Q3 FY91 levels.

Days Sales Outstanding

DSO increased 2 days to 87, year over, and was flat to Q2 FY92 levels. The increase in DSO is due to deterioration in Europe and GIA offsetting U.S. improvement in DSO levels. When compared to Q2 FY92, DSO in total was flat.

Cash Flow

Q3 FY92 year over year cash flow fell ($123) million primarily because asset management and other sources of internal cash did not offset the effects of restructuring and the cumulative net income loss. The ending cash balance in Q3 was $1547 million, a decrease of ($147) million from last quarter. The decrease from Q2 FY92 levels was due to the net loss and the impact of restructuring, partly offset by improvement in accounts receivable.

Q3 FY92 Results

ORDER PERFORMANCE

($ Mils)

	Q3 FY92 Actual	Growth Over Q3 FY91	Adjusted For Currency
United States	$ 695	(6)%	N/A
Europe	$ 790	(20)%	(12)%
GIA	$ 225	(22)%	(23)%
Total	$ 1,710	(15)%	(12)%

Q3 FY92 Results
Compared with Q3 FY91

($ Mils)

(As Reported)

	Q3 FY92 Actual	Percent Growth Over Q3 FY91
Revenue	$ 3,253	(8)%
Gross Margin	$ 1,276	(24)%
(% of Revenue)	39.2 %	(8.2) pts.
Research & Development	$ 429	8 %
(% of Revenue)	13.2 %	1.9 pts.
Selling, General & Administrative	$ 1,133	3 %
(% of Revenue)	34.8 %	3.6 pts.
Operating Profit	$ (286)	(266)%
(% of Revenue)	(8.8)%	(13.7) pts.
Net Interest Income/(Expense)	$ 12	49 %
Income Before Taxes	$ (274)	(253)%
Income Taxes	$ 20	(68)%
Net Income	$ (294)	(352)%
EPS	$ (2.36)	(351)%

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Q3 FY92 Results
TOTAL COMPANY STAFFING
(Includes Regular and Other)

Net Hires (Equivalent)

	Beginning	Net Adds	Ending
Field Services	39,307	(632)	38,675
Field Systems	38,010	(212)	37,798
Manufacturing	23,212	(336)	22,876
Engineering	12,793	(110)	12,683
AIMG	1,971	26	1,997
Corporate Ops/Other	4,237	(8)	4,229
Adjust for 9-wk Cycle People	0	(807)	(807)
TOTAL	119,530	(2,079)	117,451

Q3 FY92 Results
FUNCTIONAL SPENDING GROWTH*
($ Mils)

	Q3 FY92	Percent Growth Over Q3 FY91
U.S.		
Systems	$ 341	(5)%
Services	122	(8)%
Total	$ 463	(2)%
Europe		
Systems	$ 480	4%
Services	109	12%
Total	$ 589	5%
GIA		
Systems	$ 141	(5)%
Services	44	7%
Total	$ 185	(2)%
Services Headquarters	$ 28	22%
Manufacturing	$ 271	(7)%
Engineering	$ 389	11%
Marketing	$ 83	(2)%
Corporate Operations	$ 42	3%
Other	$ 6	N/A
Total Functional Spending	$ 2,056	2%

*Excludes OI/E, Transfer Cost, Service C.O.D., Corporate Adjustment

Q3 FY92 Results

ASSET SUMMARY

($ Mils)

(Includes External Investments)

	Q3 FY92	Q3 FY91
Cash Balance	$ 1,547	$ 1,670
Net Inventory	$ 1,824	$ 1,844
Inventory Turns	4.4x	4.1x
Accounts Receivable	$ 3,158	$ 3,328
DSO	87 days	85 days
Capital Expenditures	$ 157	$ 183
PP&E Turns	3.6x	3.7x

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Q3 FY92 Results

DSO SUMMARY

	Q3 FY92 Actual	B/(W) Q3 FY91
DSO:		
United States	72	2
Europe	96	(5)
GIA	91	(6)
Total Company	87	(2)

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Q3 FY92 NET INVENTORIES
Compared with Q3 FY91

	Q3 FY92 ($ Mils)	Percent of Total	Q3 FY91 ($ Mils)	Percent of Total
Raw Materials	310	17%	428	23%
Work-in-Process	577	32%	555	30%
Finished Goods	937	51%	860	47%
Total	1,824	100%	1,843	100%
Inventory Turns	4.4x		4.1x	

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Q3 FY92 Results

CASH FLOW

($ Mils)

	Q3 FY92	Q2 FY92	Q3 FY91
Beginning Cash	$ 1,694	$ 2,057	$ 1,572
Net Income	$ (294)	$ (138)	$ 117
Accounts Receivable	215	(35)	253
Net Inventory	(31)	72	5
Changes in Other Working Capital	(69)	(62)	(124)
Subtotal Operating Activities	$ (179)	$ (163)	$ 251
Capital	$ (157)	$ (156)	$ (183)
Acquisitions/Depreciation/Other	230	75	21
Subtotal Investing Activities	$ 73	$ (81)	$ (162)
Cash From Operations	$ (106)	$ (244)	$ 89
Financing Activities	$ (41)	$ (119)	$ 9
Net Change in Cash	$ (147)	$ (363)	$ 98
Ending Cash	$ 1,547	$ 1,694	$ 1,670

Q3 FY92 Results

TOTAL ASSETS

($ Mils)

	Balance As Of	
	Q3 FY92	**Q3 FY91**
Current Assets:		
Cash	$ 1,547	$ 1,670
Accounts Receivable	3,158	3,328
Inventories	1,824	1,844
Prepaid Expenses	397	385
Deferred Income Taxes	428	500
Total Current Assets	$ 7,355	$ 7,725
Net Property, Plant & Equipment	$ 3,610	$ 3,830
Other Long-term Assets	$ 576	$ 365
Total Assets	$ 11,541	$11,921

Q3 FY92 Results

LIABILITIES & EQUITY

($ Mils)

	Balance As Of	
	Q3 FY92	**Q3 FY91**
Liabilities:		
Accounts Payable	$ 885	$ 676
Salaries, Wages Payable	863	704
Deferred Revenue	1,119	1,068
Deferred Taxes	150	372
Debt & Loans Payable	39	117
Other Liabilities	529	312
Restructuring Expense	694	131
Total Liabilities	$ 4,279	$ 3,380
Stockholder's Equity	$ 7,203	$ 8,356
Total Liabilities & Stockholder's Equity	$ 11,541	$11,921

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Q3 FY92 Results

INVENTORY PERFORMANCE

($ Mils)

	Q3 FY92	Q2 FY92	Q3 FY92 B/(W) Q2 FY92	Q3 FY91
Gross Inventory:				
Manufacturing	$ 978	$ 968	$ (10)	$1,083
Field*	1,069	984	(85)	847
Other	38	36	(2)	28
Total	$2,085	$1,988	$ (97)	$1,958
Reserves:				
Timing	$ 110	$ 176	$ 66	$ 135
Valuation	(371)	(370)	1	(250)
Total	$ (261)	$ (194)	$ 67	$ (114)
Net Inventory	$1,824	$1,794	$ (30)	$1,844
Inventory Turns	4.4x	4.6x	(0.2)x	4.1x

* Philips and Kienzle acquisiions treated as a Field item.

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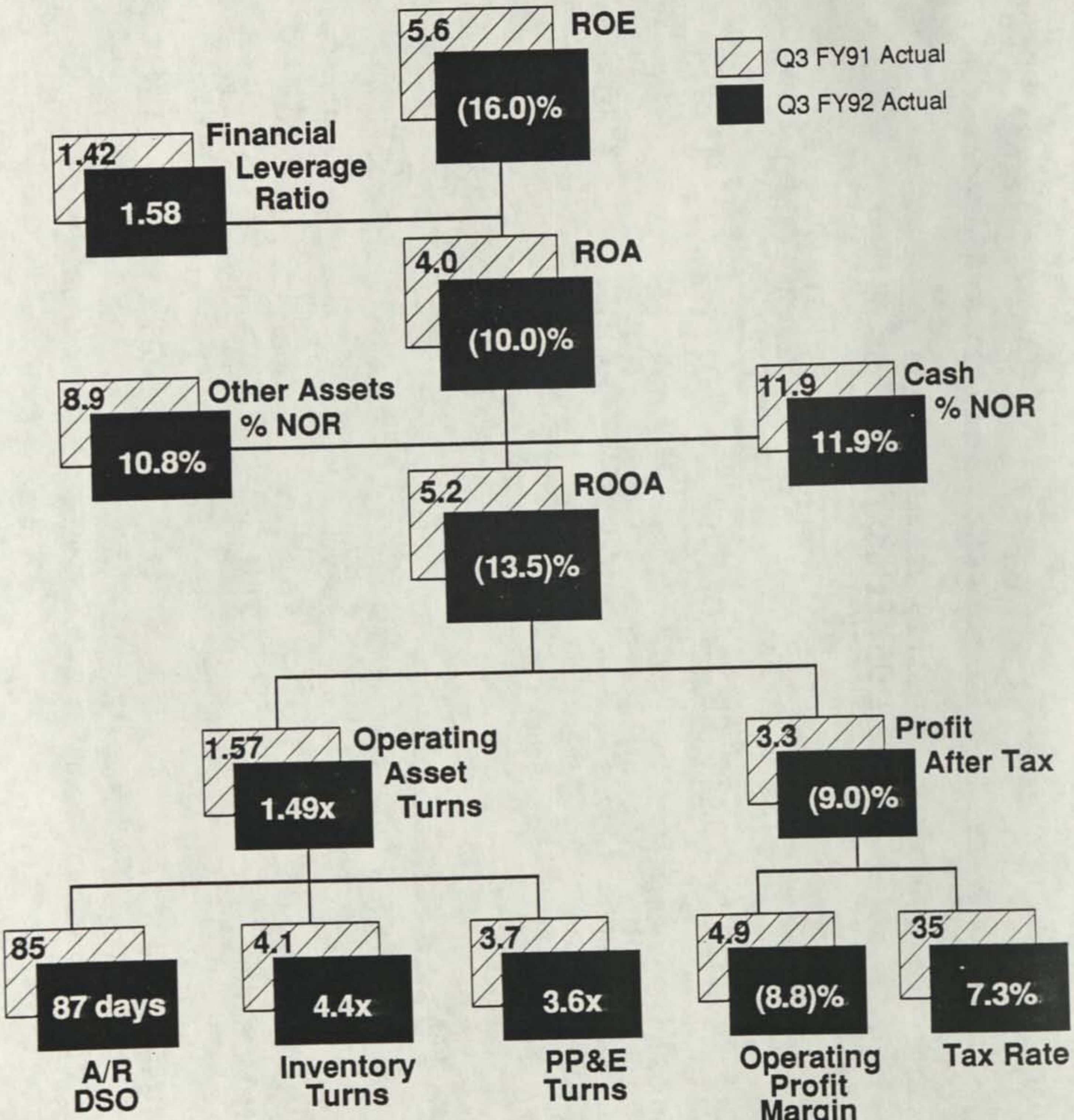
Digital Business Model



COMPETITOR RESULTS
For Quarter Ended March 1992
(Adjusted for One-Time Charges)

	Revenue (% Change)	Operating Profit (% Change)	Operating Profit (% Revenue)	Net Income (% Revenue)
DIGITAL	(8)%	(266)%	(9)%	(9)%
IBM (Q1)	3	11	8	4
Apple (Q2)	7	13	12	8
Hewlett-Packard (Q1)*	13	56	12	8
Stratus (Q1)	9	28	12	10
Tandem (Q2)	3	(60)	2	2
Wang (Q3)	(6)	49	(5)	(1)
Unisys (Q1)	(2)	N/M	6	2
Compaq (Q1)	(19)	(63)	7	6
Sun (Q3)	12	6	10	7
Data General (Q2)	(15)	(126)	(2)	(2)

* Quarter ended January 24, 1992

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Central Finance Group

Latest Ten Quarters

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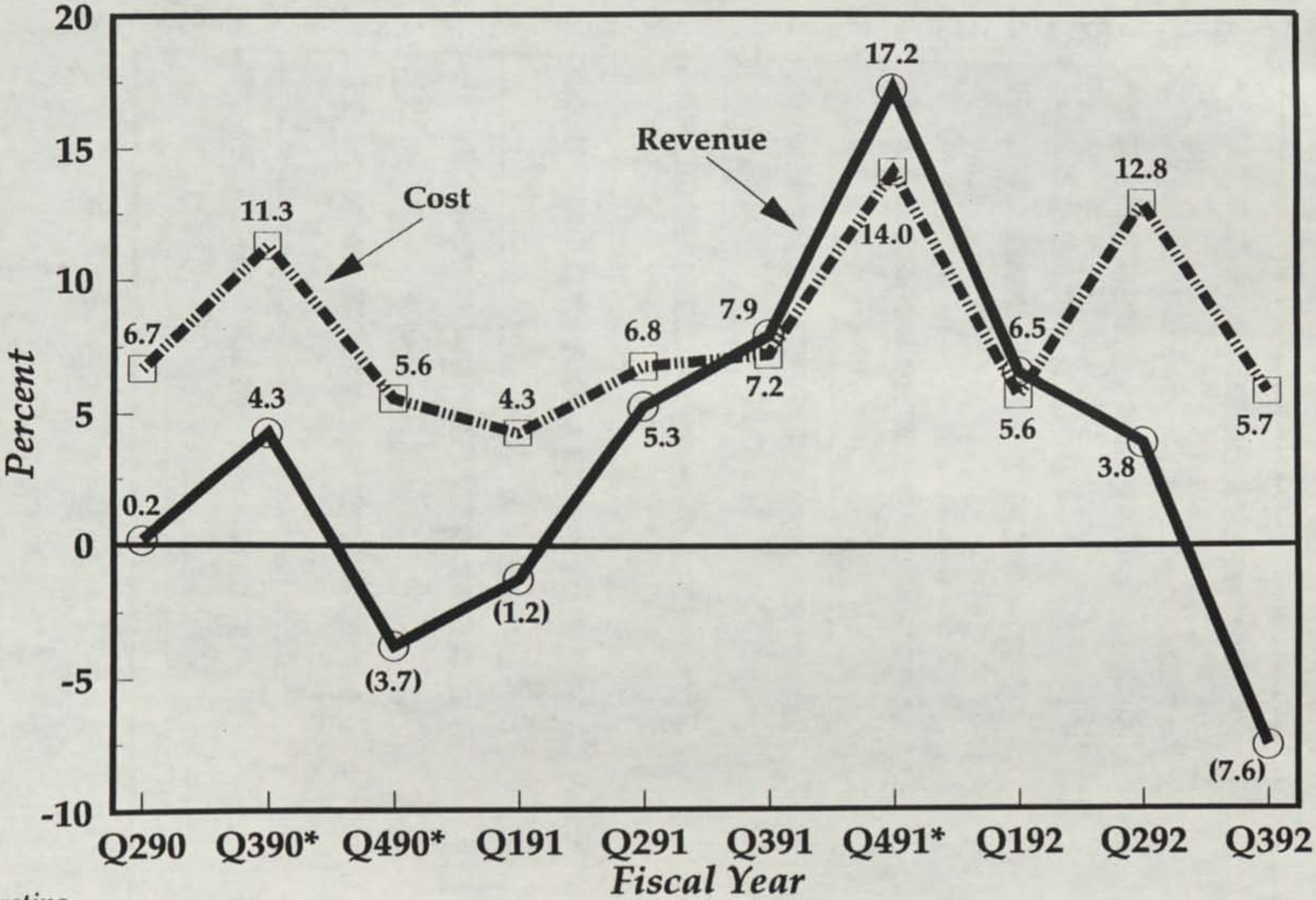
REVENUE AND COST GROWTH



Operating Profit Margin	*5.4%*	*4.2%*	*2.3%*	*0.3%*	*4.1%*	*4.9%*	*4.9%*	*1.1%*	*(4.2)%*	*(8.8)%*

**Excludes restructuring*

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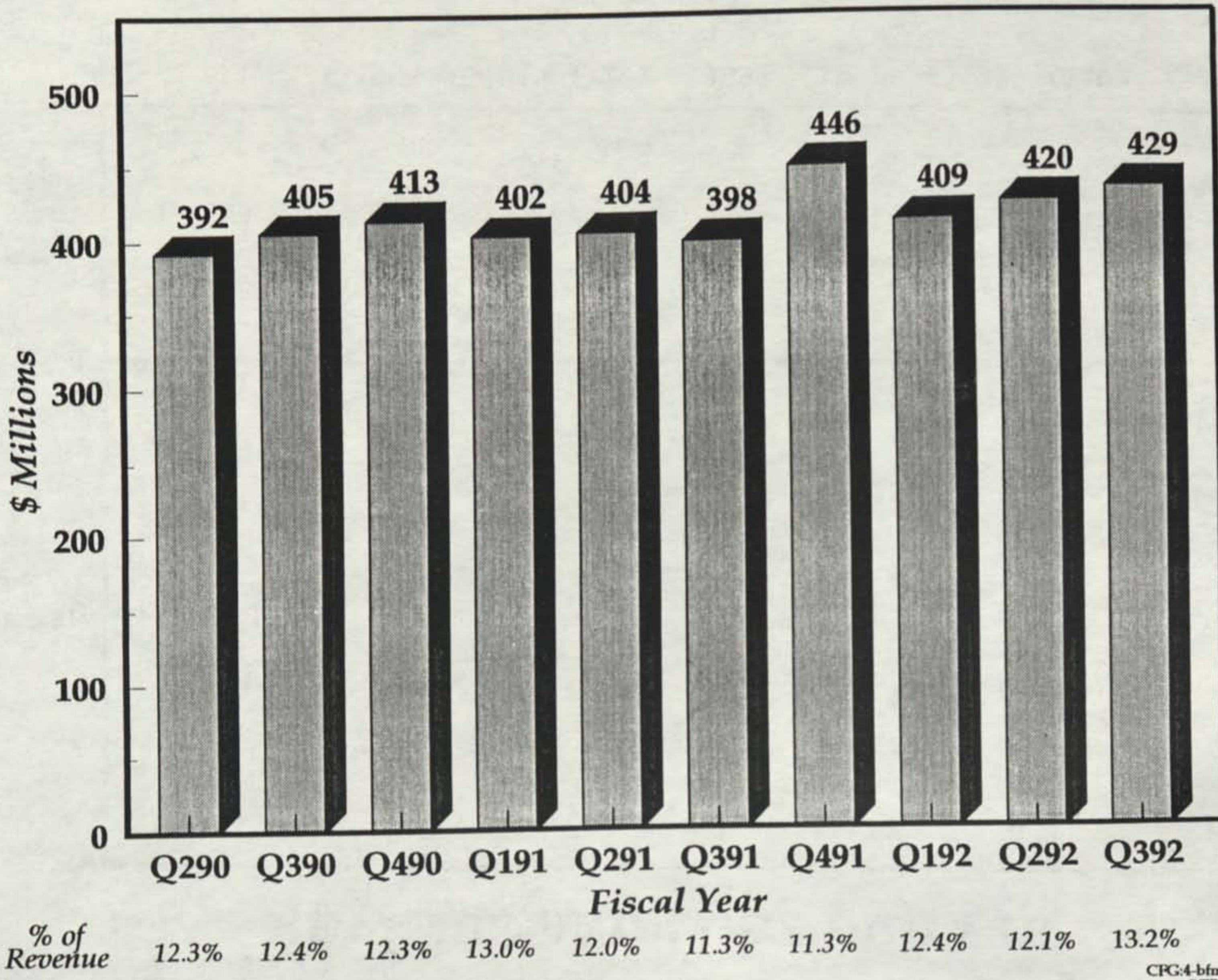
RESEARCH AND DEVELOPMENT EXPENSE



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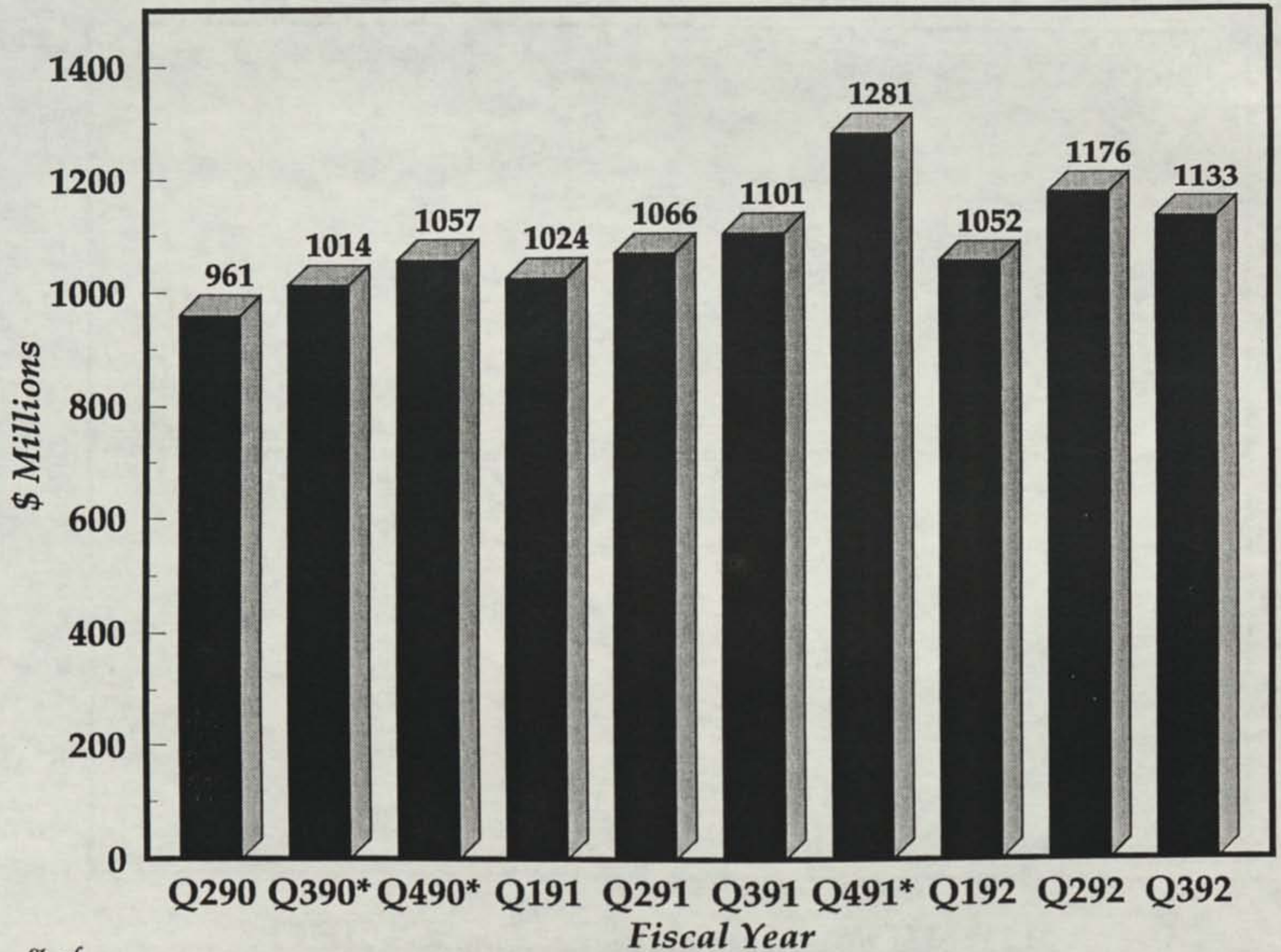
SALES, GENERAL & ADMINISTRATIVE EXPENSE



% of Revenue	30.2%	31.1%	31.4%	33.1%	31.8%	31.3%	32.5%	31.9%	33.8%	34.8%

*Excludes restructuring

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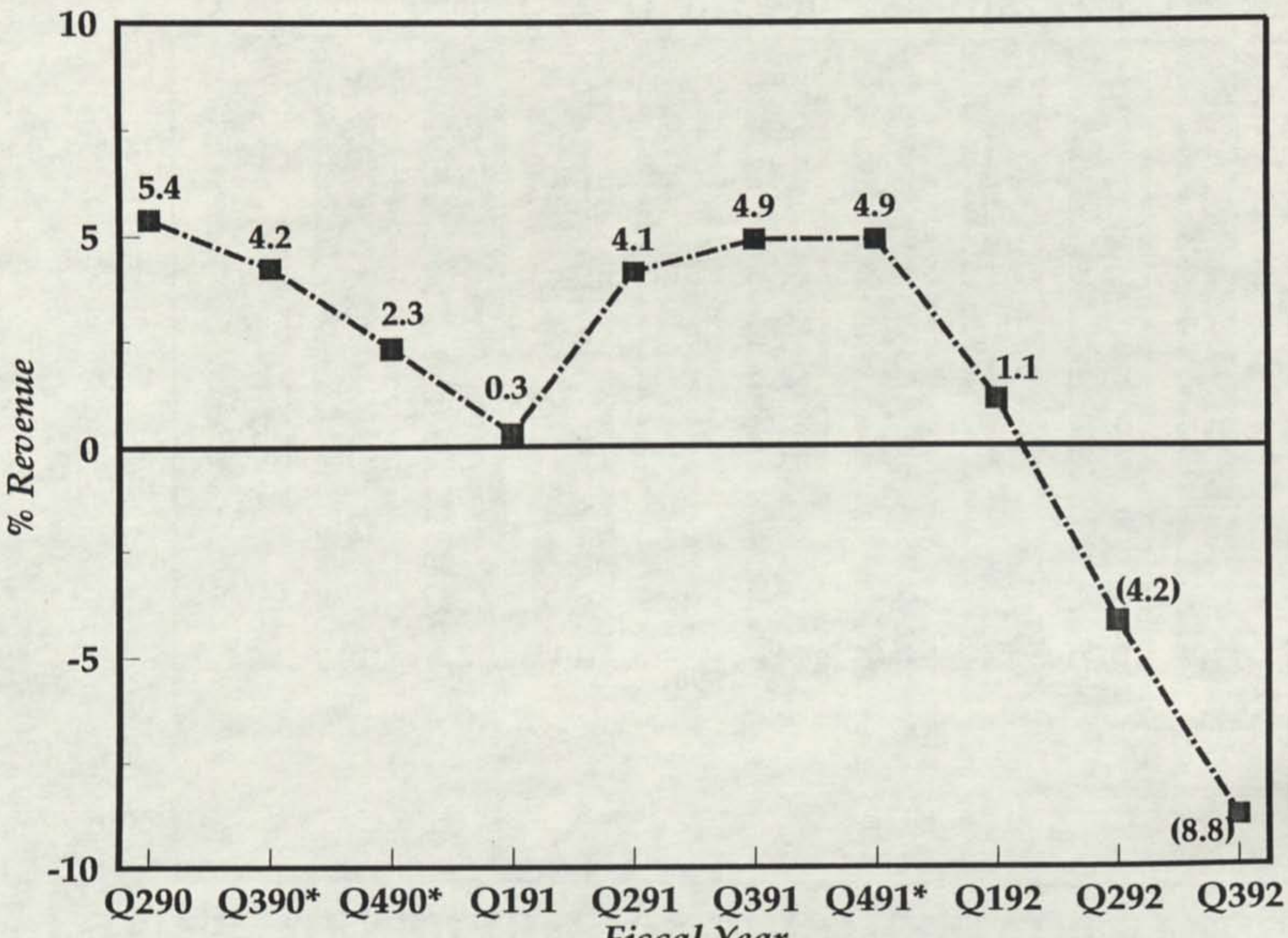
OPERATING PROFIT MARGIN



*Excludes restructuring

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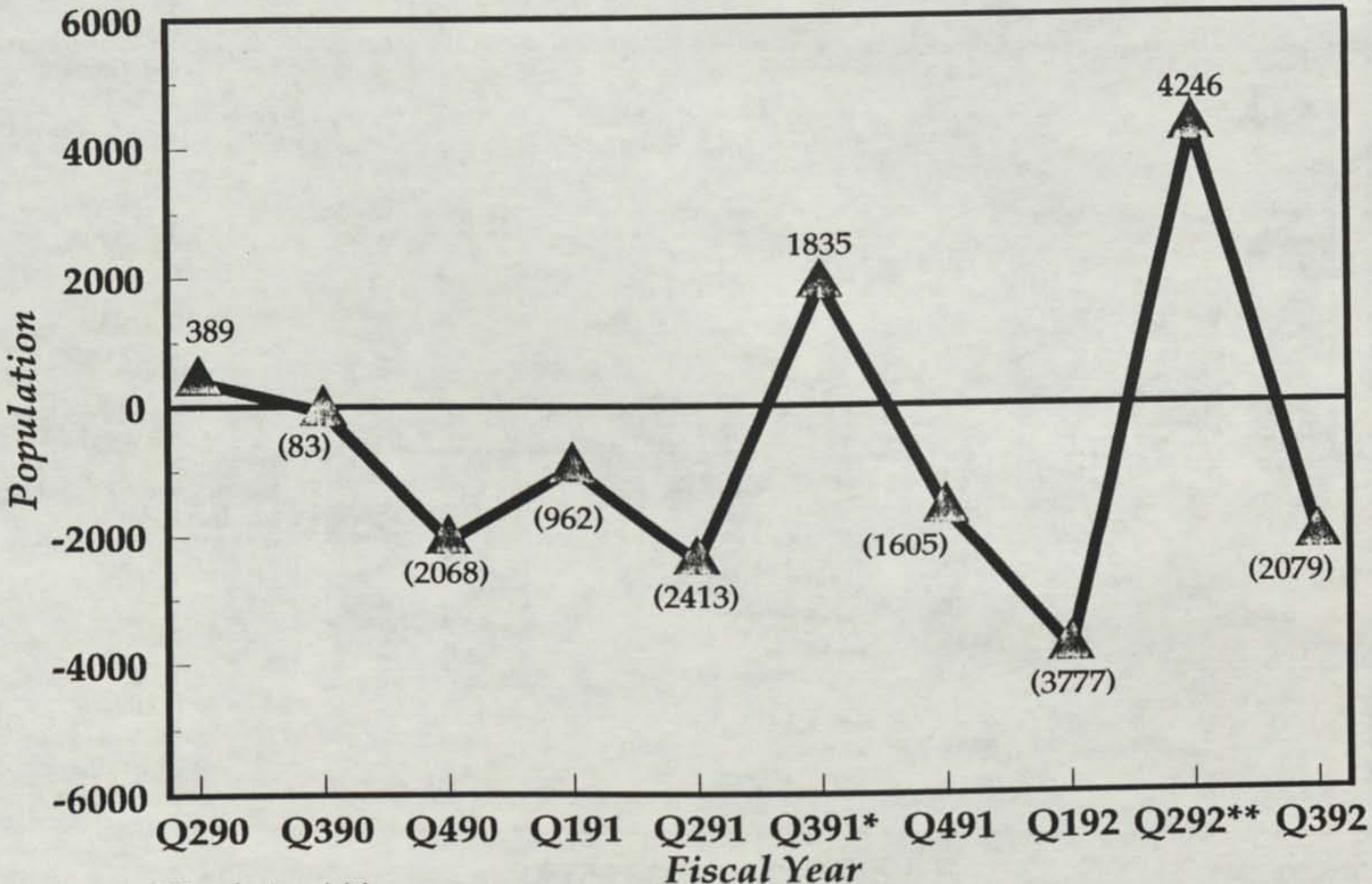
STAFFING TRENDS
Net Hires
(Equivalent)



*Kienzle Acquisition
**Philips Acquisition

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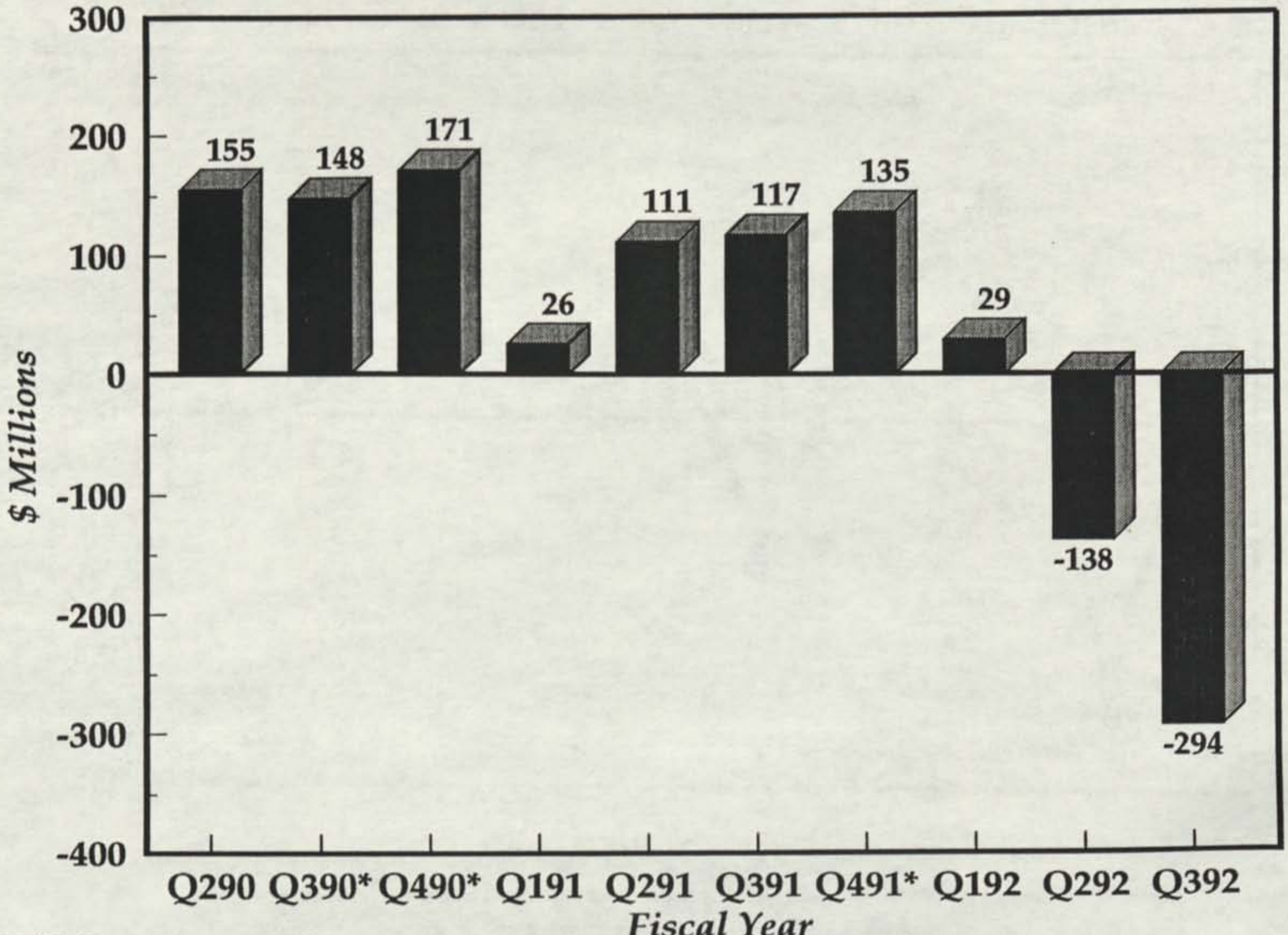
NET INCOME



Yr/Yr % Change	-44%	-43%	-46%	-83%	-29%	-21%	-21%	9%	-225%	-352%

*Excludes restructuring

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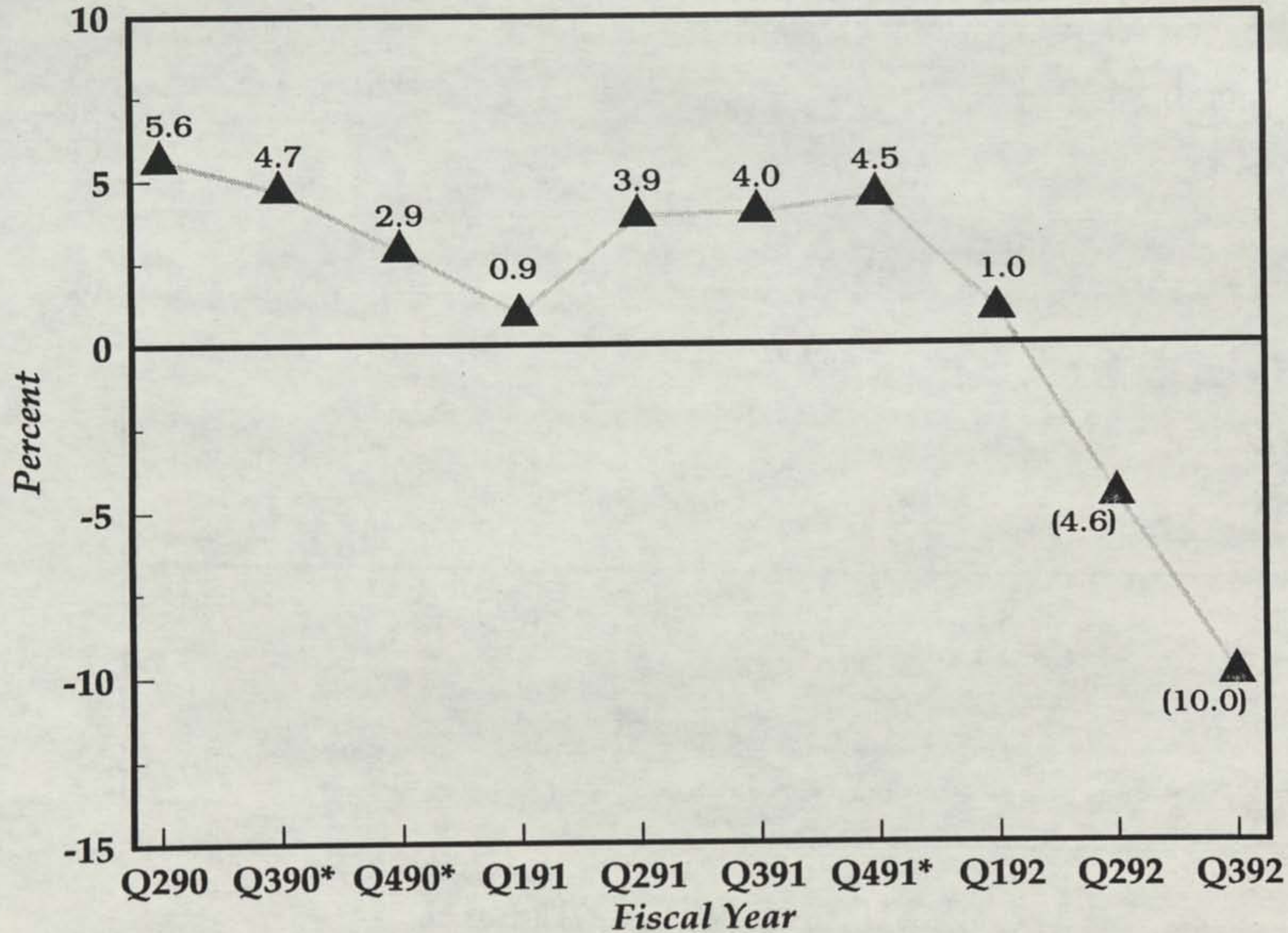
RETURN ON ASSETS



*Excludes restructuring

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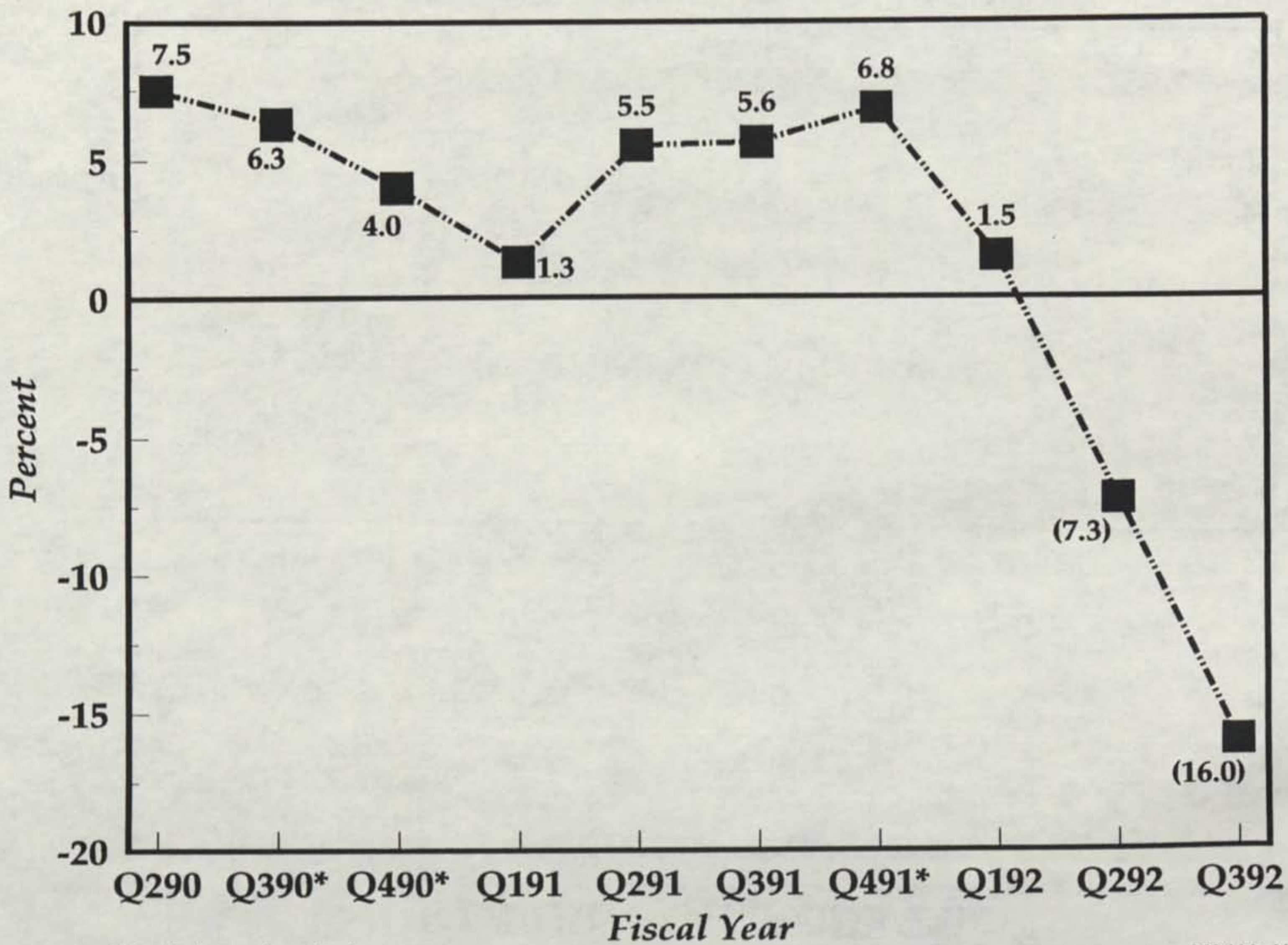
RETURN ON EQUITY



*Excludes restructuring

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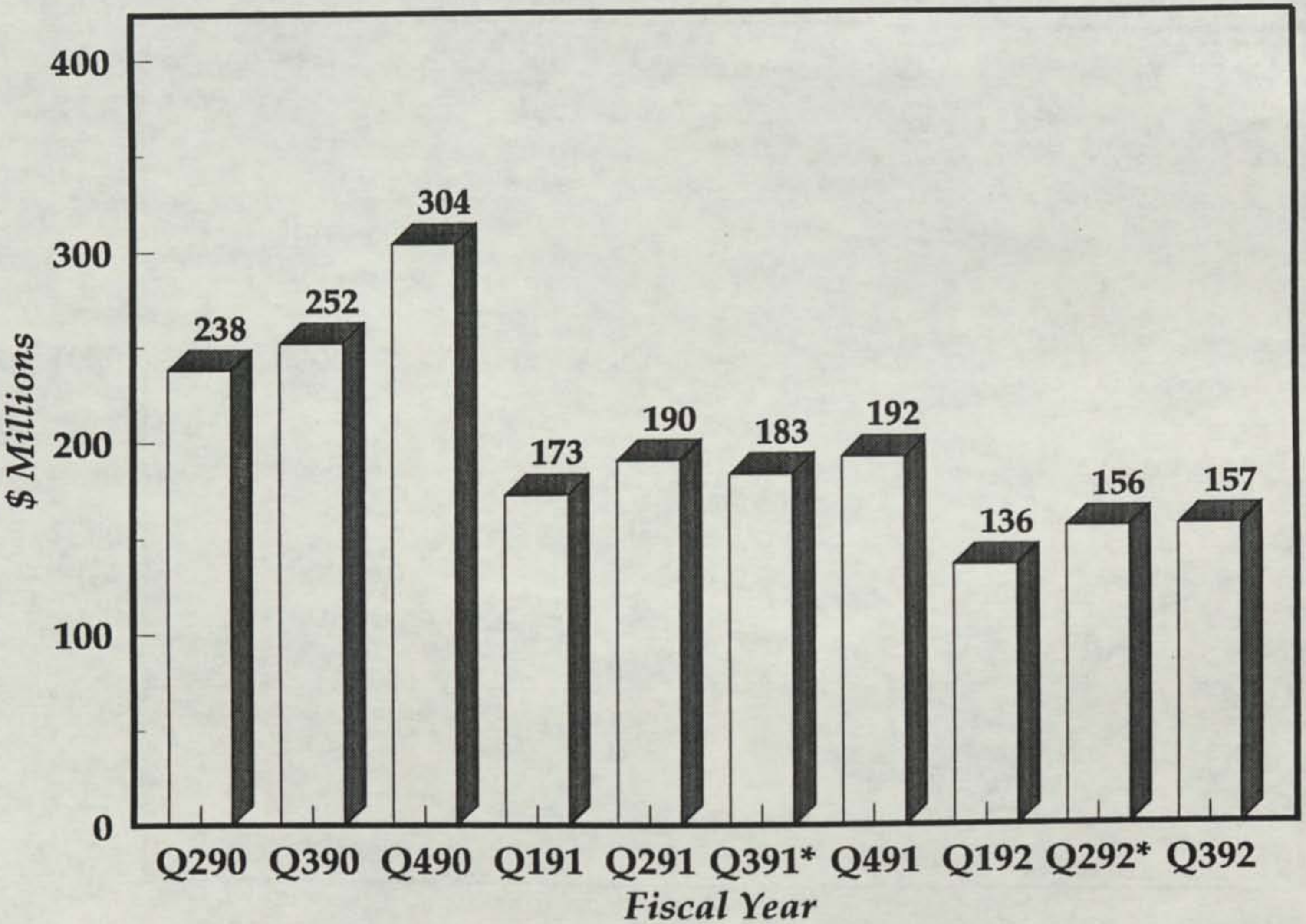
CAPITAL SPENDING



*Excludes acquisitions

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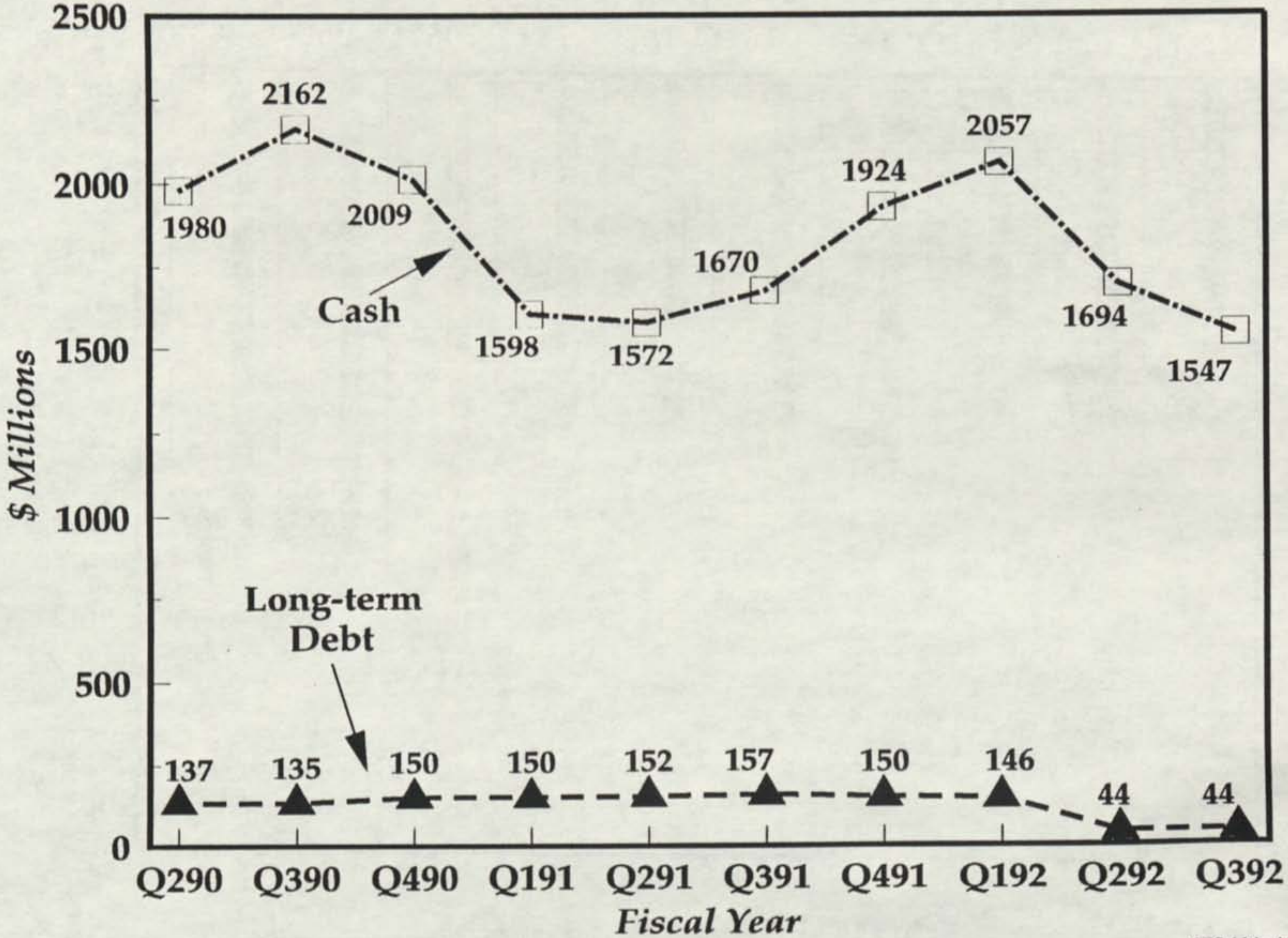
CASH AND LONG TERM DEBT



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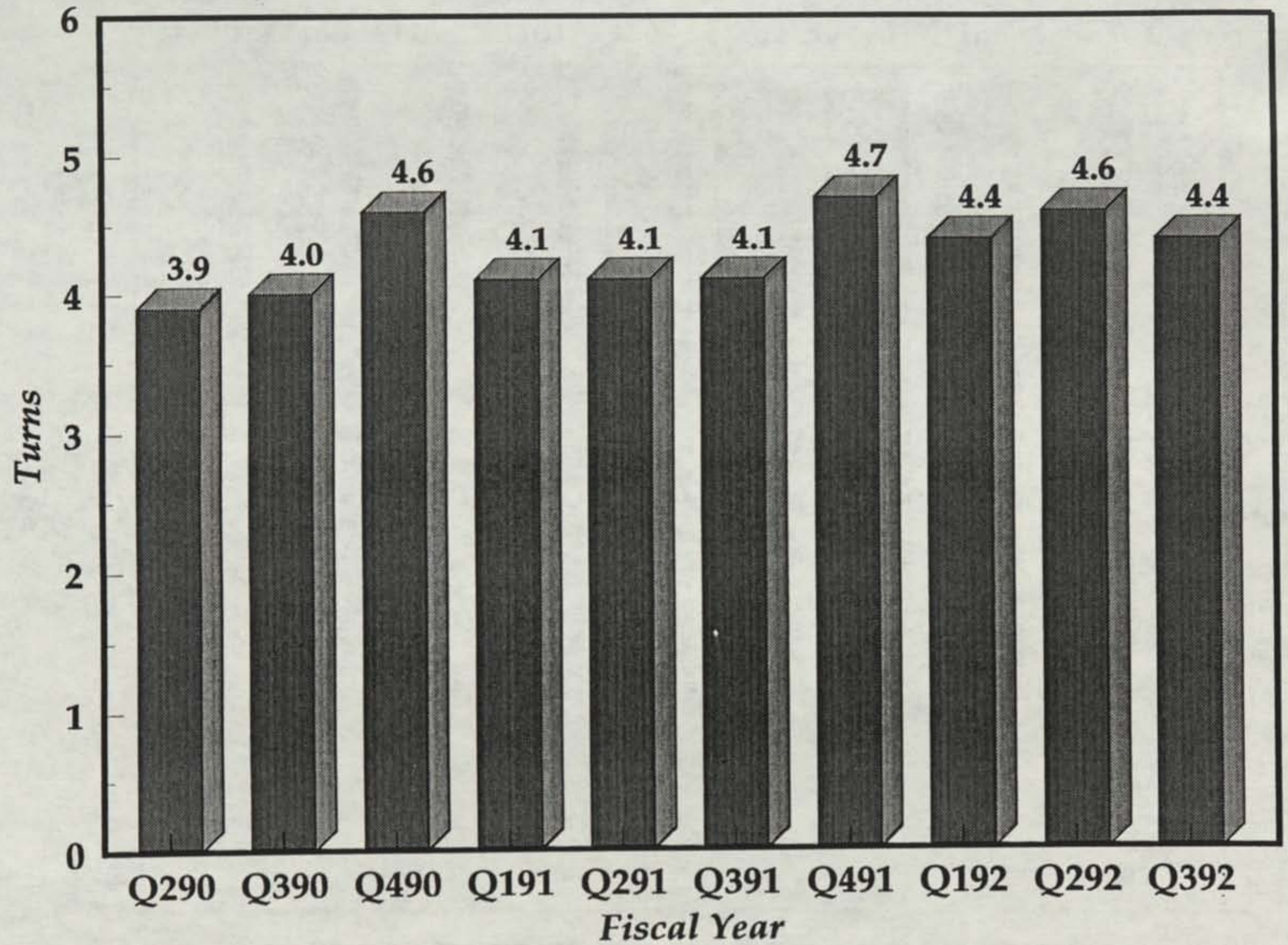
QTRLY-K

INVENTORY TURNS



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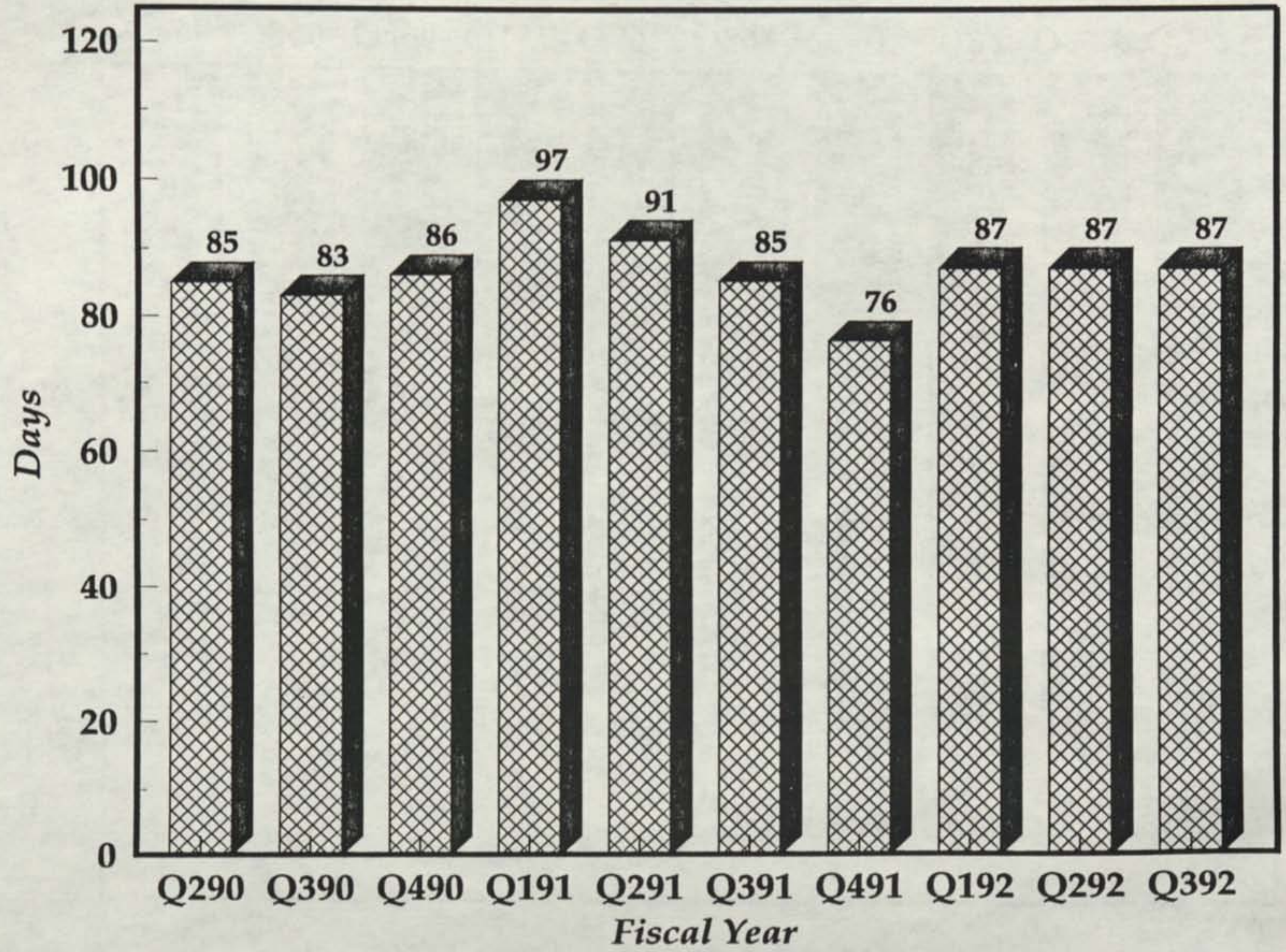
DAYS SALES OUTSTANDING



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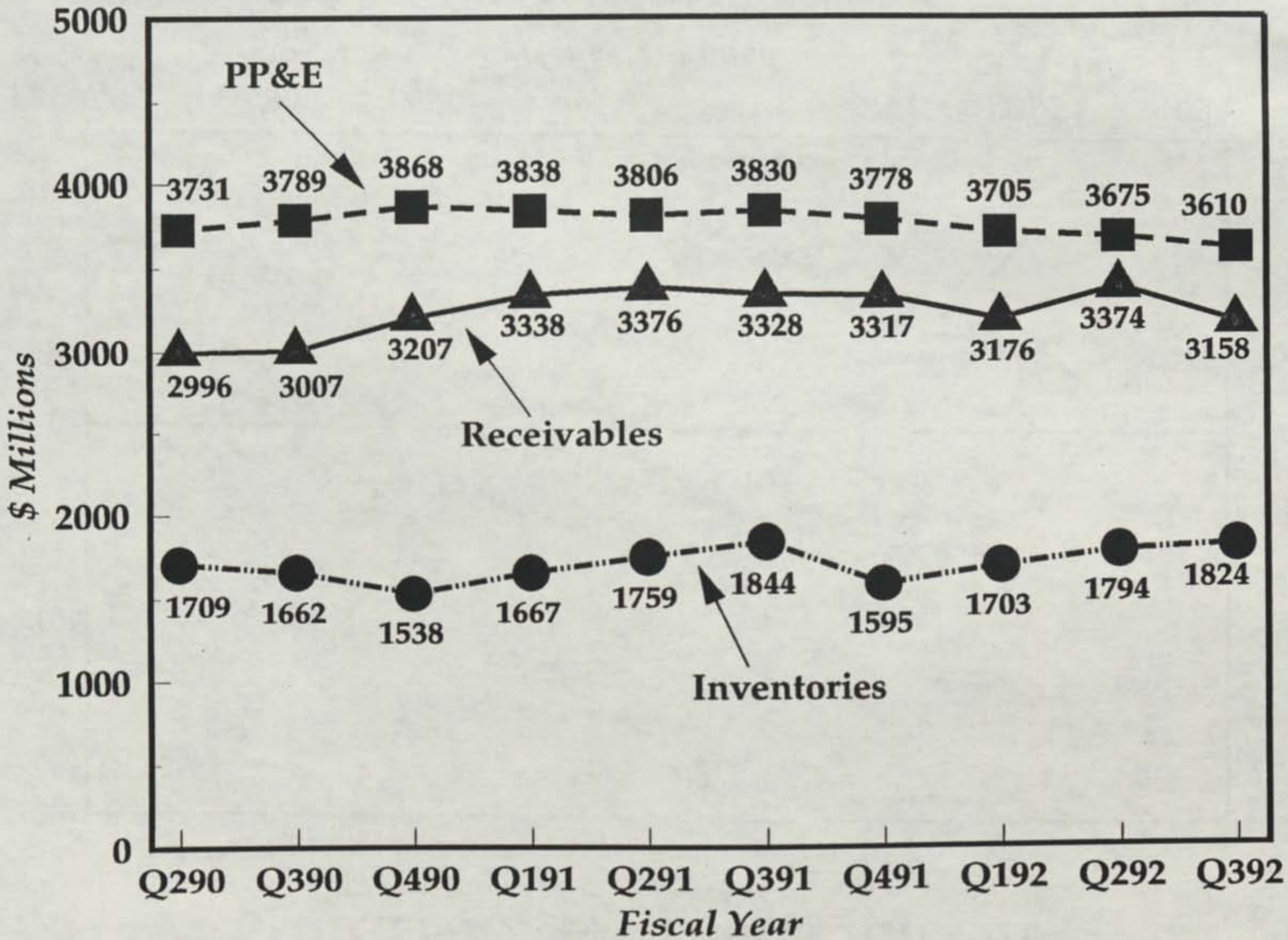
OPERATING ASSETS



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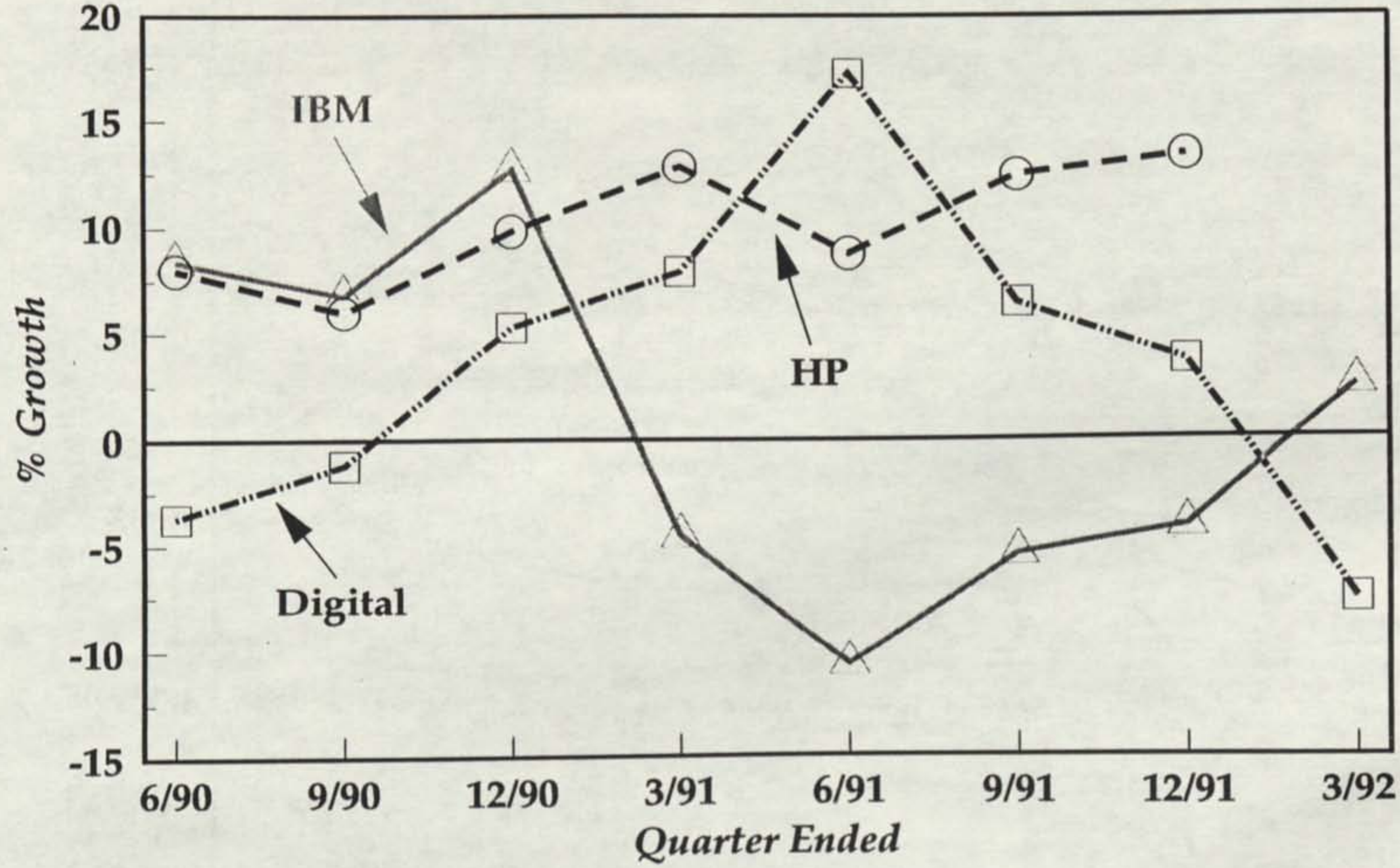
DIGITAL versus IBM AND HP
Revenue Growth Trends



Note: Data for HP reflects their quarter ended January 24, 1992.

