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# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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## Form 10-K

### Annual Report Pursuant to Section 13 of the Securities Exchange Act of 1934

For the fiscal year ended June 29, 1974. Commission file number 1-5296

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## Digital Equipment Corporation

(Exact name of registrant as specified in its charter)

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Commonwealth of Massachusetts  
(State or other jurisdiction of  
incorporation or organization)

04-2226590  
(I.R.S. Employer  
Identification No.)

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146 Main Street, Maynard, Massachusetts  
(Address of principal executive offices)

01754  
(zip code)

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Registrant's telephone number, including area code (617) 897-5111

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Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value \$1  
Title of each class

New York Stock Exchange  
Name of each exchange on  
which registered

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Indicate by check mark whether 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  . No  .

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## PART I

### Item 1. *Business.*

#### *General*

Digital Equipment Corporation is a corporation organized under the laws of the Commonwealth of Massachusetts. The term "Company" as used herein, unless the context requires otherwise, includes the parent company and all of its subsidiaries. The Company designs, manufactures, sells and services computers, peripheral and associated computer accessory equipment, and other items and systems using digital techniques. The Company's products are used in a