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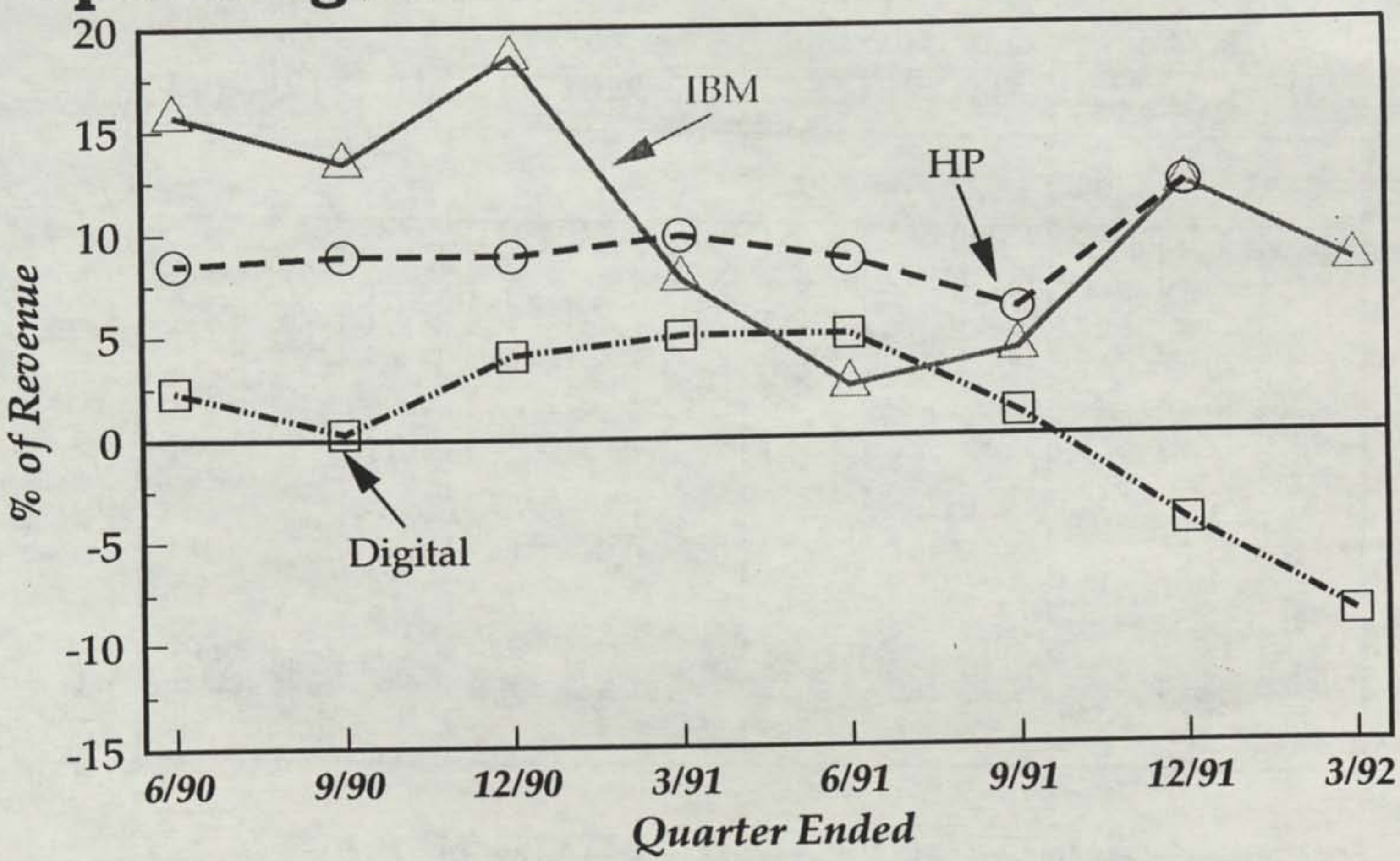
DIGITAL versus IBM and HP
Operating Profit as a Percent of Revenue



Note: Data for HP reflects their quarter ended January 24, 1992.

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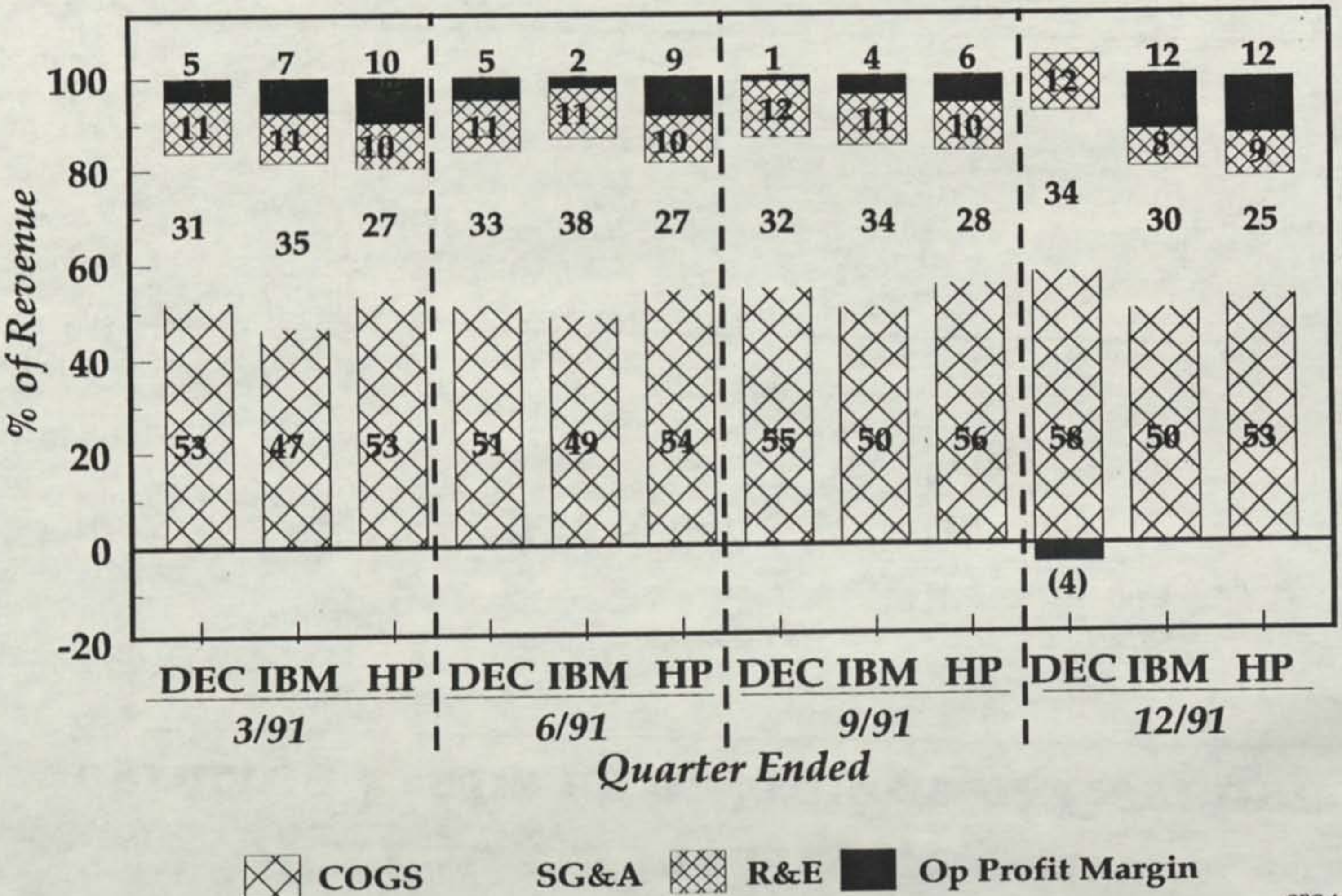
DIGITAL vs. IBM and HP
Cost Structure Comparison



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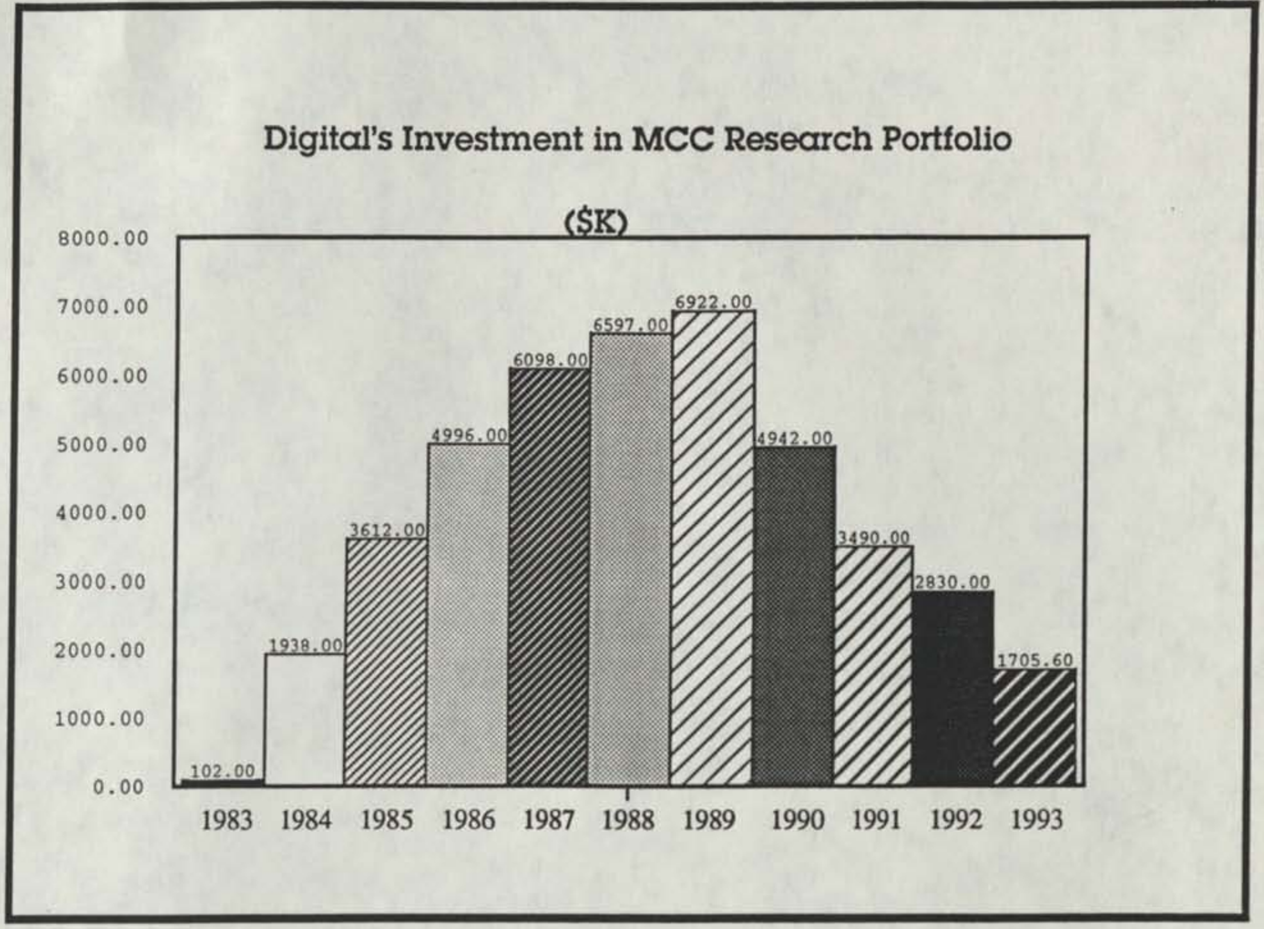
ATTACHMENT 6

f: MCC
→ key slide



35mm Slides DRAFT Corp. Overview 10/91

Janis...

Looks good -- very good. Couple of minor changes. Suggest we eliminate Slide CR650-47 (the all type title slide) in favor of CR650.001 (title slide w/photos). Don't need both.

CR650-008 -- Would like to change text from "To create this environment..." to "To deliver this advantage..."

CR650-010 -- Change "$1.9 Billion In Cash, $4 Billion in working capital" to "2 Billion in Cash, $4 Billion in working capital."

CR650-26 -- Change the number of companies supporting ACE from 85 to 200 and add "UNIX Systems Laboratories" to list.

CR650.035 -- Change text to read "NAS makes it easier to develop production, distributed processing, etc., etc.

CR650-036 -- Underline <u>portable</u> and <u>interoperate</u>.

CR650-044 -- Change "Deutche Telepost" to "Deutche Bundespost TELEKOM"

Am making these change plus a couple of diddles in accompanying text. This ~~sould~~ should just about do it.

Many thanks.

Pat

Pat Murphy
Public Relations
x4404

Edited October 30, 1991

1991 ANNUAL REPORT SLIDE PRESENTATION

Table of Contents

Introduction and
Suggestions
for Presenters

Every computer company is defining openness on its own terms. In our 1991 Annual Report we define openness in customer terms.

We show that in order to gain The Open Advantage a customer needs Open Systems, Open Networks, Open Software, and Open Services and Support. Systems that simply meet industry standards don't -- by themselves -- create the open computing environment our customers are looking for.

This slide presentation follows the general outline of the Annual Report. For your convenience we've written out some "Notes" expanding on the points made in each slide. The actual text shown on the slide is in bold type so it stands out from the supplementary material.

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1991 ANNUAL REPORT HIGHLIGHTS

(Digital Logo)

(Use this slide to focus your projector before you start your presentation)

--Digital Delivers
<u>The Open Advantage</u>
...the power to use

the computing technologies
of the '90s

Notes: You've read about The Open Advantage in our advertising. In our 1991 Annual Report we've tried to show how **Digital delivers The Open Advantage -- the power to use the computing technologies of the '90s** through Open Business Practices, Open Services, and Open Technology.

This Annual Report is built around the definition of "Open." Like many words, open has many different meanings.

Systems that meet industry standards

An Open Environment

Notes: Open means **systems that meet industry standards**

Networks that support systems built by different manufacturers

An Open Environment

Notes: Open also means **networks that support systems built by different manufacturers.**

Software that lets applications work together across open networks

An Open Environment

Notes: It means **software that lets applications work together across open networks.**

Services to support open systems, networks, and applications

An Open Environment

Notes: And it means the **services** needed **to support open systems, networks, and applications.** It means working with a computer company that can provide all the support services needed to make everything work together in a multivendor computing environment.

Digital Delivers The Open Advantage

<u>Systems</u>
<u>Networks</u>
<u>Software</u>
<u>Services</u>
<u>An Open Environment</u>

Notes: To create **an open environment** you must have open **systems,** open **networks,** open **software,** and open **services.**

To deliver this advantage a computer company must have:

o A Clear Strategy
o Financial Strength
o A Network of Alliances
o A Commitment to Standards

Notes: To deliver this advantage for its customers **a computer company must have:**

o A Clear strategy
o Financial Strength
o A Network of Alliances
o A Commitment to Standards

A clear strategy:

Provide the products and services our customers need to integrate multivendor computing environments.

Notes: Digital has **a clear strategy.** We will **provide the products and services our customers need to integrate multivendor computing environments.**

This strategy is not one that every computer company can implement. Supporting open, multivendor computing environments is a big job and it takes a strong company to do that job.

Financial strength:

o 1991 Sales - $13.9 Billion
o $1.9 Billion in Cash, $4 Billion in

working capital
o Nearly $1.5 in systems integration revenues
o R&D, 11.9% of revenue.
o #37 on Fortune 500

Notes: Lets take a look a Digital's **financial strength:**

o 1991 Sales - $13.9 Billion, up 7% over last year. International sales accounted for approximately 60% of the total. Digital has an established presence in 85 countries giving us the resources needed to help our customers compete in a global economy.
o $1.9 Billion in Cash, $4 Billion in working capital
o Nearly $1.5 in systems integration revenues
o R&D, 11.9% of revenue. Digital ranks 5th among U.S. companies, 14th worldwide in total R&D expenditures.
o #27 on Fortune 500 and we're 2nd on the Datamation 100.

A Network of Alliances
with customers, suppliers, and business partners:

o "Invented" OEM market
o More than 3,600 CSOs
o Member -- OSF, ACE, Sematech, MCC and other industry groups
o Research at 125 colleges
o DECUS

Notes: This strength is augmented by **a network of alliances with customers, suppliers, and business partners.**

We recognize that no computer company can do it all. To satisfy your needs, a computer company has to be a team player. It has to be at the center of a network of strategic alliances for promoting standards, developing and sharing technology, and for providing the support and services needed in multivendor environment.

o Analysts have said that Digital "practically **invented" the OEM market.** Much of our early growth came from working with companies who added value to Digital products. The tradition continues. Digital has formal working relationships with thousands of independent software developers, systems integrators, value-added resellers, OEMs and distributors. Many of these third-party alliances go back 20 or 30 years.

o Today Digital is working with **more than 3,600 CSOs** or Complementary Solutions Organizations including leading software developers such as Lotus, Matra, Schlumberger, Ross Systems, Wolfram Research, Computer Associates, and Dun & Bradstreet Software Services. And this network of alliances is growing. In 1990, more than 1,200 software developers signed cooperative marketing or development agreements with Digital.

o **Member -- OSF, ACE, Sematech, MCC and other industry groups.** Approximately 300 senior engineers and technical staff worldwide are involved in the work of over 60 international committees, 90 national committees, 20 regional committees, and 40 consortia.

o We support over 300 **research** programs **at 125 colleges** around the world.

o We have the industry's largest, most active, and I'm proud to say, thoughtful and supportive user group -- **DECUS,** the Digital Equipment Users Society.

A commitment to standards:

o We Conform to standards.
o Create new functionality.
o Work to have that functionality incorporated into new standards.
o Integrate new standards with existing products.

Notes: But in today's market simply having a clear strategy, financial strength, and a network of alliances is not enough. In order to give your customers The Open Advantage, you have to make an unequivocal **commitment to standards**. But this doesn't mean to say that we're simply going to conform to standards as they emerge. Developing an open computing environment is a journey. Existing technologies and standards -- Ethernet, POSIX, Motif, the OSI networking model -- are just signposts along the road. The moment anyone thinks they have arrived at their destination, progress stops.

The development of standards is a continuous, on-going process. We...

o Conform to standards
o Create new functionality
o Work to have that functionality incorporated into new standards
o Integrate new standards with existing products

The Power to use the best solutions

Notes: Standards give our customers **the power to use the best solutions.**

"Technology is power. Our focus on technology gives customers the systems, software, and services they need today, while anticipating their future requirements."

Notes: David Stone, Vice President of our Software Products Group says, **"Technology is power. Our focus on technology gives customers the systems, software, and services they need today, while anticipating their future requirements."**

Lick Observatory, University of California

Digital's Business, Technical, and Investment Strategies All Reflect The Vision of our Customers.

Notes: You learn a lot about vision working with customers like the University of California. Astronomers see the universe as an open, constantly expanding, system. In a way technology models the universe. Technology is reaching beyond the known world. And **Digital's business, technical, and investment strategies all reflect the vision of our customers.**

Business Strategy --

Digital is in 4 Businesses

o Commodities -- PCs, workstations, peripherals
o Value added systems -- VAX
o Systems Integration
o Services

Notes: In his letter to stockholders, employees and customers, Ken Olsen wrote that **Digital is in 4 businesses.**

o Commodities -- PCs, workstations, peripherals
o Value added systems -- VAX. We combines industry standards with capabilities not found on other systems.
o Systems Integration.
o Services.

Technical Strategy

o Implement standards
o Integrate systems based on different standards
o Anticipate future needs
o License Digital's technology
o Support multivendor systems
o Make customer problems and concerns our own

Notes: Our **Technical Strategy** is straightforward. Digital will:

o Implement standards
o Integrate systems based on different standards
o Anticipate future customer **needs**
o License Digital's technology to others
o Support multivendor systems
o Make customer problems and concerns our own

Systems that meet industry standards.

Notes: Our strategy for helping our customers build an open computing environment starts with **systems that meet industry standards.**

"Customers want systems to play together. They want system interoperability and software portability. That's the added value that Digital and third-party developers bring to multivendor computing environments."

Notes: According to Phil Auberg, Manager VMS Marketing, **"Customers want systems to play together. They want system interoperability and software portability. That's the added value that Digital and third-party developers bring to multivendor computing environments."**

Budapest, Hungary

Standards Mean Your Old Software Plays on New Systems, New Software on Old Systems.

Notes: This picture taken on a balcony overlooking the Danube as it flows through Budapest symbolizes our systems strategy. We build systems that are designed to work together. Systems that are based on standards and **standards mean your old software will play on new systems, new software on old systems.** Standards mean your investment in PCs and in IBM, UNIX, and VAX systems is protected.

VAX VMS - functionality not found in industry-standard systems

o Broadest line of high-performance desktop and production systems in industry
o Clustering, symmetrical multiprocessing, vector processing.
o IEEE POSIX, OSF Motif and DCE, X/Open branding
o VAX 9000 - <u>Datamation</u> "System of the Year" -- 330 shipped first year

Notes: If you remember, Ken Olsen said that Digital was in four businesses. One of those businesses was value added systems, **VAX VMS** systems that combine industry standards with **functionality not found in industry standard systems.**

o Broadest line of high-performance desktop

and production systems in industry
o Clustering, symmetrical multiprocessing, vector processing
o Digital is offering an open VMS operating environment through compliance today with **IEEE POSIX** and **OSF Motif**; and, in the future, with OSF's **DCE, X/Open branding**
o VAX 9000 - Datamation "System of the Year" -- 330 shipped first year
o Digital is the largest supplier of high-availability systems in the world
o More than 1000,000 computers run in VAXcluster systems
o Over 15,000 VAX 6000 systems have been sold in the last 18 months
o Sixty percent of the companies in the Fortune 100 depend on VAXcluster systems

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RISC ULTRIX - Broadest range of binary compatible RISC systems

o UNIX developed for and on Digital systems.
o Digital supports BSD4.2-based ULTRIX and UNIX System V
o ULTRIX is POSIX compliant, X/Open XPG3 branded

Notes: Ken also talked about commodity products. Digital is a leader here, too. Our **RISC ULTRIX** family of workstations, systems, and servers offers the **broadest range of binary compatible RISC systems** in the industry. The highlights:

o UNIX developed for and on Digital systems
o Digital supports BSD4.2-based ULTRIX and UNIX System V
o ULTRIX is POSIX compliant, X/Open XPG3 branded
o As part of the ACE initiative, Digital is committed to making its OSF/1 operating system product source-compatible with ULTRIX

Intel MS-DOS - Network Personal Computers

o Notebook, Portable, Desktop, Deskside, and Workstation Models
o PATHWORKS network operating systems has been sold for use on more than 500,000 PCs.
o VAX and RISC servers support VAX, UNIX, ULTRIX, MS-DOS, OS-2, Sun, and Macintosh

clients.
Intel MS-DOS - Network Personal Computers

Notes: At the same time we are becoming a leader in the personal computer marketplace by focusing on **Intel MS-DOS Network Personal Computers** and on network operating systems and desktop interconnect devices.

o Notebook, Portable, Desktop, Deskside, and Workstation Models
o PATHWORKS network operating systems has been sold for use on more than 500,000 PCs
o VAX and RISC servers support VAX, UNIX, ULTRIX, MS-DOS, OS-2, Sun, and Macintosh clients
o Digital is networking up to a million PCs on 8,000 local area networks under a contract with the U.S. Navy
o Digital supports the leading personal computer software packages
o Digital VAX and RISC servers support VAX, UNIX, ULTRIX, MS-DOS, OS-2, and Macintosh clients
o Digital new family of desktop interconnect devices that provide a plug and play network for office environments were described by Business Week as "The No Fuss, No-Muss Network." They won a Gold Medal in the Industrial Design Excellence Awards sponsored by Business Week and The Industrial Designers Society of America

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DECmpp Massively Parallel Processors

o 1,024, 4,096, 8,192, or 16,384 processors
o Up to 1.2 GigaFlops, 26K MIPS
to 26,000 MIPS
o DECmpp Programming Language,
FORTRAN, Parallel Programming Environment, Image Processing Library

Notes: Digital's **DECmpp Massively Parallel Processors** offers customers scalable packaged systems that can be upgraded without increasing the system's footprint.

o Can be integrated with other Digital systems into a single, consistent computing environment for computationally intensive applications.
o Digital software/MasPar systems built with technology licensed from Digital

o 1,024, 4,096, 8,192, or 16,384 processors
o Up to 1.2 GigaFlops (billions of floating point operations per second), **26K MIPS to 26,000 MIPS**
o DECstation front end uses industry standard ULTRIX operating system
o DECmpp Programming Language, FORTRAN, Parallel Programming Environment, Image Processing Library

---

applicationDEC 433MP systems for small and medium-sized businesses

o Industry standard technology:
Up to 6 Intel 486 33mHz processors
ISA bus, SCSI devices
SCO UNIX System V -- Over 4,000 applications

Notes: applicationDEC 433MP systems were designed and engineered especially **for small and medium-sized businesses**

o Industry standard technology:
Up to 6 Intel 486 33mHz processors
ISA bus, SCSI devices
SCO UNIX System V -- Over 4,000 applications
o Digital's commitment to the SME market is demonstrated by Phillips and Kienzle acquisitions.

ACE -- The Advanced Computing Environment

o Supported by 85 computer companies including:
Digital Microsoft
COMPAQ MIPS
The Santa Cruz Operation
UNIX System Laboratories
o Common standards for workstations and PCs
o Provides software portability

Notes: ACE -- The Advanced Computing Environment

o Supported by 85 computer companies including:
Digital Microsoft
COMPAQ MIPS
The Santa Cruz Operation

UNIX System Laboratories

o **Common standards for workstations and PCs**

o While ACE **Provides software portability**, DECwindows Motif provides interoperability among computers that use different system software and are built by different manufacturers.

o DECstation 5000/100 series implements key elements of the ACE initiative.

o Digital's TURBOchannel I/O bus included in ACE specification

----

Networks that support systems built by different manufacturers

Notes: Open systems alone don't make an open computing environment. An open environment is one where data is shared and applications work together across **networks that support** proprietary and industry standard **systems built by different manufacturers.**

"Digital brought system and network management together so customers can build enterprise-wide networks for sharing information, for transaction processing, and for providing new services to their customers."

Notes: According to Gail Daniels, Group manager, Networks and Communications Marketing, **"Digital brought system and network management together so customers can build enterprise-wide networks for sharing information, for transaction processing, for providing new services to their customers."**

Port Clyde, Maine

It is the network that brings open systems and telecommunications together so an ATM in a fishing village in Maine can be a "branch office" of a money center bank in London.

Notes: As this picture of an automatic teller machine in Port Clyde, Main shows, computer networks are changing the way the world does business. **It is the network that**

brings open systems and telecommunications together so an ATM in a fishing village in Maine can be a "branch office" of a money center bank in London.

ADVANTAGE-NETWORKS

o DECnet	o X.25, X.400
o OSI	o IBM SNA
o TCP/IP	o Novell Netware
o NFS	o OSF DCE

o Ethernet and Token Ring

Notes: ADVANTAGE-NETWORKS support the different protocols you need to build and manage multivendor networks including:

- **DECnet**
- **OSI**
- **TCP/IP**
- **Ethernet** (IEEE 802.3)
- **Token Ring** (IEEE 802.5)
- FDDI (Fiber Distributed Data Interface)
- **X.25, X.400**, X.500
- **IBM SNA**
- DECmcc (Network Management System)
- **NSF** (SUN's Network File System)
- **DCE** (OSF's Distributed Computing Environment)

ADVANTAGE-NETWORKS

Applications

o Currency, Security, and Commodity Trading
o Point-of-Sale and Credit Authorization
o Computer Integrated Manufacturing
o Concurrent Engineering
o On-line Transaction
o PC Integration/Office Information Systems

Notes: The **applications** supported by ADVANTAGE NETWORKS include:

o Currency, Security, and Commodity Trading
o Point-of-Sale and Credit Authorization
o Computer Integrated Manufacturing
o Concurrent Engineering
o On-line Transaction
o PC Integration/Office Information Systems
o Logistics and Distribution
o Electronic Mail/Electronic Document interchange
o Telecommunications/Computer-Integrated

Telephony
o Videotex
o Imaging Systems
o Reservation Systems
o client/Server Computing
o Management Information Systems

ADVANTAGE-NETWORKS

o Support more than 865,000 nodes
o Digital has strategic alliances with AT&T, NTT, Northern Telecom, MCI, Mitel, British Telecom and other leading telecommunications providers.
o Internal network supports 100,000 employees, 63,000 computers, 540 sites

Notes: ADVANTAGE-NETWORKS
provide an open,comprehensive, and manageable environment.

o Support more than 865,000 nodes
o Digital has strategic alliances with AT&T, NTT, Northern Telecom, MCI, Mitel, British Telecom and other leading telecommunications providers.
o Internal network supports 100,000 employees, 63,000 computers, 540 sites.
o Digital was one of the original sponsors and developers of Ethernet

---

Software that lets applications work together across open networks.

Notes. But open systems and open networks are not enough. To build an open computing environment you need **software that lets applications work together across open networks.**

"NAS is the foundation for The Open Advantage. It implements industry standards so customers and independent software vendors can develop applications that will work together, applications that will work across the network and around the globe."

Notes: According to Henry Ancona, Vice President, Information systems and Applications Group, **"NAS is the foundation for The Open Advantage. It implements**

industry standards so customers and independent software vendors can develop applications that will work together, applications that will work across the network and around the globe."

Kyoto, Japan

NAS makes it easier to develop production, distributed transaction processing, and client/server applications for open computing environments.

Notes: It makes no difference whether you"re staying at an inn in **Kyoto, Japan** or sitting behind a desk in London, you want to be able to access the information and applications you need to do your job. Digital provides **the tools needed to develop production, distributed transaction processing, and client/server applications for open computing environments.**

COHESION AND NAS

With COHESION you can build portable applications.

With NAS -- Network Application Support -- those applications can interoperate across the network.

Notes: COHESION AND NAS are the two key components needed to build applications for open computing environments.

With COHESION you can build portability applications.

With NAS -- Network Application Support -- those applications can interoperate **across the network.**

COHESION, the industry most comprehensive and inclusive software environment

- o CASE tools
- o Repository
- o Fourth-generation languages
- o Services

Notes: COHESION, the industry most

comprehensive and inclusive software environment includes:

- **o CASE tools**
- **o Repository**
- **o Fourth-generation languages**
- **o Services**

NAS, Network Application Support, bridges the differences among VMS, UNIX, MVS, MS-DOS, OS/2, Macintosh, and other systems

(NAS Chart)

Notes: As you can see from the diagram, **NAS, Network Application Support, bridges the differences among VMS, UNIX, MVS, MS-DOS, OS/2, Macintosh, and other systems.**

---

o NAS is based on interface standards -- OSF, OSI, Ethernet, POSIX, FDDI, X.400 etc. -- rather than operating system or architecture.

o Developed cooperatively with others
o Supports print, data access, message, windowing, file sharing, application control and other services across the network.
o Used by more than 900 independent software developers in more than 2,000 applications.
o Applications for IBM, SUN, MS-DOS, MS-Windows, OS/2, and Macintosh

Notes: NAS is based on interface standards -- OSF, OSI, Ethernet, POSIX, FDDI, X.400 etc. -- rather than operating system or architecture.
o Developed cooperatively with other companies and industry groups including COMPAQ, MIT (Project Athena), OSF, Tandy, Toshiba, Cray, and Stanford University.
o Supports print, data access, message, windowing, file sharing, application control and other services across the network.
o Used by more than 900 independent software developers in more than 2,000 applications.
o Digital is delivering NAS **applications for IBM, SUN, MS-DOS, MS-Windows, OS/2, and Macintosh** personal computers
o DECwindows, PATHWORKS, RDB, and other key NAS components are bundled with Digital

operating systems

Services needed to support open systems, networks, and applications.

Notes: Support is the fourth requirements for building an open computing environment. **Services are needed to support open systems, networks, and applications.**

"It takes knowledgeable people to integrate open systems. They have to understand both technologies and applications and be abler to manage complex projects."

Notes: Supporting an open computing environment is a complex job. According to Kannakote Srikanth, Director of Systems Integration and Support Services, General International Area, **"It takes knowledgeable people to integrate open systems. They have to understand both technologies and applications and be abler to manage complex projects."**

Santa Maria De Hidalgo, Mexico

More than one third of Digital's revenue comes from services for planning, designing, implementing, and managing complex systems and networks to support our customers worldwide business strategies.

Notes: This picture of an open field in **Santa Maria De Hidalgo, Mexico** makes the point that plans written in London, Tokyo, or New York have to be implemented in out of the way places. One of Digital's great strengths is that we can provide our customers with worldwide support. **More than one third of Digital's revenue comes from services for planning, designing, implementing, and managing complex systems and networks to support our customers worldwide business strategies.**

Services

o Support for over 8,000 hardware and software products from more than 800 manufacturers

o 1,100 engineering, research, manufacturing, sales, and service facilities in 85 countries.
o 2,000 consultants to help plan, design, implement, and manage customer systems.
o 145 training centers. Courses in 16 languages. Over 340,000 students.

Notes: A few statistics to give you an idea of the scope of Digital **Services:**

o Support for over 8,000 hardware and software products from more than 800 manufacturers
o 1,100 engineering, research, manufacturing, sales, and service facilities in 85 countries.
o Nearly $1.5 billion in systems integration revenue
o 2,000 consultants to help plan, design, implement, and manage customer systems.
o 145 training centers. Courses in 16 languages. Over 340,000 students.

Systems Integration

o Nearly $1.5 in systems integration projects
o Major projects for:

Kodak	Toys "R" Us
Banker's Trust	Tyson Foods
Citibank Australia	U.S. Census Bureau

Aetna Life & Casualty
Deutche Bundespost TELEKOM

Notes: In the U.S. alone there are 60 million PCs, 25 thousand MVS systems, 4 million UNIX systems, 450 thousand VAX systems, and 300 thousand other computers. Customers want to integrate the systems and technologies they now have and those they intend to buy. That's why **systems integration** is a growing business.

o Digital is consistently ranked among the top three leaders in systems integration by industry analysts.
o Nearly $1.5 in systems integration projects
o Major projects for:
Kodak
Toys "R" Us

Banker's Trust
Tyson Foods
Citibank Australia
U.S. Census Bureau
Aetna Life & Casualty
Deutche Bundespost TELEKOM

Open systems, open networks, open software, and open services combined with open business practices, and open technology create the environment where everything and everyone works together. This is The Digital Advantage."

Notes: Open systems, open networks, open software, and open services combined with open business practices, and open technology create the environment where everything and everyone works together. This is The Digital Advantage."

Digital gives you the power to use the computing technologies of the '90s. Digital
Notes: Digital gives you the power to use the computing technologies of the '90s.

END OF JOB

EMASA2::MURPHY

JOB 255

TALKING_POINTS

Owner UIC: **[2Y3,MURPHY]**
Account: **2Y3**

Priority:	100
Submit queue:	LN03R_2_2_EXEC
Submitted:	29-OCT-1991 08:48
Printer queue:	LN03R_2_2_EXEC
Printer device:	LTA1032
Started:	29-OCT-1991 08:48
Finished:	29-OCT-1991 08:51
Qualifiers:	/FORM=CPS$DEFAULT /BURST /TRAILER
Parameters:	DATA_TYPE=ANSI, PAGE_SIZE=A, SHEET_SIZE=A
Sheets printed:	22

Digital Equipment Corporation
VAX/VMS Version V5.4-2

ScriptPrinter LN03R
ScriptPrinter Software V2.1

f: wali slides on corporate overview.

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Executive Summary

CFG

Digital Confidential

Q1 FY92 Summary

Wall Street Reaction

According to Mark Steinkrauss, Digital's Q1 FY92 net income of $29 million, or $0.23 earnings per share, was in the middle of analysts expectations. During an hour long teleconference with 135 participants from the investment community, positive comments and concerns were heard.

Favorable reaction from "Wall Street" included:

* Good cost and expense control - most items, including SG&A, came in at, or below, analysts forecasts.

* Strength of service business - revenue up 16%.

* Apparent synergy between Digital and Kienzle - little need for break out of Kienzle's numbers.

* Excellent balance sheet - cash and receivables highlighted.

* Reduced capital spending - expectations of a full year decline in capital spending.

* Good progress in headcount reduction.

* Recognition of efforts to consolidate facilities and reduce space. One analyst noted that IBM has yet to take this step.

* Positive cash flow from operations and investing activities.

* High level of anticipation regarding October 30 product announcements.

* Systems Integration and improvement of PC business.

Concerns of "Wall Street" focussed on:

* Poor outlook for orders and acknowledgement of continued slowdown in World economies - the single biggest negative for analysts.

* Product revenues and margins below expectations.

* High tax rate - difficult to understand.

* VAX 9000 - continued fade in business, although analysts not as interested as they have been in prior quarters.

* Anxieties over product transition - VAX, Alpha, October 30 announcement.

* Some confusion regarding ACE - staying power of SCO and MIPS, what does ACE mean to Digital, how does Alpha fit?

* Philips purchase - when, how much, revenue, costs, earnings, fit to Digital?

* No buyback of depressed stock - what does this signal? No dividend despite cash balance.

<u>Industry Results for Quarter end 9/30/91</u>

It was another poor quarter for the computer industry. The weak economy and price wars in some parts of the market hurt earnings. Mainframe sales continued to be weak as customers delayed purchases in anticipation of the new generation of products. PC sales also remained weak and profits continued to be hurt by aggressive pricing actions. Sales of laptop, notebook and palmtop computers continued to surge. Demand for HP's LX95 has been unexpectedly strong. Workstation sales remain strong, but the fault-tolerant market posted mixed results.

Strengthening of the U.S. Dollar had an unfavorable impact on revenue and earnings for the majority of our competitors during the quarter. Digital, however, reported favorable currency impact during the quarter.

Aggressive pricing actions continued in the low end. Dell cut prices across its product line in an effort to expand market share. Dell's laptops fell about 33% in price and desktop and floor-standing models declined 2% to 27%. Compaq cut European PC prices by as much as 27%.

The biggest surprise of the quarter was Compaq reporting its first net loss as it took a $135 million restructuring charge. The company also fired Joseph "Rod" Canion, the president and CEO since Compaq's inception, replacing him with Eckhard Pfeiffer.

The merger of NCR with AT&T was completed September 19, 1991. NCR reported a net loss of $82 million for the quarter, after a restructuring charge of $200 million, while revenues fell 10% to $1377 million.

IBM took a $100 million restructuring charge to cover an additional 3,000 employees who plan to accept a severance package, bringing the total to 20,000 by year end (December). Compaq incurred a $135 million restructuring charge to reduce its work force by 12%, and restructuring operations. Compaq is reorganizing into two product divisions: PC and Systems.

The aggregate revenue of Digital and our top ten competitors decreased by 3% compared to the year-ago quarter, driven by poor results from IBM (-6%), Compaq (-18%), and Data General (-4%). Excluding IBM, aggregate revenue was flat. Digital's 7% growth exceeded the aggregate results.

Results for the quarter were varied. Sun recorded 12% revenue growth, while Compaq, Unisys and Wang each registered an 18% decline in revenue. Full range vendors grew fastest, with growth by Digital, HP (+9%), and Stratus (+8%) offset by declines from Data General and Wang.

For the third consecutive quarter aggregate profits fell, dropping 62%, driven by an 80% plunge by IBM. Excluding IBM, aggregate net income grew 8%.

Low end companies (Apple, Compaq, Sun) recorded 3% revenue growth, a 44% decline in operating profit and a 6% operating profit margin.

Full range vendors reported a 29% increase in operating profit on a 5% increase in revenue, with a 5% operating profit margin. Stratus was the only company to report a double digit profit margin.

High-end vendors (IBM, Tandem, Unisys) posted a 7% drop in revenue, a 65% decline in operating profit and a 4% operating profit margin.

Orders/Revenue

Worldwide Systems orders (certs) in Q1, excluding Kienzle, were down 21% to $1402 million. Double digit decreases in certs were recorded in all three areas with U.S. certs weakest.

Among products, PC unit certs were up 75%, year over year, while VAX 9000 and 6000 unit certs fell 60% and 40% respectively. Total workstation unit certs fell 21% with VAX workstations falling 32% and RISC workstations down 3% from prior year levels. VAX workstations made up 54% of workstation unit certs in Q1 FY92, down from 63% in Q1 FY91.

Total revenue in Q1 was $3923 million, up 7%, year over year, flat excluding currency. Service revenues rose 16%, 11% without currency, to $1430 million. Europe was the main driver of service revenues, up 32%, 18% minus currency. Product revenues were flat at $1862 million, but down 6% excluding currency. U.S. product revenue was down 13%, year over year, while U.S. service revenues were up 4%. Kienzle and EA contributed $97 million in revenue during Q1 FY92.

Expenses/Profits

Total gross margin in Q1 FY92 was 45.5%, down 1 point, year over year. The decrease was driven by product gross margin declining 1.6 points from the same quarter last year, offset by by the 1.4 point improvement in the service gross margin. Kienzle impact on gross margin was (0.3) points.

Research & Development spending in Q1 was $409 million, up 2%, year over year, and flat minus currency. As a percentage of NOR, R&D spending was down 0.6 points to 12.4%. Selling, General & Administrative expenses were $1052 million, up 3%, year over year, but down 5% excluding currency impact. Total SG&A spending was lower in Q1 FY92 than the previous three quarters. Total R&D and SG&A spending, excluding Kienzle, was $1426, flat year over year, and down 6% minus currency.

As an indication of controllable expenses, Q1 FY92 functional spending grew 5%, year over year. Europe registered 30% growth, although half the increase was due to Kienzle and currency impact. U.S. spending decreased 7%, year over year, as a result of increased emphasis on cost controls and reduced headcount. Functional expenses in GIA increased mainly due to unfavorable currency impact. Manufacturing and AIMG decreased spending, reflecting improved cost controls and decreased headcount.

Q1 FY92 operating profit was $37 million, $27 million higher than Q1 FY91. The improvement was driven by a number of business factors. Among revenue related items, MLP pricing strategy, systems mix, uplift, and discounts and allowances accounted for the negative impact. A shift towards increased service revenue was the one positive factor in the revenue related variance of ($163) million. Currency impact was favorable at $77 million, year over year. The overall variance for expense related items was positive, $113 million. The negative impact of economics, driven mostly by higher salary costs, was more than offset by the positive impact of attrition and restructuring actions in FY90 and FY91. Standards improvement and continued cost controls account for the remainder of the positive expense variance to Q1 FY91.

Q1 FY92
Operating Profit Analysis

($ Millions)	Profit
Q1 FY92 Actual	$37
Q1 FY91 Actual	10
Variance	**$27**
Explanation of Variance	
Revenue related:	
Volume	4
Uplift, Discounts, Allowances	(71)
Pricing	(72)
Systems Mix	(24)
Total Revenue related	**($163)**
Currency	**$77**
Expense related:	
Economics (inflation, salary, fringe)	(120)
Restructure/Attrition	124
Standards improvement	33
Other	76
Total Expense related	**$113**
Total Variance	**$27**

Operating profit margin improved 0.8 point to 1.1% of NOR from Q1 FY91 levels. Revenue grew 7%, while total costs grew 6%, accounting for the improvement in operating margin. Although cost of sales outpaced revenue, R&D and SG&A spending grew less than NOR. For the third consecutive quarter, revenue growth exceeded cost growth.

Staffing

Total company staffing decreased 3777 from Q4 FY91, and 9920 from Q1 FY91. Reductions were spread across all functions. Beginning with Q1 FY92, headcount is now reported on an equivalent basis rather than gross. Due to a timing issue, the beginning balance for Q1 FY92 included 242 9-week cycle people who physically left before the beginning of the quarter but were still on the books. Since the beginning of restructuring activities, headcount has decreased over 11,250 via TFSO, resulting in an estimated $530 million per year reduction in expenses.

Capital Spending

Capital spending in Q1 FY92 was $136 million, $37 million less than Q1 FY91. Spending was down for both equipment purchases and facilities. Restructuring activities in Q1 FY92 resulted in the elimination of approximately 288,000 square feet of space. Expected reduction by the end of restructuring is 6.5 million square feet. At the end of FY91, approximately 5 million square feet had been eliminated. Capital spending in FY92 is forecast to remain under $1 billion.

Inventory

Q1 FY92 inventory was $1703 million, $36 million higher than Q1 FY91, although inventory turns improved 0.3 times, year over year. The increase in inventory from Q4 FY91 levels reflects the normal seasonal pattern of prior years.

Days Sales Outstanding

DSO improved 10 days to 87, year over, but rose 11 days in comparison to Q4 FY91. The decrease in DSO, year over year, is due mostly to favorable currency impact and improved U.S. performance. The rise in DSO from Q4 levels reflects the historical Q4 shipment skew.

Cash Flow

The Q1 FY92 year over year improvement in cash flow was $544 million. The ending cash balance in Q1 was $2057 million. Cash from operations accounted for more than half the improvement in cash flow with a significant reduction in accounts receivable the largest factor. Improved inventory performance and reduced capital spending also contributed favorably. The $235 million improvement in financing activities is due to the repurchase of common stock in Q1 FY91 with no corresponding purchase this year.

ROA/ROE

Q1 FY92 Return on Assets was 1.0%, up 0.1 point, year over year, with improved asset performance offset by flat Profit After Tax. Operating profit margin improved 0.8 point, but a 15 point increase in the tax rate eroded PAT. Asset performance improvements were found in DSO, inventory turns, and PP&E turns.

Q1 FY92 Return on Equity was 1.5%, up 0.2 point, year over year, driven by higher financial leverage. Restructuring charges have reduced equity while not impacting assets, which results in increased leverage.

CFG

Key Customer Messages/ Customer Q & A's

Digital Confidential

Key Customer Messages

* Revenues higher despite sluggish economies, operating profit improved

* Service business growing at double digit pace, desktop integration showing robust growth

* Balance sheet is an inherent strength, virtually no debt, improving asset utilization, receivables and inventory performance are excellent implying well managed company, Inventory turns improving

* Continue to introduce new systems, software, and services. Aggressively market low end systems, peripherals, and expand distribution channels

* October 30th announcement - demonstrates company wide commitment to delivering "Open Advantage" to customers

* Key Digital messages:
  - **NAS** - Open multivendor computing made easy
  - **Open VAX/VMS** - The World's only "no compromise computing"
  - **PC Style Software Licensing** - Desktop to data center
  - **Digital Open Service** - #1 in multivendor support

Customer Q&A's

Brad Allen of Investor Relations has prepared responses to potential questions customers may ask the Digital Sales force.

1. Has Digital used up all the restructuring charges taken in FY91?

The $1.1 billion is to be used for severance, facility consolidations, and equipment retirements. 50% is for severance, 50% for facility and equipment. By the end of Q1 FY92, about $200 million of the $1.1 billion had been used.

2. How will fewer resources impact support on our account?

The new account structure is intended to provide more focus to accounts and get all resources in the field lined up to support accounts. This re-focusing allows us to give better support where customers need it.

3. What are the plans to solve Digital's problems?

Focus on you (the customer)!

4. Is there a succession plan for Ken Olsen?

Ken has not announced plans to retire. Succession planning is the responsibility of the Board of Directors which they of course are aware of and one they reserve to themselves.

5. Will the recent financial problems impact research and development investments?

Digital invested $409 million in R&D in Q1 FY92, $1.6 billion in FY91, and was ranked among the top 14 corporations worldwide in R&D spending by Business Week.

6. Will Digital be bought out via a hostile takeover?

The best protection against a hostile takeover is a profitable company and a healthy stock price. It is company policy not to comment on any rumor that may be circulating.

7. What are the causes of the decline (Sales decline, industry decline, profit decline,etc.)?

1 - Soft economies worldwide
2 - Shift to low end with lower prices and margins
3 - Reduced capital investment, therefore weak product revenues
4 - Competitive pricing environment at the low end
5 - Price/Performance improvements accelerating as technology advances, to the benefit of the customer; we need to align our cost structure to keep up with the rapid pace of technology change

8. If you are going to make serious cost cuts, where will they occur?

Across all functions and geographies, including people, facilities, materials, equipment. Virtually every area is under scrutiny.

9. What about the recent executive departures at Digital? How committed is management to solving the tough business issues?

Any time there is substantial organizational change, people leave, some because they are uncomfortable with the changes, some because they've been attracted away at substantially higher salaries, some because through no fault of their own, the work they were doing went away. Digital has made the tough decisions and remains committed to getting itself on the right track.

10. How committed is Digital to re-establishing its position in the market?

Look at the open advantage we are offering customers!

* **NAS** - open multivendor computing made easy
* **Open VAX/VMS** - the World's only "no compromise computing"
* **PC Style Software Licensing** - desktop to data center
* **Digital Open Service** - #1 in multivendor support

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Q1 FY92

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Q1 FY92 Results

Order Performance

($ Mils)

(Excluding Kienzle)

	Q1 FY92 Actual	Growth Over Q1 FY91	Adjusted For Currency
United States	$ 620	(25)%	(25)%
Europe	$ 589	(15)%	(13)%
GIA	$ 193	(22)%	(24)%
Total	$ 1,402	(21)%	(21)%

Q1 FY92 Results
Compared with Q1 FY91
($ Mils)
(As Reported)

	Q1 FY92 Actual	Percent Growth Over Q1 FY91
Revenue	$ 3,293	7%
Gross Margin	$ 1,497	4%
(% of Revenue)	45.5%	(1.0) pts.
Research & Development	$ 409	2%
(% of Revenue)	12.4%	(0.6) pts.
Selling, General & Administrative	$ 1,052	3%
(% of Revenue)	31.9%	(1.2) pts.
Operating Profit	$ 37	262%
(% of Revenue)	1.1%	0.8 pts.
Net Interest Income/(Expense)	$ 21	(17)%
Income Before Taxes	$ 57	64%
Income Taxes	$ 29	228%
Net Income	$ 29	9%
EPS	$ 0.23	10%

Q1 FY92 Results

Total Company Staffing

(Includes Regular and Other)
Net Hires (Equivalent)

	Beginning	Net Adds	Ending
Field	71,222	(1,714)	69,508
Manufacturing	25,028	(1,419)	23,609
Engineering	12,473	(226)	12,247
AIMG	2,044	(232)	1,812
Corporate Ops/Other	4,636	(246)	4,390
TOTAL	115,403	(3,837)	111,566
Adjust for 9-wk Cycle People	(242)	242	
Acquisitions	3,900	(182)	3,718
Total Including Acquisitions	119,061	(3,777)	115,284

Q1 FY92 Results

Functional Spending Growth*

($ Mils)

	Q1 FY92	Percent Growth Over Q1 FY91
U.S.		
Products	$ 339	(7)%
Services	111	(6)%
Total	$ 450	(7)%
Europe		
Products	$ 492	35%
Services	99	9%
Total	$ 591	30%
GIA		
Products	$ 139	5%
Services	39	18%
Total	$ 178	8%
Services Headquarters	$ 28	(20)%
Manufacturing	$ 256	(4)%
Engineering	$ 357	3%
Marketing & Advertising	$ 69	(9)%
Corporate Operations/Other	$ 46	4%
Total Functional Spending	$ 1,975	5%

*Excludes OI/E, Transfer Cost, Service C.O.D., Corporate Adjustment

Q1 FY92 Results

Asset Summary

($ Mils)

(Includes External Investments)

	Q1 FY92	Q1 FY91
Cash Balance	$ 2,057	$ 1,598
Net Inventory	$ 1,703	$ 1,667
Inventory Turns	4.4x	4.1x
Accounts Receivable	$ 3,176	$ 3,339
DSO	87 days	97 days
Capital Expenditures	$ 136	$ 173
PP&E Turns	3.5x	3.2x

Q1 FY92 Results

DSO Summary

	Q1 FY92 Actual	B/(W) Q1 FY91
DSO:		
United States	76	8
Europe	89	15
GIA	97	(2)
Total Company	87	10

Q1 FY92 Net Inventories Compared with Q1 FY91

	Q1 FY92 ($ Mils)	Percent of Total	Q1 FY91 ($ Mils)	Percent of Total
Raw Materials	$ 333	20%	$ 396	24%
Work-in-Process	$ 549	32%	$ 498	30%
Finished Goods	$ 821	48%	$ 773	46%
Total	$ 1,703	100%	$ 1,667	100%
Inventory Turns	4.4x		4.1x	

Q1 FY92 Results

Cash Flow

($ Mils)

	Q1 FY92	Q1 FY91
Operating Activities:		
Net Income	$ 29	$ 26
Accounts Receivable	141	(132)
Net Inventory	(108)	(129)
Changes in Other Working Capital	(9)	10
Subtotal	$ 53	$ (225)
Investing Activities:		
Capital	$(136)	$ (173)
Depreciation/Amortization and Other	210	215
Subtotal	$ 73	$ 42
Cash From Operations	$ 126	$ (183)
Financing Activities	$ 7	$ (228)
Net Change in Cash	$ 133	$ (411)

Q1 FY92 Results
Total Assets
($ Mils)

	Balance As Of	
	Q1 FY92	Q1 FY91
Current Assets:		
Cash	$ 2,057	$ 1,598
Accounts Receivable	3,176	3,339
Inventories	1,703	1,667
Prepaid Expenses	417	416
Deferred Income Taxes	430	500
Total Current Assets	$ 7,782	$ 7,519
Net Property, Plant & Equipment	$ 3,708	$ 3,838
Other Long-term Assets	$ 451	$ 162
Total Assets	$11,941	$11,519

Q1 FY92 Results

Liabilities & Equity

($ Mils)

	Balance As Of Q1 FY92	Balance As Of Q1 FY91
Liabilities:		
Accounts Payable	$ 662	$ 666
Salaries, Wages Payable	709	628
Deferred Revenue	1,020	932
Deferred Taxes	275	414
Debt & Loans Payable	168	163
Other Liabilities	1,430	729
Total Liabilities	$ 4,264	$ 3,531
Stockholder's Equity	$ 7,677	$ 7,989
Total Liabilities & Stockholder's Equity	$11,941	$11,519

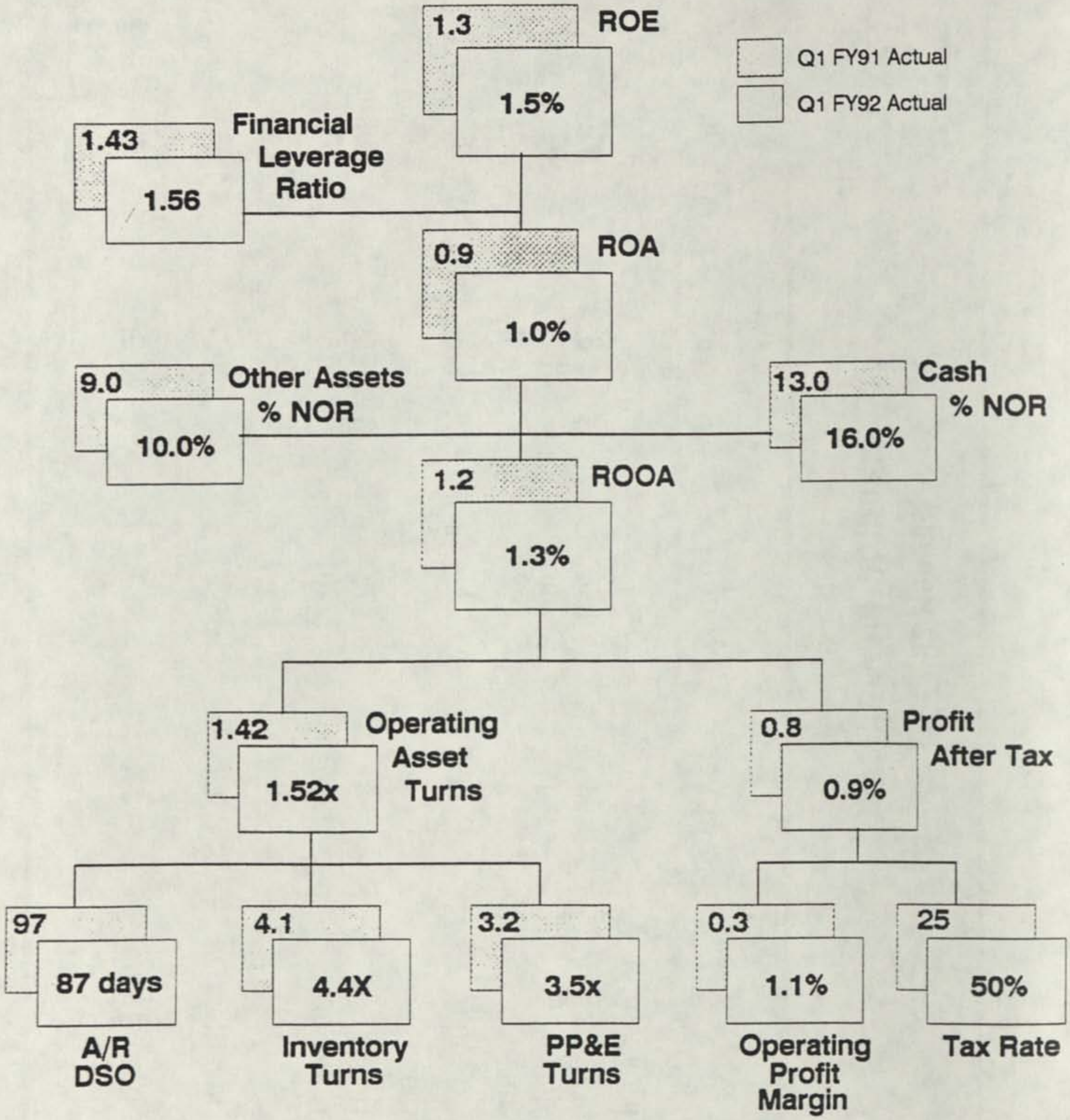
Q1 FY92 Results

Inventory Peformance

($ Mils)

	Q1 FY92	Q4 FY91	Q1 FY92 B/(W) Q4 FY91	Q1 FY91
Gross Inventory:				
Manufacturing	$ 946	$ 954	$ 8	$ 959
Field	821	760	(61)	680
Other	31	25	(6)	26
Total	$ 1,798	$ 1,739	$ (59)	$ 1,665
Reserves:				
Timing	$ 201	$ 77	$ (124)	$ 209
Valuation	(296)	(220)	76	(207)
Total	$ (95)	$ (143)	$ (48)	$ 2
Net Inventory	$ 1,703	$ 1,596	$ (107)	$ 1,667
Inventory Turns	4.4	4.7	(0.3)	4.1

Digital Business Model



Company Confidential

Competitor Results for Quarter ended September 1991

(Adjusted for One-Time Charges)

	Revenue (% Change)	Operating Profit (% Change)	Operating Profit (% Revenue)	Net Income (% Revenue)
DIGITAL	7%	262%	1%	1%
IBM (Q3)	(6)	(66)	5	2
Apple (Q4)	11	(14)	8	5
Hewlett-Packard (Q3)*	9	10	9	5
Stratus (Q3)	8	33	15	12
Tandem (Q4)	1	(93)	1	1
Wang (Q1)	(18)	(67)	1	(2)
Unisys (Q3)	(18)	151	1	(4)
Compaq (Q3)	(18)	(82)	4	2
Sun (Q1)	12	(2)	6	4
Data General (Q4)	(4)	219	7	6

*Quarter ended July 31, 1991

Latest Ten Quarters

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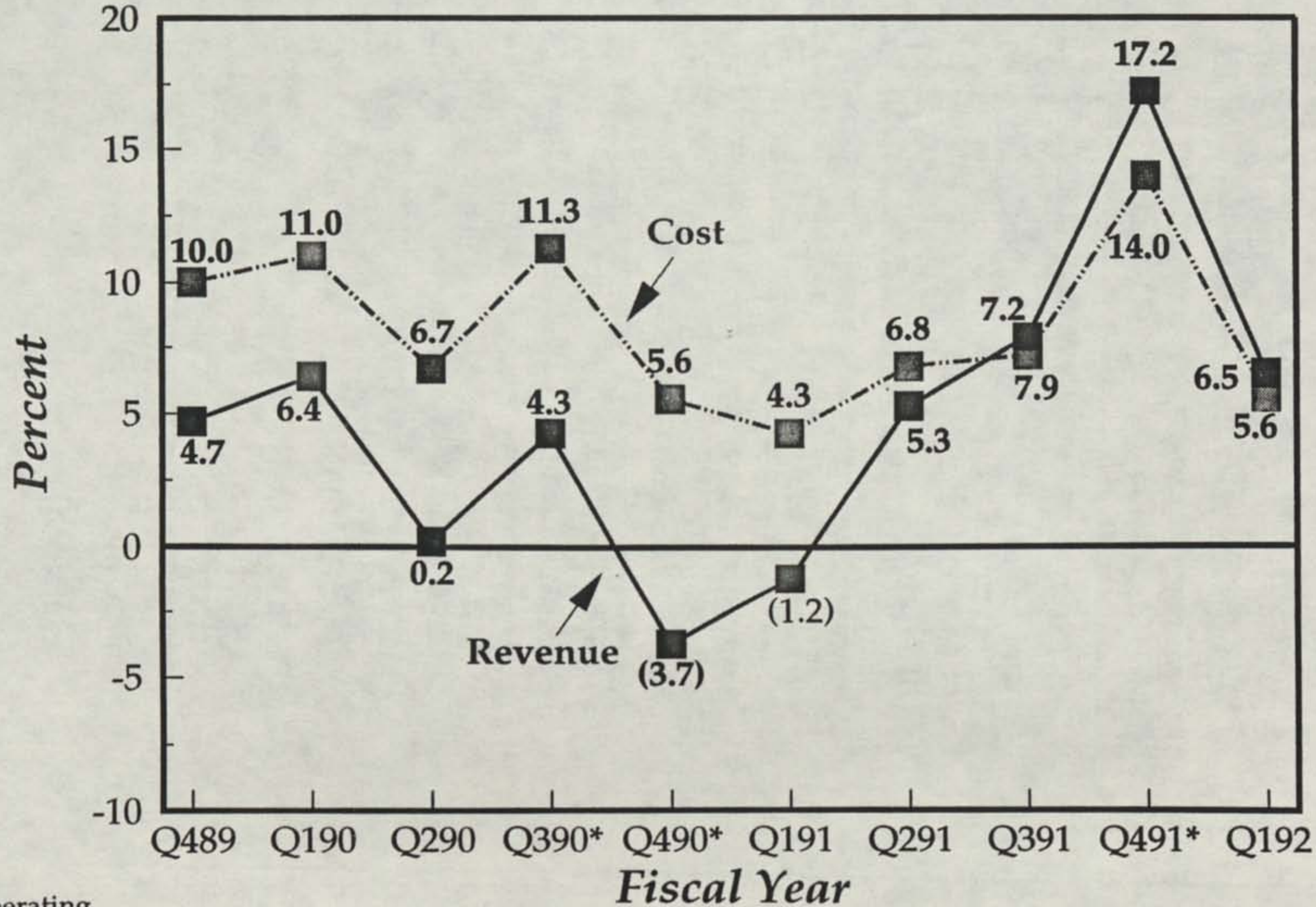
QTRLYVV

REVENUE AND COST GROWTH



Operating Profit Margin	10.9%	5.6%	5.4%	4.2%	2.3%	0.3%	4.1%	4.9%	4.9%	1.1%

* Excludes restructuring

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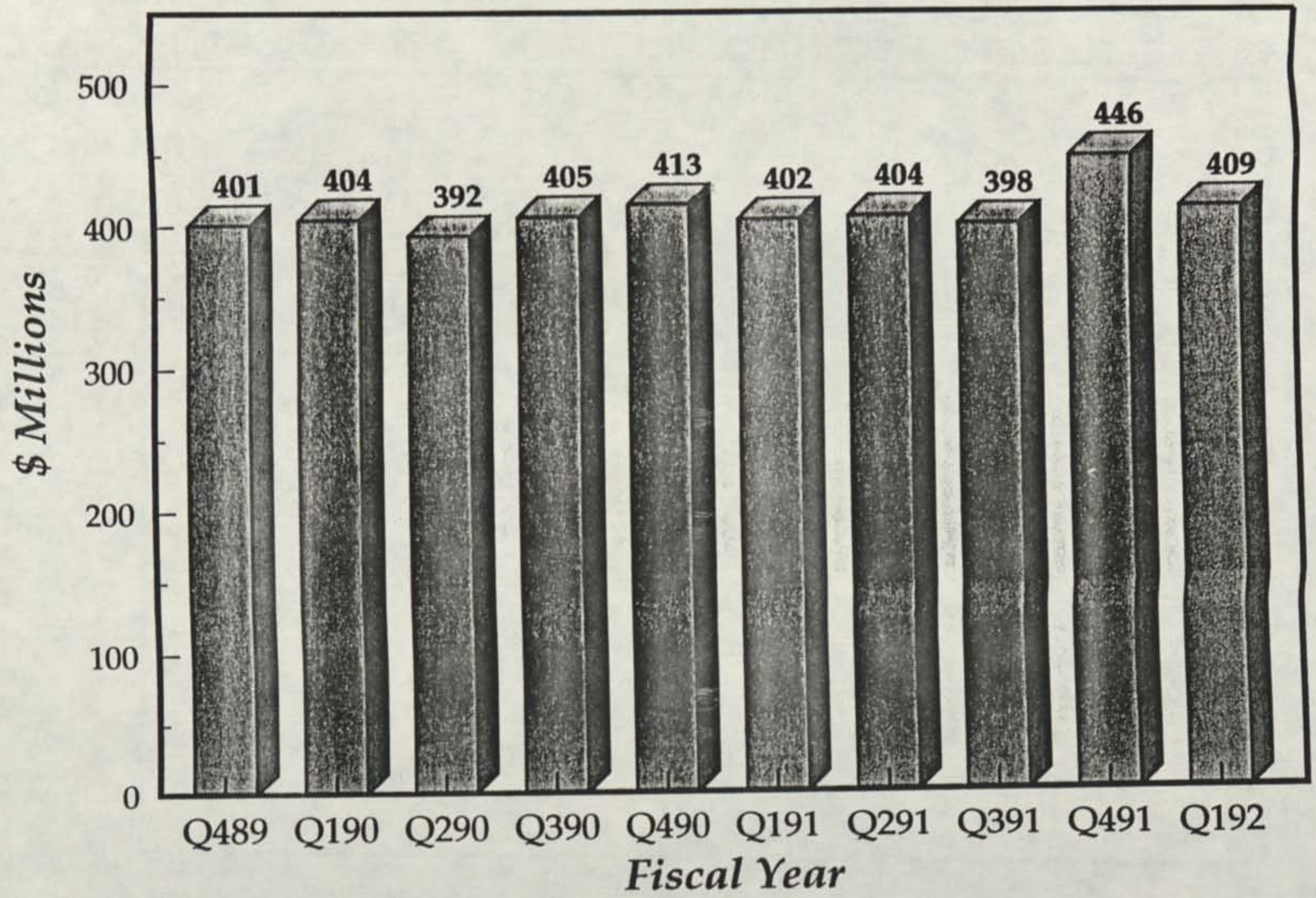
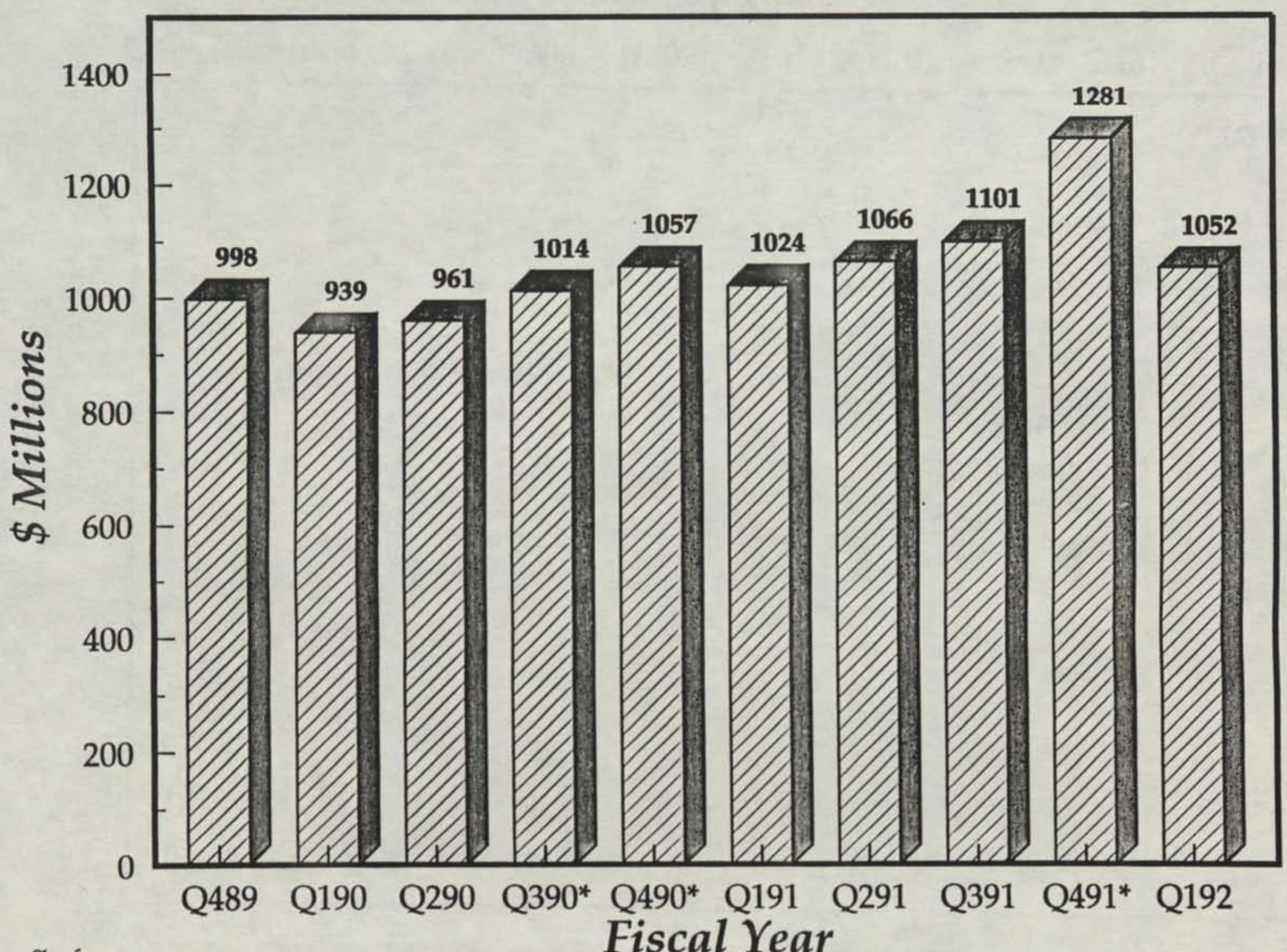
QTRLY-A

RESEARCH AND DEVELOPMENT EXPENSE



% of Revenue	11.5%	12.9%	12.3%	12.4%	12.3%	13.0%	12.0%	11.3%	11.3%	12.4%

SALES, GENERAL AND ADMINISTRATIVE EXPENSE



% of Revenue	28.6%	30.0%	30.2%	31.1%	31.4%	33.1%	31.8%	31.3%	32.5%	31.9%

*Excluding Restructuring

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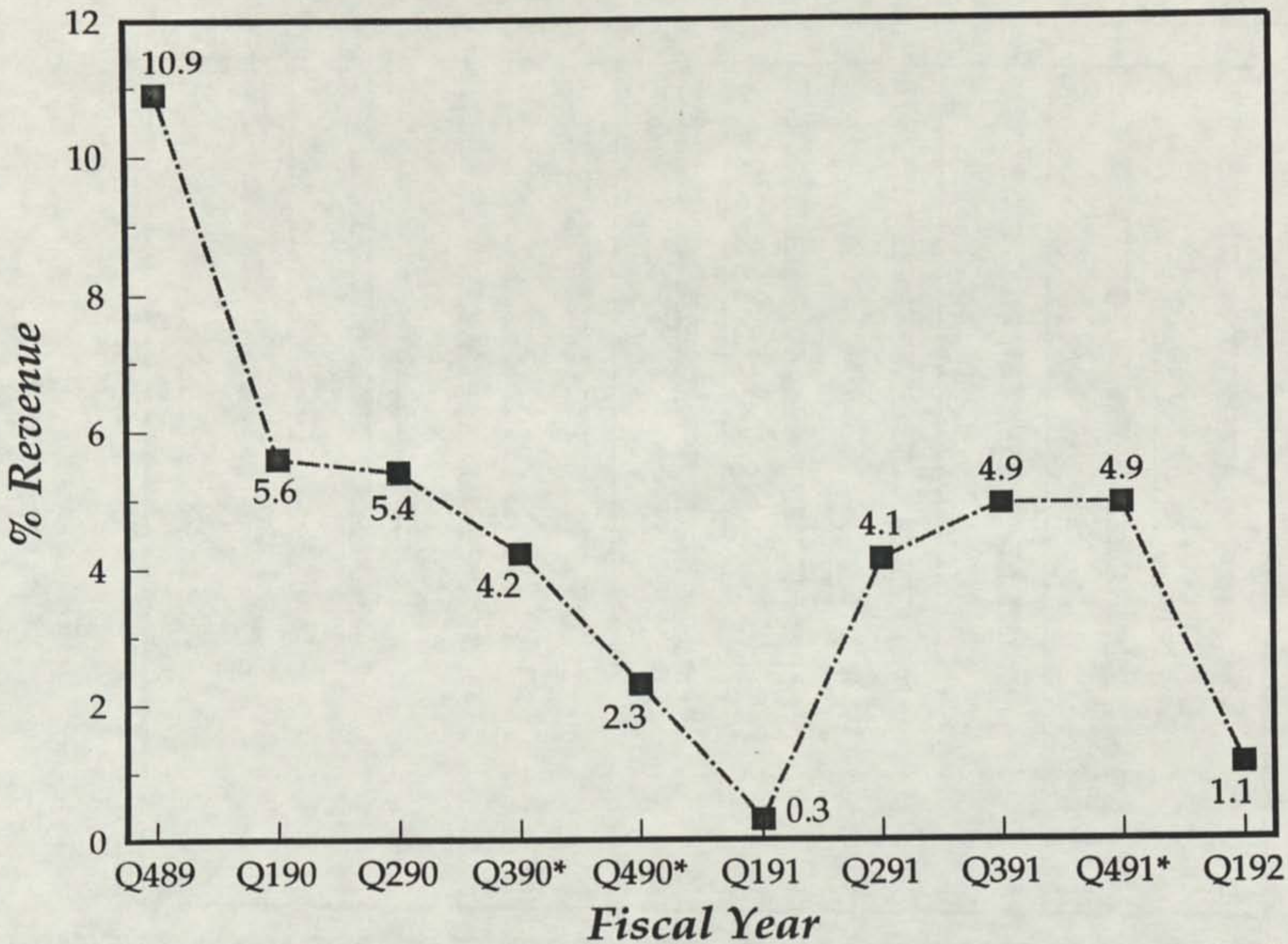
QTRLY-E

OPERATING PROFIT MARGIN



* Excludes restructuring

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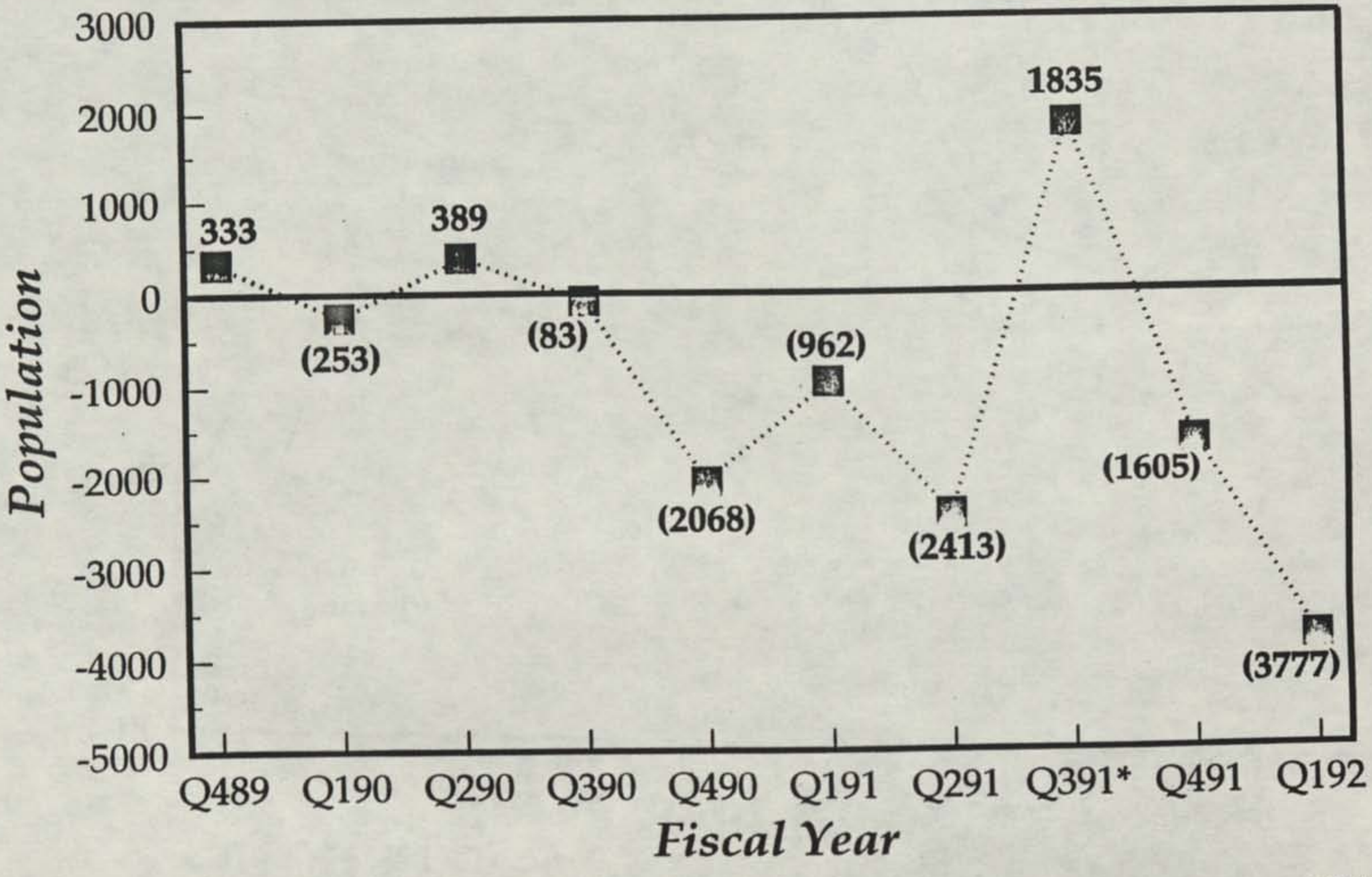
QTRLY-B

STAFFING TRENDS
NET HIRES
(Equivalent)



*Kienzle Acquisition

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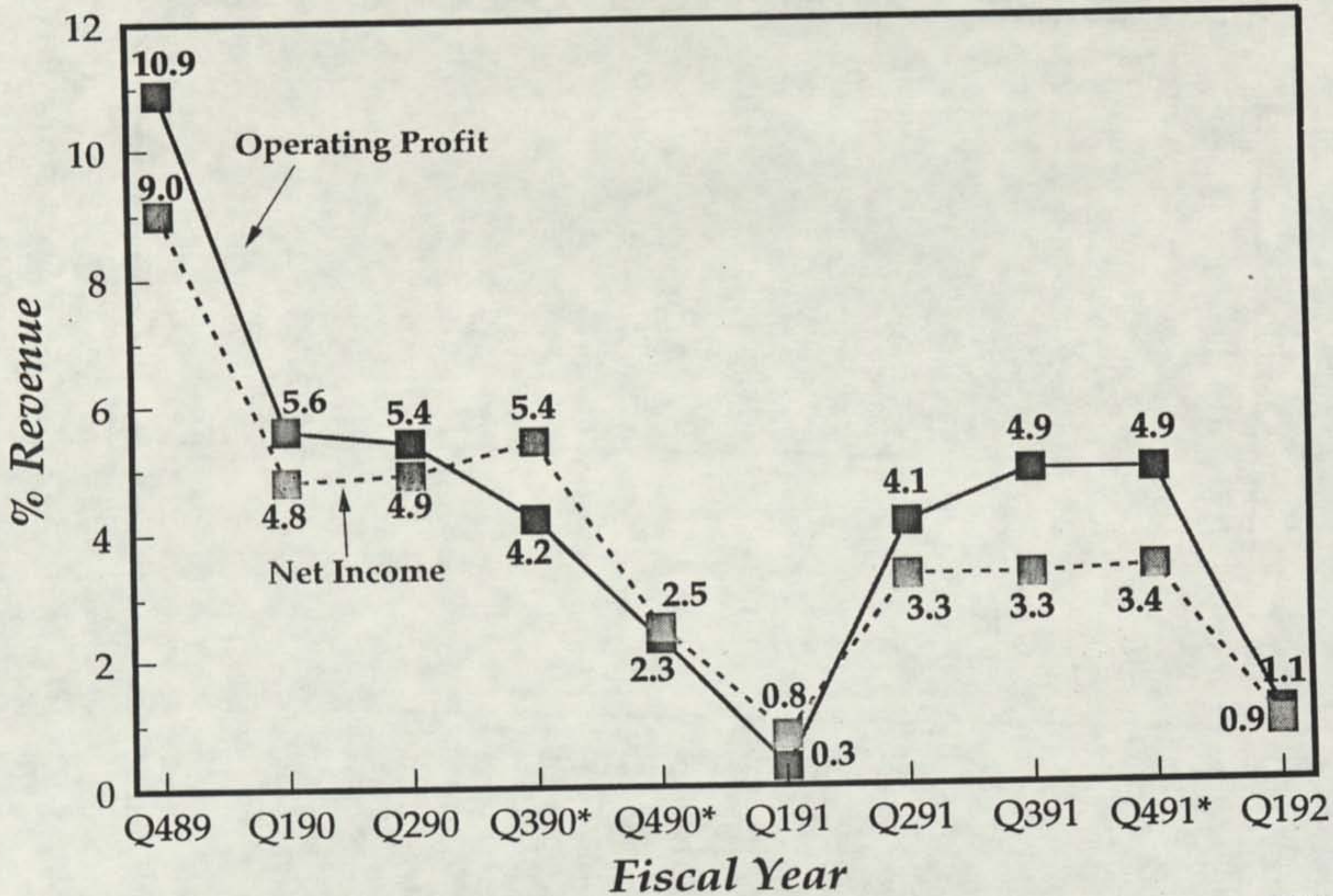
QTRLY-F

OPERATING PROFIT & NET INCOME
Percent of Revenue



*Excludes restructuring

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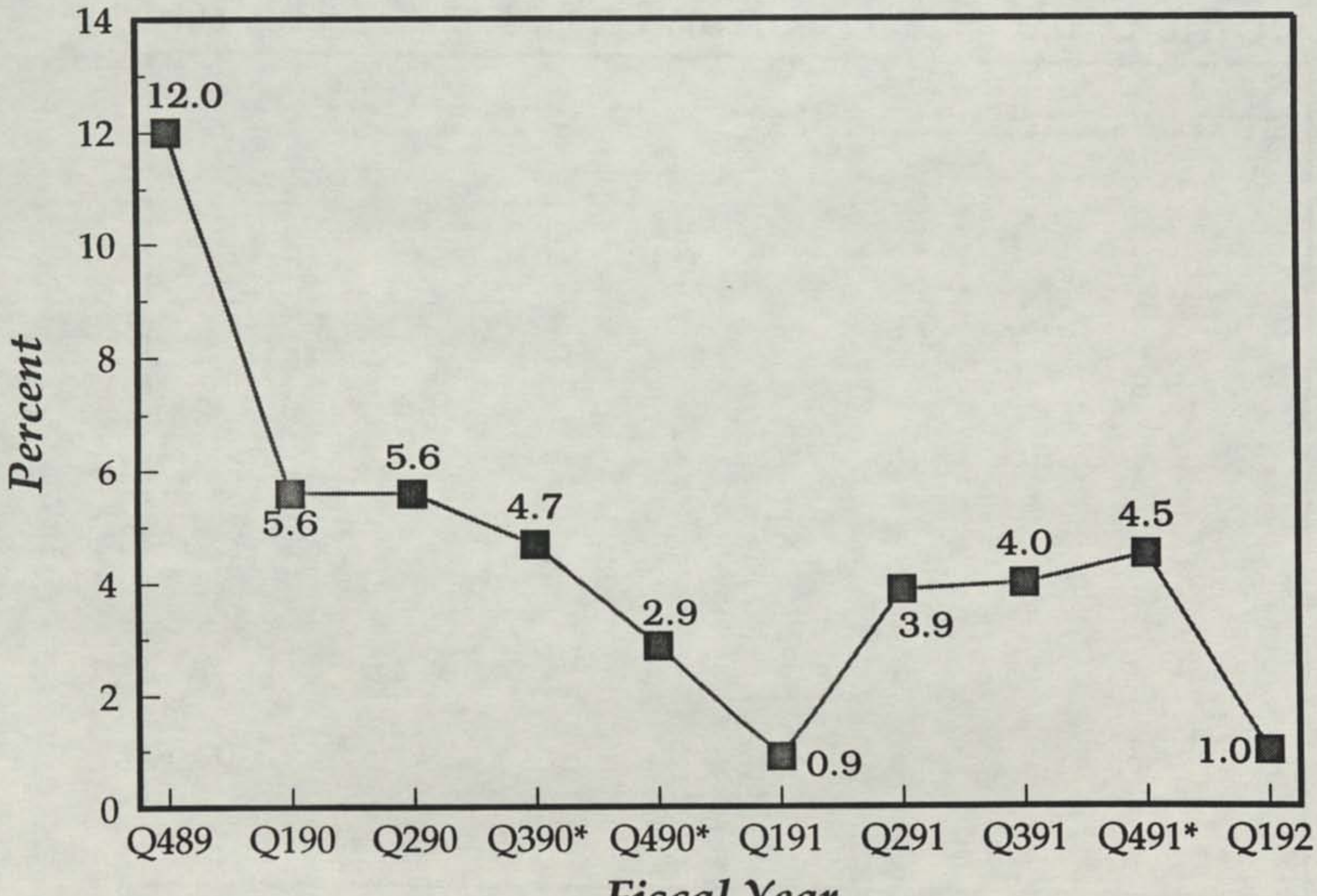
QTRLY-C

RETURN ON ASSETS



*Excluding Restructuring

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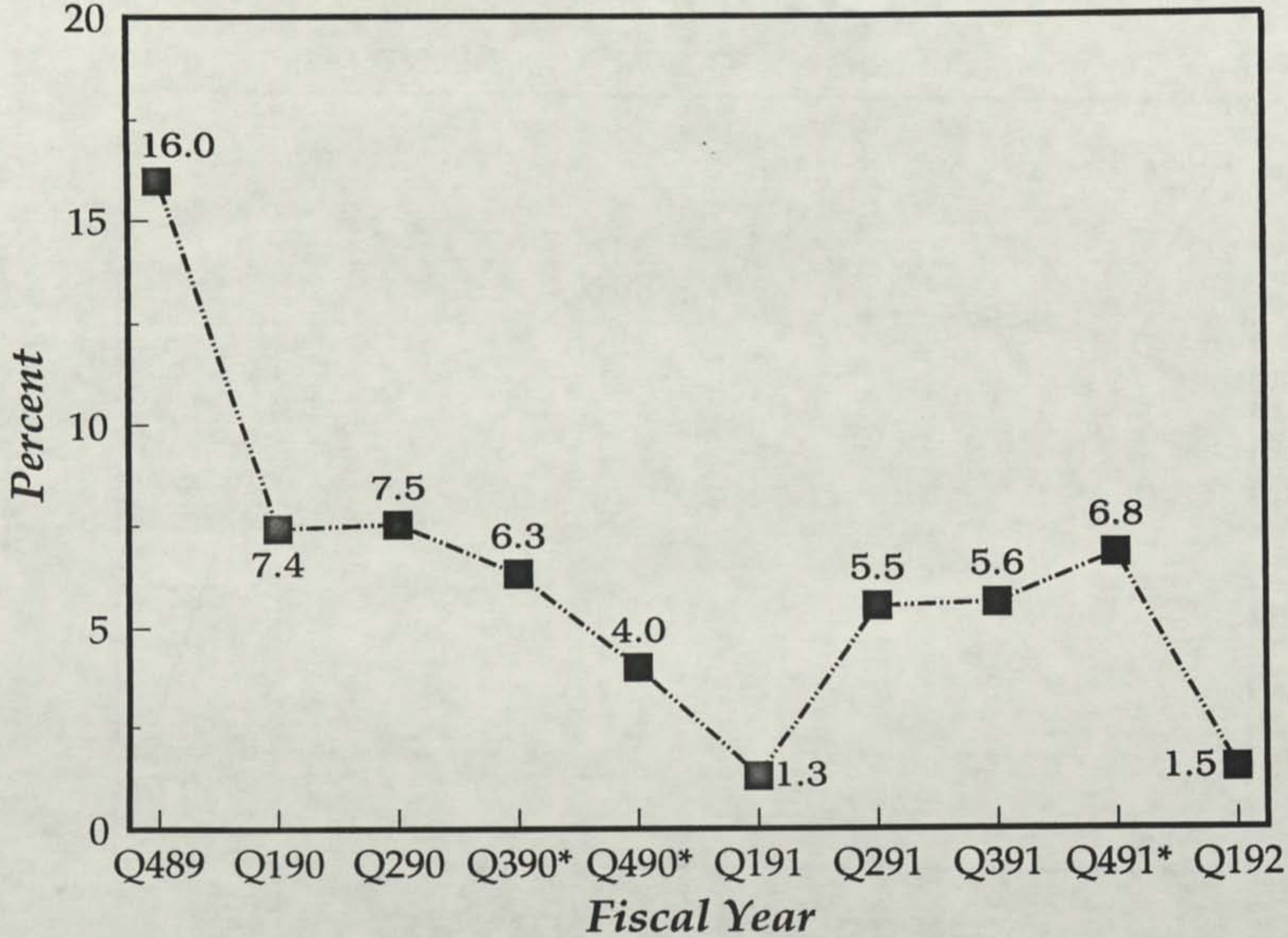
QTRLY-L

RETURN ON EQUITY



*Excluding Restructuring

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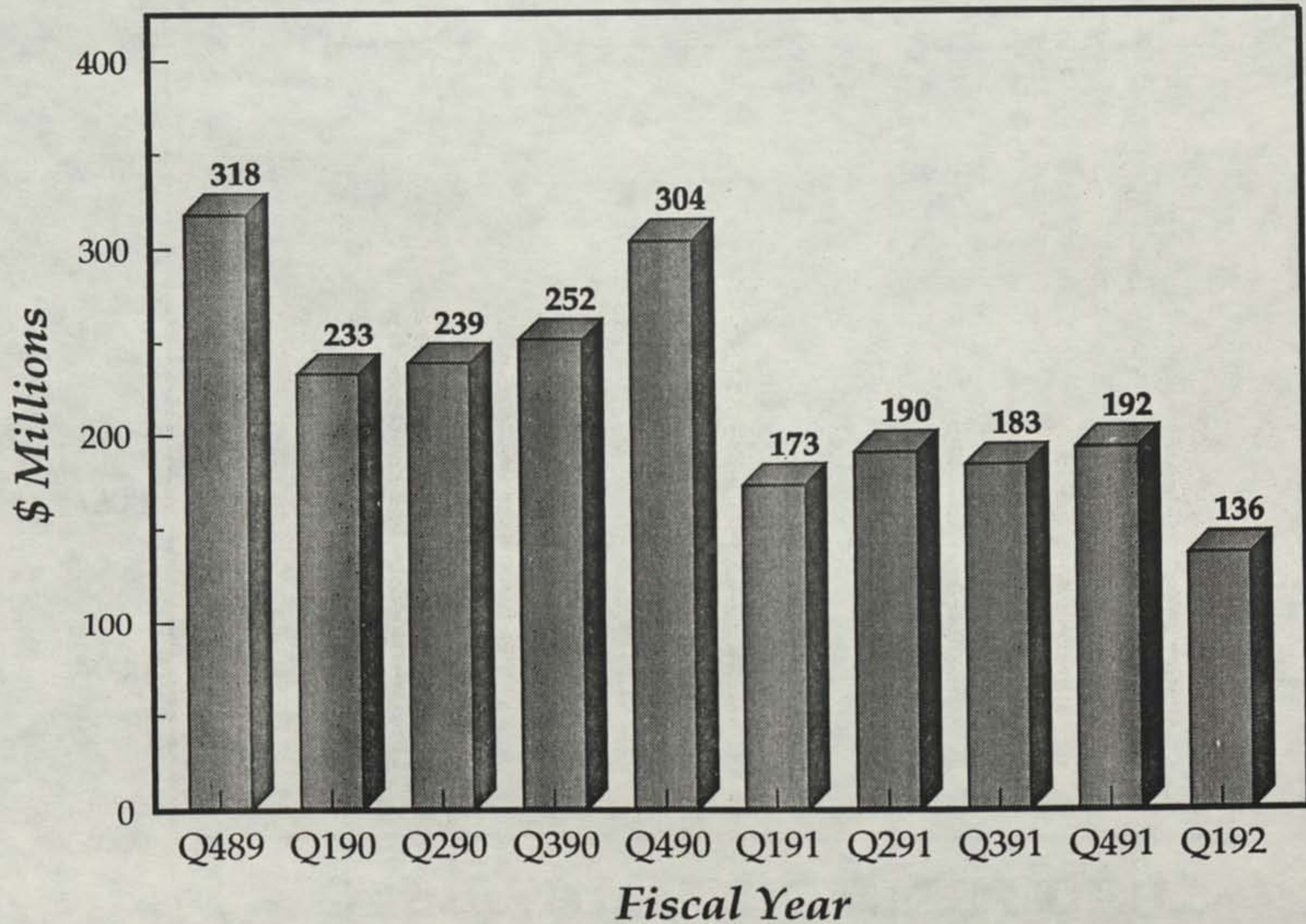
QTRLY-M

CAPITAL SPENDING



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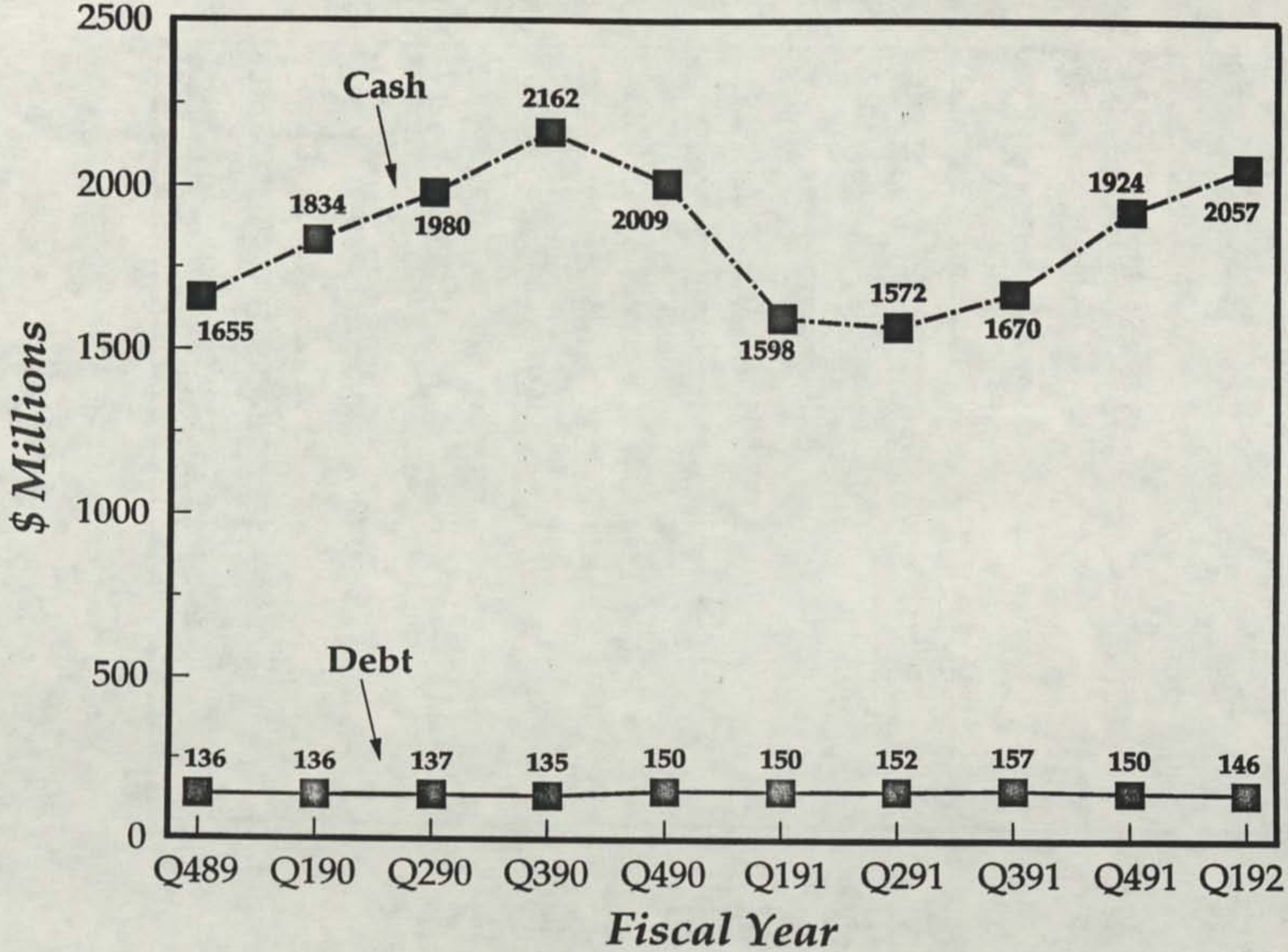
QTRLY-J

CASH AND LONG TERM DEBT



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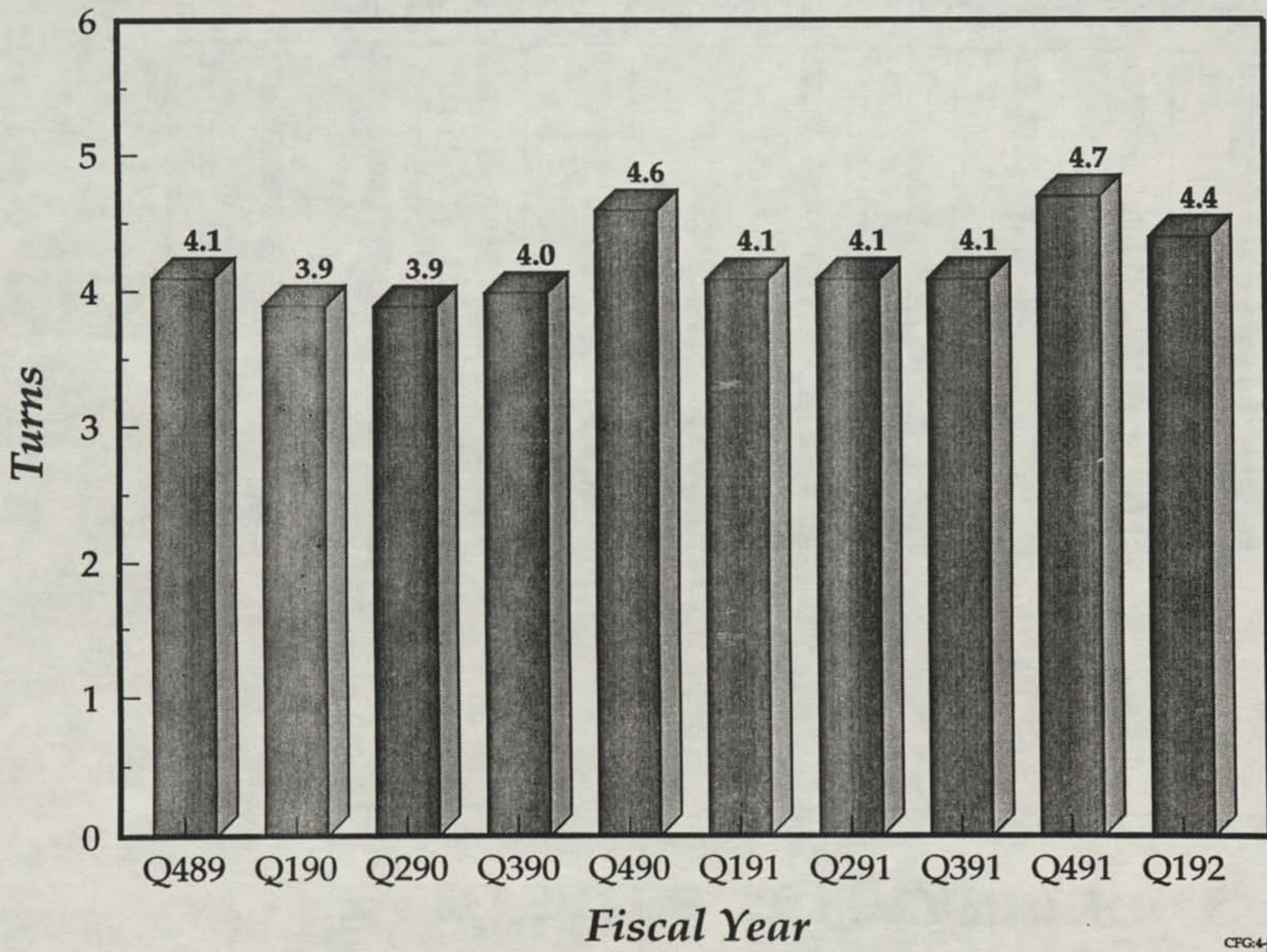
QTRLY-K

INVENTORY TURNS



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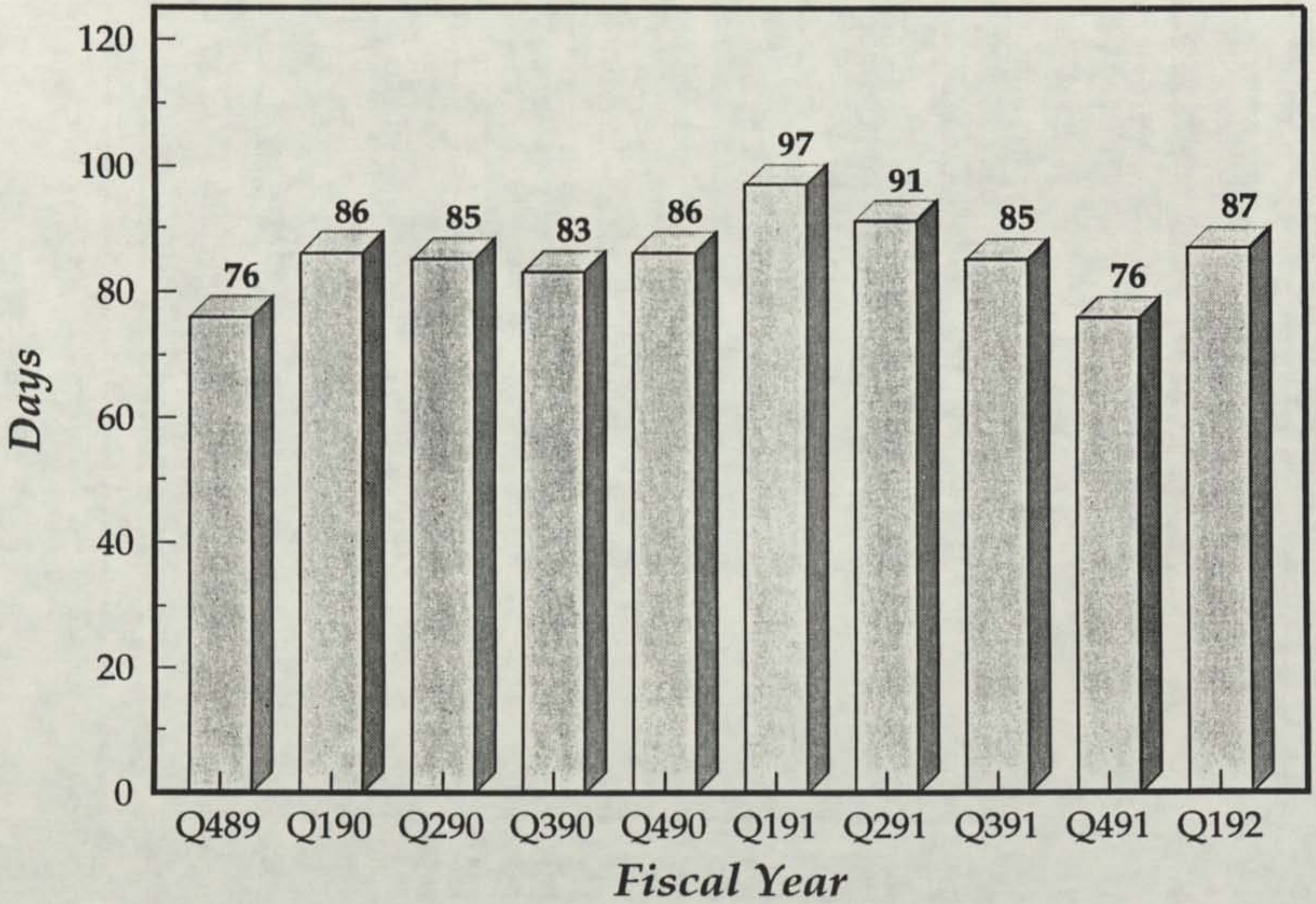
QTRLY-H

DAYS SALES OUTSTANDING



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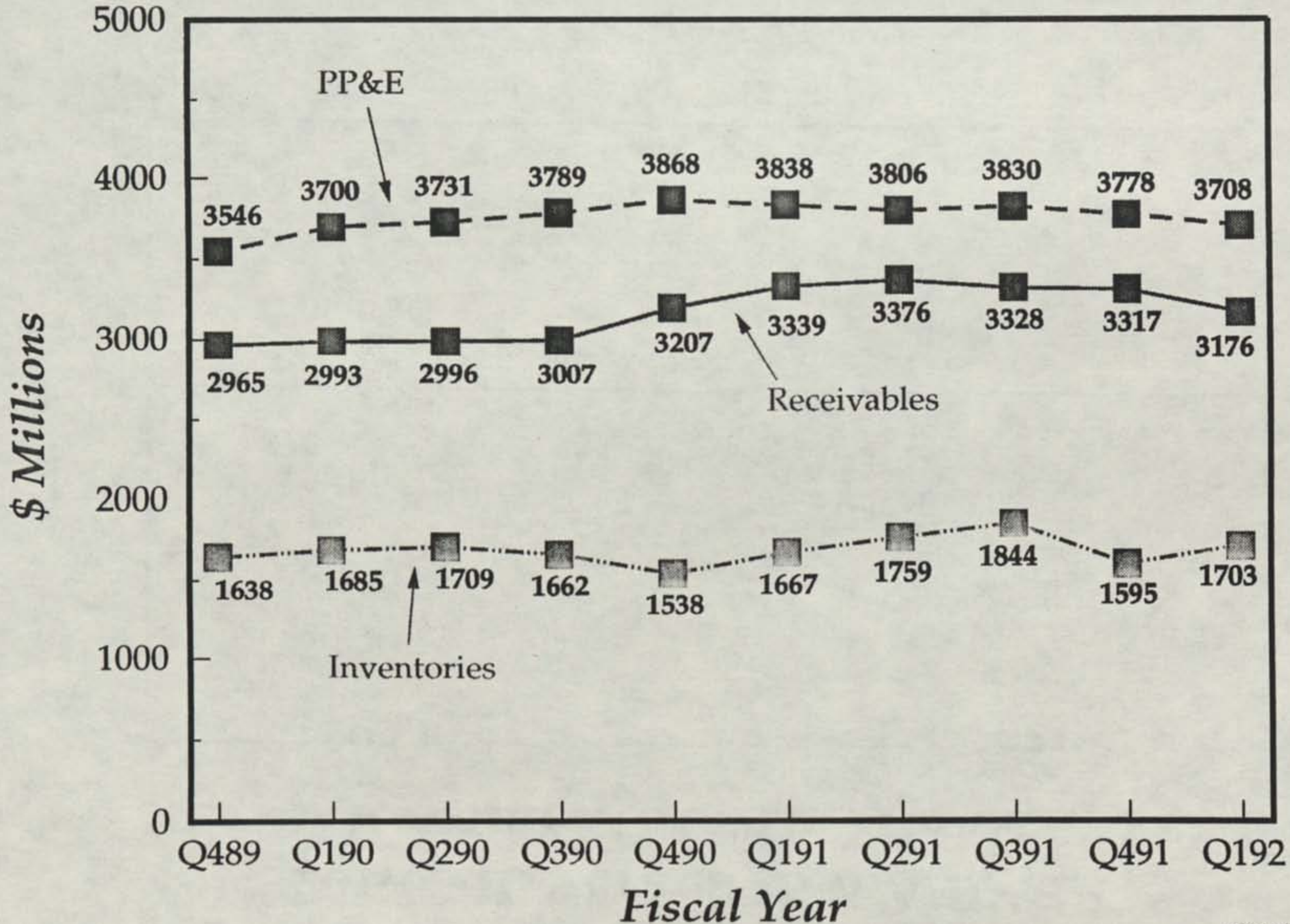
QTRLY-I

OPERATING ASSETS



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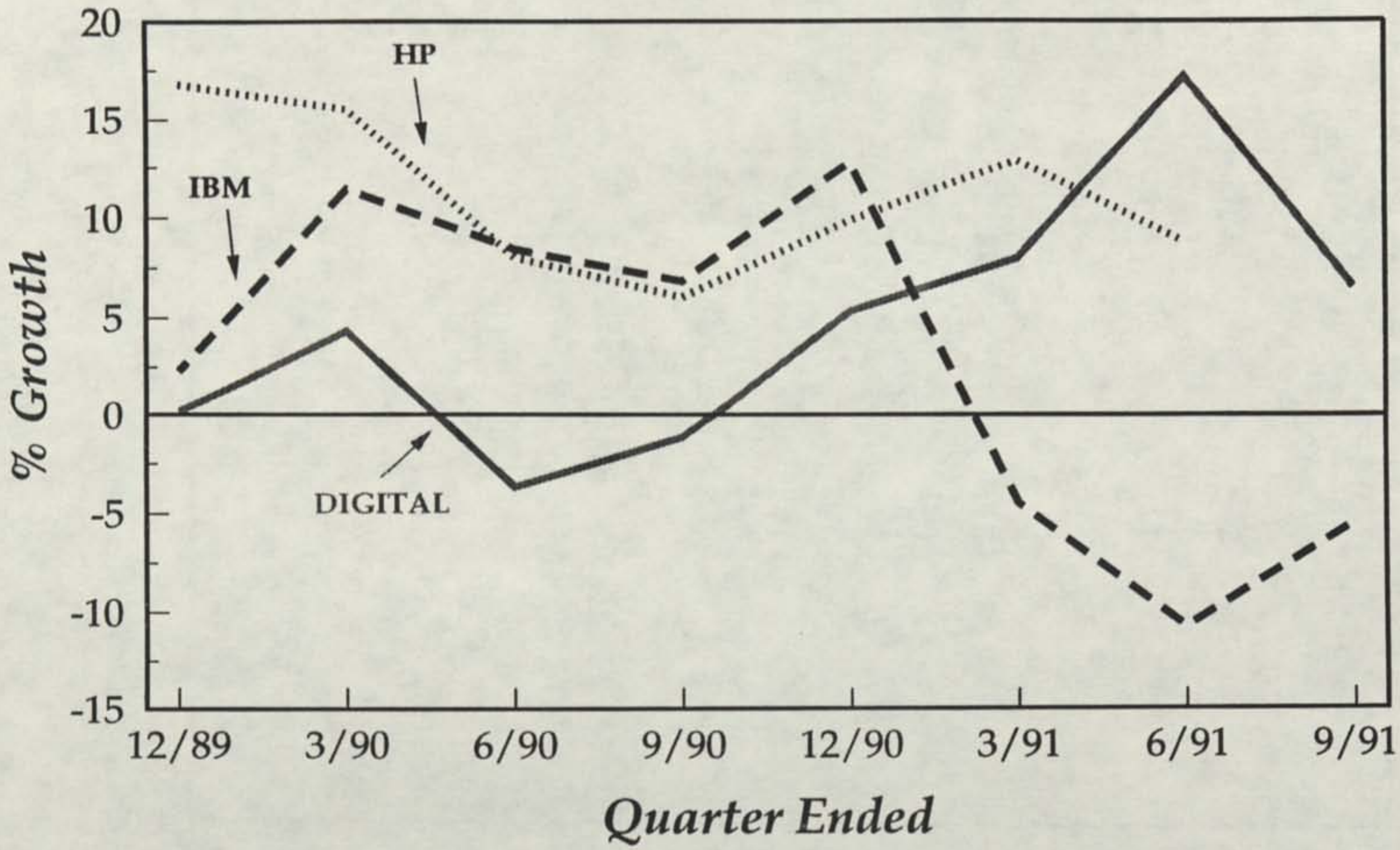
QTRLY-G

DIGITAL versus IBM AND HP
Revenue Growth Trends



Note: Data for HP not yet available for Quarter ended October 31, 1991

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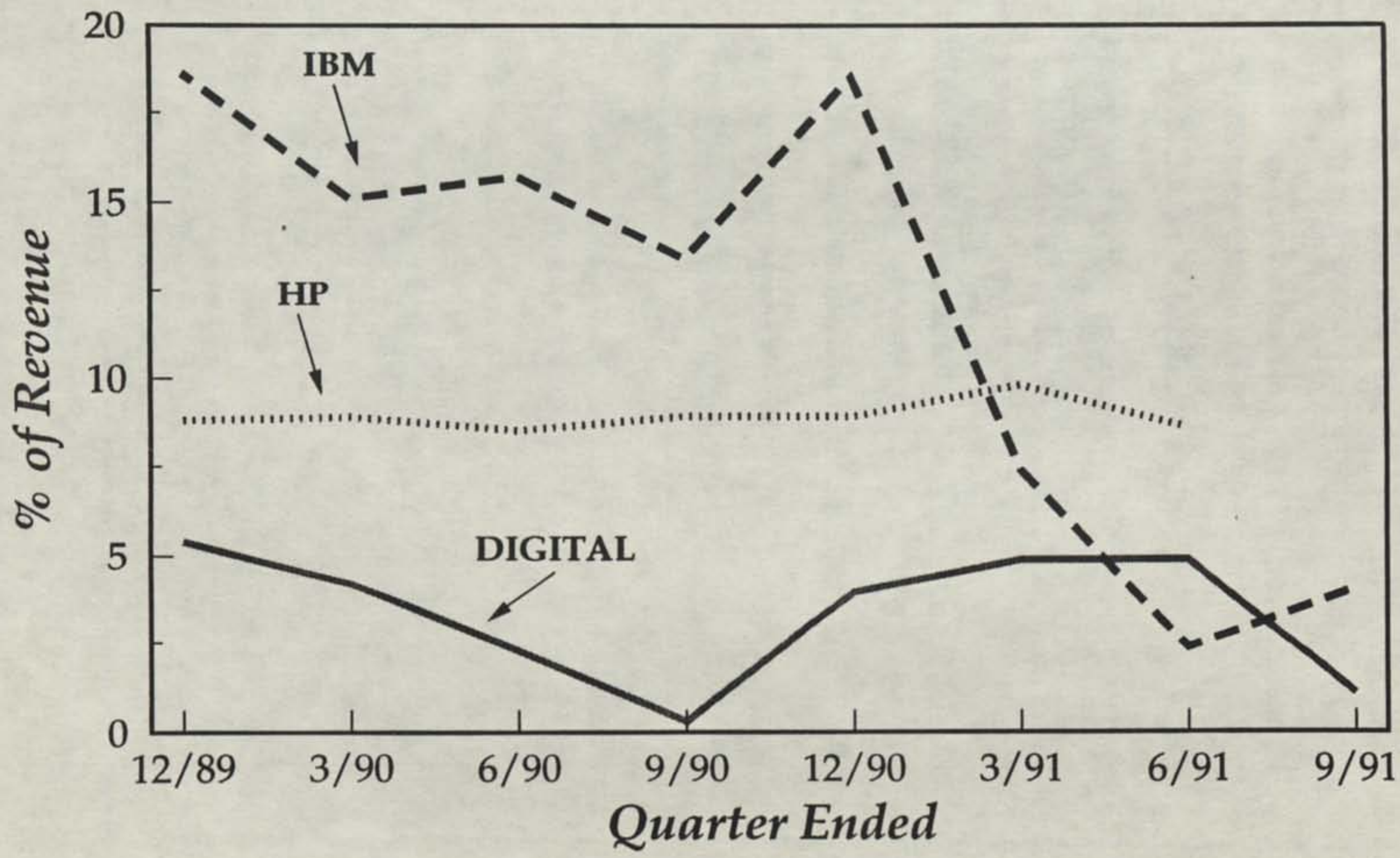
QTRLY-3

DIGITAL versus IBM and HP
Operating Profit as Percent of Revenue



Note: Data for HP not yet available for Quarter ended October 31, 1991

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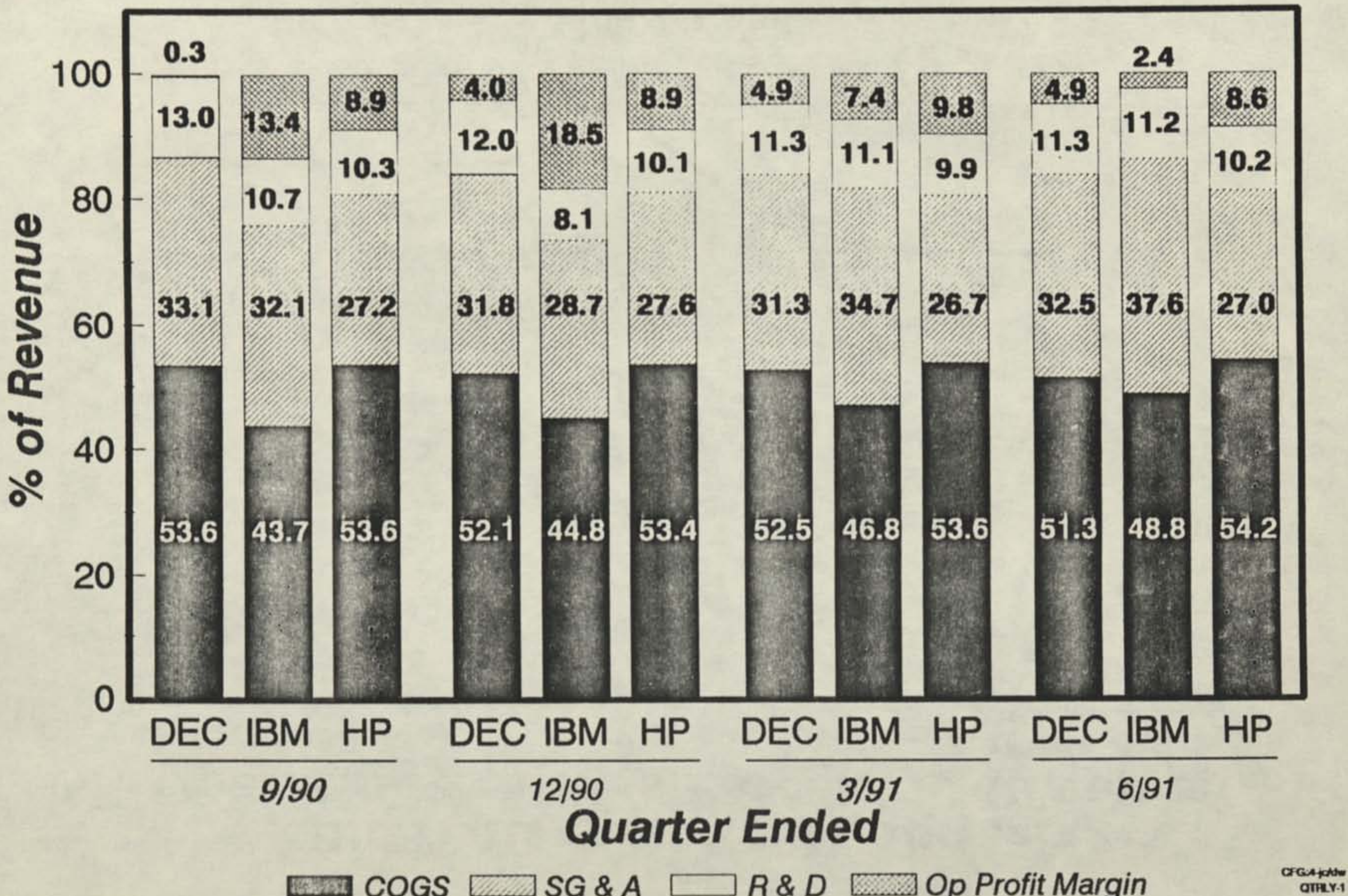
QTRLY-2

DIGITAL versus IBM AND HP
Cost Structure Comparison



DEC/~~financial~~ [illegible] Close filed
f: FY93 talks

Digital's Direction and Financial Strengths

Q1 FY'93 Overview

digital™

01AIM112

Corporate Mission

To help its customers make the right information available to the right people -- where, when, and as needed -- so work is done quickly and easily, making the customer enterprise more efficient and productive.

02AIM112

Company Overview

- Leading worldwide supplier of networked computer systems, software, and services
- Leads industry in open, multi-vendor systems integration and in design, development, and implementation of 64-bit semiconductors and computer architecture
- International company
  - More than half of the company's business outside the U.S.
  - Developing and manufacturing products and providing customer services in the Americas, Europe, Africa and the Pacific Rim

03AIM112

Key Financial Messages

- Strong balance sheet
- Conservative financial structure
- Focus on revenue growth
- Commitment to focused Research & Development
- Commitment to return to profitability

Key Strategic Messages

- Increase focus on customer
  - More effective marketing
  - Better balance in our solutions between customer needs and technology capabilities
- Simplify everything
  - Products and services
  - Business processes
  - Organization
- Strengthen and expand upon our strategic partnerships

05AIM112

Strong Balance Sheet

	Most Recent Period	Comparable Periods		
	Digital (Q1 with Adjustments)	Digital Year Ending 6/27/92 (Q4)	Hewlett-Packard Qtr. Ending 7/31/92 (Q3)	IBM Quarter Ended 6/30/92 (Q2)
Cash*	$1127M	$1337M	$1367M	$4098M
Long-Term Debt*	$289M	$42M	$424M	$13741M
Debt to Debt+Equity Ratio	4%	1%	15%	43%
Inventory Turns*	4.8x	5.1x	3.8x	3.2x

* For Digital Equipment Corporation, an additional $246M of LTD is added to Q1 LTD and Cash actuals to illustrate Q2 actions. Inventory Turns reflect Digital Equipment's Q1 (Quarter ending 9/26/92) actuals.

06AIM112

Shelf Registration

- $1 billion shelf registration filed with SEC
- Provides Digital with flexibility to issue debt
  - Can issue up to $1 billion from time to time
  - Opportunity to take advantage of low interest rates
  - Even $1 billion would be viewed as modest debt level and leave us with strong conservative balance sheet
- Very positive long-term debt ratings from Standard & Poor's and Moody's
  - S&P A+ (Highest Single A)
  - Moody's A2 (Middle Single A)
  - Single A ratings put us in top 20% of industrial companies with long-term debt

07AIM112

Cost Containment

- Over 1.2 billion dollars saved annually by:
  - Rightsizing (reduced Digital's population by 24,000)
  - Facility consolidation (reduced company "footprint" by over 8 million square feet)

08AIM112

Revenue Growth

- Alpha program
- Alpha ready VAXes
- OpenVMS
- Price-competitive VAX products
- PC and workstation sales
- Service and SI focus
- OSF products
- NAS
- Multi-vendor focus
- Windows NT

09AIM112

Alpha Program

- Goal: Alpha AXP is the dominant 64-bit architecture of the 21st Century
- Compatible family of systems from PC to mainframe available (on Nov. 10)
- UNIX, Microsoft Windows NT, OpenVMS
- Open licensing and partnering to achieve broad availability
  - System partners: Cray, Kubota, Olivetti
  - Over 30 technical OEMs already committed
  - More than 900 software vendors deploying over 1600 applications
- Industry leading performance and price performance

10AIM112

Commitment to Research & Development

- Focused engineering in support of customer needs
  - Silicon
  - Software
  - Services
  - Storage
  - Networking
- Alpha technology
  - Forefront of technology innovations
  - Leadership price performance
- Balanced emphasis
  - Hardware
  - Applications
  - Operating systems

11AIM112

Conclusion

- Restructuring activity
  - Necessary to adapt cost structure to today's competitive business environment
- Technology achievements
  - Well positioned to achieve revenue goals and market share growth
  - Commitment to focused Research & Development

Conclusion (Con't.)

- Strong balance sheet
  - Cash balance high
  - Strong working capital
  - Continuous improvement in inventory turns
  - Low debt-to-debt plus equity ratio
  - Conservative financial structure
  - Ability to meet current obligations, restructure and invest in the future

Key Points About Digital

Additional Supporting Information

- Fortune 28 company
- FY'92 revenue $13.9 billion
- Cash balance $1127 million
- Long term debt less than $300 million
- Debt-to-debt plus equity ratio very low - 4%
- $1.7 billion investment in R&D in FY'92
- The second largest computer manufacturer headquartered in U.S.

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Digital's Customer-Focused Business Model

Assessment - July and October 1992

- Matrix structures obscured lines of responsibility and accountability
- Groups focused on competing with each other internally
- Lack of focus on customers and external competition
- Proliferation of businesses caused organizational confusion
- Costs grew out of control
- Low morale
- Financial losses resulted
  —$3 million per day in Q1
  —Decline in value to shareholders from almost $25 billion in 1987 to less than $5 billion

A. Stadecker
January 1993

From: HYSTER::OPAL$SERVER "09-Nov-1992 1351" 9-NOV-1992 16:05:00.34
To: CRDCRA::FULLER
CC:
Subj: FY93 Q1 Digital's Direction, Financial Strengths (26-OCT-92)

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TITLE: FY93 Q1 Digital's Direction, Financial Strengths
SOURCE: Karen Cadrin NEW: 23-OCT-92
DTN: 297-3540 EMAIL: SALES::CADRIN

NUMBER OF SLIDES: 15

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COR0009D.SAV	504 Blocks	DECpresent File
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COR0009.TXT	22 Blocks	Abstract/Addend.

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KEYWORDS: Finance, financial, overview, strategy, revenue, Alpha, bond ratings,

SUGGESTED AUDIENCE: Worldwide sales, sales support, services and any employee who wishes to communicate Digital's current financial positioning from Q1 FY93. For internal and external audiences.

DESCRIPTION: Contains Q1 FY93 material re: direction and financial standing. (More current than "Digital's Direction & Financial Strengths" presentation dated 09-SEP-92.) Brief company overview, key financial and strategic messages, Shelf Registration information, revenue growth.

NOTE: The addendum explains that a recent press release relating to the filing of a $1 billion shelf registration is likely to generate questions and comments from our customer base. It helps us talk positively and confidently about the filing. Please take special note of the strong bond ratings and positive comments by the Rating Agencies, Moody's and Standards & Poor's, in their attached press releases.

The final portion of this addendum includes a memo from Richard Carli, Corporate Treasury, explaining the rating systems of the rating agencies, and how they apply to Digital's current ratings.

ADDENDUM

Digital recently filed with the Securities and Exchange Commission a Registration Statement, generally referred to as a "shelf" registration.

Once effective, the shelf registration will provide Digital with the flexibility to issue up to $1 billion of debt securities from time to time. This flexibility will provide the Company with the opportunity to take advantage of attractive capital market conditions including low interest rates.

Digital has always had and will continue its commitment toward a conservative financing policy. We have the strongest balance sheet in the industry with $1.3 billion of cash, $5 billion of equity and virtually no debt. Our debt to total debt plus equity ratio was only 2% compared to 17% and 43% for Hewlett-Packard and IBM (last reported positions).

Issuing a modest amount of debt at low current interest rates allows us to lower our overall cost of capital and is part of a well thought out tax strategy. Even if we were to issue the entire $1 billion of debt, the Company's balance sheet would still be viewed as very conservative and "strong".

As part of the process for issuing debt, Digital has had several meetings with the two premier rating agencies in the United States, Standard & Poor's Corporation (S&P) and Moody's Investor Service (Moody's) for the purpose of obtaining bond ratings. We received long-term bond ratings of A2 from Moody's and A+ from S&P.

We are very pleased with S&P's and Moody's assessment of the Company and the preliminary ratings that they assigned to possible long-term debt issues. Because they are rating long-term debt, the rating agencies must have a long-term perspective. Their ratings reflect a positive view of Digital's long-term competitiveness, their confidence in the leadership and quality of management and our ability to return the Company to profitability.

Moody's states in its press release, "The rating is supported by Digital's strong customer base, its high liquidity and its promising new products....DEC's new open system, "Alpha", together with management's emphasis on higher growth software and services revenues, should result in improved profit margins over the intermediate term.....DEC's large installed customer base and well-regarded sales/service force should provide additional support for the rating."

In summary, the shelf registration has been well-received and will allow the Company to lower its cost of capital while maintaining a conservative financing policy. In addition, the strong ratings we received from Moody's and S&P reflect their positive long-term views of Digital.

Below are texts of the two agencies' press releases.

Moody's Assigns (P)A2 Senior Unsecured Debt Rating to Digital Equipment Corporation, Confirms P-1 Short-Term Rating

Authorized Amount of Shelf Registration is $1 Billion

NEW YORK, August 27, 1992 -- Moody's Investors Service assigned a (P)A2 rating to the proposed $1 billion senior unsecured debt of Digital Equipment Corporation (DEC) and confirmed the company's Prime-1 short-term rating for commercial paper.

The rating is supported by DEC's strong customer base, its high liquidity, and its promising new products. The products are designed to facilitate customers' transition from DEC's traditional VAX products, for which growth has peaked, to its new open-system computer platform, "Alpha".

In recent years DEC has absorbed over $3 billion in restructuring charges to downsize operations, reduce costs, and refocus its business strategies in light of a major industry wide shift in customer demand from hardware products to software and services. DEC's new open system, "Alpha", together with management's emphasis on higher growth software and services revenues, should result in improved profit margins over the intermediate term.

Moreover, although successful implementation of its new strategy has yet to be demonstrated, the company's strong balance sheet should provide a sufficient financial cushion to allow for any unanticipated delays in the introduction of "Alpha" and other competitively priced hardware and software products. DEC's large installed customer base and well-regarded sales/service force should provide additional support for the rating.

Digital Equipment Corporation, headquartered in Maynard, Massachusetts, is one of the world's largest supplier of computer systems and related software and services provided to a wide variety of global customers.

Standard & Poor's

Digital $1B Shelf Rated Prelim 'A+' by S&P; CP Affirmed [08-27 10:04]

NY -- S&P CreditWire 8/27/92 -- S&P assigns its preliminary single 'A' plus rating to Digital Equipment Corp.'s $1 billion shelf registration, and affirms the company's 'A-1' plus commercial paper rating.

The ratings reflect Digital's position as the third largest vendor worldwide of information processing products and services, its strong reputation for hardware technology, its $6 billion base of services revenues and its strong financial position. The competitive environment for the computer industry in general has significantly worsened in the last few years and is expected to remain difficult as the industry consolidates. In addition, Digital is in the midst of a major product cycle transition and has experienced operating losses in the last two quarters.

However, Digital's market position and extremely conservative financial policies of the past provides it with the flexibility to weather the current turbulence. While the company has been historically strongly cash flow positive, funding both operations and substantial share repurchases, recent restructuring actions will result in cash outflows over the next two years. But $1.3 billion of cash and the $1 billion shelf registration should continue to provide the company with excess liquidity. In addition, the restructurings, which resulted in charges totaling $3 billion over the last three years, should allow the company's new senior management to realign its cost structure to better reflect the lower growth, lower margin computer industry environment that Digital must now compete in. Giving full effect for the drawdown of the entire shelf, debt to capital would remain under 20%, unadjusted for operating leases, S&P said.---CreditWire

Memo from Richard Carli, Corporate Treasury September 25, 1992

Major corporations often borrow money in the capital markets as an alternative to borrowing from banks, etc.

When borrowing in the capital markets, rating agencies play the role of assessing and communicating to potential investors the relative creditworthiness of the borrower to pay interest and principal when due.

The rating agencies are generally very familiar with the borrower and it's industry, following both on an ongoing basis. In addition, they generally meet with senior financial and operating management before communicating their assessment of both the company's short-term and long-term creditworthiness by way of ratings.

Moodys and S&P have different rating symbols as shown below.

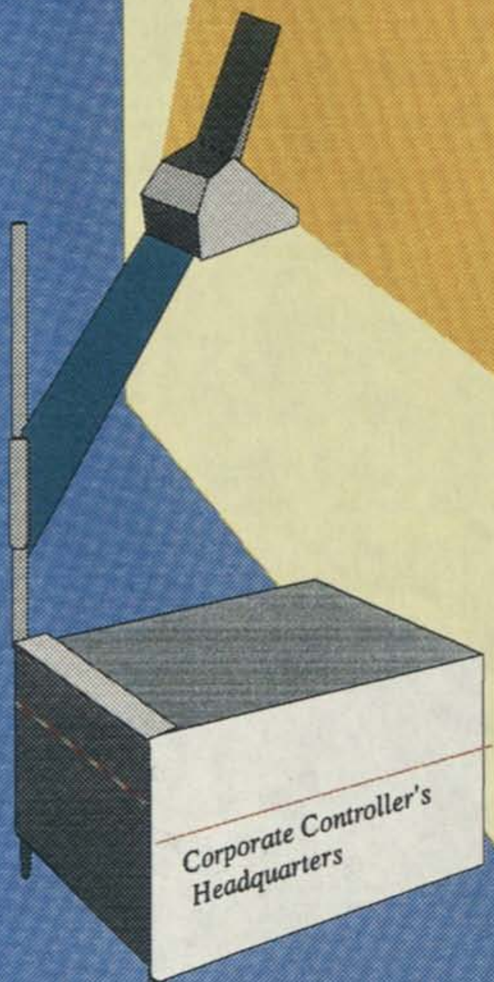
Short-Term Ratings		Long-Term Ratings*	
Moodys	S&P	Moodys	S&P
A1+		Aaa	AAA
A1	P1	Aa	AA
A2	P2	A	A
A3	P3	Baa	BBB
		Ba	BB
		B	B
		Caa	CCC
		Ca	CC
		C	C

[*Moodys applies modifiers of 1,2 and 3 to further differentiate long-term credit risk. S&P applies modifiers of + and -.]

Digital has the highest possible short-term debt ratings of A1+ and P1. Digital's long-term debt ratings are A2 (middle single A) and A+ (highest single A).

Our long-term debt ratings of A2/A+ put us in the top 20% of industrial companies who have issued long-term debt.

Digital Q3 FY93 Financial Results



INTEROFFICE MEMORANDUM

TO: Distribution

DATE: 30 April 1993
FROM: Joe Magee
DEPT: Corporate Controller's Headquarters
PHONE: 223-2740
LOCATION: MLO3-5/36B
E-MAIL: @MLO

SUBJECT: Digital Q3 FY93 Financial Results

Enclosed is a hardcopy package of Digital's Q3 FY93 financial results. This package is distributed to senior managers for use by their staffs, with customers or Digital business partners.

The composition of the packet includes a series of summary messages which highlight the quarter's performance as regards operations, revenue, expenses, etc.. This is followed by a number of tables which contain a profit and loss statement, a cash flow report, and a balance sheet analysis as compared to last year's results. Next, there are fourteen graphs which chart the trend of major P&L lines and balance sheet activity for the last ten quarters. Also included, are three schedules which compare the revenue and profit performance of fourteen of our competitors.

Finance mangers who support the Senior Leadership Team, please note that team members have received the SLT Results Communications Package which was distributed by Chris Sullivan on April 23rd. That package is limited to an internal Digital audience. This is due to "company confidential" material such as comparisons to the Revised Plan, the impact of currency, and pricing/mix BFA analysis. Conversly, the contents of this attached package can be shared with an external audience.

Please call me at DTN 223-2740 if you have any questions.

Overhead Transparencies:

There are color overhead transparencies of this package which may be borrowed from our library at any time. Graphs of the latest ten year financial history of the company are also available in color overhead transparencies. If you wish to borrow them, please contact Joe Magee at 223-2740 or E-Mail at ROLAID::Magee_J. In order to insure timely delivery and availability of the information, we ask that you contact our office ***at least forty-eight hours in advance.***

Regards,

Central Finance Group
Quarterly Presentation Materials
Distribution

Pat Adams	AKO1-3/E9
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Mike McGrath	WRO3-2/T6
Harry McKnight	GEO
Denise Mincet	KAO4-1/1
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Brenda Morris	MLO5-4/F32
Amit Nanavati	AKO1-3/Q3
John Niggl	OGO1-2/L17
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Marian O'Leary	BXC1-1/H4
Werner Oppliger	GEO

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Frank Rameaka	AKO1-3/U7
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Rick Ryan	MLO3-5/T58
Geoff Sackman	MLO3-5/T58
Dick Scarborough	MKO2-2/E11
Ray Schmalz	MSO2-2/F19
Ken Smith	WRO3-3/R22
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John Walsh	AKO1-2/C13
Steve Whitney	AKO2-2/D5
Jay Zager	MLO12-B/E47

Digital Q3 FY93 Financial Results

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Q3 FY93 Summary and Key Messages

Corporate Controller's
Headquarters

Digital Equipment Corporation
Q3 FY93 Summary Results

Operations

- Operating profit has improved in Q3 FY93 with an operating loss of ($28)M which is a $40M improvement over Q2 FY93, and $275 better than the Q3 FY92 loss of ($303)M.

- Q3 FY93 is the second consecutive quarter of improvement in operating profit after 17 consecutive quarters of deterioration.

- Operating losses have been reduced to less than $300K per day, down from $3M per day in Ocober 1992, nearly a ten-fold improvement.

- The new management team is in place.

Digital Equipment Corporation
Q3 FY93 Summary Results

Revenue

- Revenue was up more than 6% from last year, led by strong growth in Systems Integration and Professional Services.
- Desktop products are showing strong growth year over year, including both PC units and revenue which have more than doubled year over year.
- The U.S. business was flat while international revenues grew.

Digital Equipment Corporation
Q3 FY93 Summary Results

Gross Margin

- Gross margin improved compared to last year. Improved efficiencies in Services offset competitive pricing pressure and mix shifts to lower margin products and services.

- Total gross margin improved 0.8 points year-over-year.

Digital Equipment Corporation
Q3 FY93 Summary Results

Expenses

- R&E and SG&A have declined markedly as a percentage of revenue, reflecting a shift to the new business models.

- R&E spending declined by $(83)M or (19)% over Q3 FY92.

- SG&A spending declined by $(88)M or (8)% over Q3 FY92.

Digital Equipment Corporation
Q3 FY93 Summary Results

<u>Balance Sheet</u>

- Focused attention on asset management has yielded positive results. Total Operating Asset Turns improved from 1.49 a year ago to 1.69 turns.

- Cash was generated from operations and investments, even with the restructuring activity in the quarter. These sources yielded the first positive cash flow in six quarters.

- Q3 ending cash was $1.6B, up $200M from Q2. There is sufficient cash to invest in new technologies and to grow revenue.

- Capital spending continues to be low. In Q3, it was $102M, the lowest since Q2 FY84.

Digital Equipment Corporation
Q3 FY93 Summary Results

Restructuring & Population

- Population has been reduced to 98,100. This is down from a peak of 126,000. This is the first time it has been under 100,000 since Q1 FY87.

- Cost savings from workforce reduction and discretionary spending activity have reached over $1.7B annually.

- Downsized facility space is yielding annual savings of $220M. Phase I of this program is complete which addressed leased facilities. Phase II will review owned properties. The Mill among others will be closed.

- The current restructuring reserve balance is believed to be adequate to fulfill future needs.

Digital Equipment Corporation
Q3 FY93 Summary Results

<u>Alpha AXP</u>

- Alpha AXP is meeting major milestones.
- System software introduction is on or ahead of schedule.
- Over 2,000 units have been shipped already.
- 2,300 software applications have been signed up, 500 are available today, with 1,500 available in July.
- Mitsubishi will be a second source for Alpha AXP semi-conductor fabrication.

Digital Equipment Corporation
Q3 FY93 Summary Results

Business Units/Operations

- The new management team is in place.
- A branding capaign will be introduced in Q4 along with the new logo.

Q3 FY93 Results

Corporate Controller's Headquarters

Q3 FY93 Results

Compared with Q3 FY92

(\$Mils)

(As Reported)

	Q3 FY93 Actual	Percent Growth Over Q3 FY92
Product Revenue	$ 1,767	1 %
Service Revenue	$ 1,686	12 %
Total Revenue	$ 3,454	6 %
Gross Margin	$ 1,373	8 %
(% of Revenue)	39.8 %	0.8 pts.
Research & Engineering	$ 350	(19) %
(% of Revenue)	10.1 %	(3.2) pts.
Selling, General & Administrative	$ 1,051	(8) %
(% of Revenue)	30.4 %	(4.6) pts.
Operating Income	$ (28)	91 %
(% of Revenue)	(0.8) %	8.5 pts.
Net Interest Income (Expense)	$ 0	NM %
Profit Before Taxes	$ (28)	90 %
Income Taxes	$ 2	(90) %
Net Income	$ (30)	90 %
EPS	$ (0.23)	91 %

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Q3 FY93 Results
ASSET SUMMARY

(\$Mils)

	Q3 FY93	Q3 FY92
Cash Balance	$ 1,552	$ 1,547
Net Inventory	$ 1,815	$ 1,824
Inventory Turns	4.6x	4.4x
Accounts Receivable	$ 3,009	$ 3,158
DSO	78 Days	87 Days
Capital Expenditures	$ 102	$ 158
PP&E Turns	4.2x	3.6x

Q3 FY93 Results
CASH FLOW

	Q3 FY93	Q2 FY93	Q3 FY92
Beginning Cash	$ 1,365	$ 881	$ 1,694
Net Income	$ (30)	$ (74)	$ (311)
Receivables	123	184	215
Inventories	17	(55)	(31)
Restructuring - Cash Exp.	(186)	(225)	(92)
Other Working Capital	160	(270)	82
Sub-total	$ 84	$ (440)	$ (137)
Capital Spending	$ (102)	$ (125)	$ (158)
External Investments	(8)	(11)	(41)
Depreciation/Other	216	240	230
Sub-total	$ 107	$ 104	$ 31
Total from Ops & Investing	$ 191	$ (336)	$ (106)
Financing Activities			
Employee Stock Plans	$ 2	$ 94	$ 4
Debt	(7)	726	(44)
Sub-total	$ (5)	$ 820	$ (40)
Total Change	$ 187	$ 484	$ (147)
Ending Cash	$ 1,552	$ 1,365	$ 1,547

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Q3 FY93 Results
TOTAL ASSETS

($Mils)

	Balance as of	
	Q3 FY93	**Q3 FY92**
Current Assets:		
Cash	$ 1,552	$ 1,547
Accounts Receivable	3,009	3,158
Net Inventory	1,815	1,824
Prepaid Expenses	369	397
Prepaid Income Taxes	223	432
Total Current Assets	6,968	7,359
Property, Plant & Equipment	7,346	7,695
Accumulated Depreciation	(4,106)	(4,085)
Net Property, Plant & Equipment	3,240	3,610
Other Long-term Assets	737	576
Total Assets	$10,945	$11,545

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Q3 FY93 Results
LIABILITIES & EQUITY
($Mils)

	Balance as of	
	Q3 FY93	Q3 FY92
Liabilities:		
Loans & Current Debt	$ 40	$ 39
Accounts Payable	797	885
Taxes Payable	157	150
Salaries & Wages	618	522
Deferred Revenue	1,141	1,119
Restructuring Reserve	874	694
Other Current Liabilities	589	529
Total Current Liabilities	$ 4,216	$ 3,938
Deferred Income Tax Credit	$ 23	$ 15
Post-retirement Benefits	1,223	882
Long Term Debt	777	44
Total Liabilities	6,239	4,878
Stockholders' Equity	4,706	6,667
Total Liabilities and Stockholders' Equity	$10,945	$11,545

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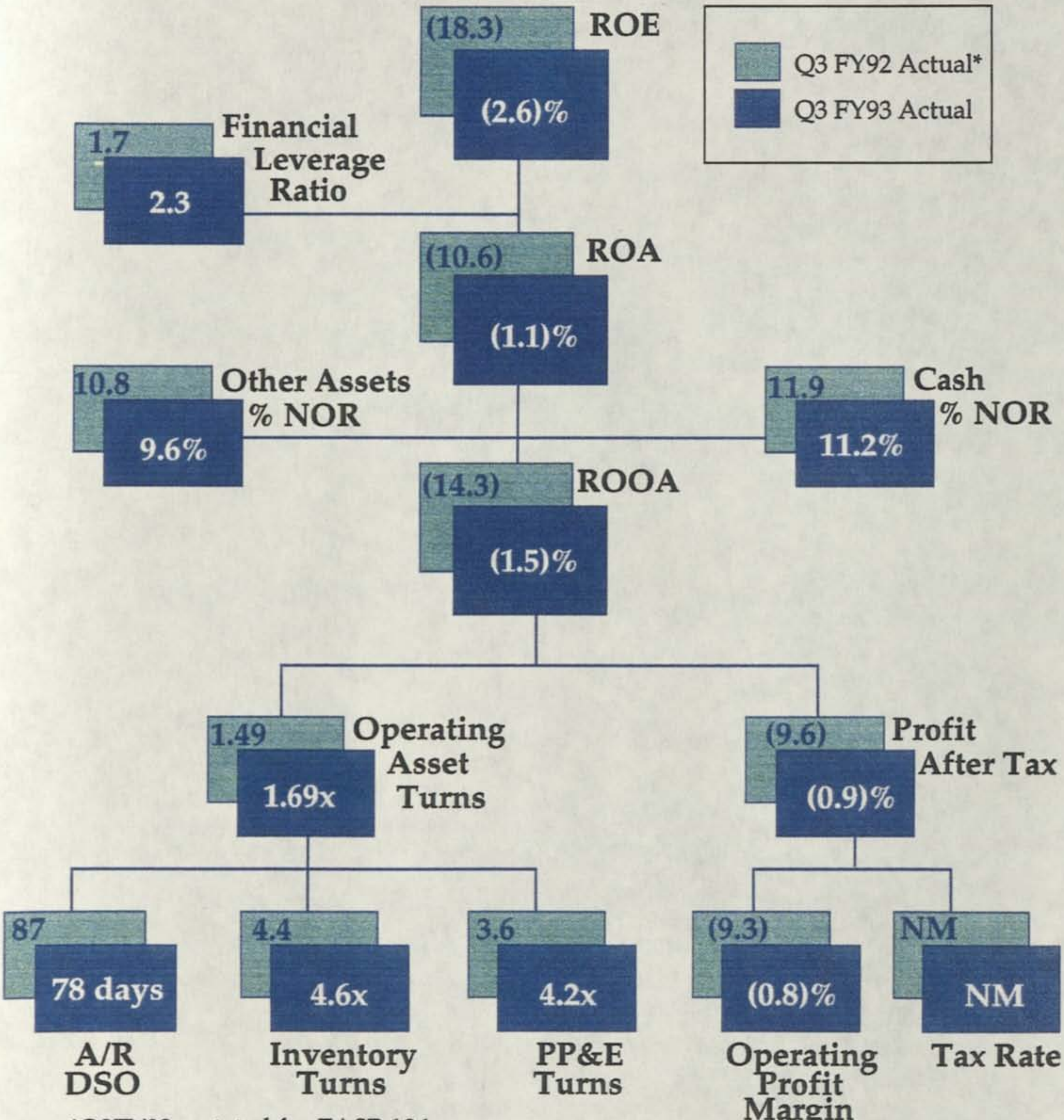
Digital Business Model



*Q2FY92 restated for FASB 106

COMPETITOR RESULTS
For Quarter Ended March, 1993
(Adjusted for One-Time Charges)

	Revenue (% Change)	Gross Margin (% Revenue)	Operating Profit (% Revenue)	Net Income (% Revenue)
DIGITAL (Q3)	6 %	40 %	(1) %	(1) %
IBM (Q1)	(7)	39	(2)	(2)
Hewlett-Packard (Q1)*	18	42	9	6
Apple (Q2)	15	38	9	6
Stratus (Q1)	5	58	15	13
Compaq (Q1)	106	23	11	6
Sun Microsystems (Q3)	16	41	5	3
Dell Computer (Q4)*	117	20	7	5
Silicon Graphics (Q3)	30	52	11	8
Novell (Q1)*	27	81	39	27
3 COM (Q3)**	51	48	8	5
Microsoft (Q3)*	41	83	35	25
Conner Peripherals (Q1)	27	16	1	(4)
Seagate (Q3)	(3)	22	1	5
Computer Associates(Q3)	12 %	NA %	11 %	16 %

*Quarter ended January , 1993

**Quarter ended February, 1993

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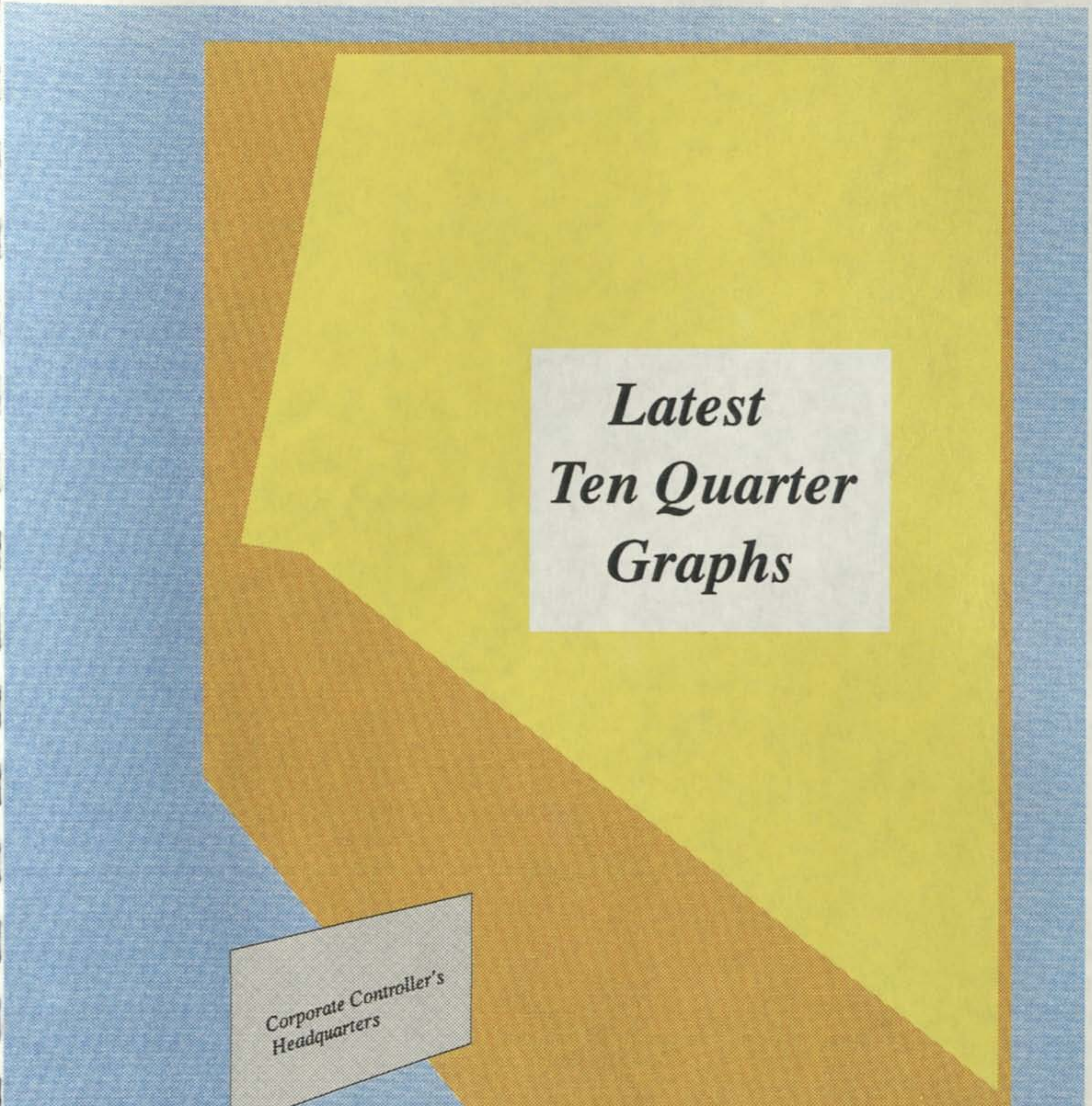
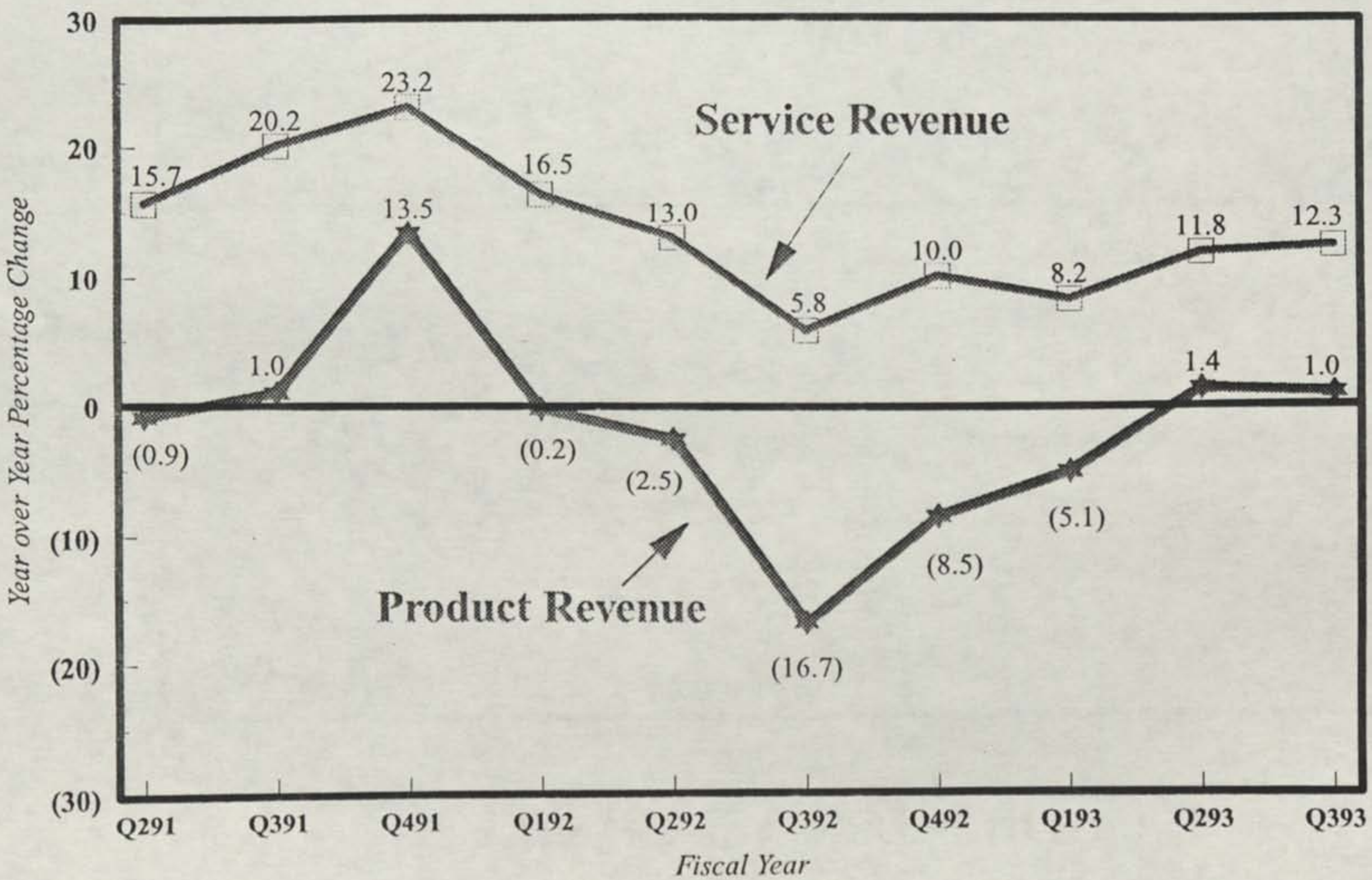
Latest Ten Quarter Graphs



REVENUE GROWTH BY SEGMENT



Total Revenue Growth	5.3%	7.9%	17.2%	6.5%	3.8%	(7.6)%	(1.0)%	0.6%	6.0%	6.2%

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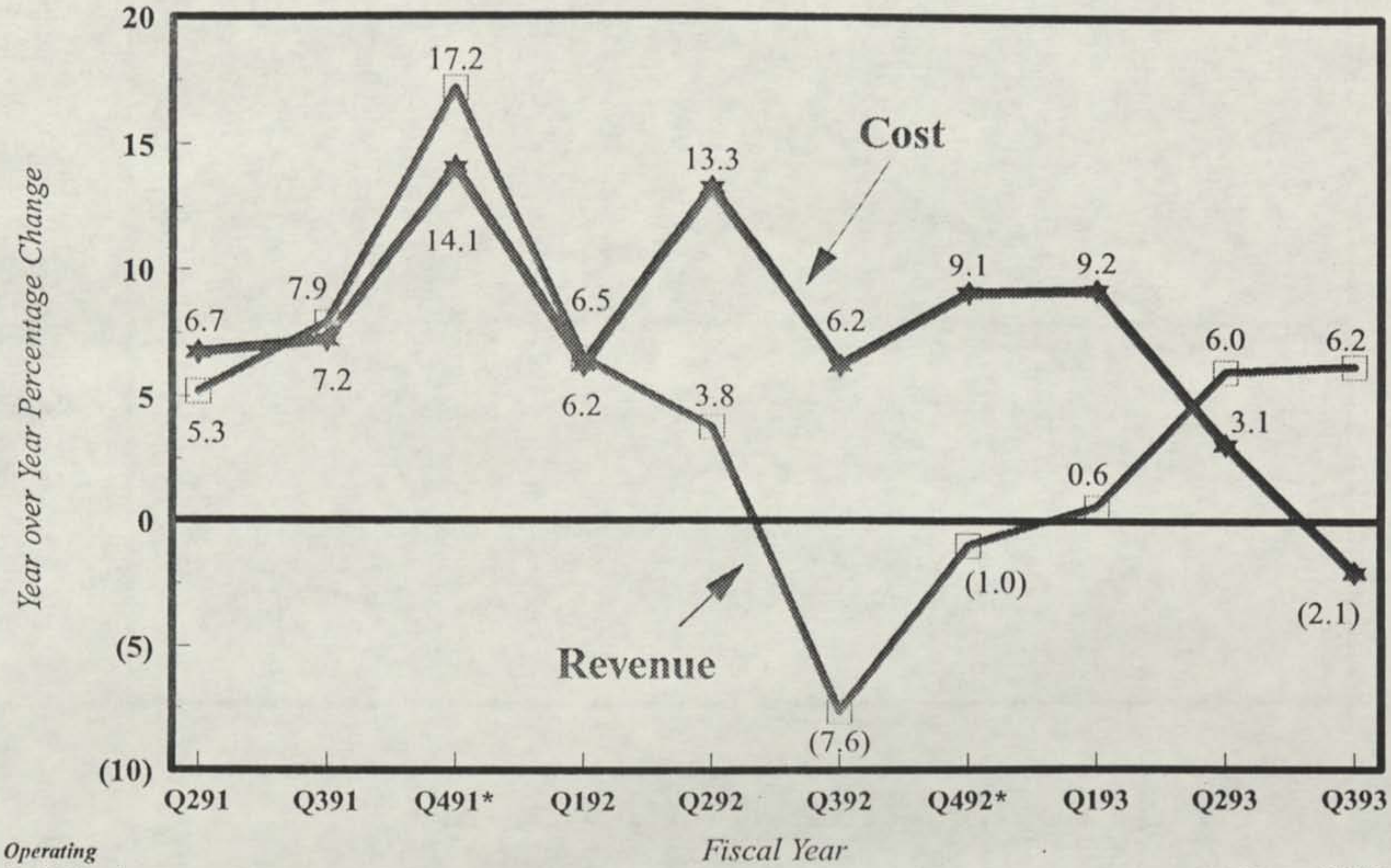
REVENUE & COST GROWTH



	Q291	Q391	Q491*	Q192	Q292	Q392	Q492*	Q193	Q293	Q393
Operating Profit Margin	*4.1%*	*4.9%*	*4.9%*	*0.6%*	*(4.7)%*	*(9.3)%*	*(4.8)%*	*(7.8)%*	*(1.8)%*	*(0.8)%*

** Excludes restructuring*

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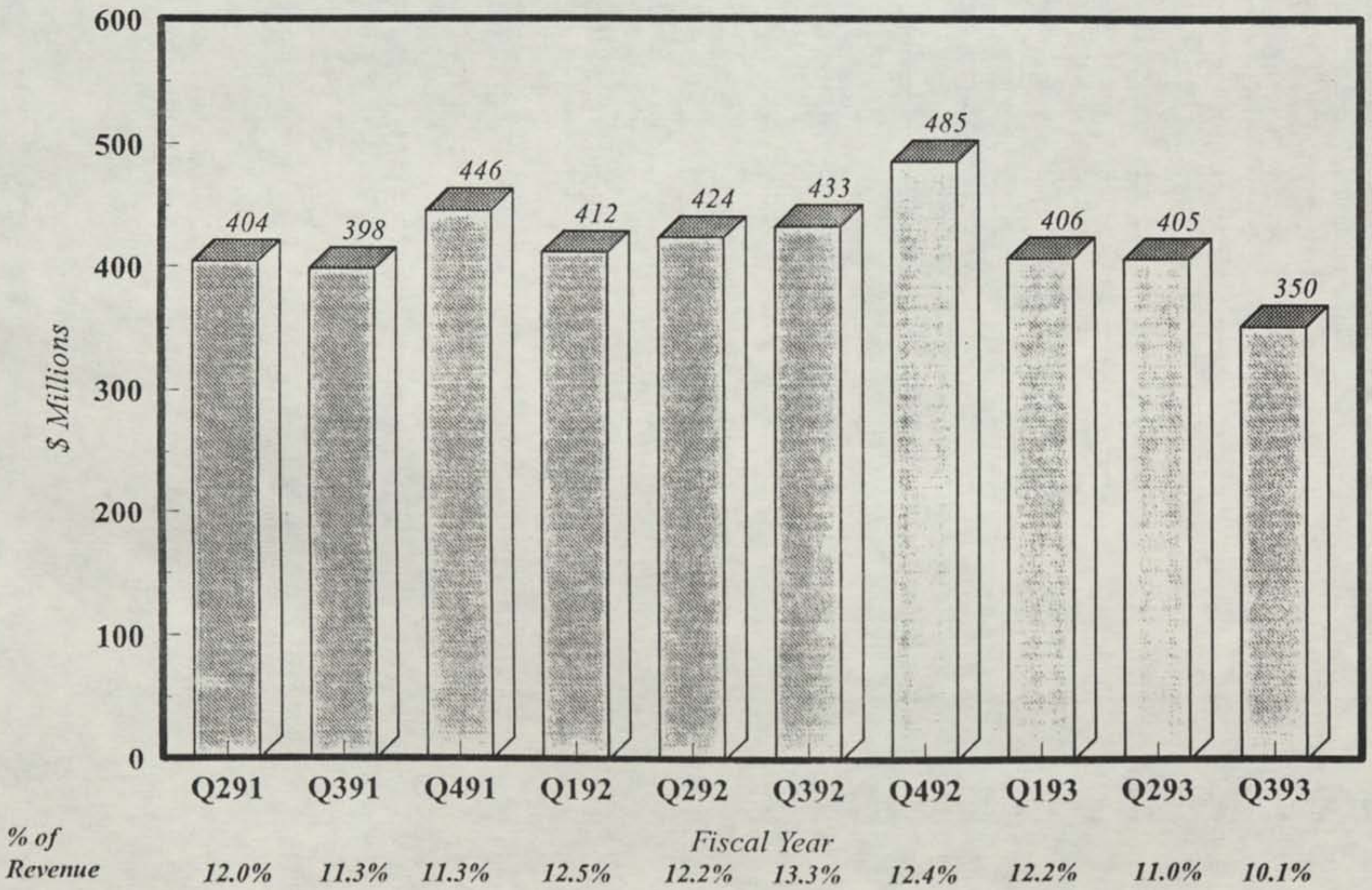
RESEARCH & ENGINEERING EXPENSE



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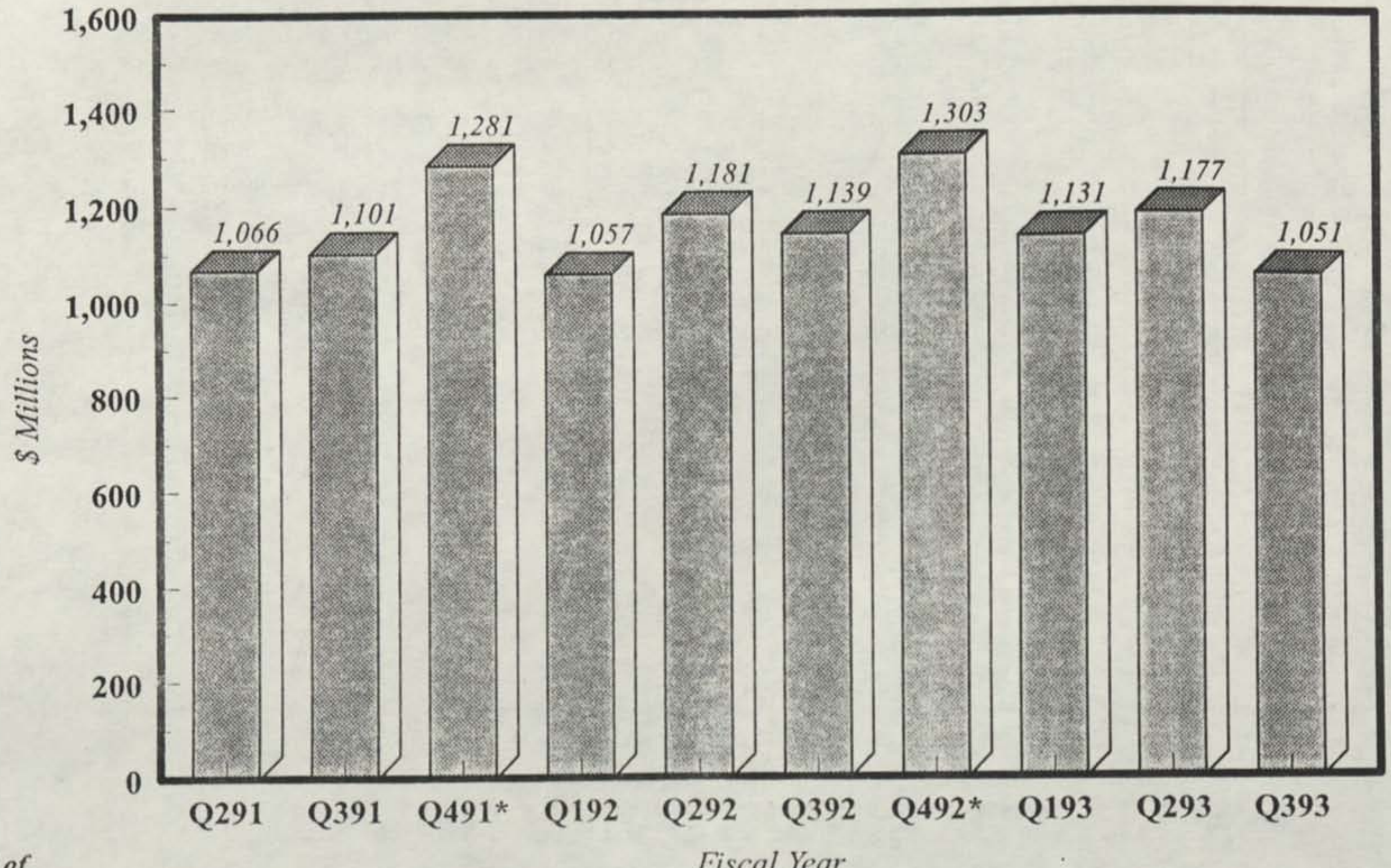
SALES, GENERAL & ADMINISTRATIVE EXPENSE



	Q291	Q391	Q491*	Q192	Q292	Q392	Q492*	Q193	Q293	Q393
% of Revenue	*31.8%*	*31.3%*	*32.5%*	*32.1%*	*34.0%*	*35.0%*	*33.4%*	*34.1%*	*31.9%*	*30.4%*

***Excludes restructuring**

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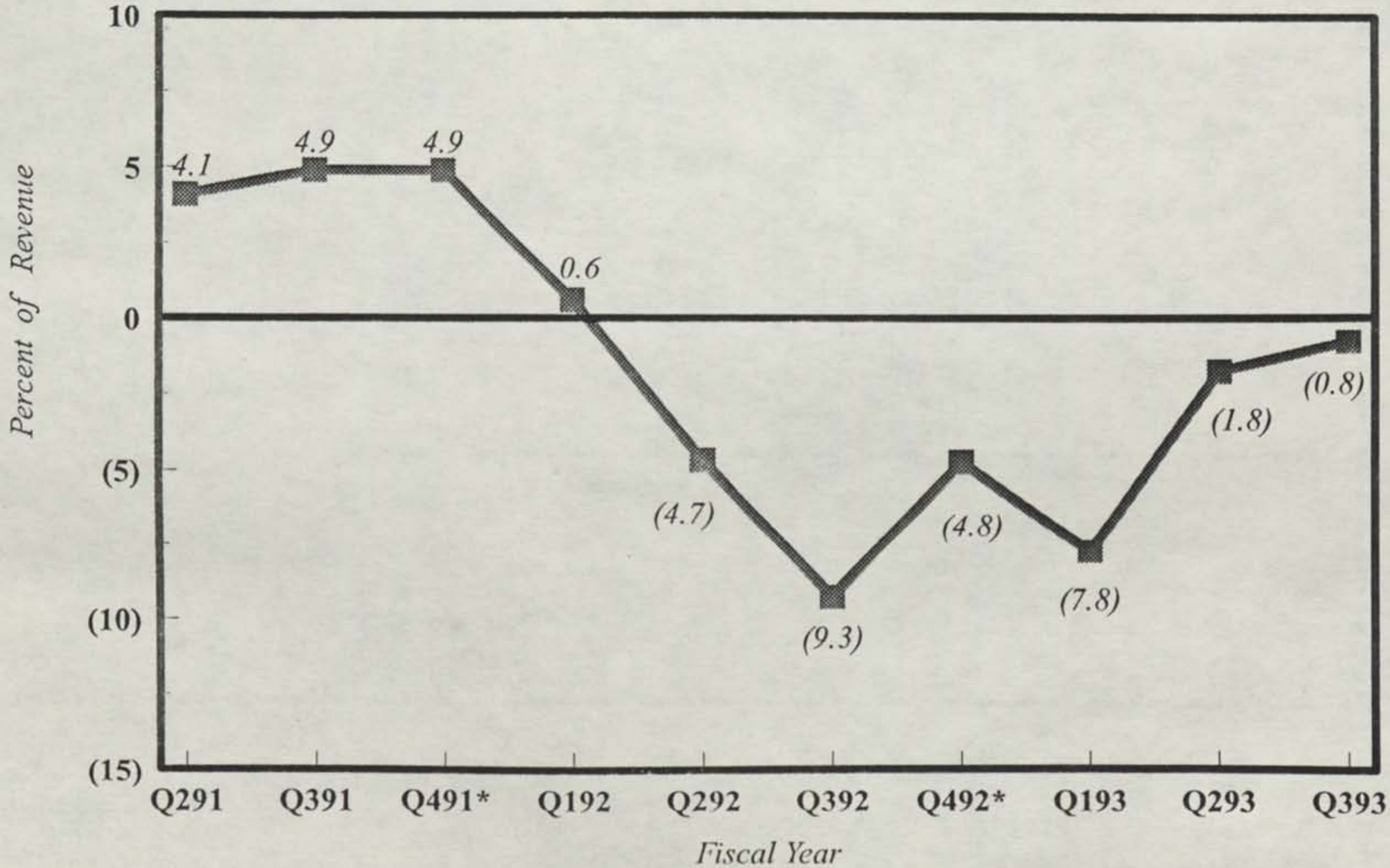
OPERATING PROFIT MARGIN



* *Excludes restructuring and one-time charges*

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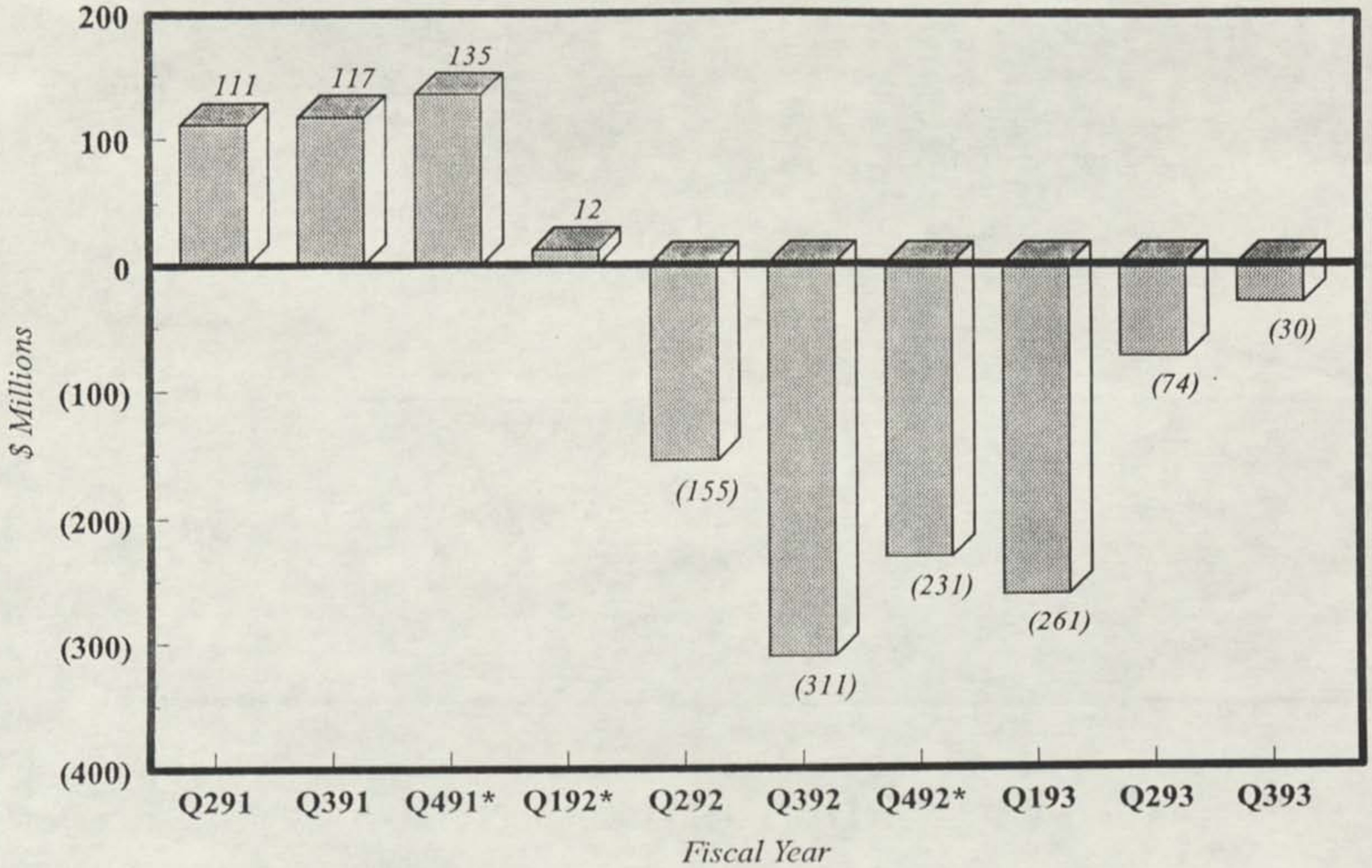
NET INCOME



*Excludes restructuring and one-time charges

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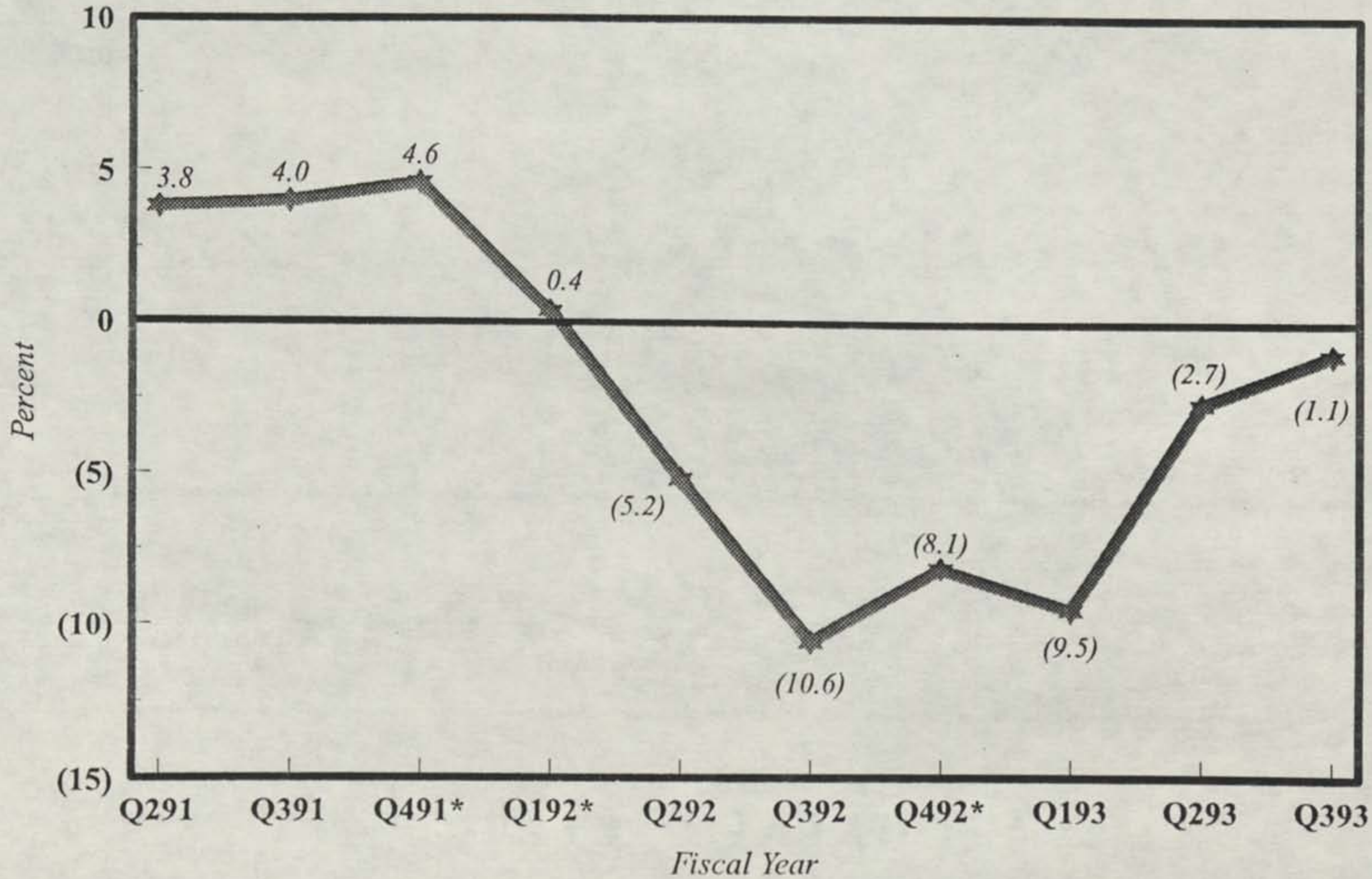
RETURN ON ASSETS



***Excludes restructuring and one-time charges**

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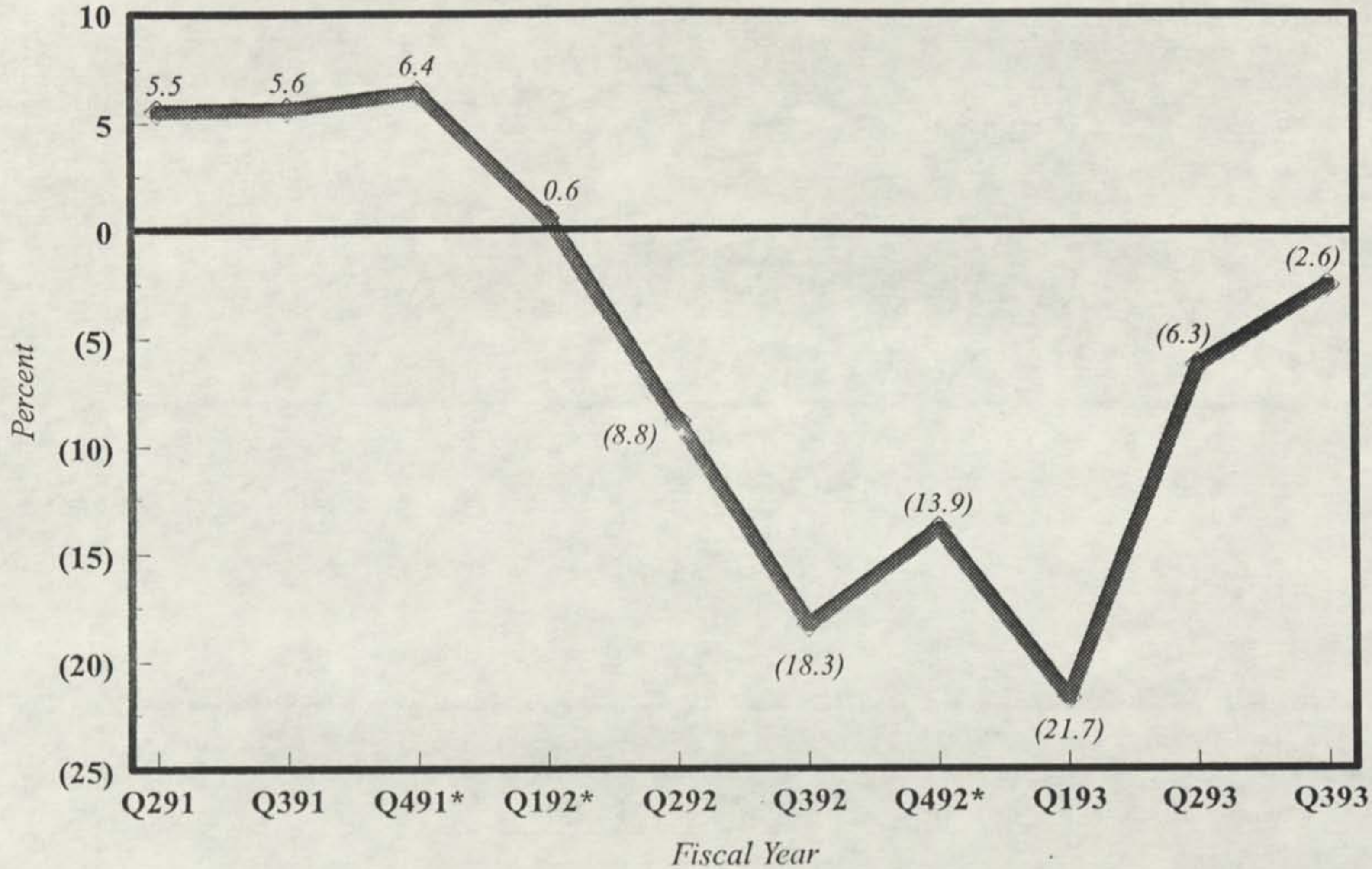
RETURN ON EQUITY



*Excludes restructuring and FAS 106

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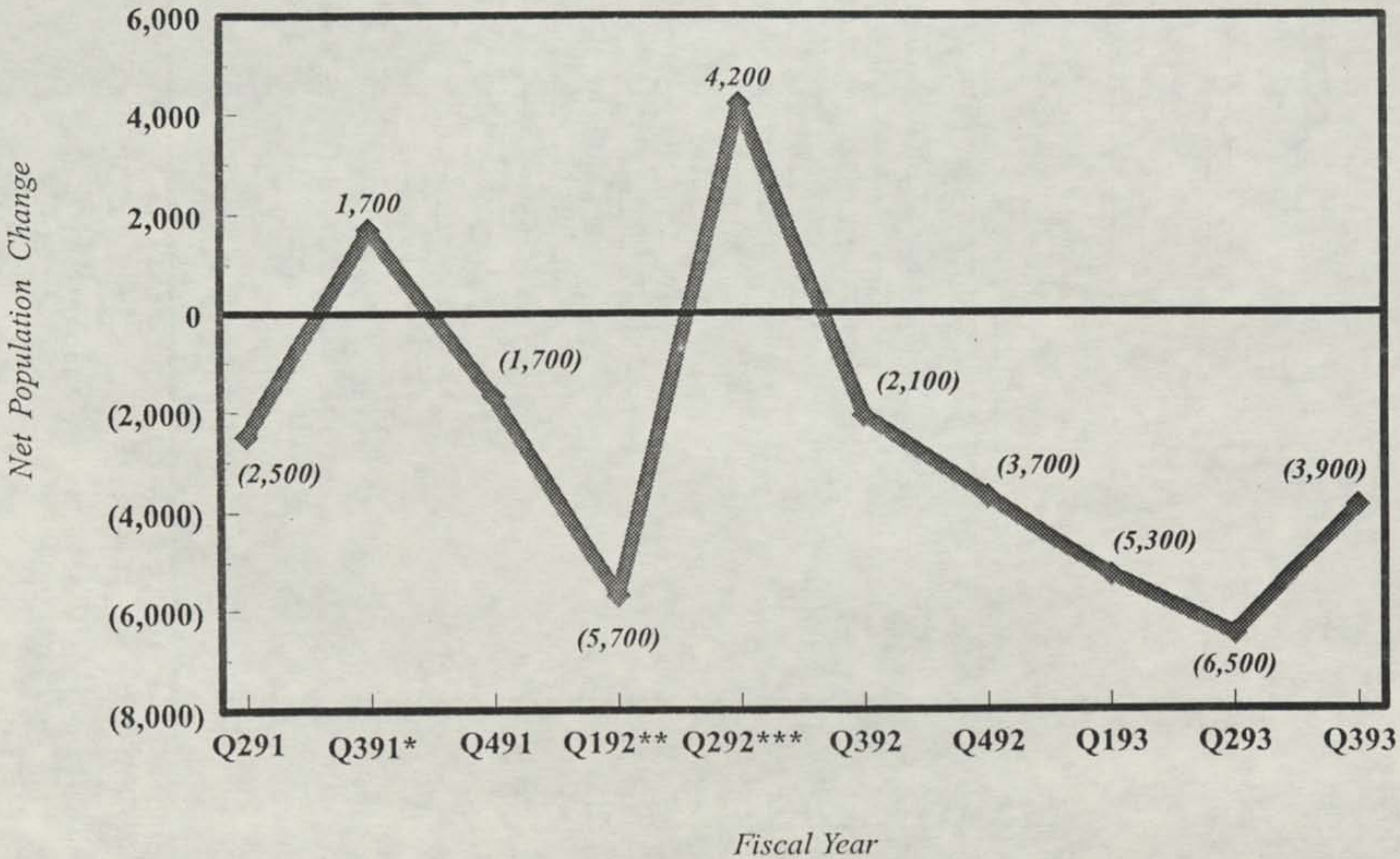
POPULATION TRENDS - NET HIRES

(Equivalent)



Net hires rounded to the nearest 100

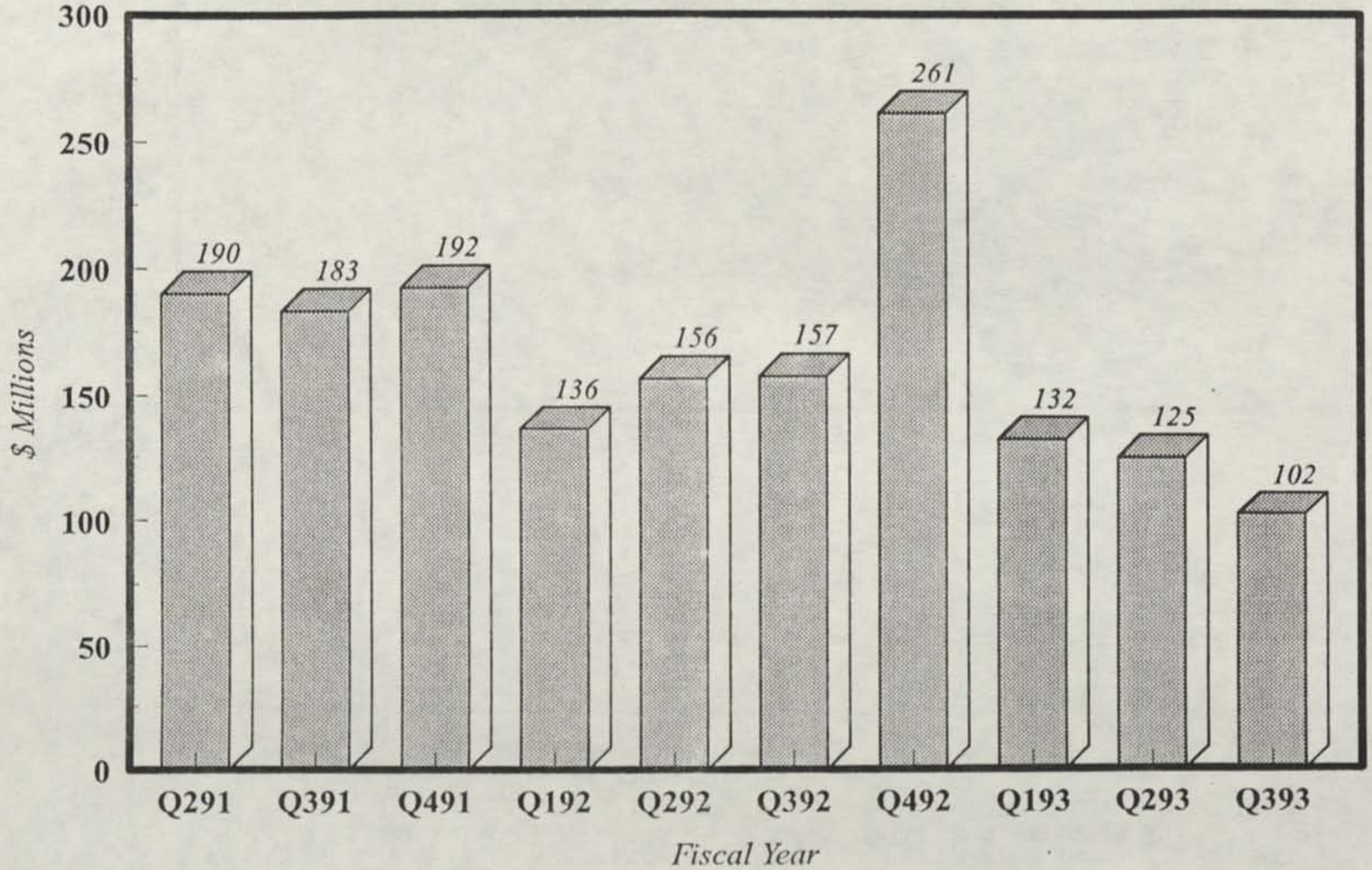
* *Kienzle acquisition*

*** In Q1 FY92 reporting changes to equivalent headcount.*

**** Philips acquisition*

CCH:jwm
QTLY_SL3.PRE

CAPITAL SPENDING



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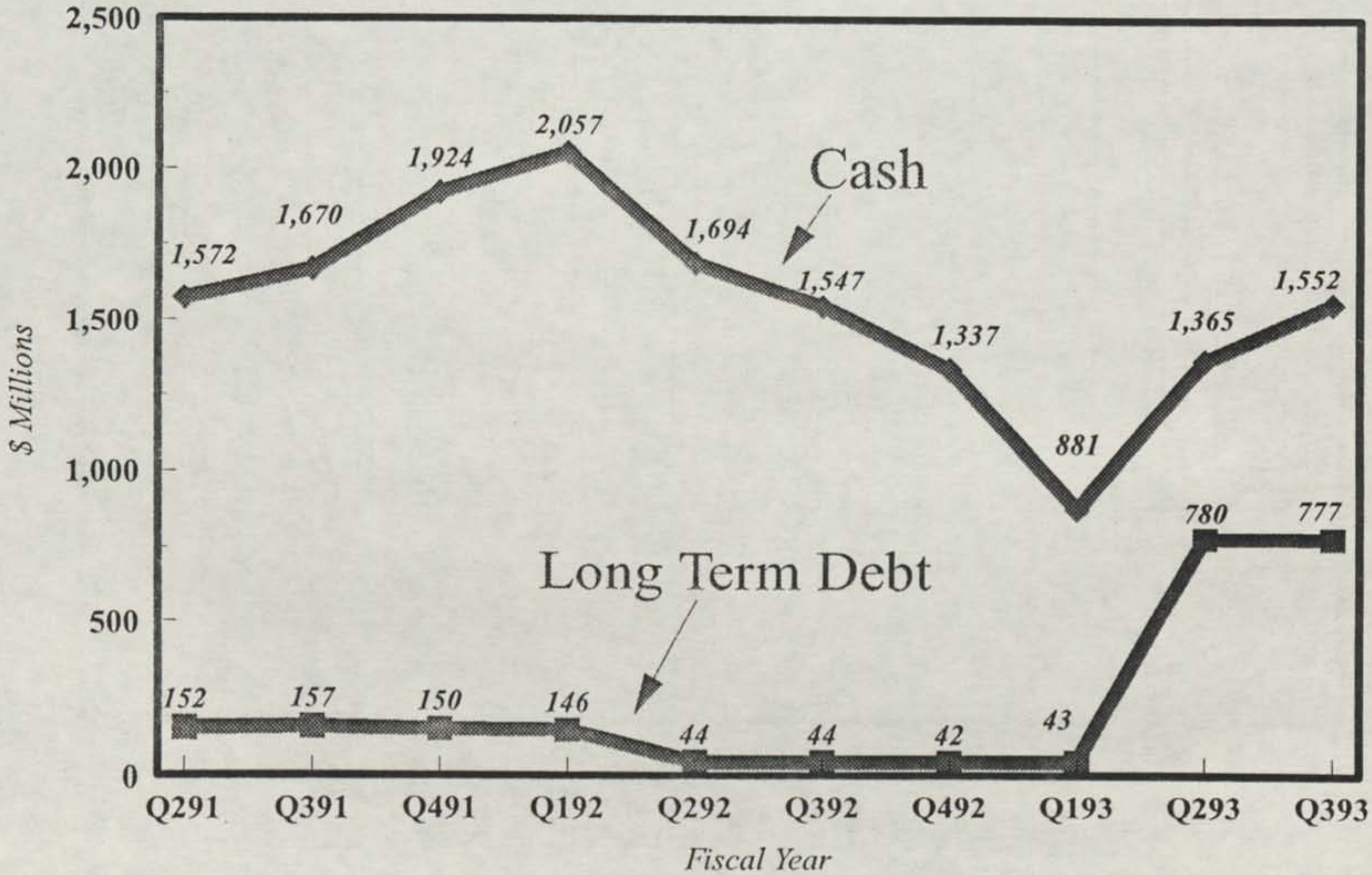
CASH AND LONG TERM DEBT



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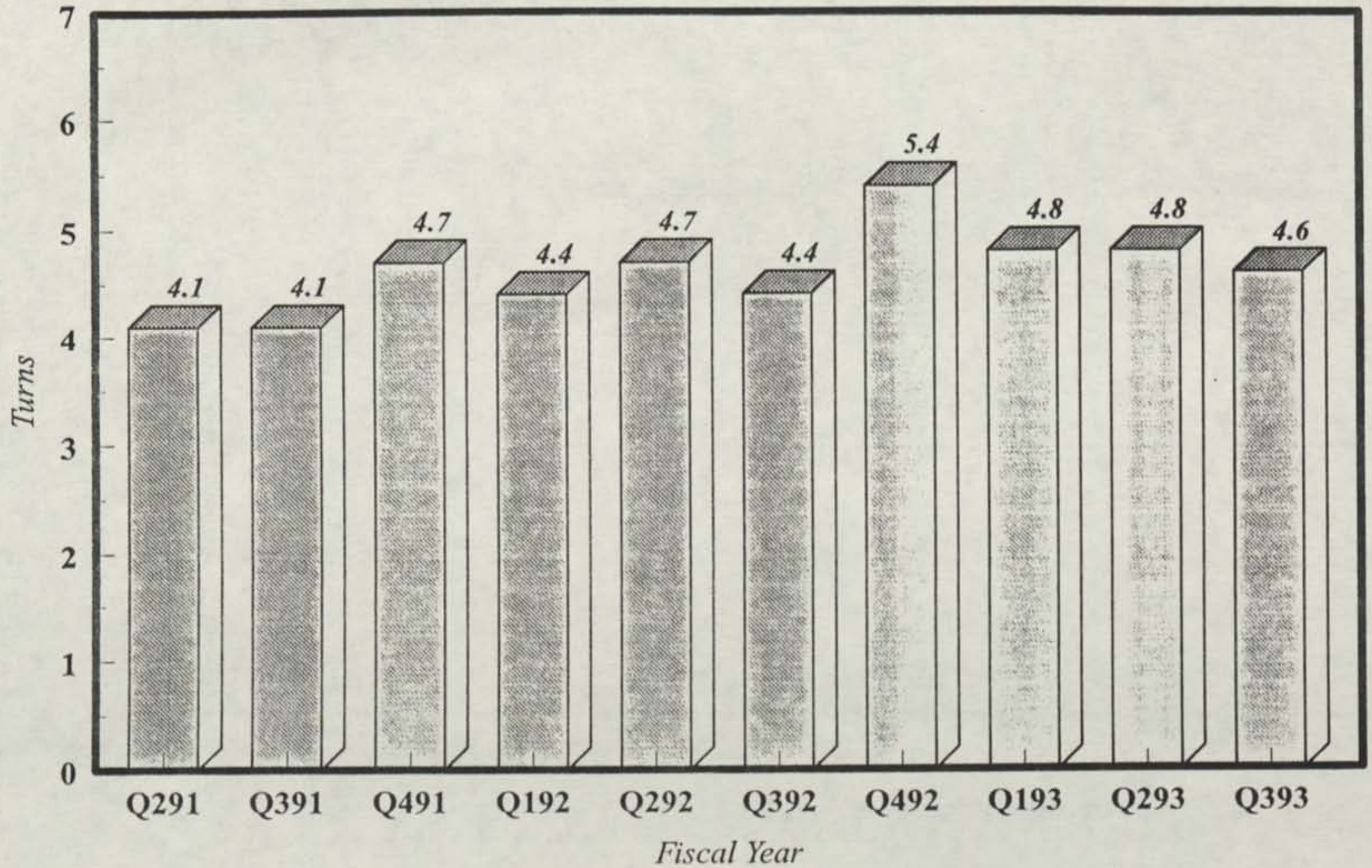
INVENTORY TURNS



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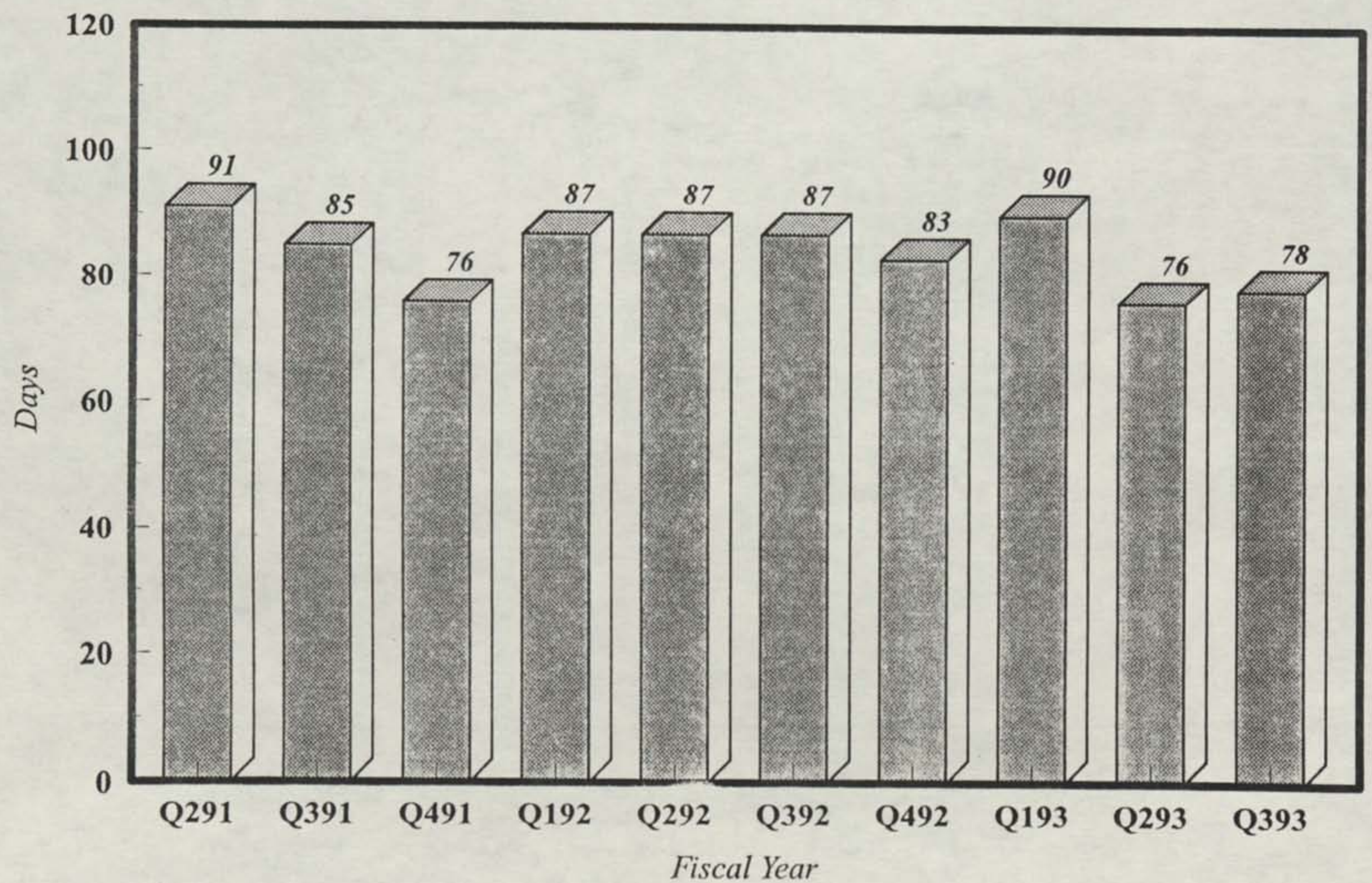
DAYS SALES OUTSTANDING



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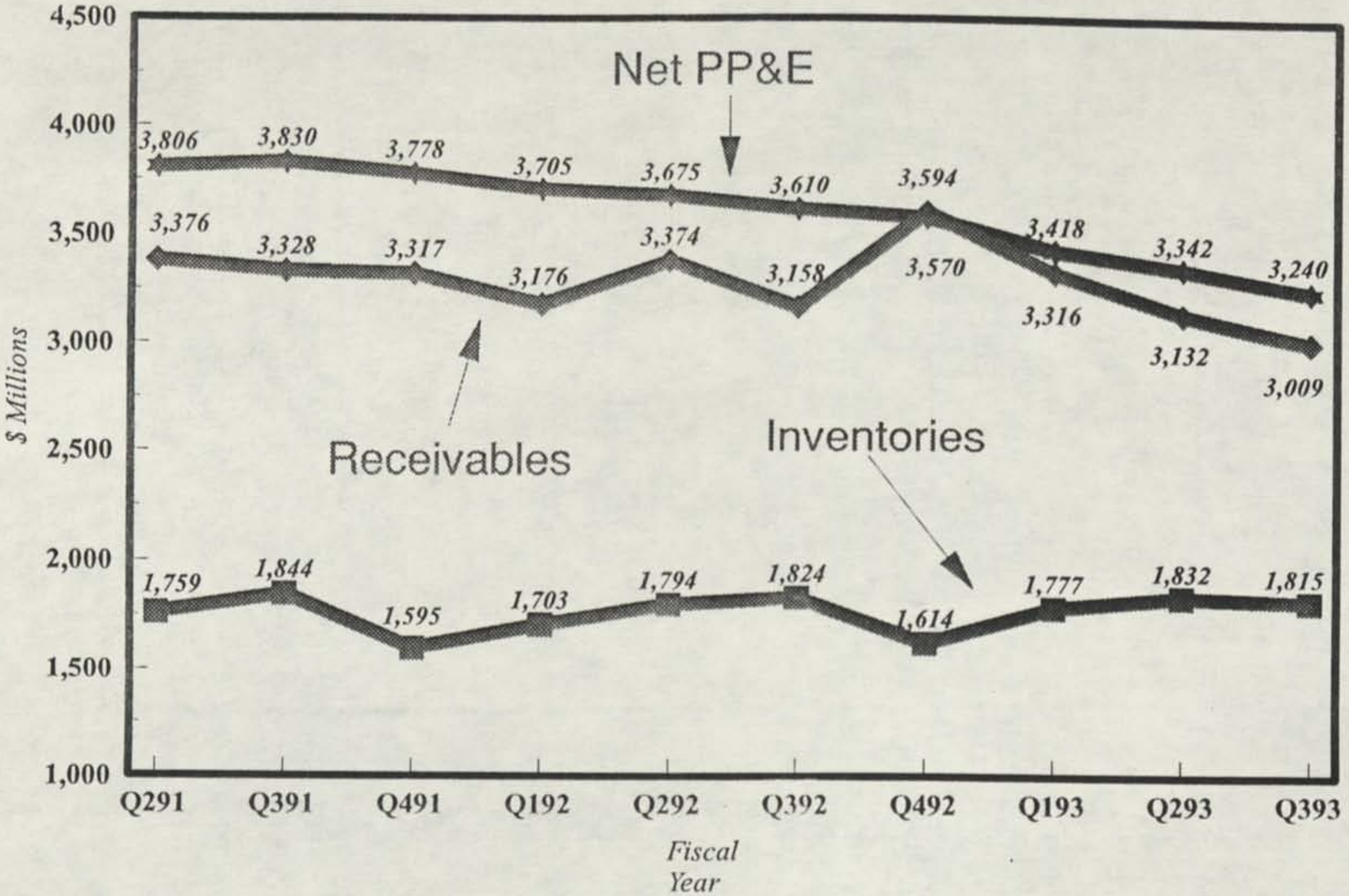
OPERATING ASSETS



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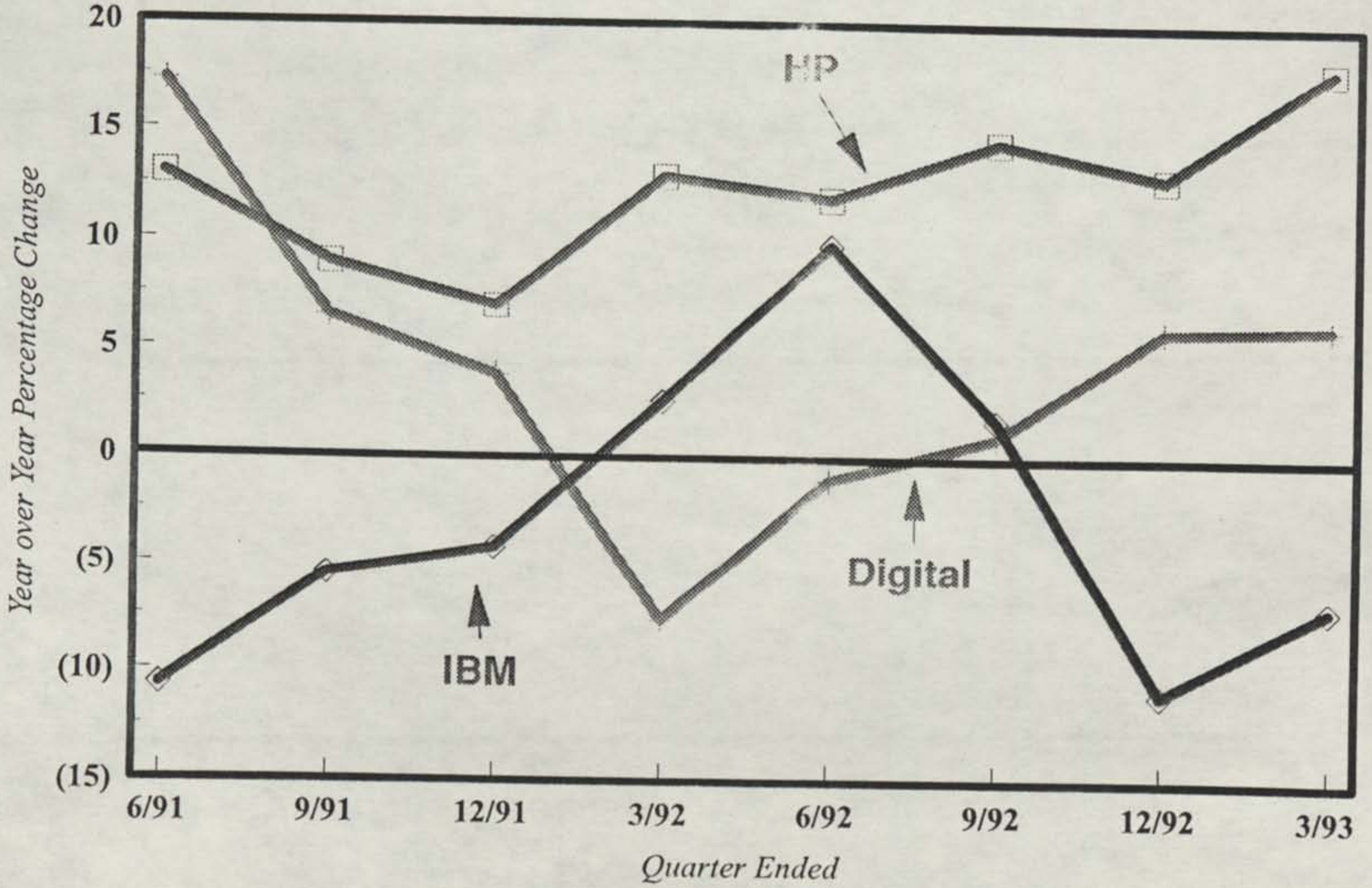
DIGITAL vs. IBM & HP
Revenue Growth Trends



Note: Data for HP reflects their quarter ended January.

CCH:jwm
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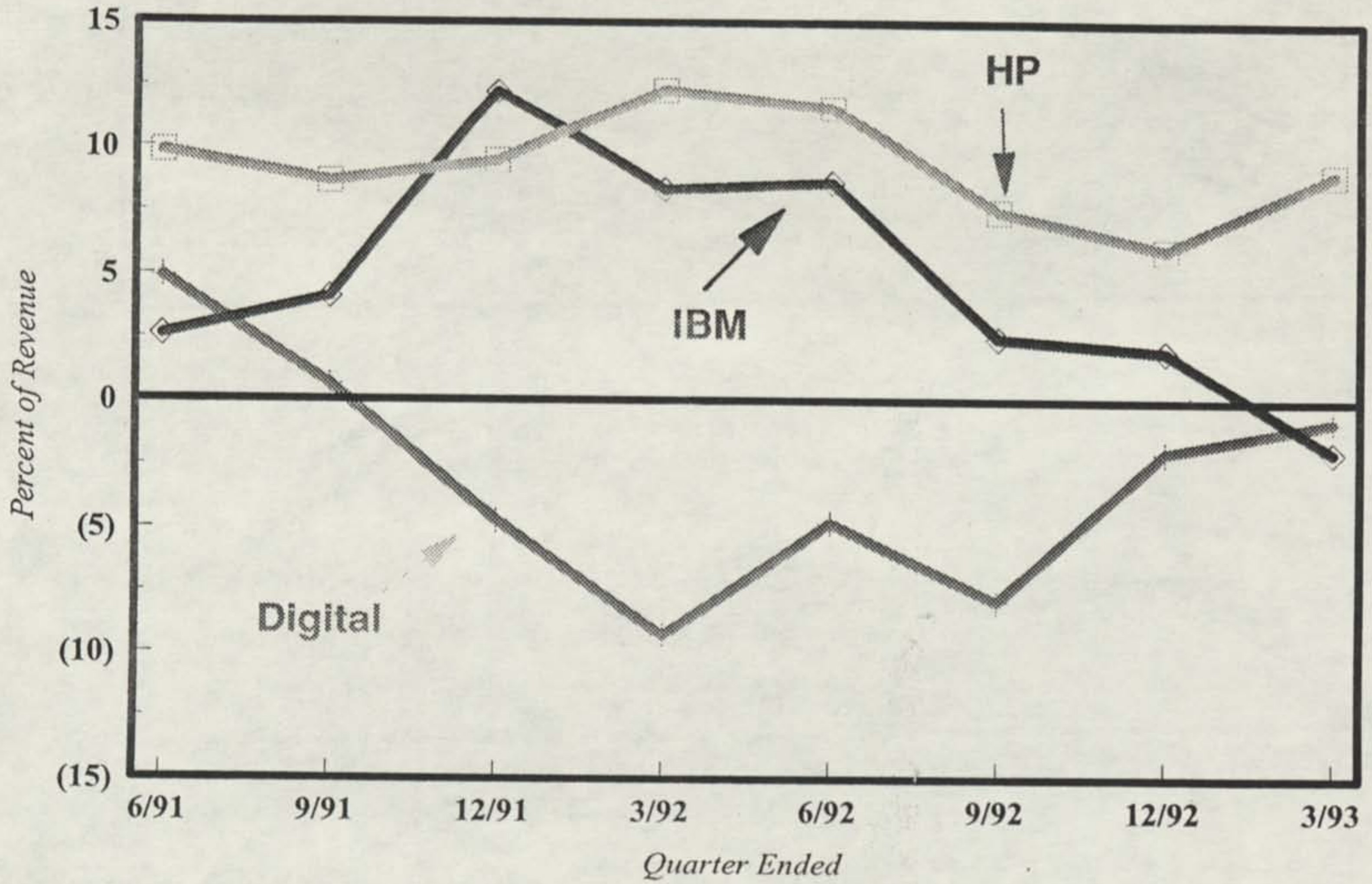
DIGITAL vs. IBM & HP
Operating Profit As A Percent of Revenue



Adjusted for one-time charges

Note: Data for HP reflects their quarter ended January.

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f: Financials/Corporate

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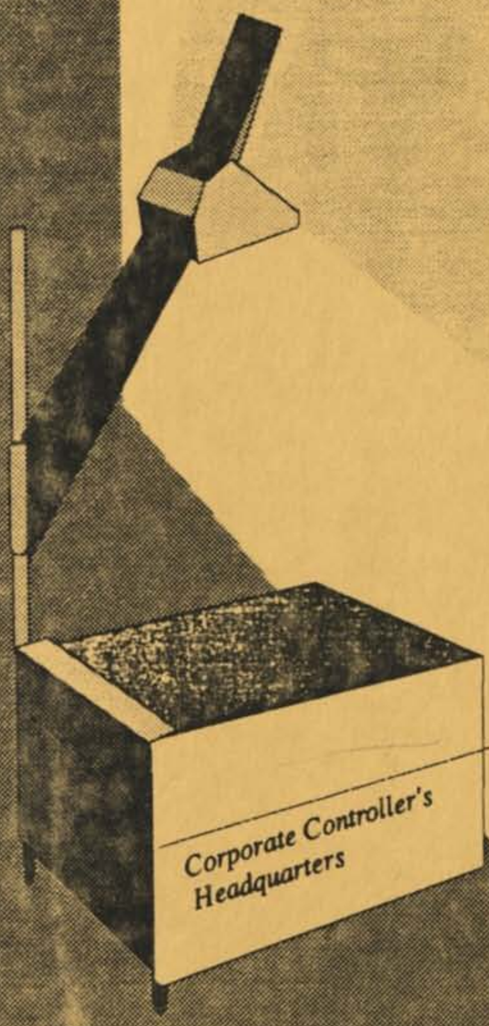
SAM FULLER

Digital Q4 and Full Year FY93 Financial Results



INTEROFFICE MEMORANDUM

TO: Distribution

DATE:	24 August 1993
FROM:	Joe Magee
DEPT:	Corporate Controller's Headquarters
PHONE:	223-2740
LOCATION:	MLO3-5/36B
E-MAIL:	@MLO

SUBJECT: Digital Q3 FY93 Financial Results

Enclosed is a hardcopy package of Digital's Q4, FY93 and full year FY93 financial results. This package is distributed to senior managers for use by their staffs, with customers or Digital business partners.

The composition of the packet includes a series of summary messages which highlight the quarter's and year's performance as regards operations, revenue, expenses, etc.. This is followed by a number of tables which contain a profit and loss statement, a cash flow report, and a balance sheet analysis as compared to last year's results for the quarter and for the year. Next, there are a number of graphs which chart the trend of major P&L lines and balance sheet activity for the last ten quarters. This is followed by graphs showing various trends over the last ten years. Also included, are schedules which compare the revenue and profit performance of a select group of our competitors during the last quarter and over the last ten years.

Finance mangers who support the Senior Leadership Team, please note that team members have received the SLT Results Communications Package which was distributed by Chris Sullivan on August 9th. That package is limited to an internal Digital audience. This is due to "company confidential" material such as comparisons to the Revised Plan, the impact of currency, and pricing/mix BFA analysis. Conversely, the contents of this attached package can be shared with an external audience.

Please call me at DTN 223-2740 if you have any questions.

<u>Overhead Transparencies:</u>

There are color overhead transparencies of this package which may be borrowed from our library at any time. If you wish to borrow them, please contact Joe Magee at 223-2740 or E-Mail at ROLAID::Magee_J. In order to insure timely delivery and availability of the information, we ask that you contact our office ***at least forty-eight hours in advance.***

Regards,

CENTRAL FINANCE GROUP
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BOB FAULCONER	MLO3-2/T98	MARIAN O'LEARY	BXC1-1/H4
GEORGE FERRY	MLO1-4/U90	WERNER OPPLIGER	GEO
DICK FISHBURN	MLO12-2/T81	BARCY PROCTOR	MRO3-2/W8
PAT FITZGERALD	TRC-19/1	LEO QUINN	MSO2-2/E7
JIM FLANAGAN	MLO1-5/B94	RICHARD RACKLEY	ALF2-3/K1
BUD FLYNN	MRO1-3/B5	FRANK RAMEAKA	AKO1-3/U7
ALEXIS FORD	BXC1-2/H4	CAROL REID	MLO1-5/34A
SAM FULLER	MLO12-2/T7	TRACY ROTH	BXC1-1/B4
DOUG FULRATH	MRO3-3/J19	RICK RYAN	MLO3-5/T58
DEBARAH GAMBA	AKO1-3/U7	GEOFF SACKMAN	MLO3-5/T58
BILL GERVAIS	AKO1-1/D12	DICK SCARBOROUGH	MKO2-2/E11
LOIS HASKINS	MRO4-2/C19	RAY SCHMALZ	MSO2-2/F19
ROBYN HASTINGS	MLO3-5/T58	KEN SMITH	WRO3-3/R22
DEB HERCHEK	MLO3-5/T58	STEVE SMITH	MSO1-1/N9
IAN HICKSON	GEO	DAVE SPRATT	AKO1-2/F8
JOANNE HO	BXC1-3/H7	PAT SPRATT	MLO10-1/T77
TEDDY HOPSON	MLO10-1/T77	BRUCE STEELE	MLO3-5/T58
FRED HOLLAND	OGO1-B/712	MARY JANE STEVENS	MRO4-2/C19
MARK HOLLYER	BXC1-1/B4	SUE STREETER	BXB1-2/E2
BOB HULT	WRO3-3/R7	GERRY UVA	DSG2-2/J5
		BILL VANATTEN	MRO3-3/J19
		PIERRE VANDENPLAS	BRO/427
		MICHEL VANDIER	EVB
		CEES VAN OOIJEN	ADP
		TONY WAIN	SHR1-4/O10
		TONY WALLACE	MRO3-1/G18
		JOHN WALSH	AKO1-2/C13
		STEVE WHITNEY	AKO2-2/E5
		JAY ZAGER	MLO12-B/E47

Digital Q4 and Full Year FY93 Financial Results

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Digital Q4 and Full Year FY93 Financial Results

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IV. Latest Ten Quarter Graphs, cont'd

V. Ten Year Graphs

Q4, FY93 and Full Year FY93 Summary and Key Messages

Corporate Controller's Headquarters

Digital Equipment Corporation
Q4 & FY93 Summary Results

Total Revenue

Q4, FY93

* Revenue is flat year over year and is the result of modest service growth, 4%, and a decline, (3)%, in the products business due to a continued shift to low end products.

* Revenue for the quarter was the second highest in the company's history.

* Revenue grew in the U.S. and throughout Asia.

* Desktop and mid-range products are showing strong unit growth year-over-year.

* Broad customer acceptance of Alpha AXP-ready and Alpha AXP products continues to grow.

Total FY93

* Modest growth is the result of services revenue growth offsetting a small decline in the products business.

* Revenue is up $440M, or 3% year-over-year.

* U.S. is showing modest growth in products.

* Europe and GIA showed services growth.

Digital Equipment Corporation
Q4 & FY93 Summary Results

Gross Margin

Q4, FY93

* Total gross margin declined slightly year-over-year.

* Product gross margin showed a slight decline.

* Services gross margin yielded a small increase.

Total FY93

* Total gross margin dropped by less than one percent year-over-year.

* Product margin declined due to a continuning shift to lower priced, lower margin products. This mix shift was offset in part by efficiencies in manufacturing and logistics.

* Services gross margin improved due to volume and efficiencies in service delivery.

* Downward pressure on margins is expected in the industry. This pressure is planned to be mitigated by continuing improvement in manufacturing and service delivery efficiencies.

Digital Equipment Corporation
Q4 & FY93 Summary Results

Expenses

Q4, FY93

* The cumulative effect of both restructuring and programs to re-engineer spending practices is self evident; expenses declined in Q4 despite a 14th week.

* R&E dropped by $(116)M or (24)% year-over-year.

* SG&A declined by $(215)M or (17)% year-over-year.

Total FY93

* R&E / SG&A as a percent of revenue have dropped markedly, reflecting a shift to new business models.

* R&E spending fell by $(224)M or (13)% year-over-year.

* SG&A dropped by $(234)M or (5)% year-over-year.

Digital Equipment Corporation
Q4 & FY93 Summary Results

Operating Profit and Profit After Tax

Q4, FY93

* Q4, FY93 was profitable after eight quarters of losses, and showed improved results vs. prior quarter and prior year.

* This is the third sequential quarter of improved operating results.

* Over the last three quarters, since the new management team has been in place, the company has made a cumulative profit after tax of $9M.

Total FY93

* Operating Profit improved by $1,899M year-over-year.

* Profit After Tax increased by $2,545M year-over-year.

Digital Equipment Corporation
Q4 & FY93 Summary Results

Balance Sheet

Q4, FY93

* Continued focus on asset management has resulted in an overall improved performance in assets.

* Q4, FY93 PP&E turns were 4.9X, up 0.5 turns from Q4, FY92.

Total FY93

* DSO improvement for the year reflects the impact of efforts in reengineering our customer quality process. The ending DSO of 69 days was the lowest in over 15 years and resulted from improved collections in all geographies.

* Ending cash was over $1.6B. For the second quarter in a row a positive cash flow was generated from operations. Sufficient funds are expected to support operations.

* Total capital spending of $529M was the lowest since 1984. Semiconductor investments were a substantial part of this spending. Investments in this technology will increase.

* Ending net inventory of $1,755M was impacted by the decision to hold strategic inventory to satisfy future demand.

Digital Equipment Corporation
Q4 & FY93 Summary Results

Restructuring/Population

Q4, FY93 and FY93

- * The total population is below 95,000 for the first time since Q4, FY86.

* The employee population has declined by approximately 20,000 or 17% over the last twelve months.

* Significant progress in restructuring has been made and the company is on plan.

* It is believed that the current restructuring reserve balance is adequate to meet future needs.

* The total population reduction will result in annualized cost reductions of $1.8B.

* 2.3 million sq. ft. of space was retired in Q4 and 5.0 million in FY93, approximately.

Q4, FY93
Results

Corporate Controller's
Headquarters

Q4, FY93 Results

Compared with Q4, FY92

($Mils)

(As Reported)

	Q4, FY93 Actual	Percent Growth Over Q4, FY92
Product Revenue	$ 2,086	(3) %
Service Revenue	1,828	4 %
Total Revenue	$ 3,914	0 %
Gross Margin	$ 1,576	(2) %
(% of Revenue)	40.3 %	(0.7) pts.
Research & Engineering	369	(24) %
(% of Revenue)	9.4 %	(3.0) pts.
Selling, General & Administrative	1,088	(17) %
(% of Revenue)	27.8 %	(5.6) pts.
Operating Income	$ 118	N/M
(% of Revenue)	3.0 %	N/M
Net Interest Income (Expense)	2	(86) %
Profit Before Taxes	$ 120	N/M
Income Taxes	7	(96) %
Net Income	$ 113	N/M
EPS	$ 0.85	N/M

16-Aug-1993
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Q4, FY93 Results

Compared with Q4, FY92

($Mils)

(Excluding Restructuring and One-time Charges)

	Q4, FY93 Actual	Percent Growth Over Q4, FY92
Product Revenue	$ 2,086	(3) %
Service Revenue	1,828	4
Total Revenue	$ 3,914	0 %
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Selling, General & Administrative	1,088	(17) %
(% of Revenue)	27.8 %	(5.6) pts.
Operating Income	$ 118	N/M
(% of Revenue)	3.0 %	7.8 pts.
Net Interest Income (Expense)	2	(86) %
Profit Before Taxes	$ 120	N/M
Income Taxes	7	(88) %
Net Income	$ 113	N/M
EPS	$ 0.85	N/M

20-Apr-1993
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Q4, FY93 Results
ASSET SUMMARY

($Mils)

	Q4, FY93	Q4,FY92
Cash Balance	$1,643	$ 1,337
Net Inventory	$ 1,755	$ 1,614
Inventory Turns	5.2x	5.4x
Accounts Receivable	$ 3,020	$ 3,594
DSO	69 Days	83 Days
Capital Spending	$ 170	$ 261
PP&E Turns	4.9x	4.4x

Q4, FY93 Results
CASH FLOW

	Q4, FY93 *	Q3, FY93	Q4, FY92
Beginning Cash	$ 1,552	$ 1,365	$ 1,547
Net Income	$ 113	$ (30)	$(1,855)
Receivables	(11)	123	(409)
Inventories	60	17	222
Restructuring - Cash Exp.	(190)	(186)	(271)
Other Working Capital	(112)	160	1,961
Sub-total	$ (140)	$ 84	$ (352)
Capital Spending	$ (170)	$ (102)	$ (261)
External Investments	(123)	(8)	(26)
Depreciation/Other	214	216	314
Sub-total	$ (79)	$ 107	$ 27
Total from Ops & Investing	$ (219)	$ 191	$ (325)
Financing Activities			
Employee Stock Plans	$ 89	$ 2	$ 107
Debt	221	(7)	8
Sub-total	$ 310	$ (5)	$ 115
Total Change	$ 91	$ 187	$ (210)
Ending Cash	$ 1,643	$ 1,552	$ 1,337

* Includes four rounds of financing, net of discounts and fees.

** Includes Restructuring Charge and Postretirement Benefit.

16-Aug-1993
CCH:jwm
QR4&93PL.pre

Q4, FY93 Results
TOTAL ASSETS

($Mils)

	Balance as of	
	Q4, FY93	**Q4, FY92**
Current Assets:		
Cash	$ 1,643	$ 1,337
Accounts Receivable	3,020	3,594
Net Inventory	1,755	1,614
Prepaid Expenses	379	353
Prepaid Income Taxes	85	223
Total Current Assets	6,882	7,121
Property, Plant & Equipment	7,193	7,673
Accumulated Depreciation	(4,015)	(4,103)
Net Property, Plant & Equipment	3,178	3,570
Other Assets	890	594
Total Assets	$10,950	$11,284

20-Apr-1993
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Q4, FY93 Results
LIABILITIES & EQUITY

($Mils)

	Balance as of	
	Q4, FY93	Q4, FY92
Liabilities:		
Loans & Current Debt	$ 21	$ 49
Accounts Payable	822	1,041
Taxes Payable	58	64
Salaries & Wages	556	552
Deferred Revenue	1,138	1,209
Restructuring Reserve	739	1,547
Other Current Liabilities	584	645
Total Current Liabilities	$ 3,918	$ 5,106
Deferred Income Tax Credit	$ 0	$ 23
Post-retirement Benefits	1,129	1 ,183
Long Term Debt	1,018	42
Total Liabilities	6,065	6,353
Stockholders' Equity	4,885	4,931
Total Liabilities and Stockholders' Equity	$10,950	$11,284

20-Apr-1993
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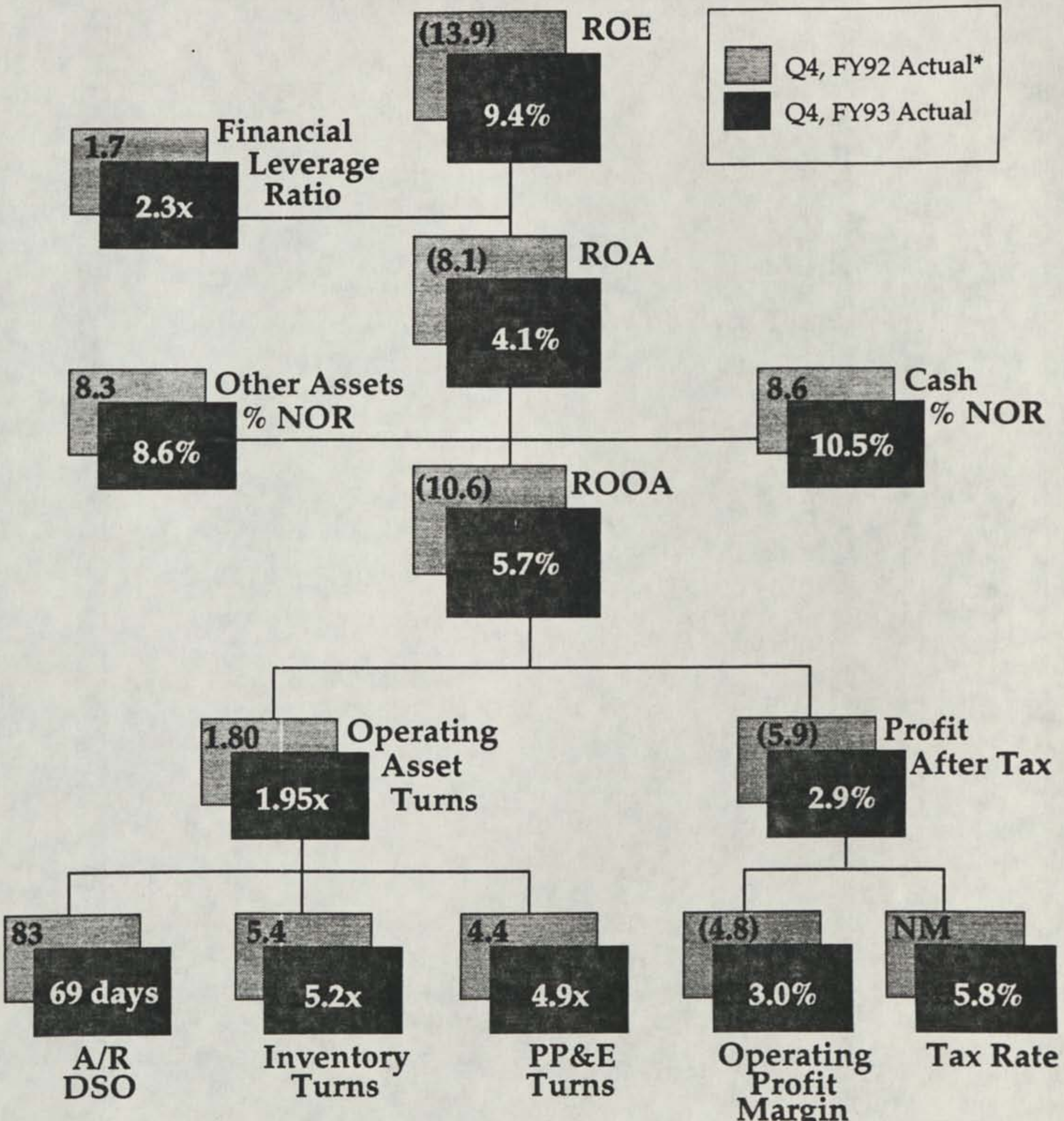
Digital Business Model



*Q4, FY92 excludes Restructuring and one-time charges.

COMPETITOR RESULTS
For Quarter Ended June, 1993
(Adjusted for One-Time Charges)

	Revenue (% Change)	Gross Margin (% Revenue)	Operating Profit (% Revenue)	Net Income (% Revenue)
DIGITAL (Q4)	0 %	40 %	3 %	3 %
IBM (Q2)	(4)	39	1	0
Hewlett-Packard (Q2)*	22	41	11	7
Apple (Q3)	7	33	1	(10)
Stratus (Q2)	6	58	13	11
Compaq (Q2)	97	24	9	6
Sun Microsystems (Q4)	30	42	9	6
Dell Computer (Q1)*	84	17	2	2
Intel (Q2)	63	65	41	27
Novell (Q2)*	25	82	41	29
3 COM (Q4)**	38	50	12	8
Microsoft (Q4)	27	83	36	26
Conner Peripherals (Q2)	(11)	8	(9)	(12)
Seagate (Q4)	(1)	19	6	4
EDS***	4 %	11 %	11 %	7 %

*Quarter ended April , 1993

**Quarter ended May, 1993

***Quarter ended March, 1993

16-Aug-1993
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FY93 Results

Corporate Controller's
Headquarters

FY93 Results

Compared with FY92

($Mils)

(As Reported)

	FY93 Actual	Percent Growth Over FY92
Product Revenue	$ 7,588	(1) %
Service Revenue	6,783	9 %
Total Revenue	$ 14,371	3 %
Gross Margin	$ 5,740	(1) %
(% of Revenue)	39.9	(1.7) pts.
Research & Engineering	1,530	(13) %
(% of Revenue)	10.6 %	(2.0) pts.
Selling, General & Administrative	4,447	(5) %
(% of Revenue)	30.9 %	(2.7) pts.
Operating Income	$ (237)	89 %
(% of Revenue)	(1.7) %	13.6 pts.
Net Interest Income (Expense)	13	(77) %
Profit Before Taxes	$ (224)	89 %
Income Taxes	27	(88) %
Net Income	$ (251)	91 %
EPS	$ (1.93)	91 %

FY93 Results

Compared with FY92

($Mils)

(Excluding Restructuring and On-time Charges.)

	FY93 Actual	Percent Growth Over FY92
Product Revenue	$ 7,588	(1) %
Service Revenue	6,783	9 %
Total Revenue	$ 14,371	3 %
Gross Margin	$ 5,740	(1) %
(% of Revenue)	39.9	(1.7) pts.
Research & Engineering	1,530	(13) %
(% of Revenue)	10.6 %	(2.0) pts.
Selling, General & Administrative	4,447	(5) %
(% of Revenue)	30.9 %	(2.7) pts.
Operating Income	$ (237)	63 %
(% of Revenue)	(1.7) %	2.9 pts.
Net Interest Income (Expense)	13	(77) %
Profit Before Taxes	$ (224)	61 %
Income Taxes	27	(75) %
Net Income	$ (251)	63 %
EPS	$ (1.93)	65 %

16-Aug-1993
CCH:jwm
QR4&93PL.pre

FY93 Results
ASSET SUMMARY
(\$Mils)

	FY93	FY92
Cash Balance	$1,643	$ 1,337
Net Inventory	$ 1,755	$ 1,614
Inventory Turns	5.1x	5.1x
Accounts Receivable	$ 3,020	$ 3,594
DSO	69 Days	83 Days
Capital Spending	$ 529	$ 710
PP&E Turns	4.3x	3.8x

16-Aug-1993
CCH:jwm
QR4&93PL.pre

FY93 Results
CASH FLOW

	FY93 *	FY92
Beginning Cash	$ 1,337	$ 1,924
Net Income	$ (251)	$(2,795)
Receivables	574	(86)
Inventories	(141)	155
Restructuring - Cash Exp.	(767)	(767)
Other Working Capital	(373)	3,006
Sub-total	$ (958)	$ (487)
Capital Spending	$ (529)	$ (710)
External Investments	(306)	(330)
Depreciation/Other	956	977
Sub-total	$ 121	$ (63)
Total from Ops & Investing	$ (837)	$ (550)
Financing Activities		
Employee Stock Plans	$ 196	$ 46
Debt	947	(83)
Sub-total	$ 1,143	$ (37)
Total Change	$ 306	$ (587)
Ending Cash	$ 1,643	$ 1,337

* Includes four rounds of financing, net of discounts and fees.

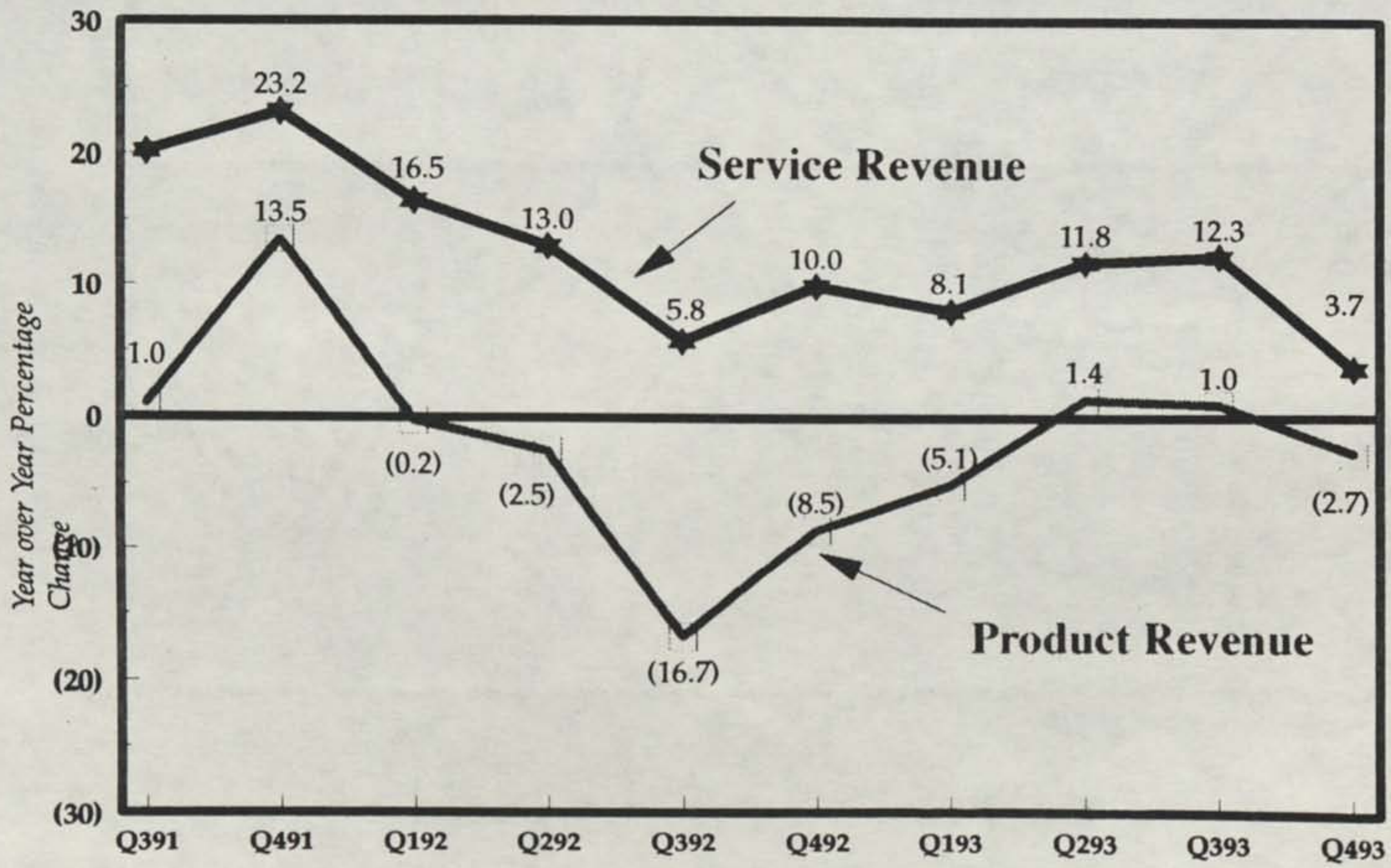
** Includes Restructuring Charge and Postretirement Benefit.

16-Aug-1993
CCH:jwm
QR4&93PL.pre

Latest Ten Quarter Graphs

Corporate Controller's
Headquarters

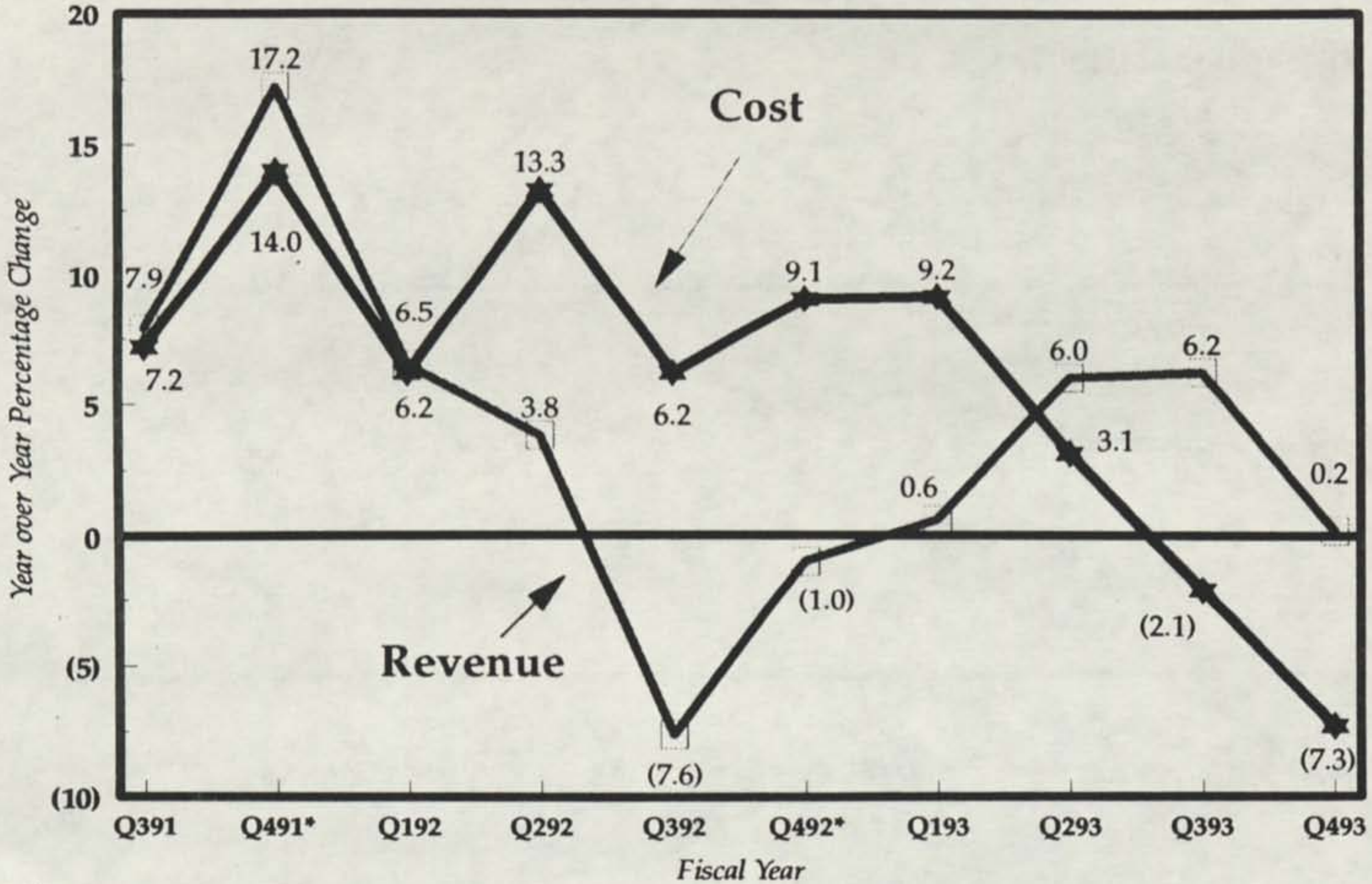
REVENUE GROWTH BY SEGMENT



Total Revenue Growth	*7.9%*	*17.2%*	*6.5%*	*3.8%*	*(7.6)%*	*(1.0)%*	*0.6%*	*6.0%*	*6.2%*	*0.2%*

CCH:jwm
QTLQ493A.PRE

REVENUE & COST GROWTH

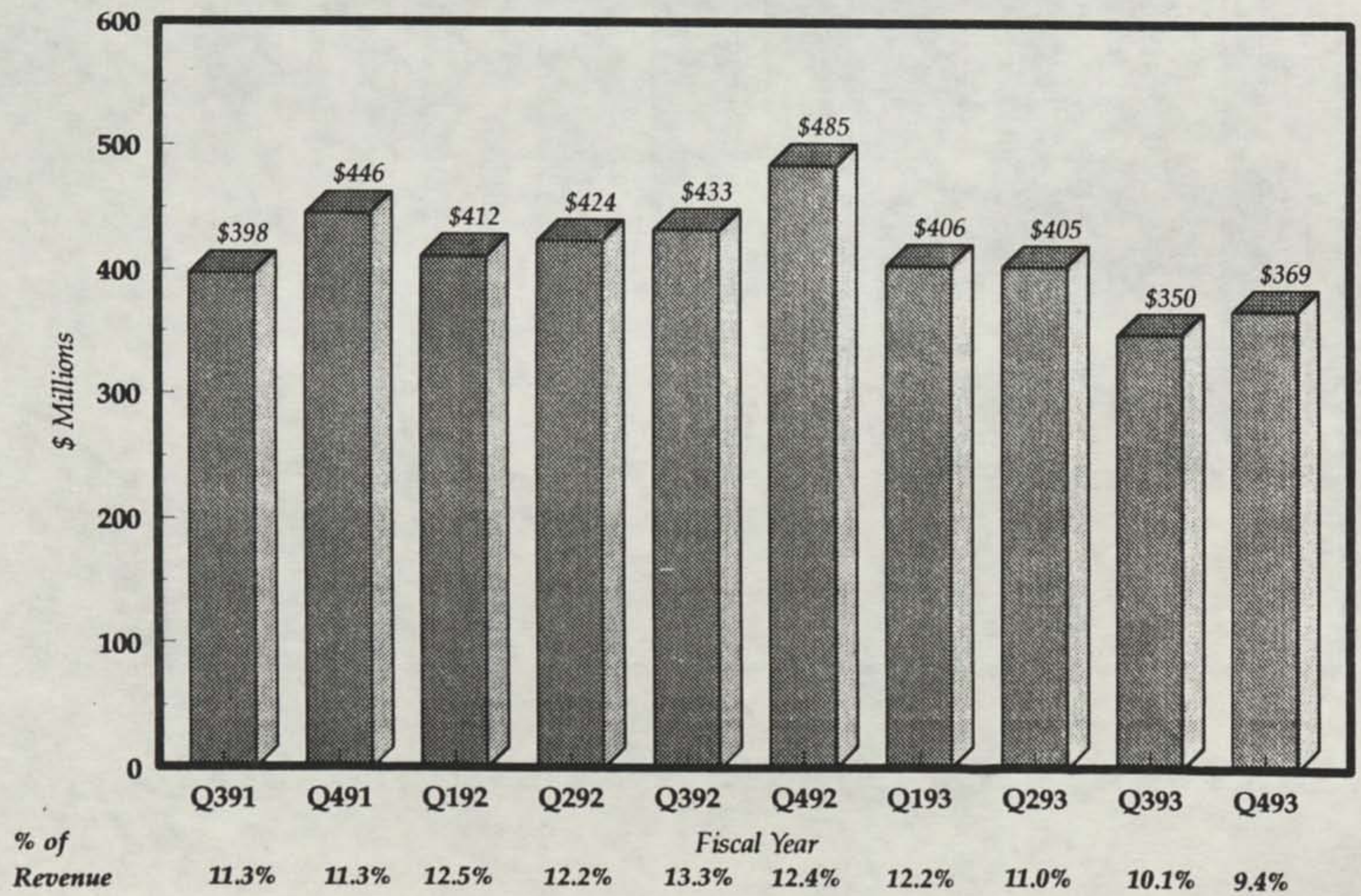


Operating Profit Margin	4.9%	4.9%	0.6%	(4.7)%	(9.3)%	(4.8)%	(7.8)%	(1.8)%	(0.8)%	3.0%

** Excludes restructuring and one-time charges.*

CCH:jwm
QTLQ493A.PRE

RESEARCH & ENGINEERING EXPENSE



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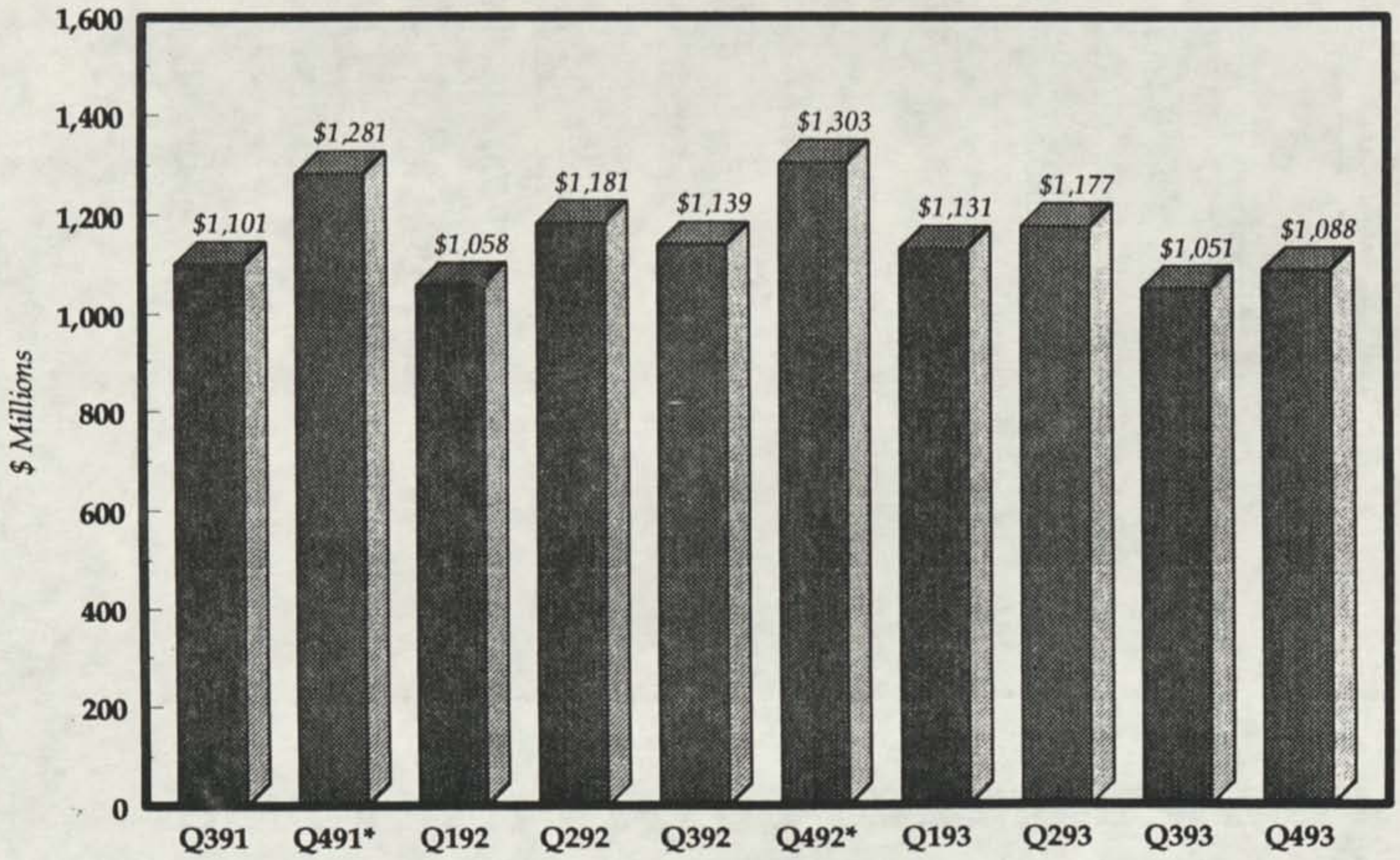
SALES, GENERAL & ADMINISTRATIVE EXPENSE

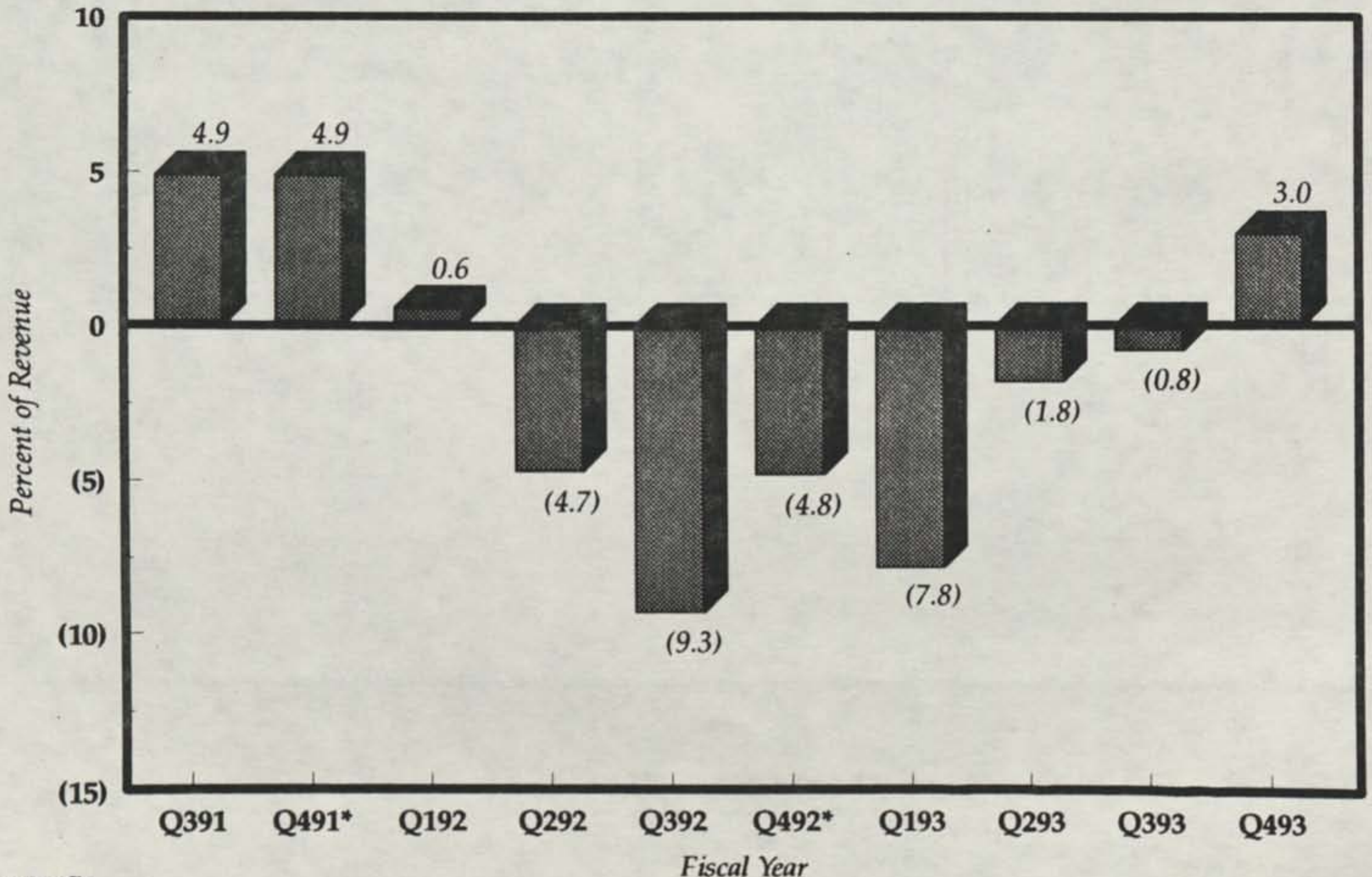


% of Revenue	31.3%	32.5%	32.1%	34.0%	35.0%	33.4%	34.1%	31.9%	30.4%	27.8%

* *Excludes restructuring and one-time charges.*

CCH:jwm
QTLQ493A.PRE

OPERATING PROFIT MARGIN

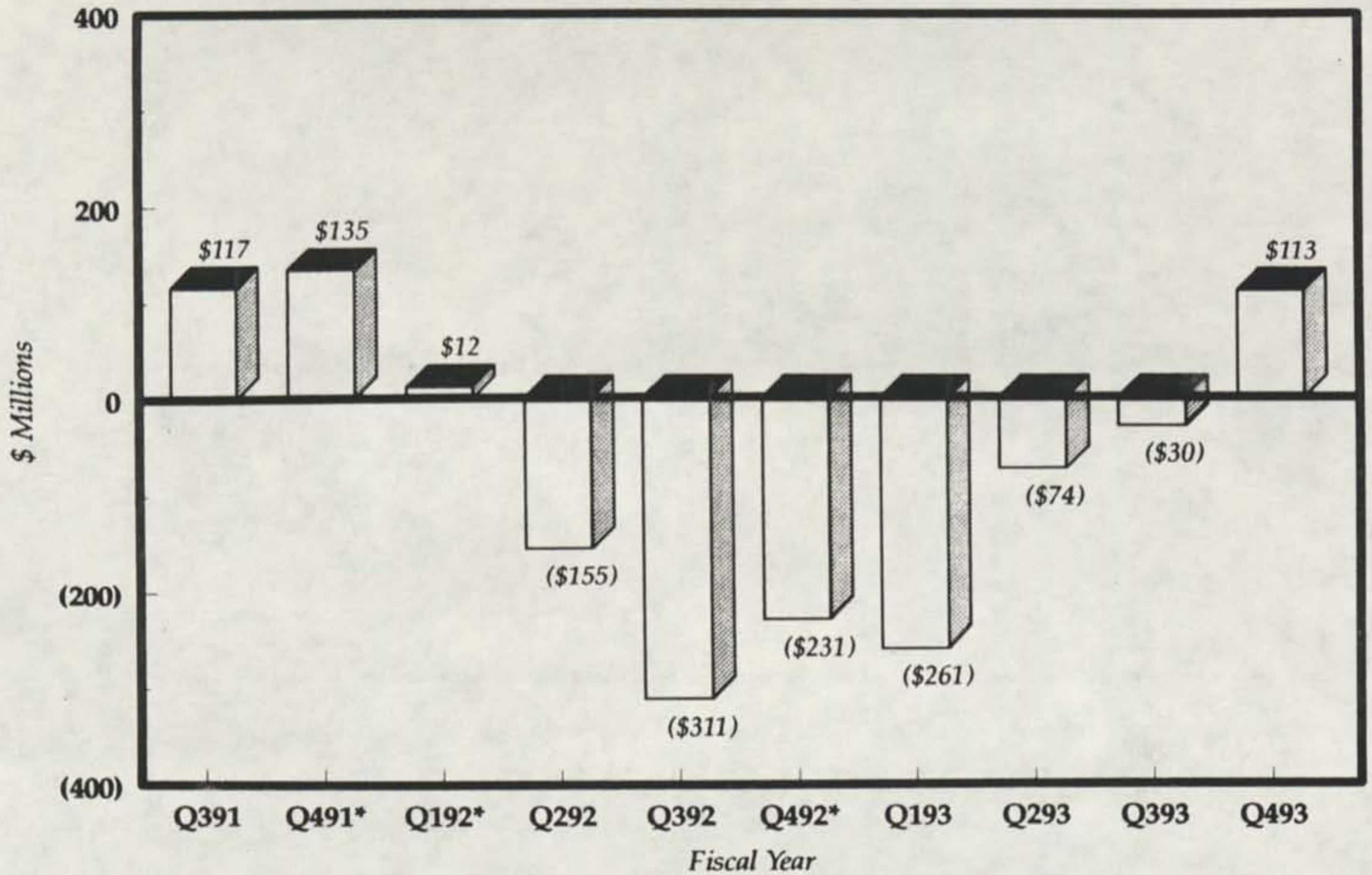


Operating Profit ($ Mils)	**$ 172**	**$ 194**	**$ 20**	**$ (164)**	**$(303)**	**$ (188)**	**$ (260)**	**$ (68)**	**($28)**	**$118**

CCH:jwm
QTLY_SL3.pre

*** Excludes restructuring and one-time charges.***

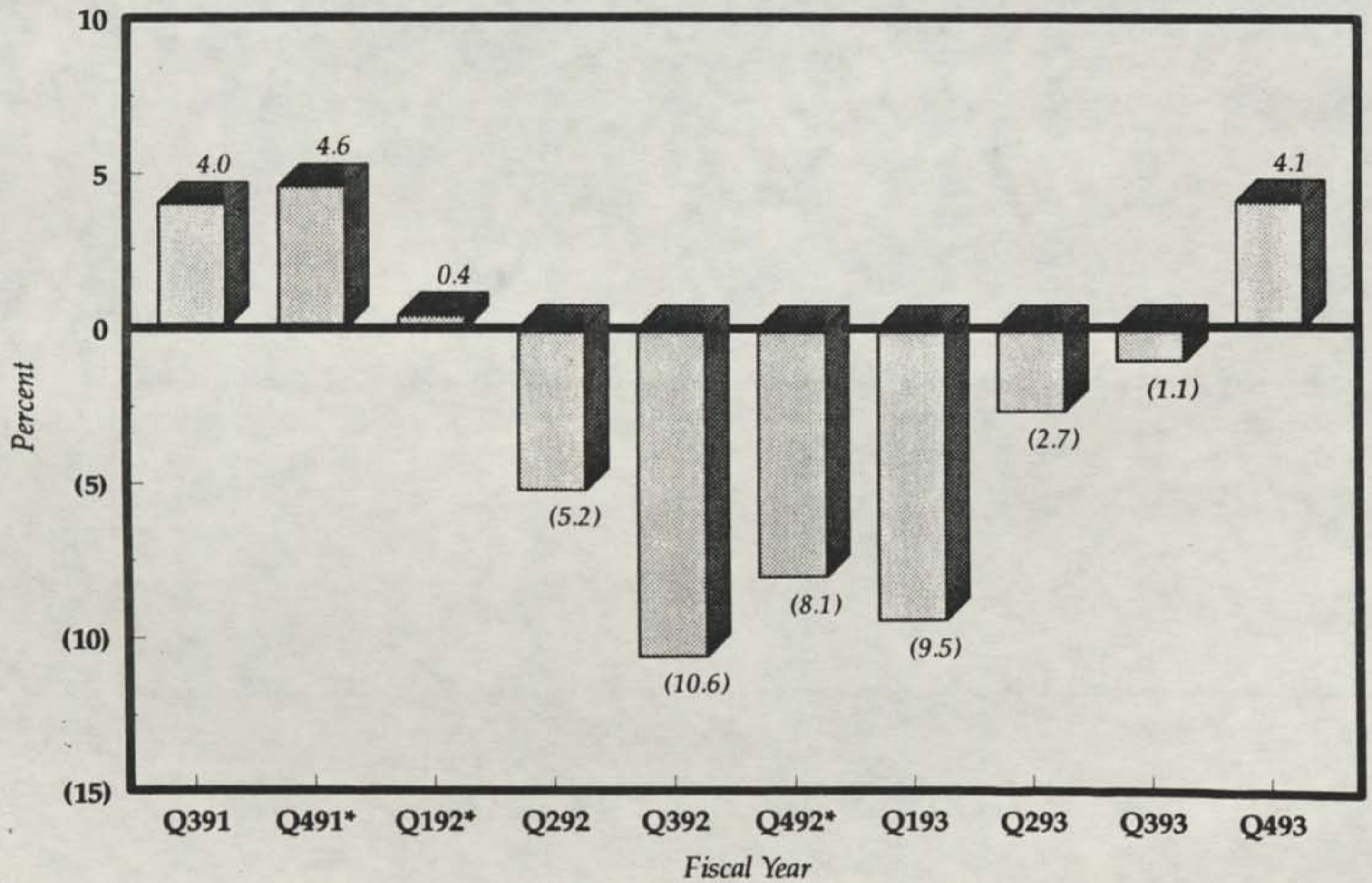
NET INCOME



** Excludes restructuring and one-time charges.*

CCH:jwm
QTLQ493A.PRE

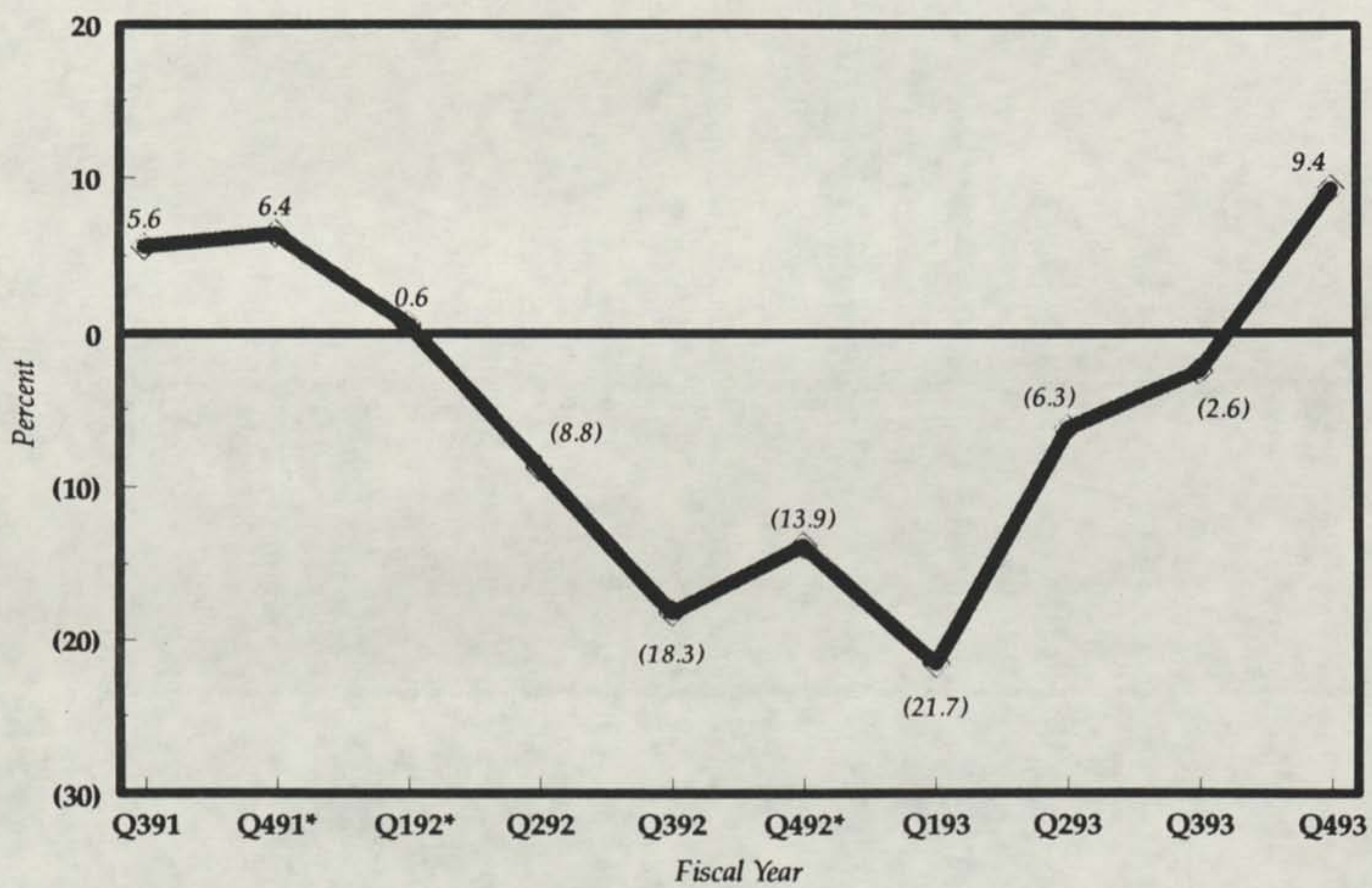
RETURN ON ASSETS



** Excludes restructuring and one-time charges.*

CCH:jwm
QTLQ493A.PRE

RETURN ON EQUITY

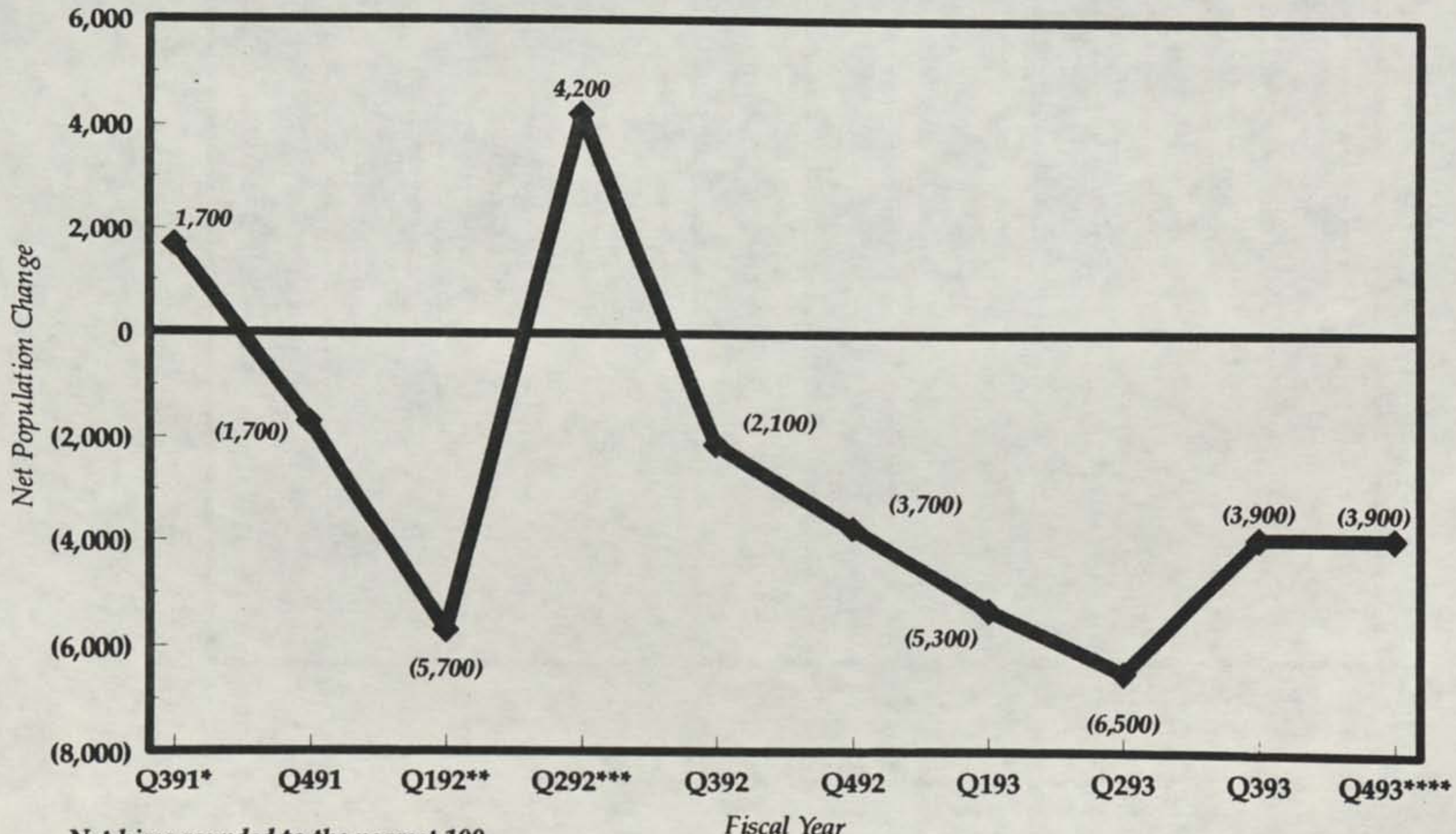


* *Excludes restructuring and one-time charges.*

CCH:jwm
QTLQ493A.PRE

POPULATION TRENDS - NET HIRES

(Equivalent)



Net hires rounded to the nearest 100

* ***Kienzle acquisition***

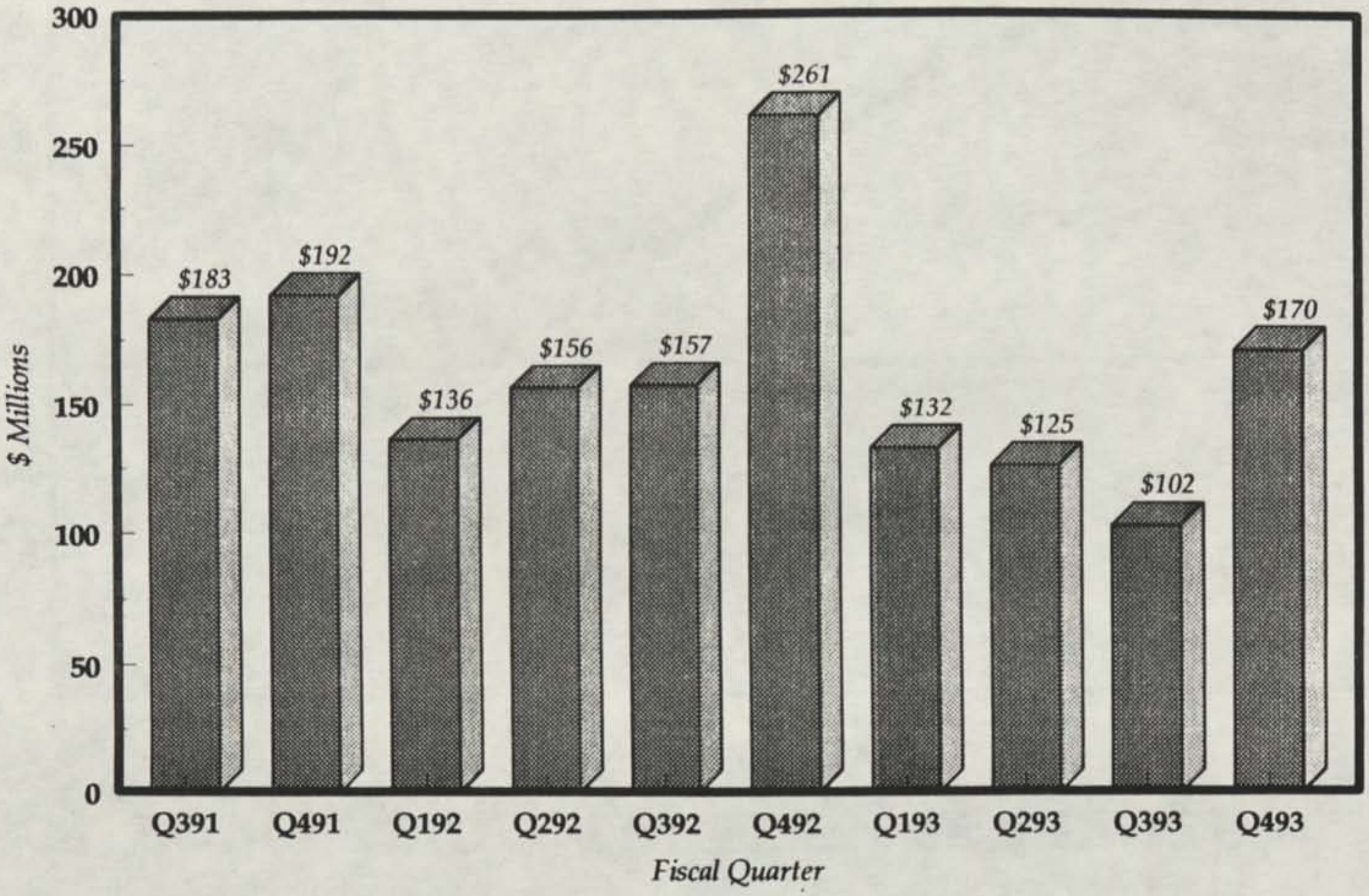
** ***In Q1, FY92 reporting changed to equivalent headcount.***

*** ***Philips acquisition.***

**** ***Includes EA, Rocky Mountain and Deil.***

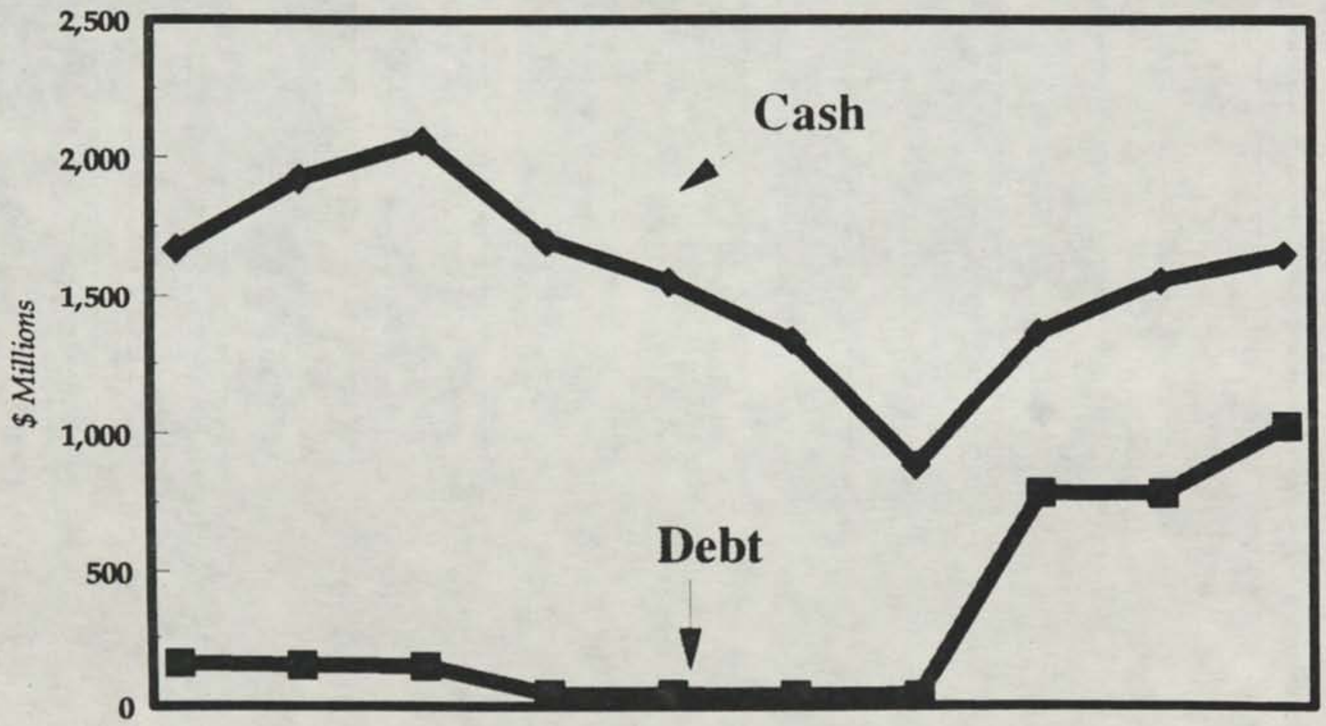
CCH:jwm
QTLQ493A.PRE

CAPITAL SPENDING



CCH:jwm
QTLQ493B.PRE

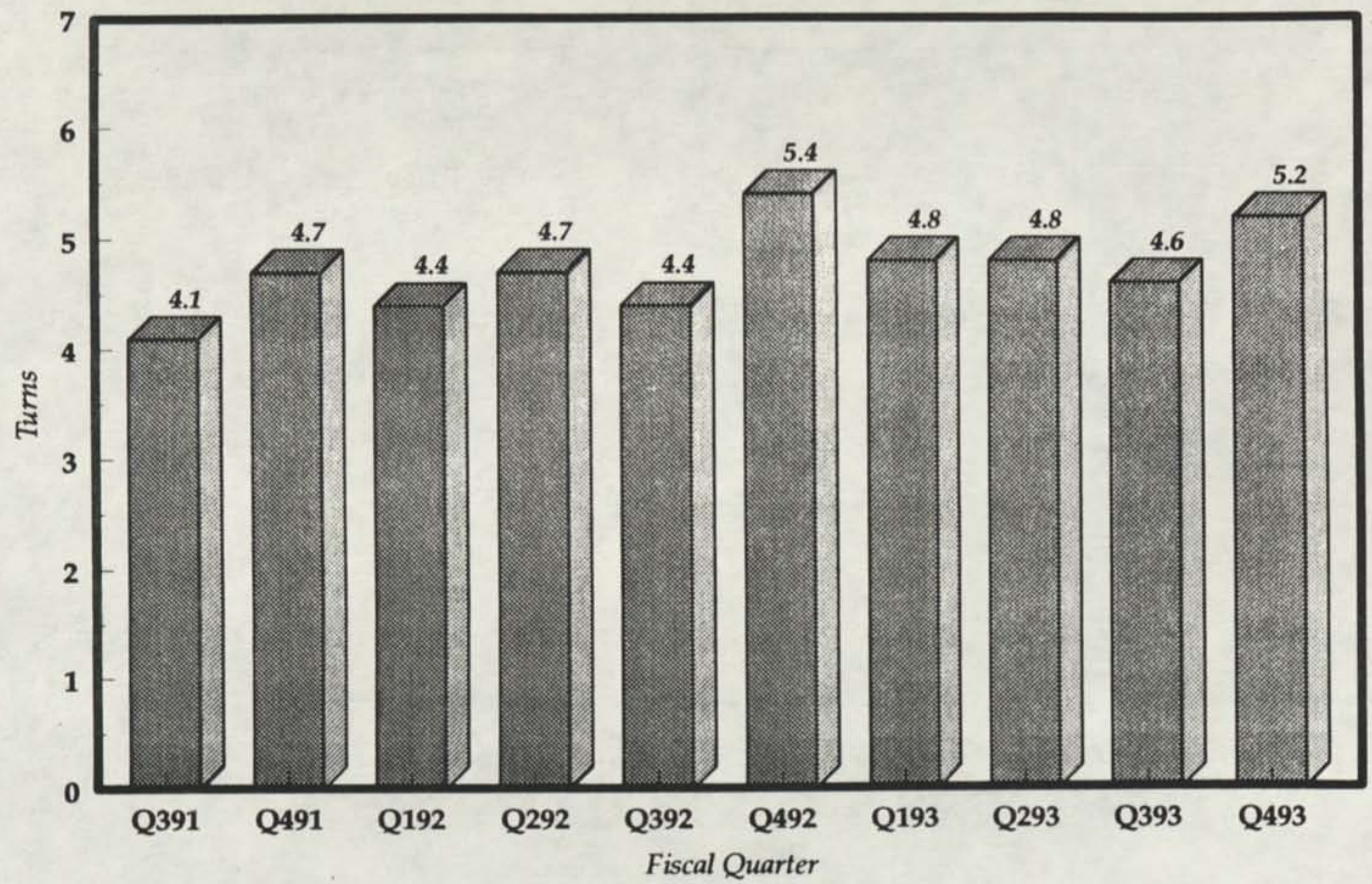
CASH AND LONG TERM DEBT



Fiscal Quarter	Q391	Q491	Q192	Q292	Q392	Q492	Q193	Q293	Q393	Q493
CASH	$1,670	$1,924	$2,057	$1,694	$1,547	$1,337	$881	$1,365	$1,552	$1,643
L T DEBT	$157	$150	$146	$44	$44	$42	$43	$780	$777	$1,018

CCH:jwm
QTLQ493B.PRE

INVENTORY TURNS



CCH:jwm
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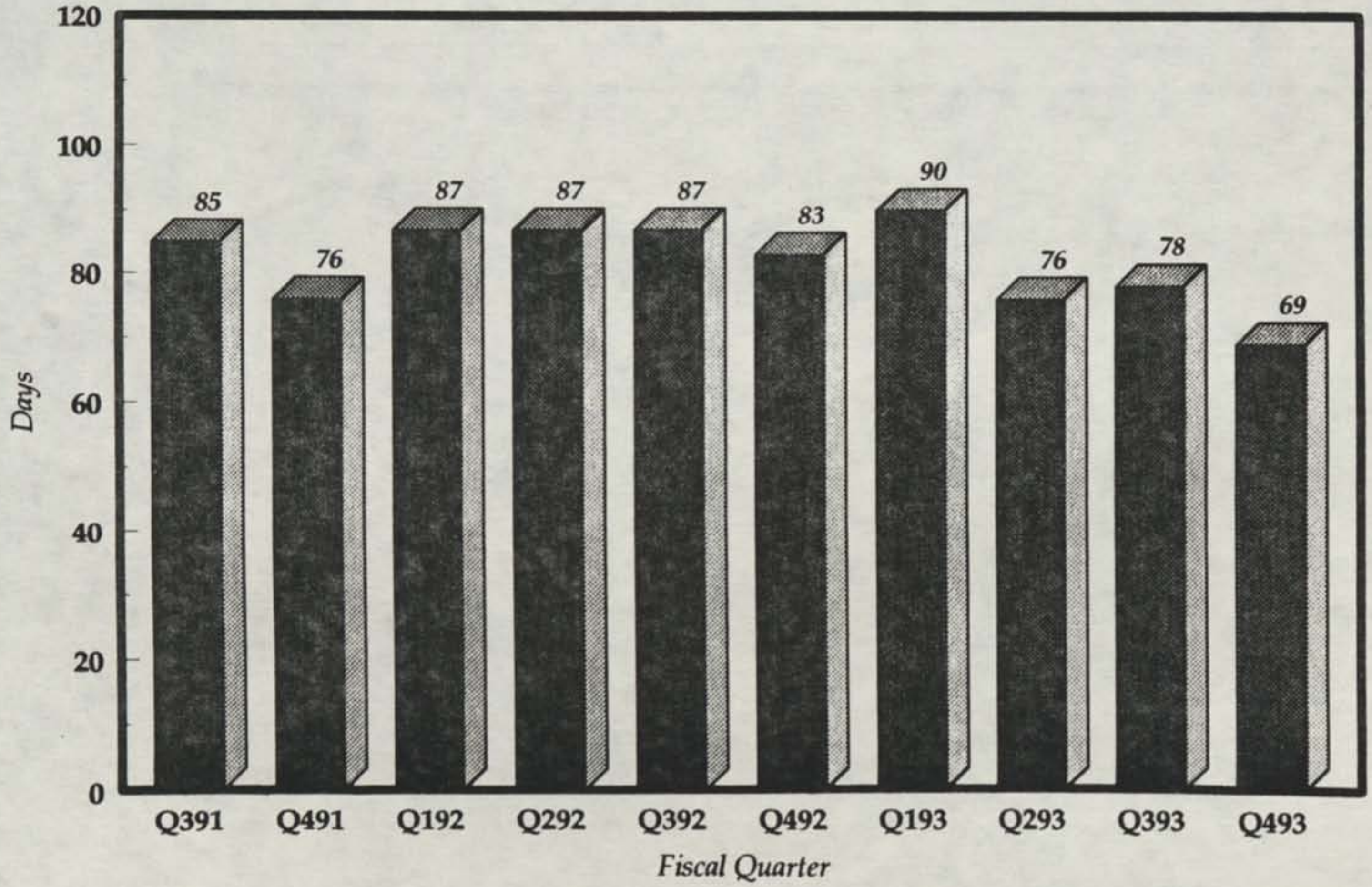
DAYS SALES OUTSTANDING



CCH:jwm
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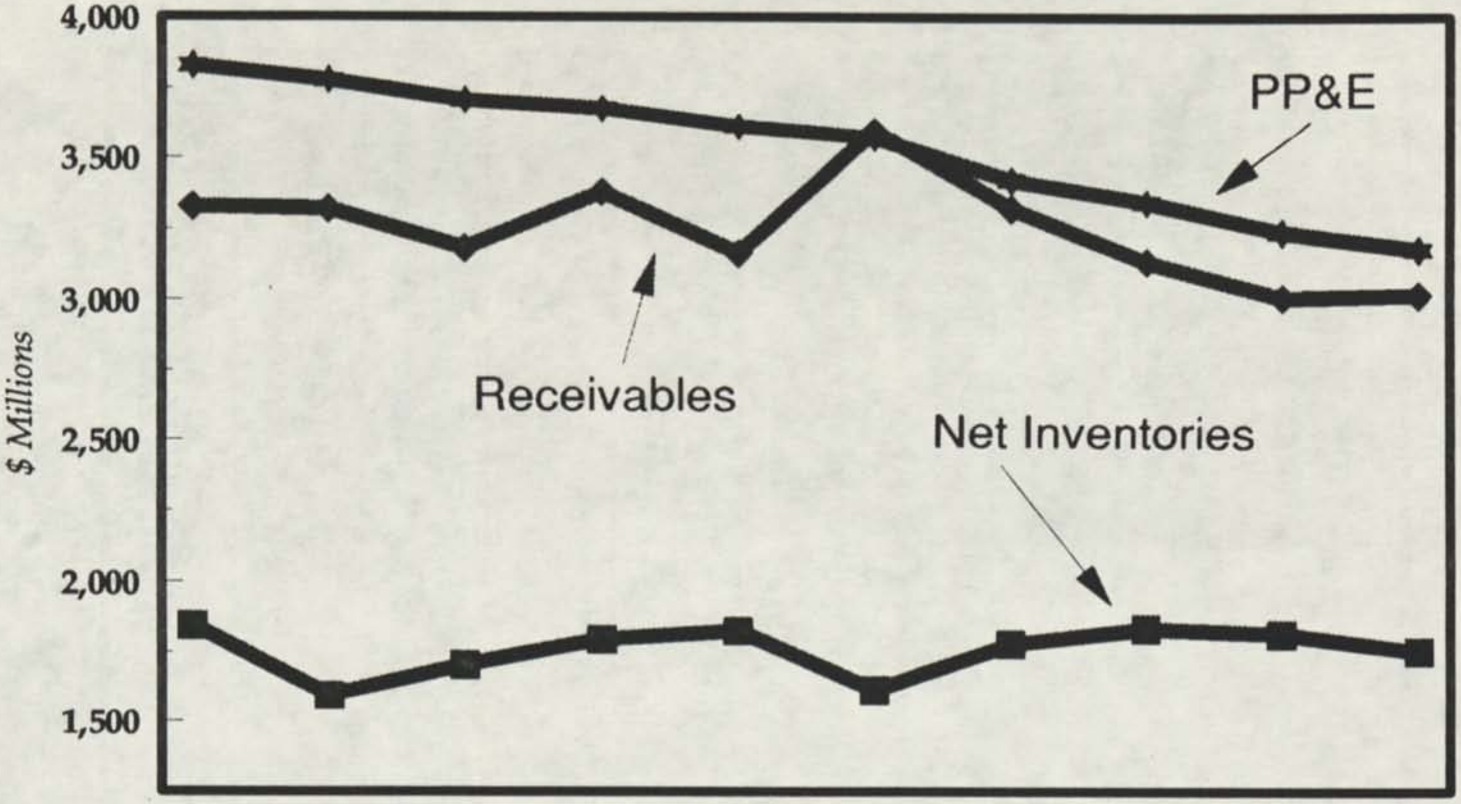
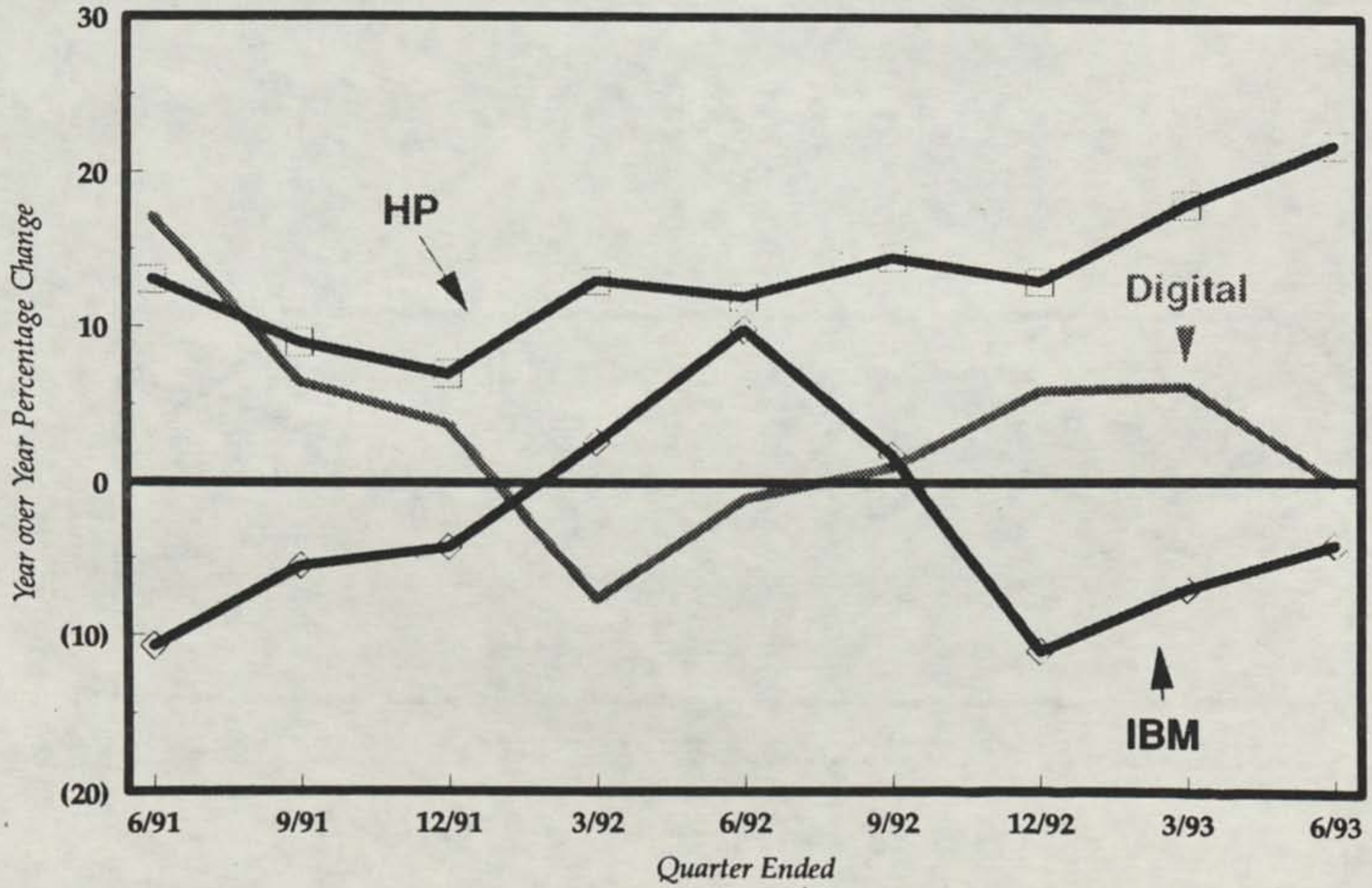
OPERATING ASSETS



Fiscal Quarter	Q391	Q491	Q192	Q292	Q392	Q492	Q193	Q293	Q393	Q493
PP&E	$3,830	$3,778	$3,705	$3,675	$3,610	$3,570	$3,418	$3,342	$3,240	$3,178
A/R	$3,328	$3,317	$3,176	$3,374	$3,158	$3,594	$3,316	$3,132	$3,009	$3,020
INV	$1,844	$1,595	$1,703	$1,794	$1,824	$1,614	$1,777	$1,832	$1,815	$1,755

CCH:jwm
QTLQ493B.PRE

DIGITAL vs. IBM & HP
Revenue Growth Trends



Note: Data for HP reflects their quarter ended April.

CCH:jwm
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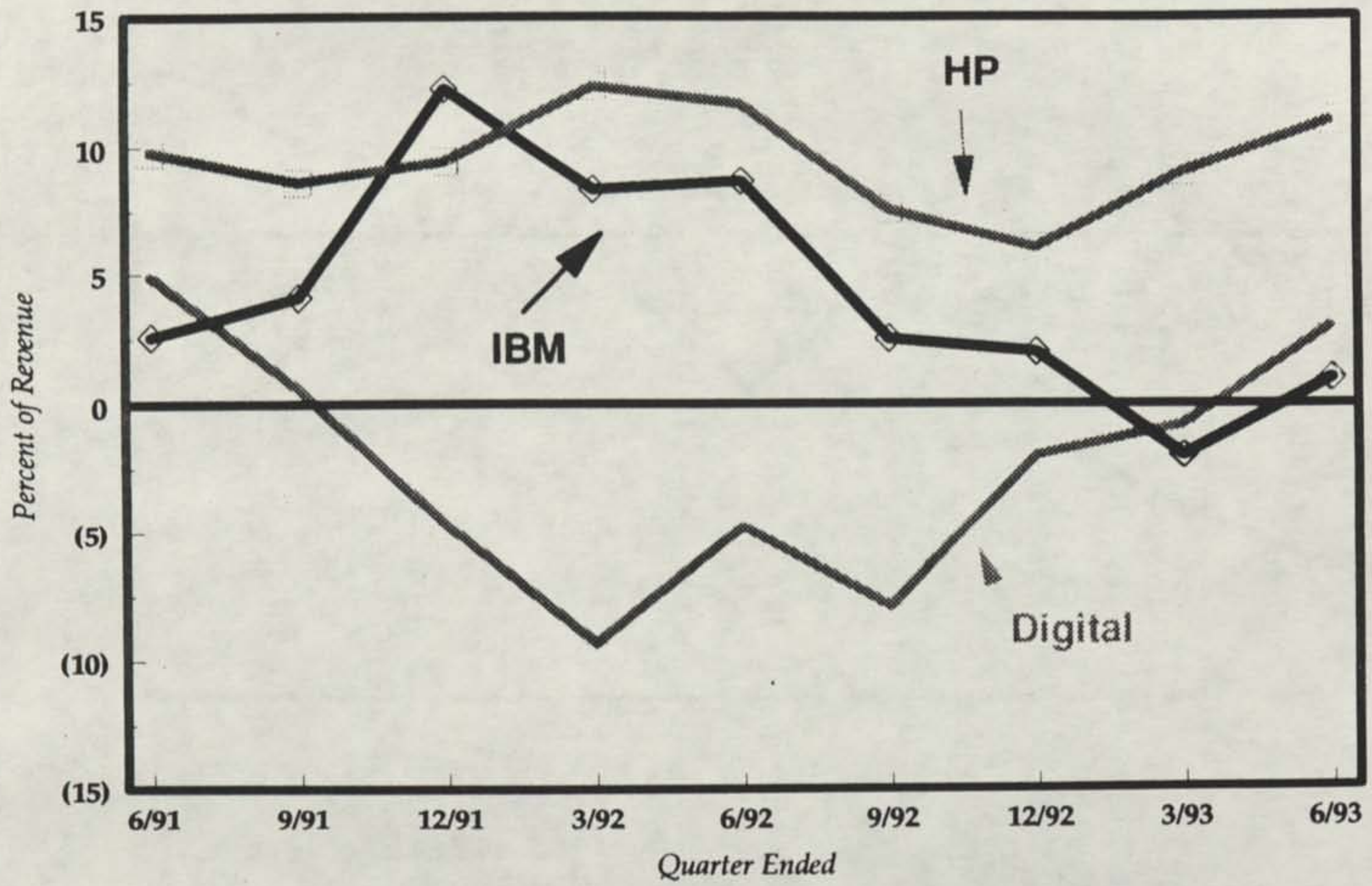
DIGITAL vs. IBM & HP
Operating Profit As A Percent of Revenue



Adjusted for one-time charges

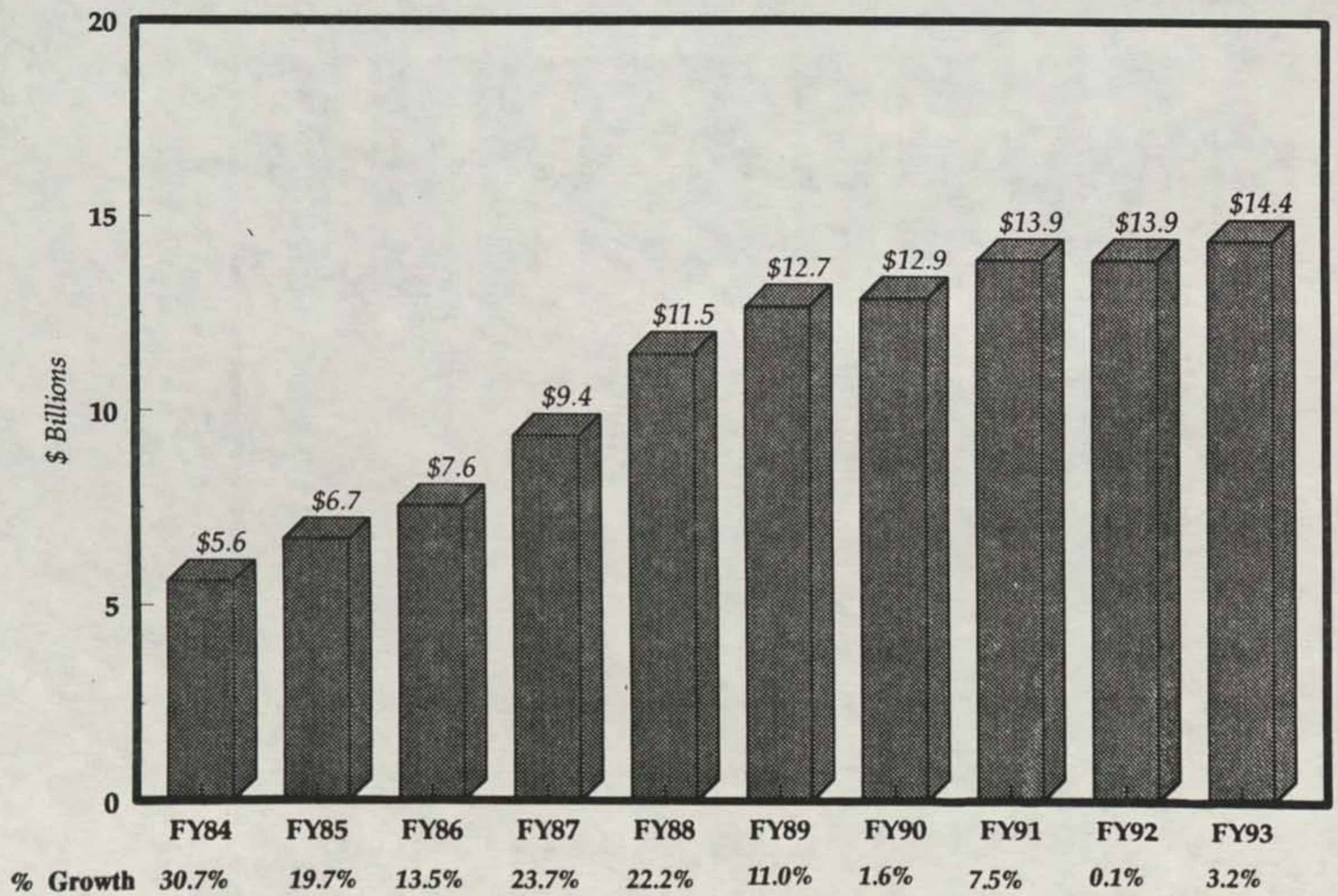
Note: Data for HP reflects their quarter ended April.

CCH:jwm
QTLQ493B.PRE

Ten Year Graphs

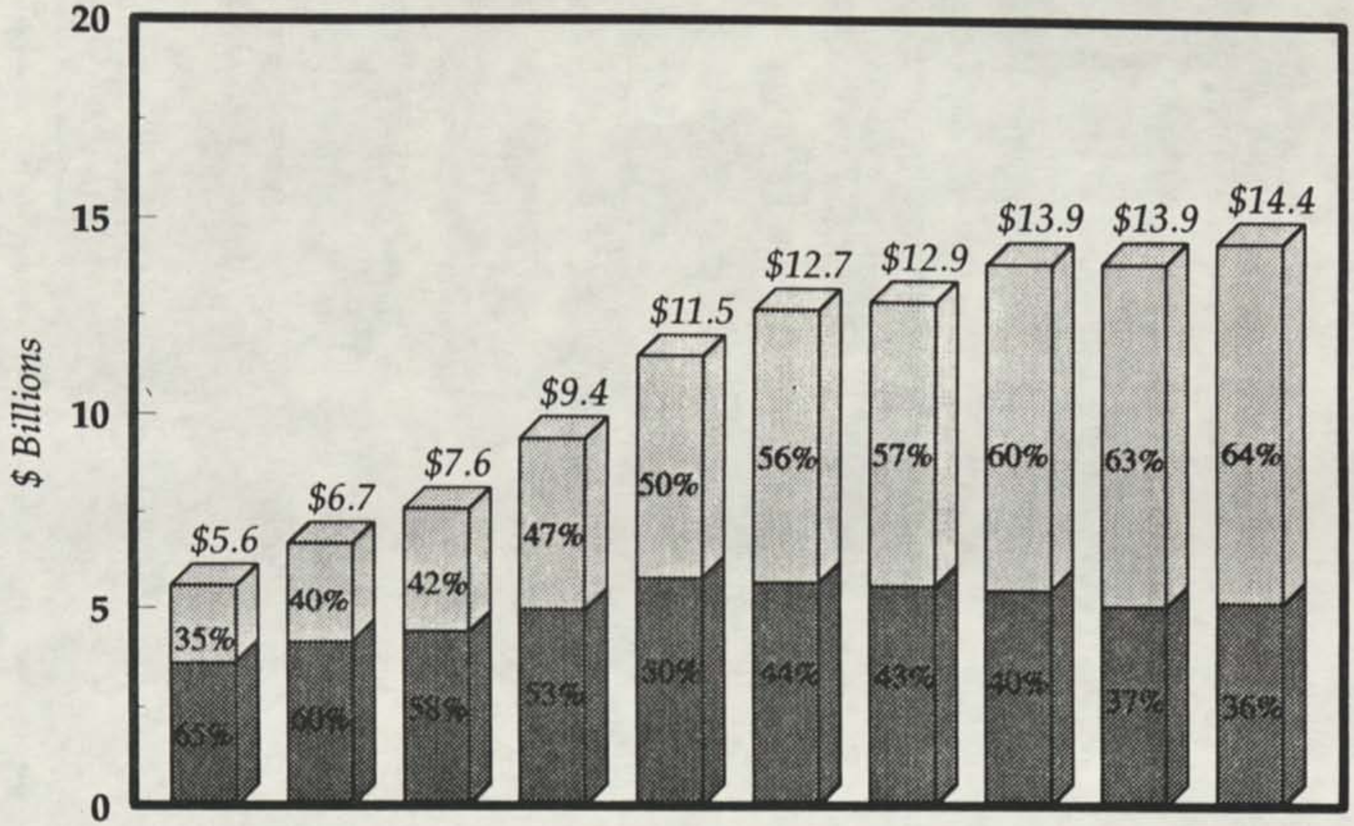
Corporate Controller's Headquarters

REVENUE



CCH:jwm
QTLYFY93A.PRE

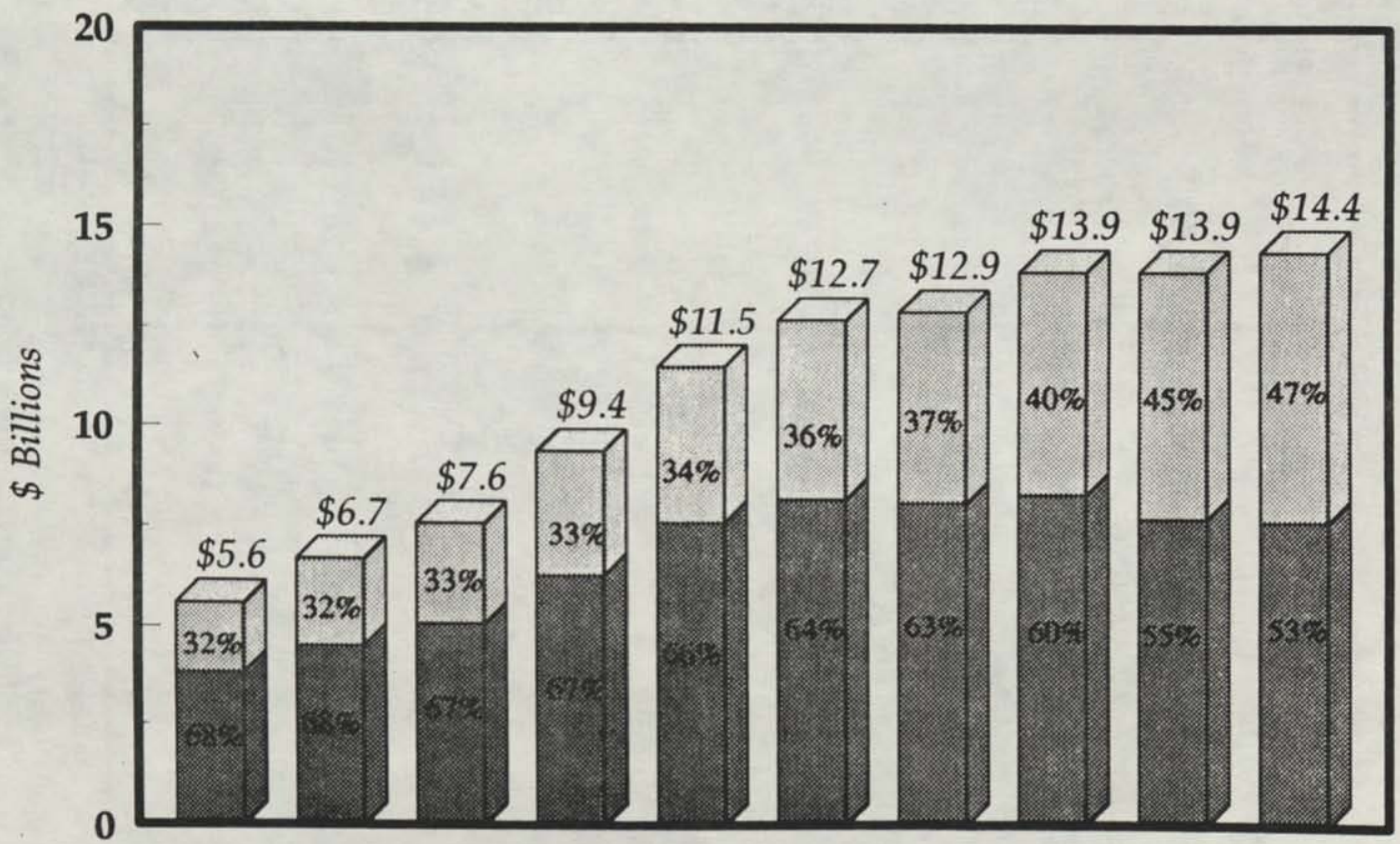
COMPOSTION OF REVENUE
Domestic and International



	FY84	FY85	FY86	FY87	FY88	FY89	FY90	FY91	FY92	FY93
Domestic	$3.6	$4.1	$4.4	$5.0	$5.8	$5.7	$5.6	$5.5	$5.1	$5.2
International	$2.0	$2.6	$3.2	$4.4	$5.7	$7.0	$7.3	$8.4	$8.8	$9.2

CCH:jwm
QTLYFY93A.PRE

COMPOSTION OF REVENUE
Products & Services



	FY84	FY85	FY86	FY87	FY88	FY89	FY90	FY91	FY92	FY93
Product	$3.8	$4.5	$5.1	$6.3	$7.6	$8.2	$8.1	$8.3	$7.7	$7.6
Services	$1.8	$2.2	$2.5	$3.1	$3.9	$4.5	$4.8	$5.6	$6.2	$6.8

CCH:jwm
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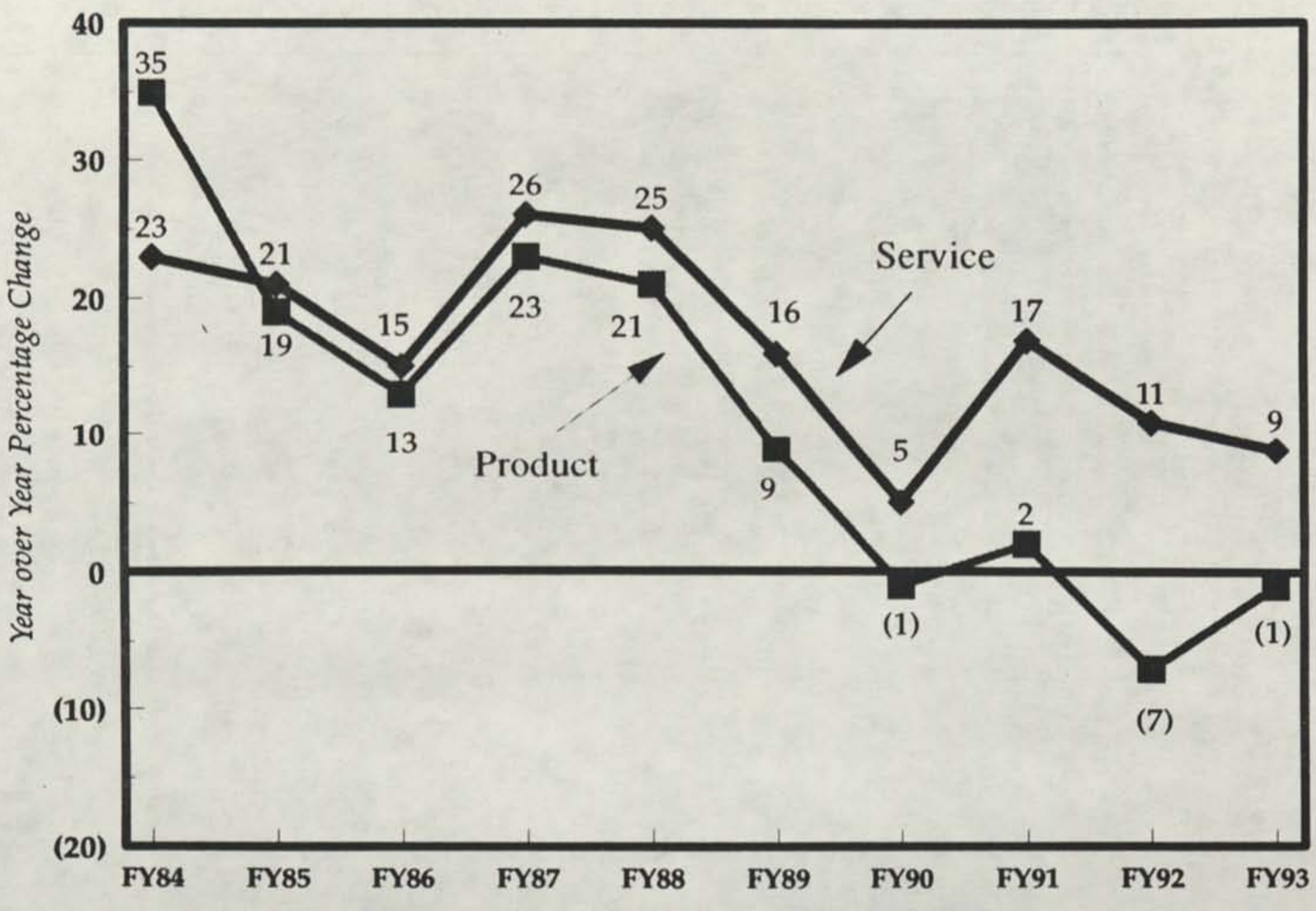
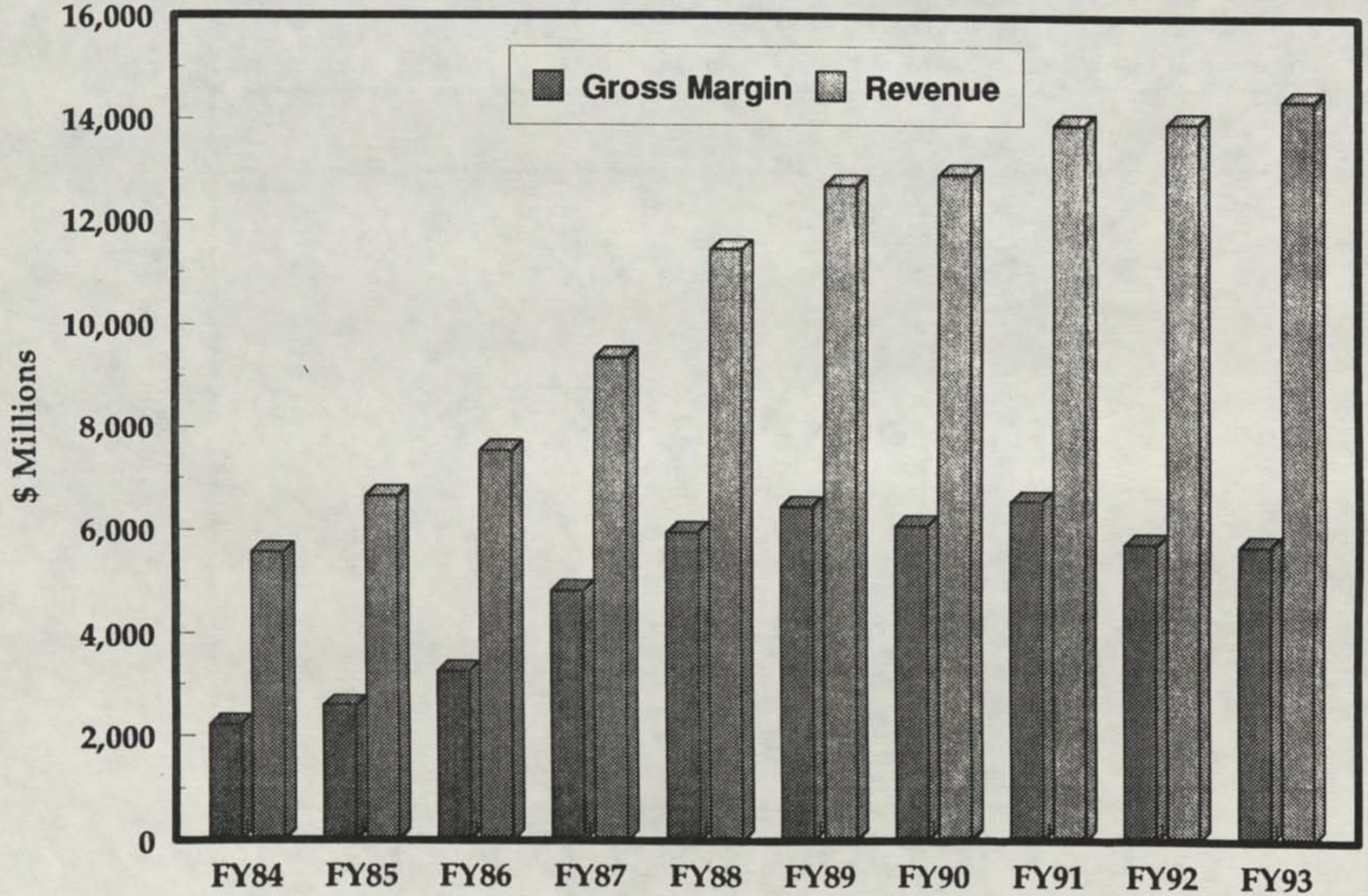
REVENUE GROWTH BY SEGMENT



	FY84	FY85	FY86	FY87	FY88	FY89	FY90	FY91	FY92	FY93
Total Revenue Growth	*30.7%*	*19.7%*	*13.5%*	*23.7%*	*22.2%*	*11.0%*	*1.6%*	*7.5%*	*0.1%*	*3.2%*

CCH:jwm
QTLYFY93A.PRE

Revenue and Gross Margin



	FY84	FY85	FY86	FY87	FY88	FY89	FY90	FY91	FY92	FY93
Gross Margin	39.5%	38.9%	43.6%	51.9%	52.3%	51.0%	47.5%	47.7%	41.6%	39.9%

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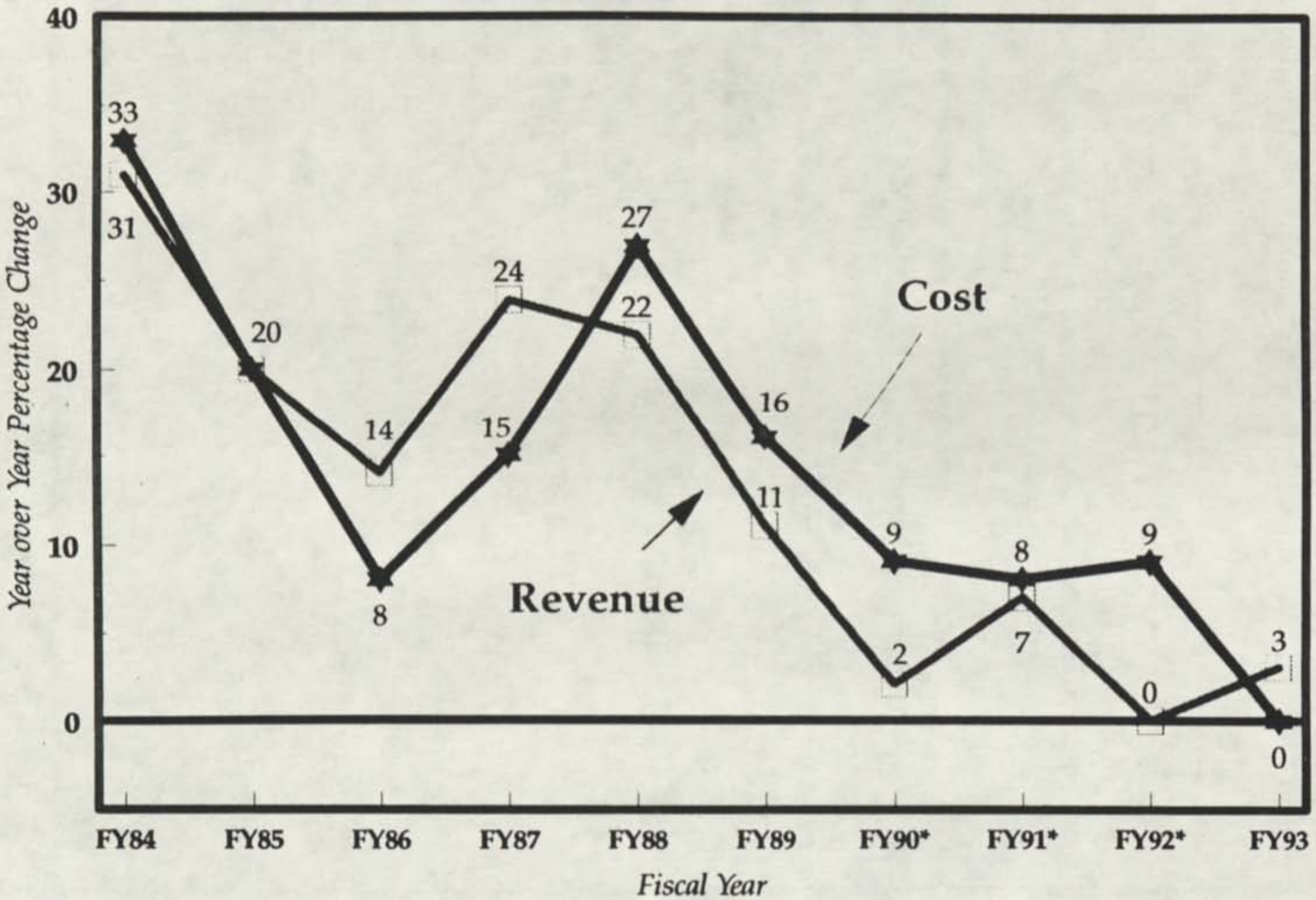
REVENUE & COST GROWTH

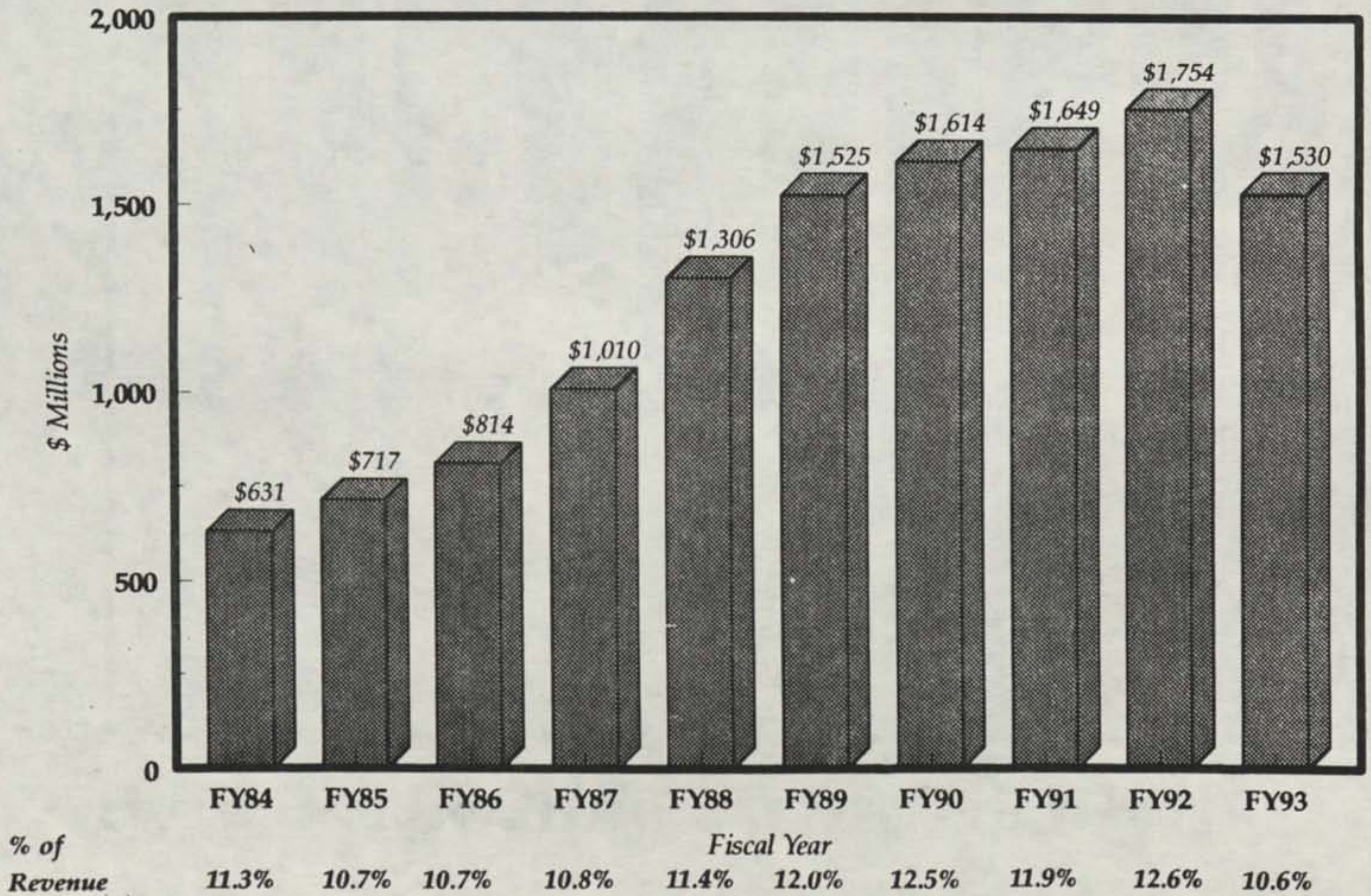


	FY84	FY85	FY86	FY87	FY88	FY89	FY90*	FY91*	FY92*	FY93
Operating Profit Margin	*7.1%*	*6.7%*	*10.9%*	*17.2%*	*14.2%*	*10.5%*	*4.3%*	*3.7%*	*(4.6)%*	*(1.7)%*

** Excludes restructuring*

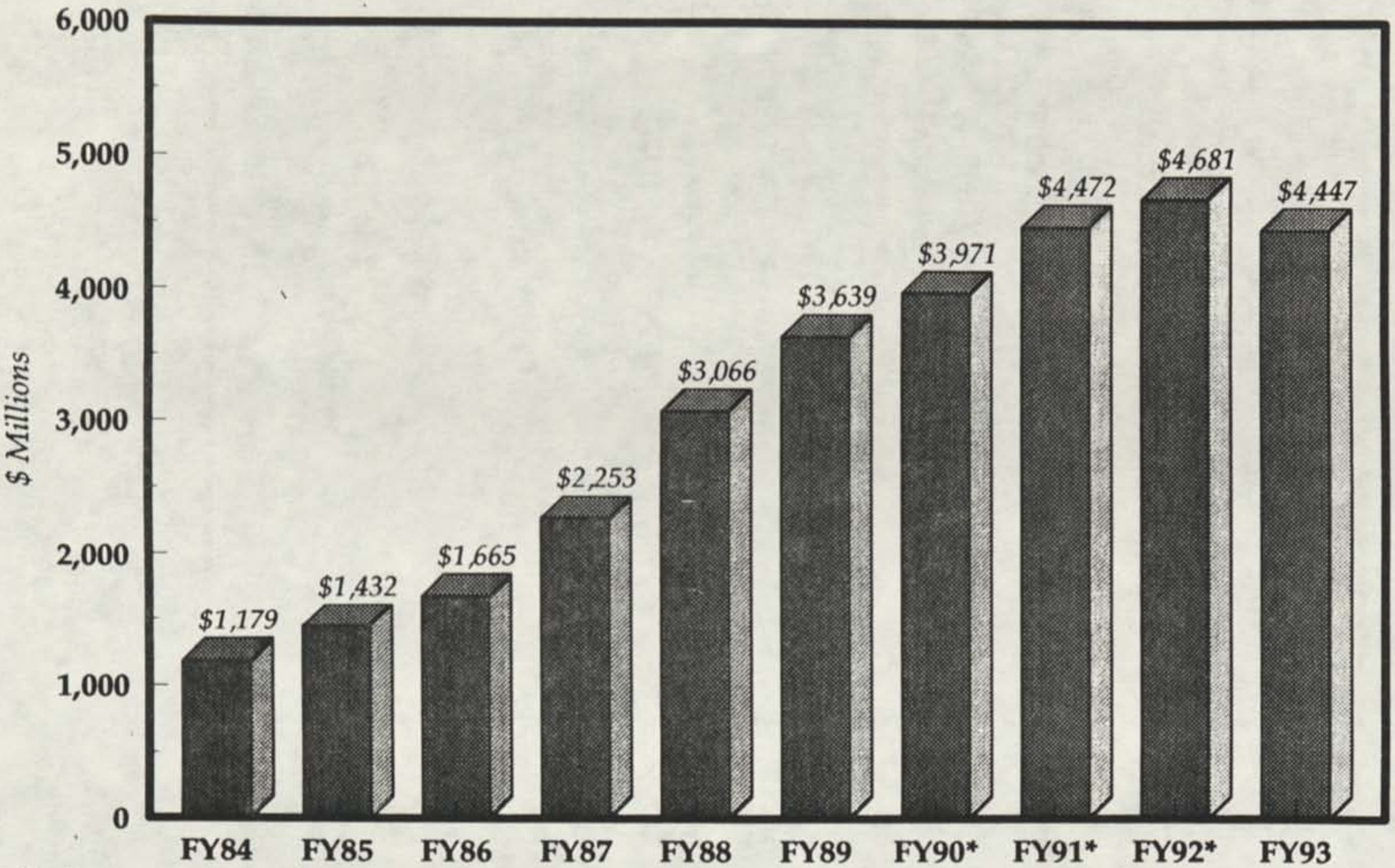
CCH:jwm
QTLYFY93A.PRE

RESEARCH & ENGINEERING EXPENSE



CCH:jwm
QTLYFY93A.PRE

SALES, GENERAL & ADMINISTRATIVE

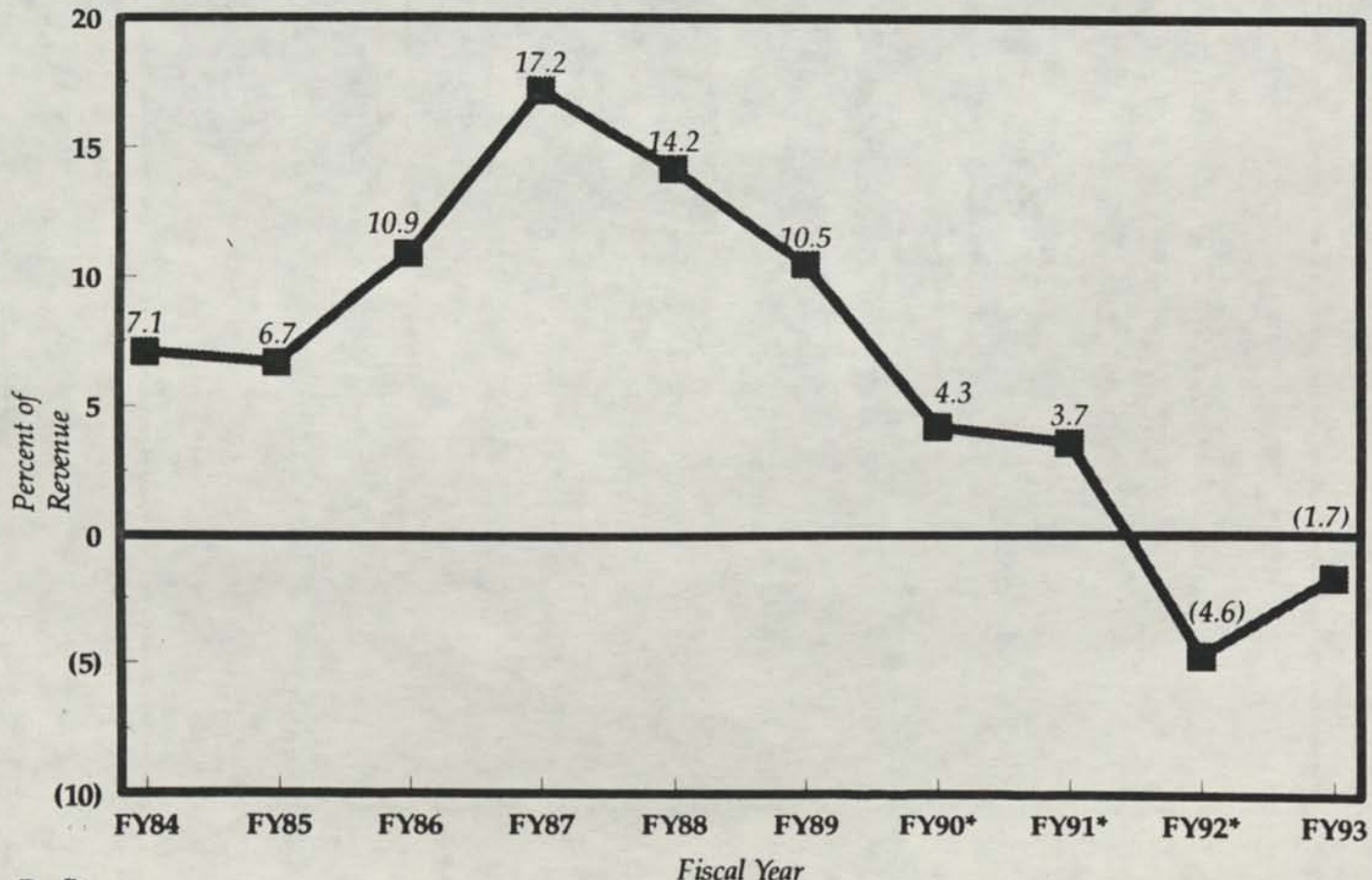


	FY84	FY85	FY86	FY87	FY88	FY89	FY90*	FY91*	FY92*	FY93
% of Revenue	21.1%	21.4%	21.9%	24.0%	26.7%	28.6%	30.7%	32.1%	33.6%	30.9%

***Excludes restructuring**

CCH:jwm
QTLYFY93A.PRE

OPERATING PROFIT MARGIN

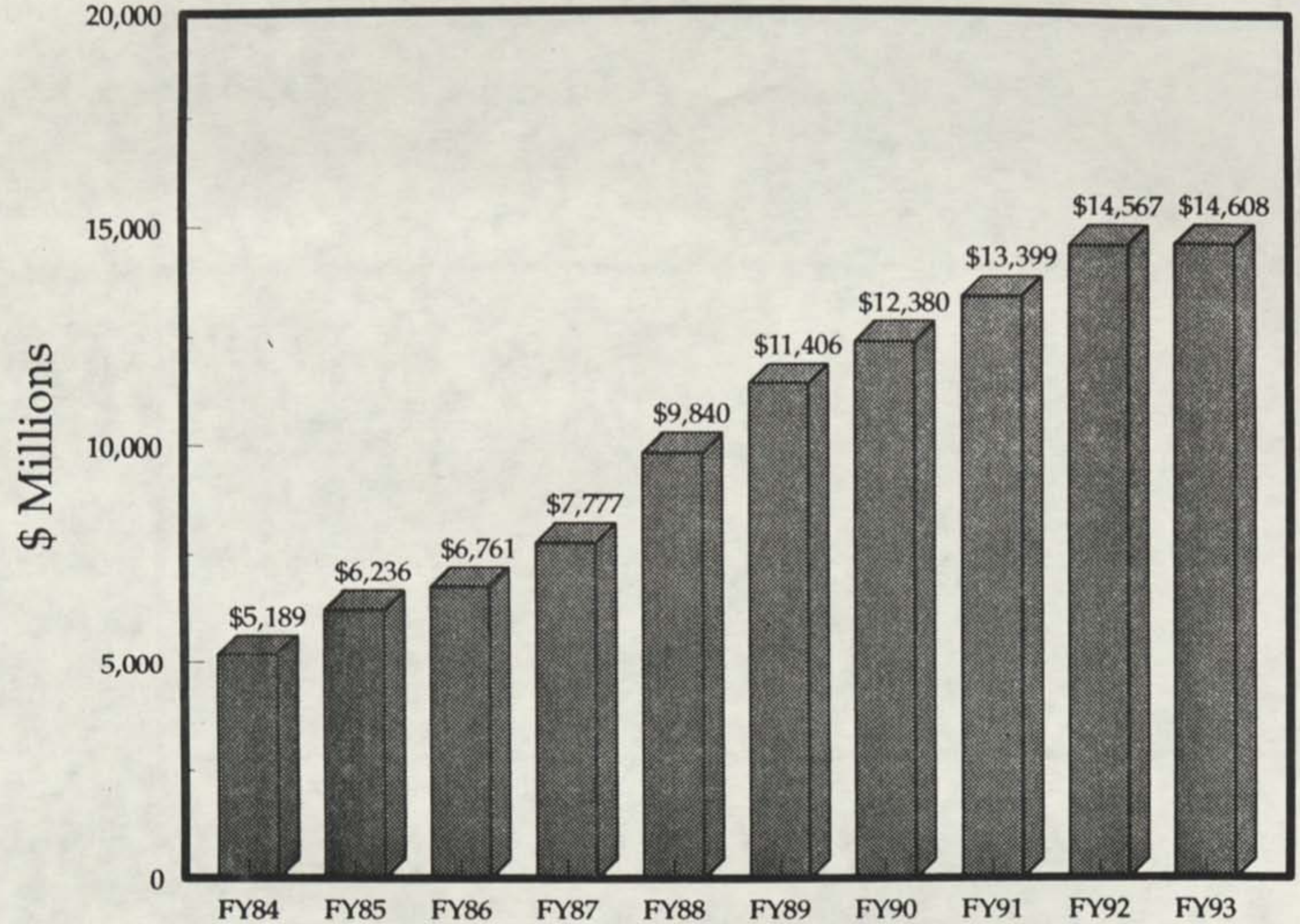


Operating Profit ($ Millions)	*$ 395*	*$ 450*	*$ 829*	*$ 1,612*	*$1,635*	*$ 1,336*	*$ 563*	*$ 512*	*($ 636)*	*($ 237)*

** Excludes restructuring charges.*

CCH:jwm
QTLYFY93A.PRE

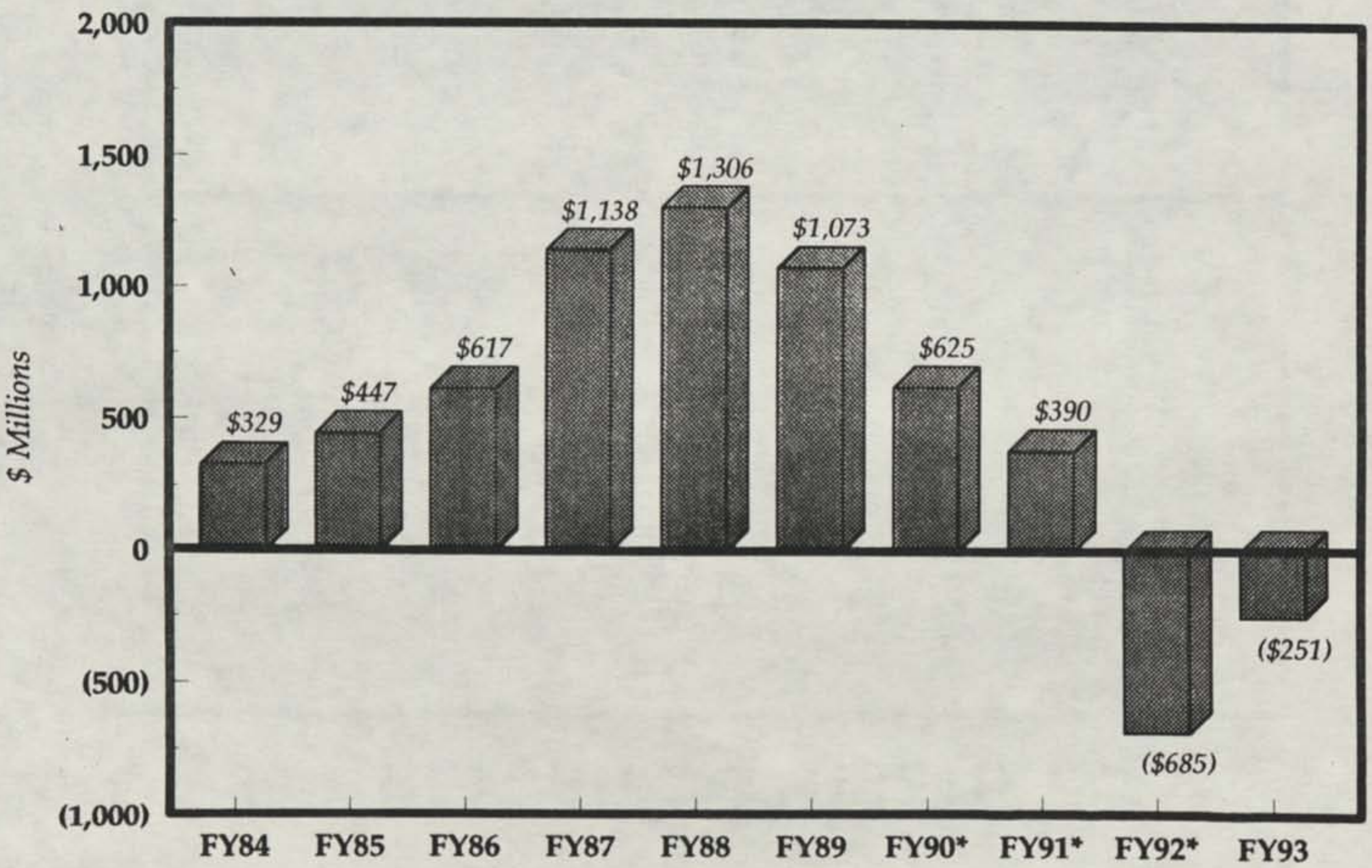
TOTAL COSTS



**Excludes restructuring and one-time charges*

CCH:jwm
QTLYFY93A.PRE

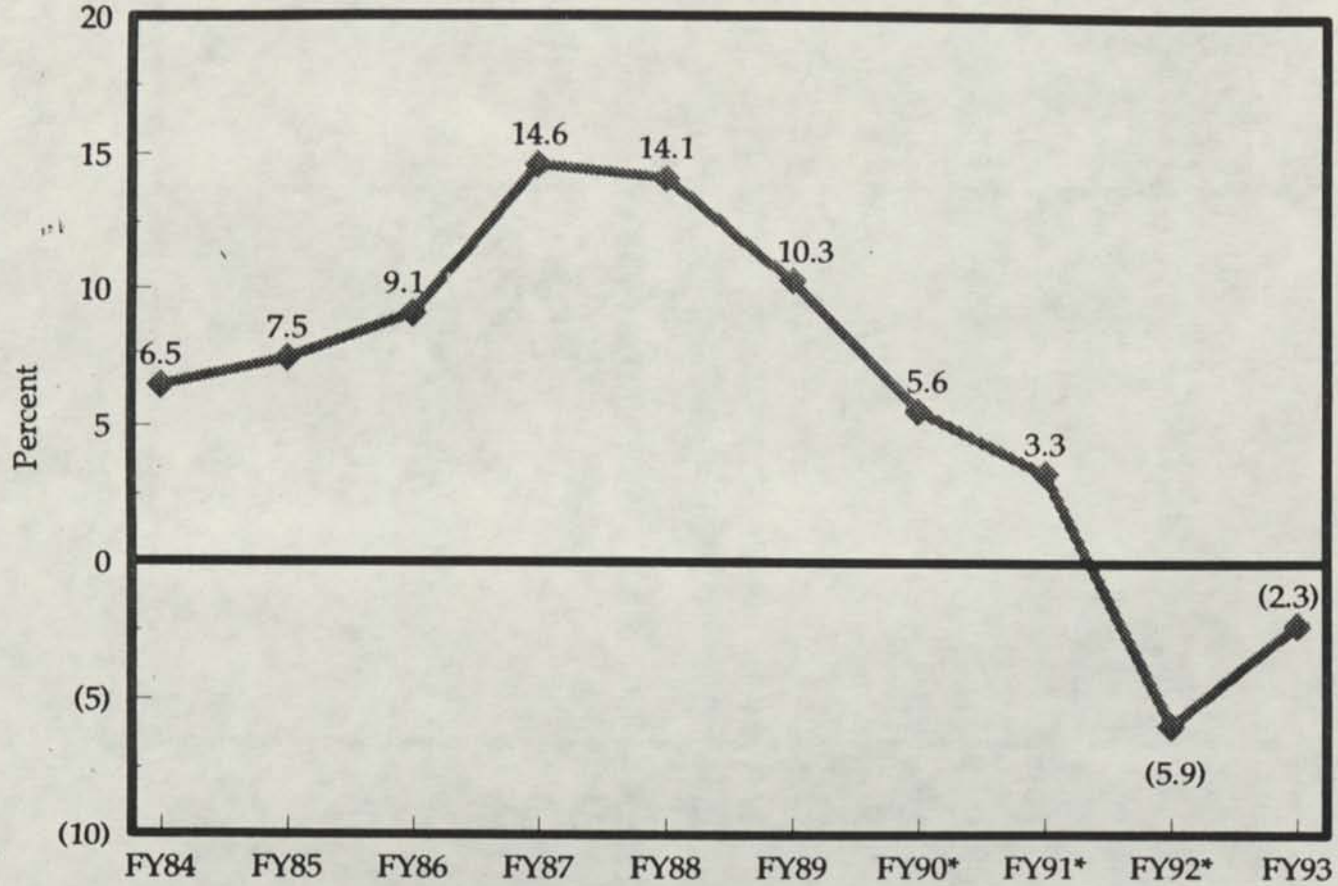
NET INCOME



***Excludes restructuring and one-time charges**

CCH:jwm
QTLYFY93A.PRE

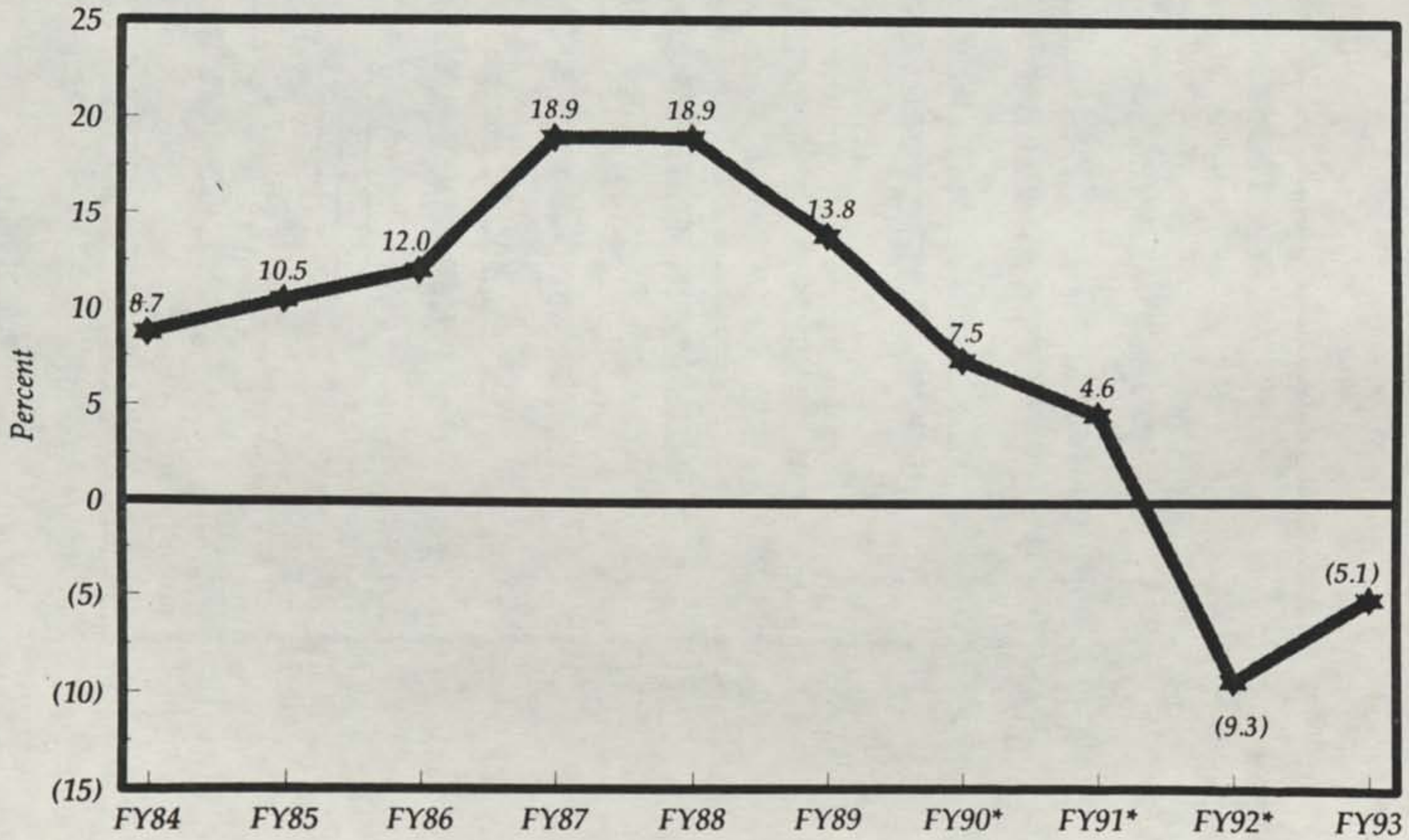
RETURN ON ASSETS



**Excludes restructuring and one-time charges*

CCH:jwm
QTLYFY93A.PRE

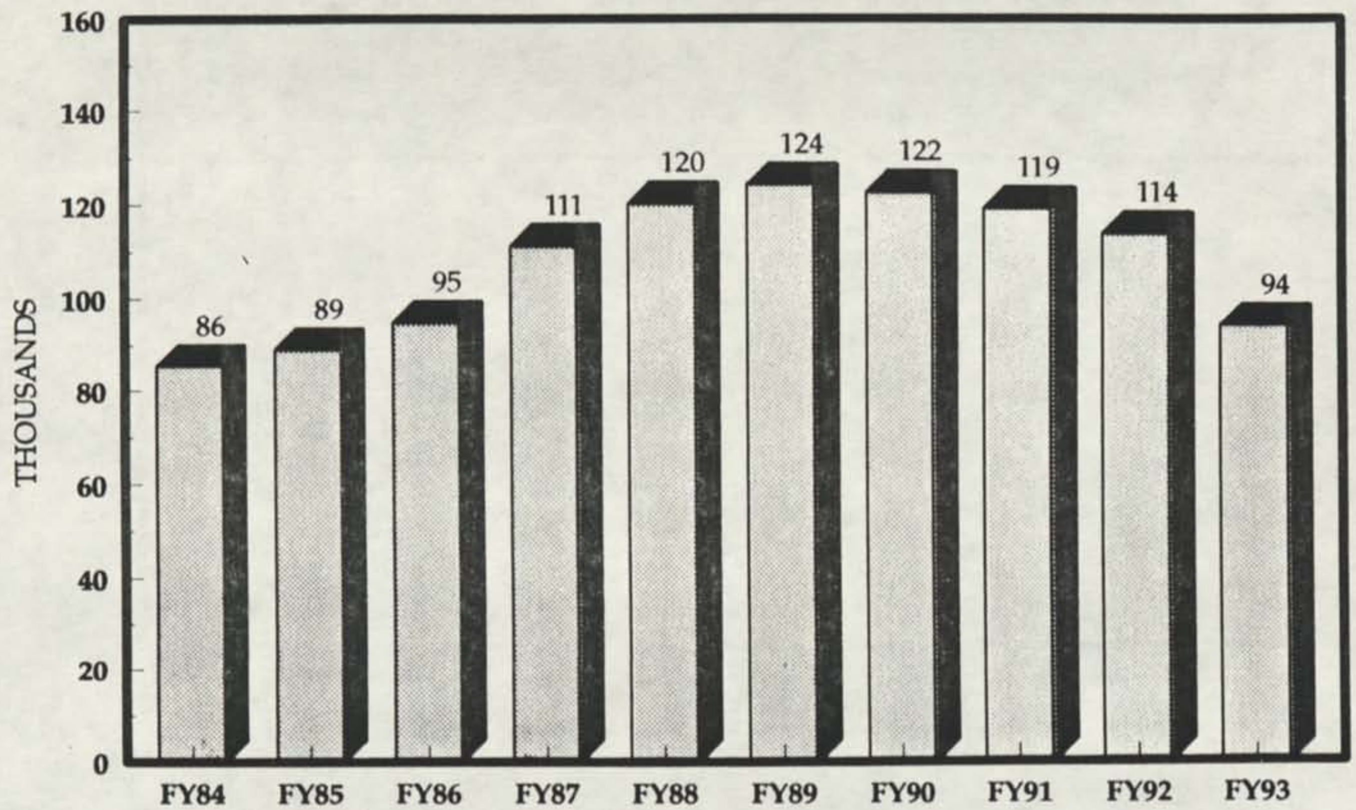
RETURN ON EQUITY



*Excludes restructuring and one-time charges

CCH:jwm
QTLYFY93A.PRE

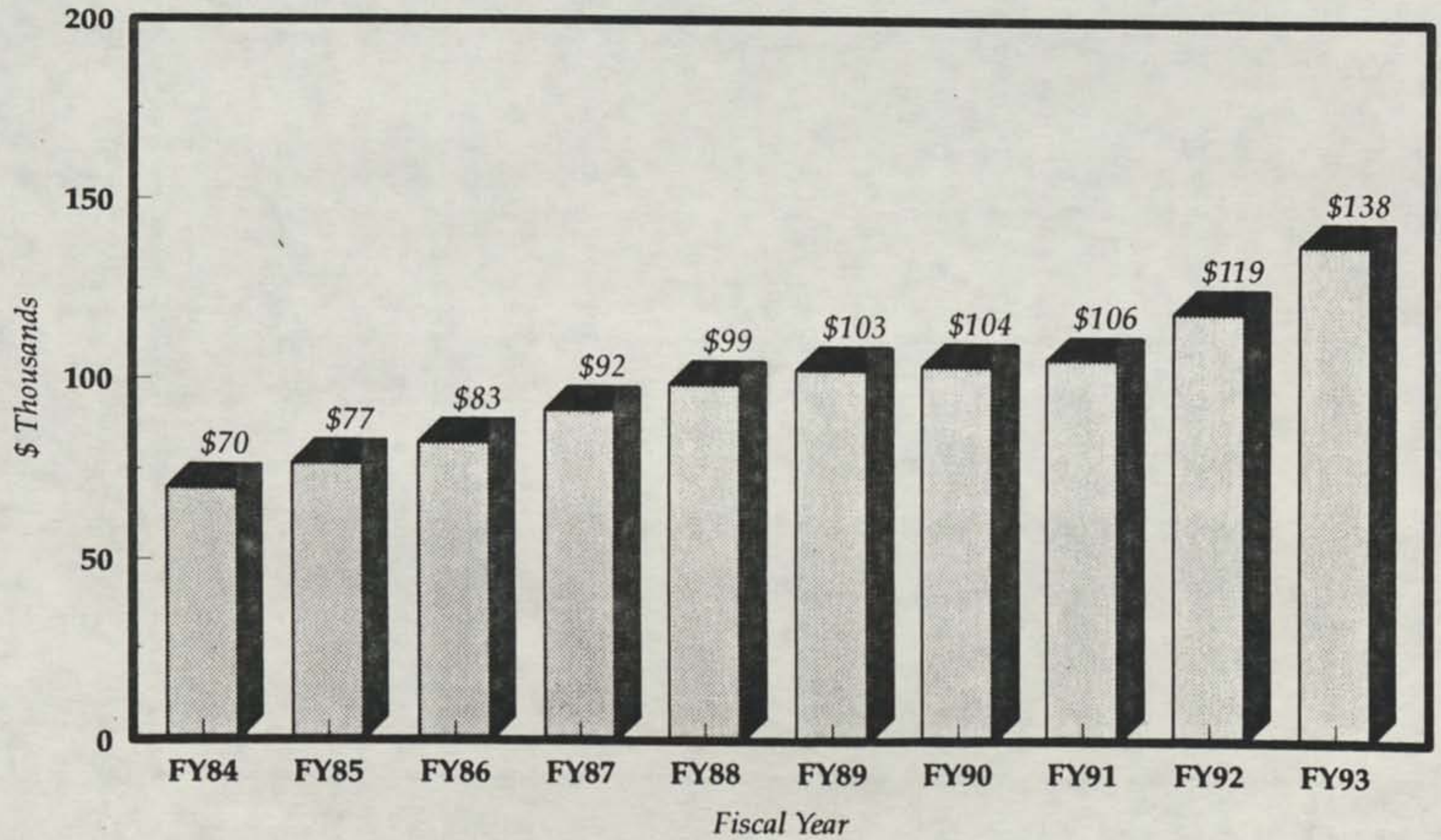
POPULATION



Note: Prior to FY88 headcount was gross, after it is equivalent headcount.

CCH:jwm
QTLFY93B.PRE

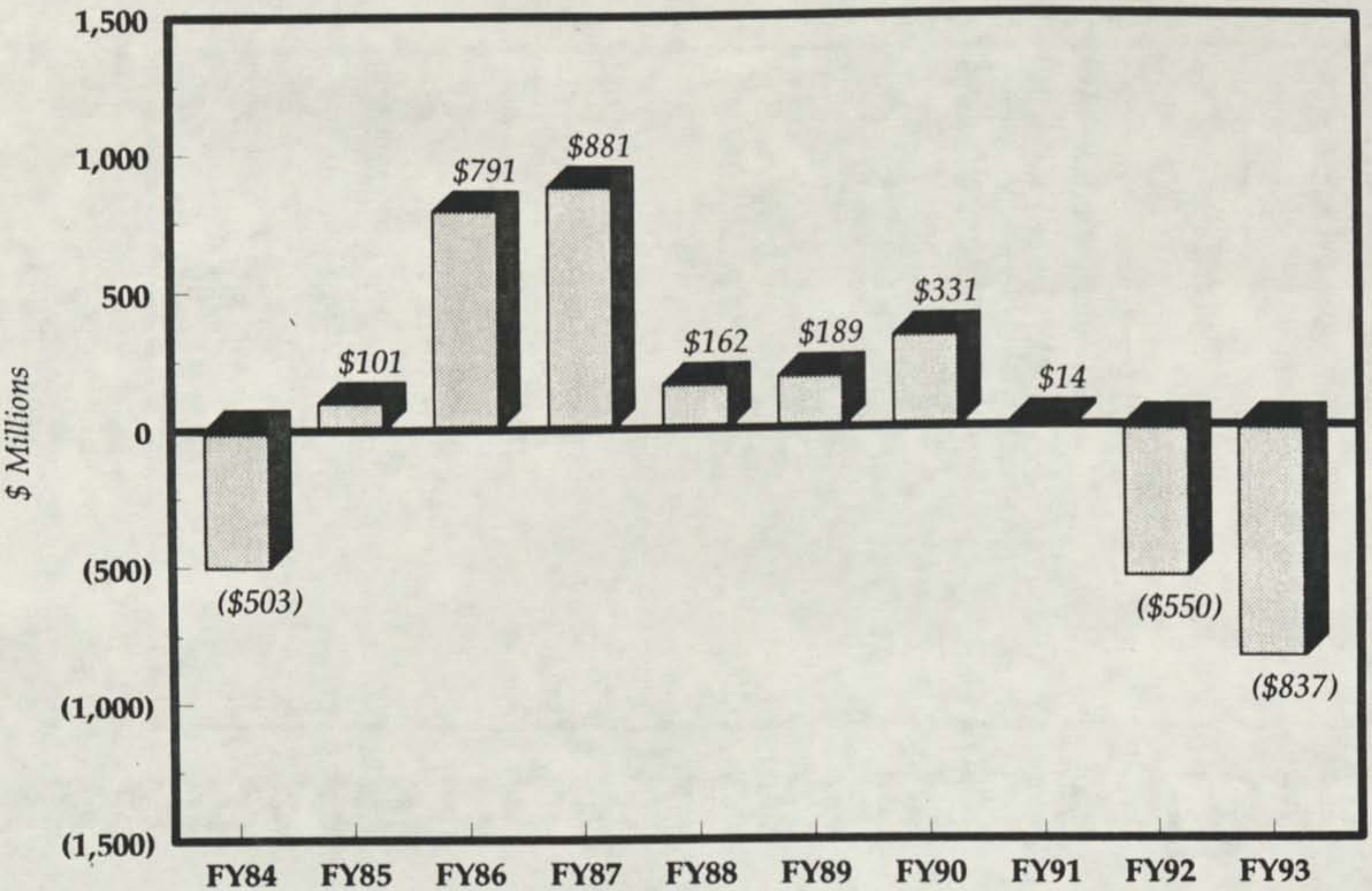
AVERAGE REVENUE PER EMPLOYEE



Note: Prior to FY88 headcount was gross, after it is equivalent headcount.

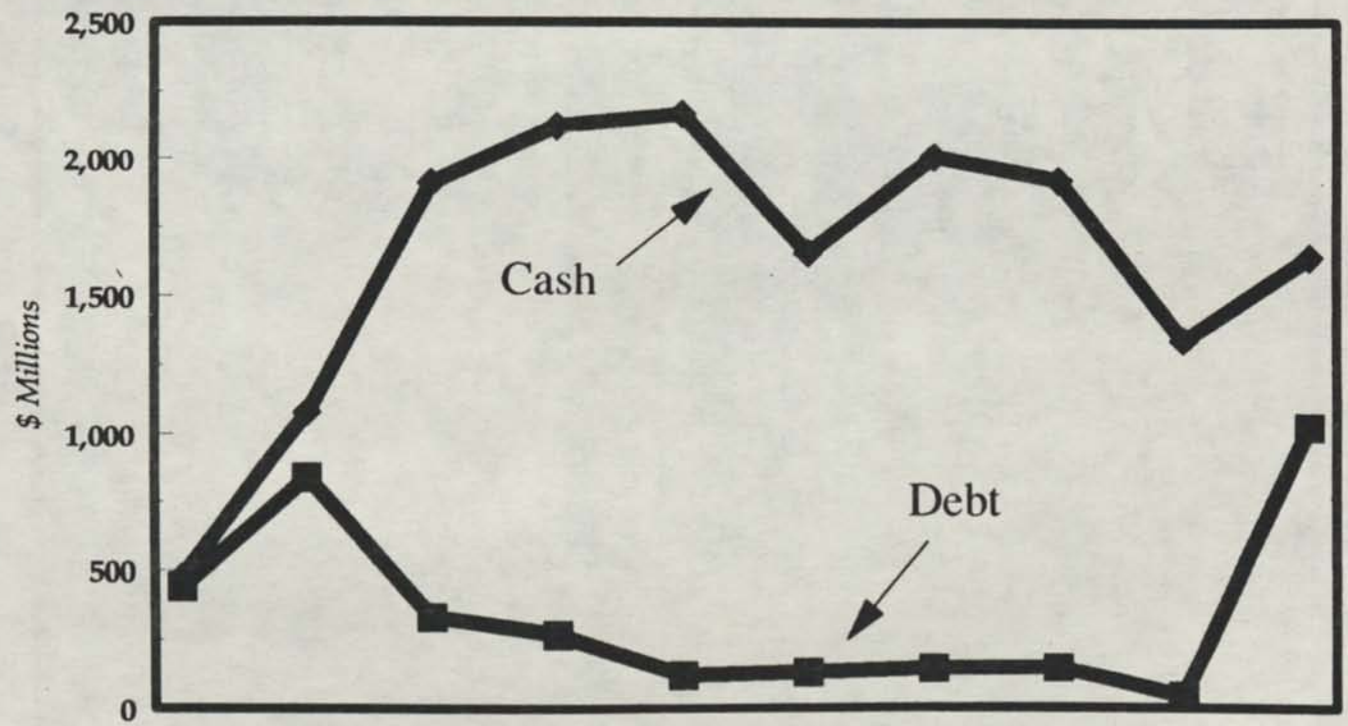
CCH:jwm
QTLFY93B.PRE

CASH FLOW FROM OPERATING & INVESTING ACTIVITIES



CCH:jwm
QTLFY93B.PRE

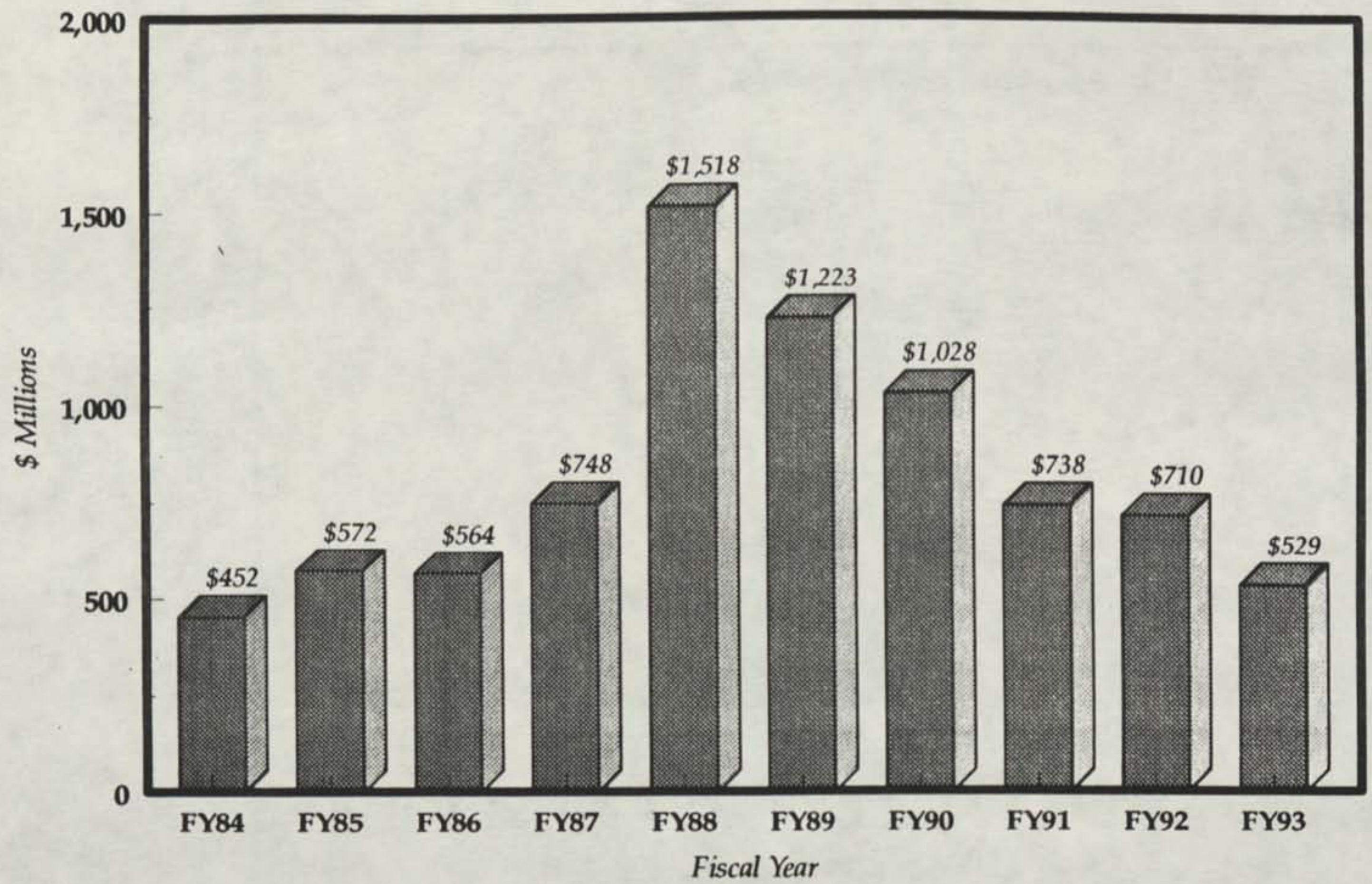
CASH AND LONG TERM DEBT



Fiscal Year	FY84	FY85	FY86	FY87	FY88	FY89	FY90	FY91	FY92	FY93
CASH	$476	$1,080	$1,911	$2,118	$2,164	$1,655	$2,009	$1,924	$1,337	$1,643
LT DEBT	$441	$837	$333	$269	$124	$136	$150	$150	$42	$1,018

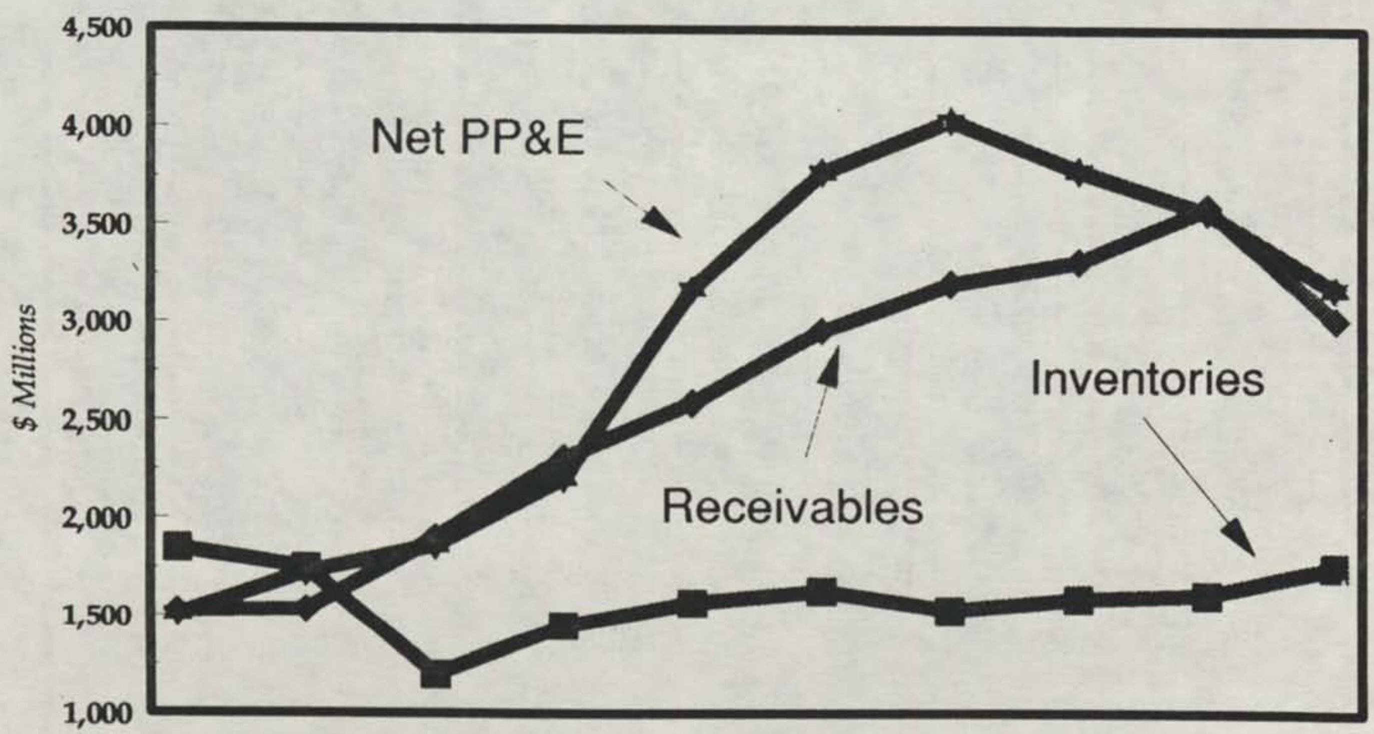
CCH:jwm
QTLFY93B.PRE

CAPITAL SPENDING



CCH:jwm
QTLFY93B.PRE

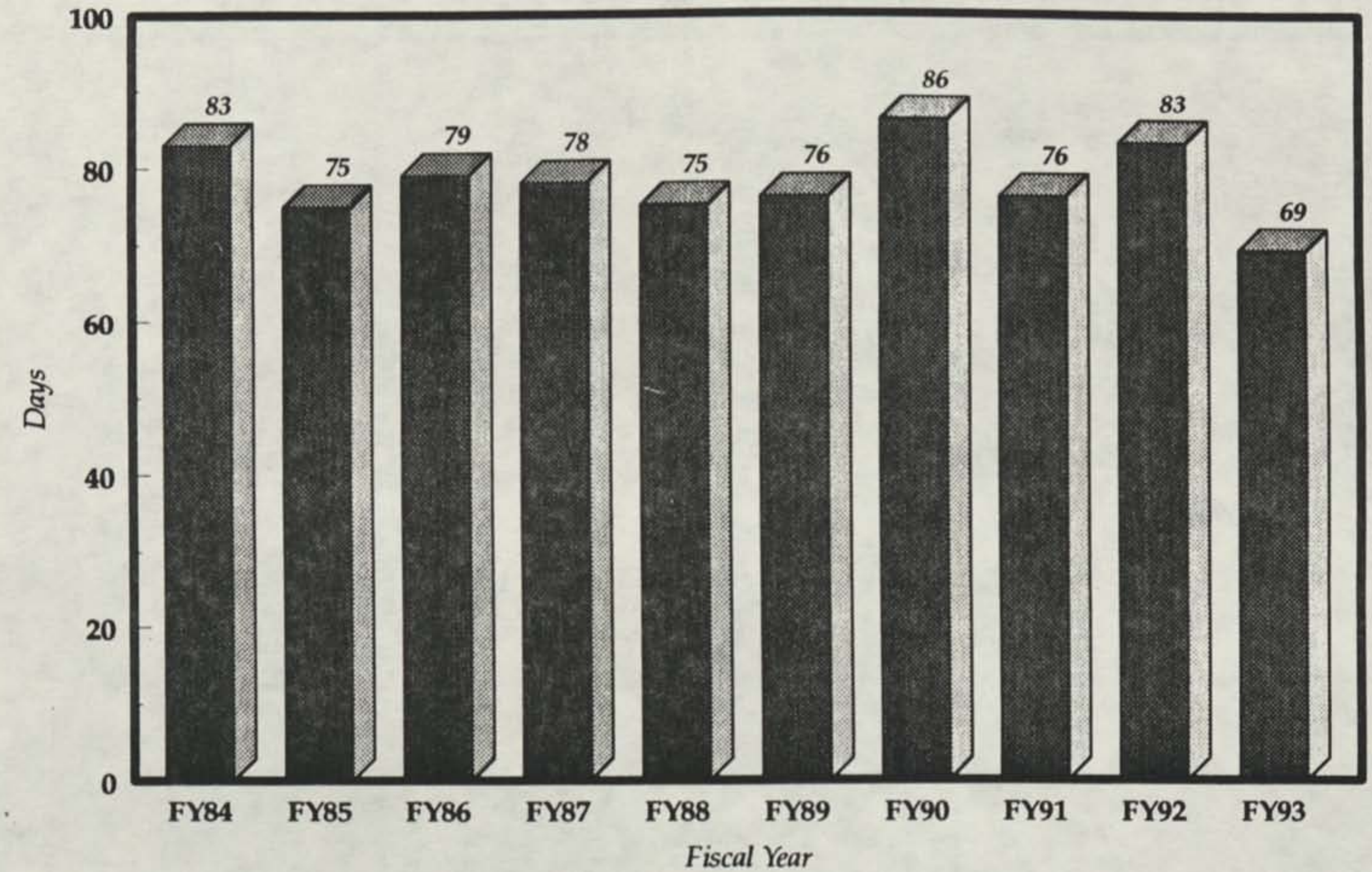
OPERATING ASSETS



Fiscal Year	FY84	FY85	FY86	FY87	FY88	FY89	FY90	FY91	FY92	FY93
Net PP&E	$1,511	$1,731	$1,867	$2,206	$3,182	$3,773	$4,033	$3,778	$3,570	$3,178
A/R	$1,527	$1,539	$1,903	$2,312	$2,592	$2,965	$3,207	$3,317	$3,594	$3,020
Net Inv.	$1,852	$1,756	$1,200	$1,453	$1,575	$1,638	$1,538	$1,595	$1,614	$1,755

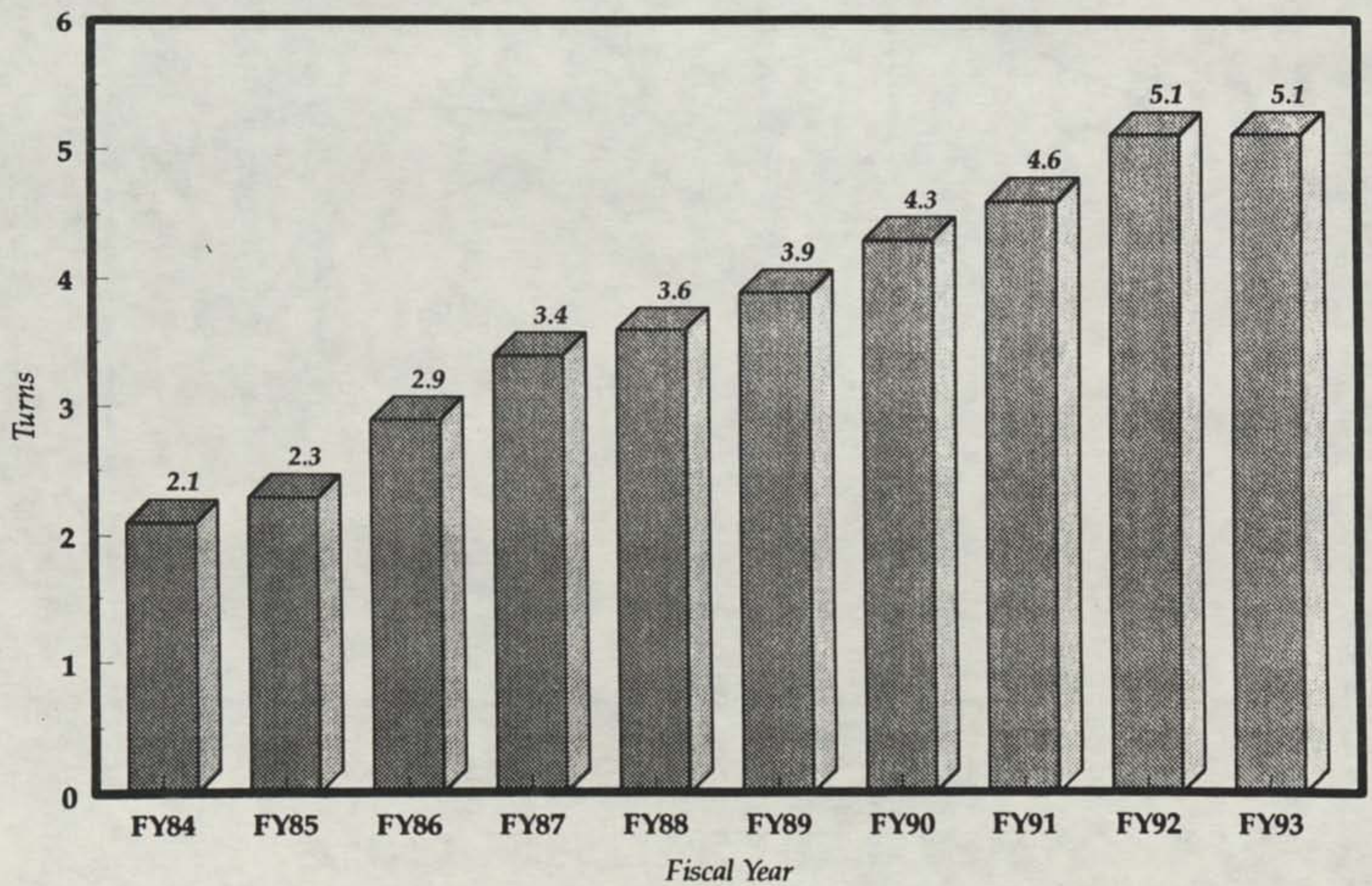
CCH:jwm
QTLFY93B.PRE

DAYS SALES OUTSTANDING



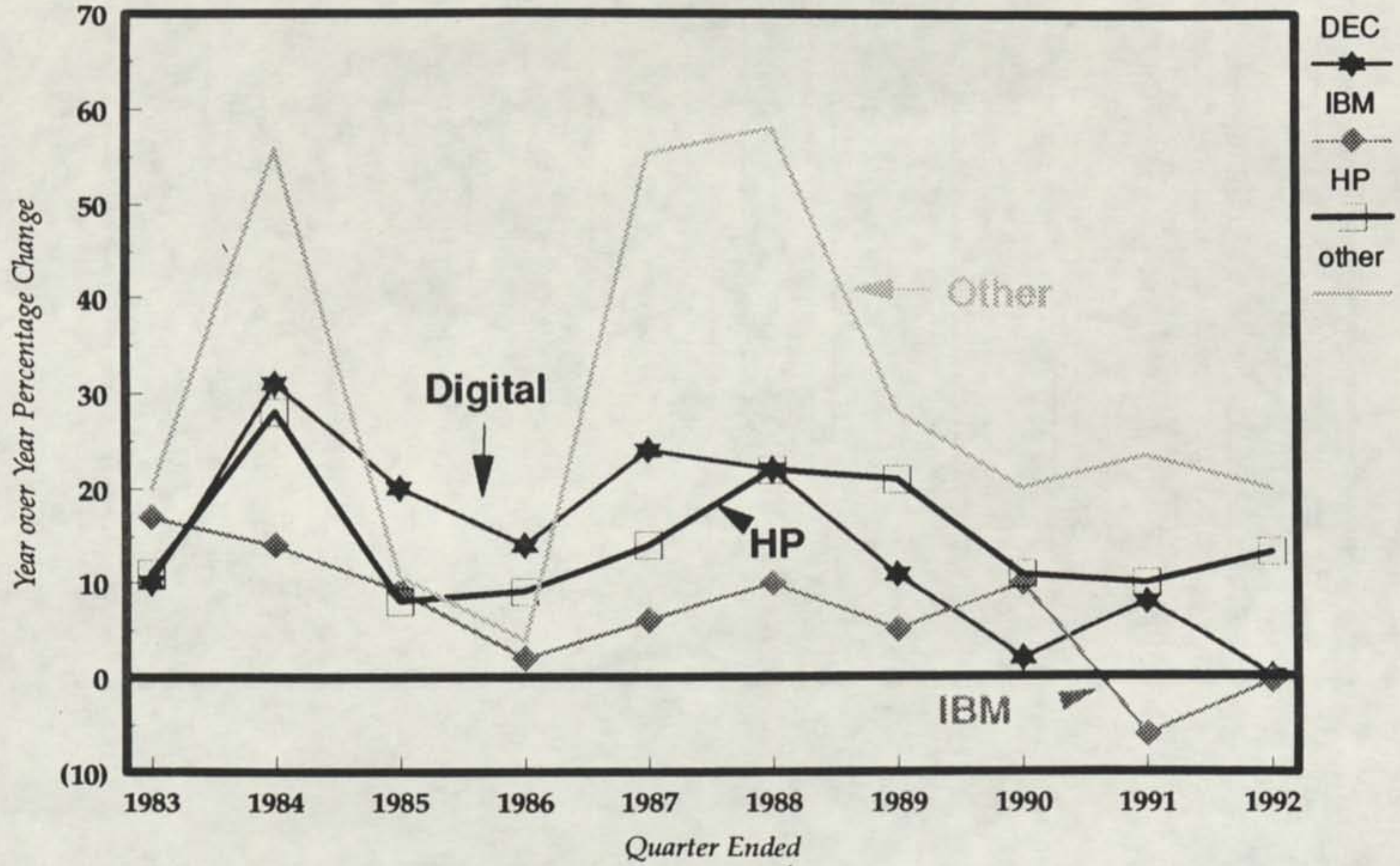
CCH:jwm
QTLFY93B.PRE

INVENTORY TURNS



CCH:jwm
QTLFY93B.PRE

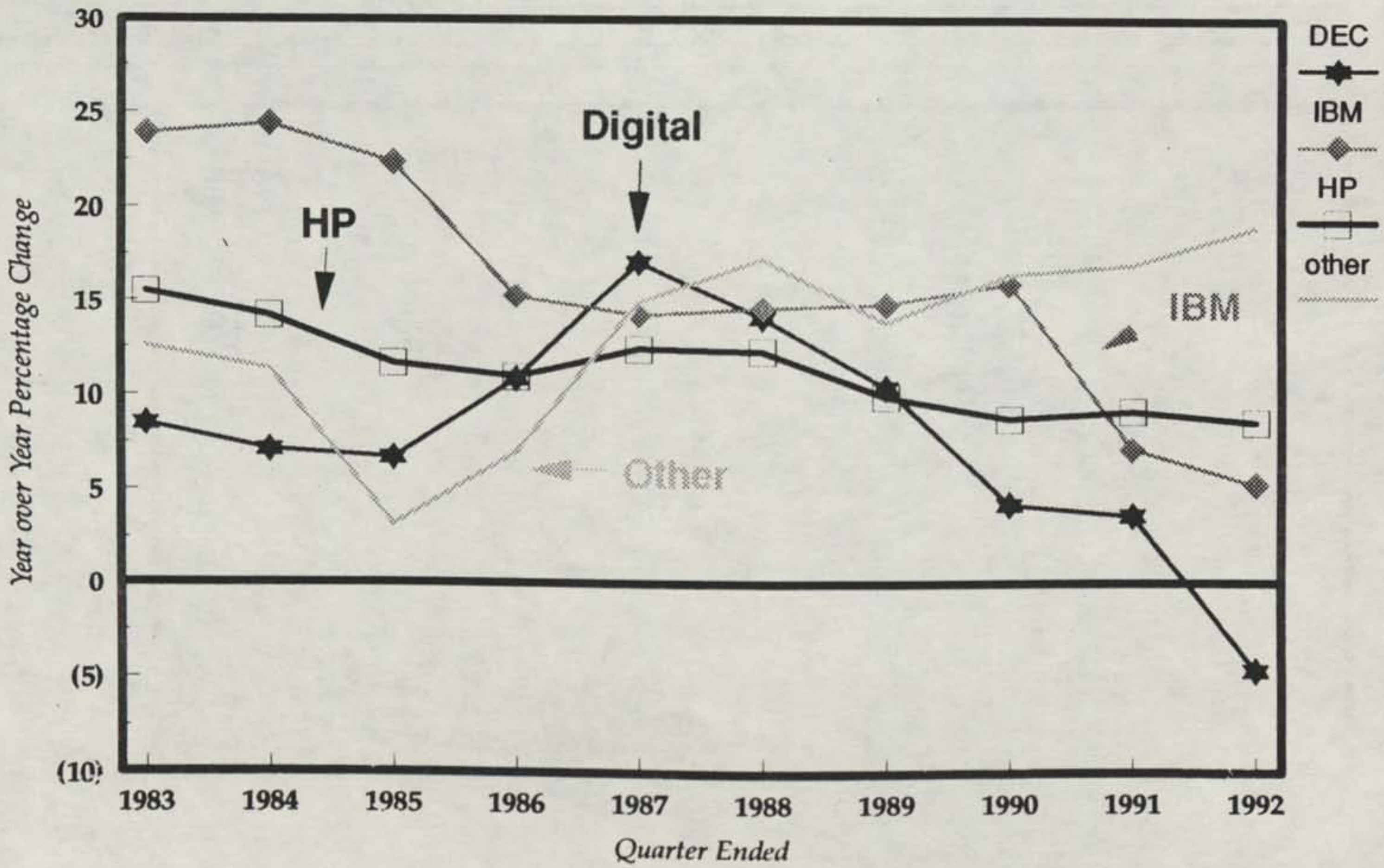
COMPETITIVE HISTORY
Revenue Growth Trends



Other includes Microsoft, Novell, Inel, Dell, Stratus, Sun, Apple, and Compaq.

CCH:jwm
QTLFY93B.PRE

COMPETITIVE HISTORY
Operating Profit Margin *

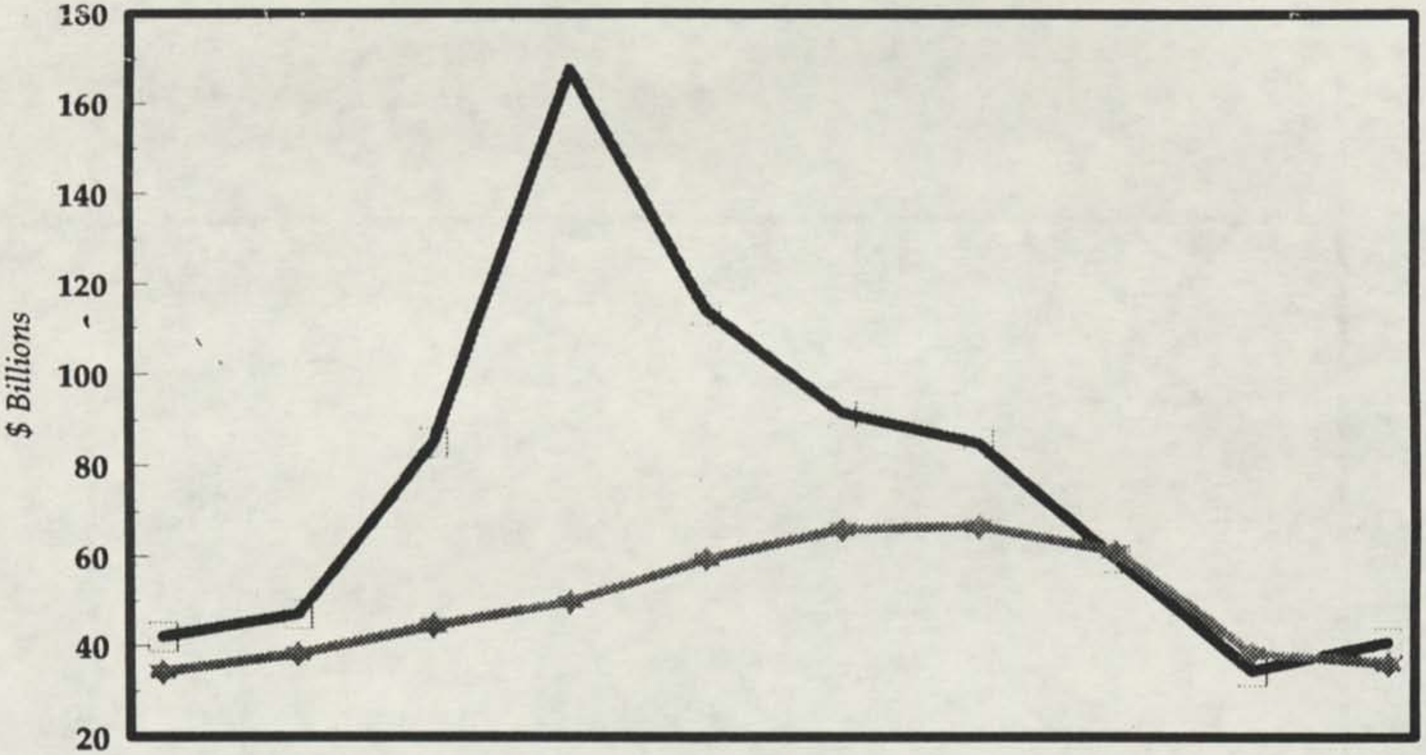


* *Excludes restructuring and one-ti·ne charges.*

Other includes Microsoft, Novell, Inel, Dell, Stratus, Sun, Apple, and Compaq.

CCH:jwm
QTLFY93B.PRE

STOCK PRICE AND BOOK VALUE TREND



	FY84	FY85	FY86	FY87	FY88	FY89	FY90	FY91	FY92	FY93
Stock	42.0	46.9	85.1	167.8	114.1	91.8	85.0	59.5	34.5	40.9
Book	34.4	38.4	44.5	49.9	59.5	66.1	66.8	61.2	38.6	36.2

CCH:jwm
QTLFY93B.PRE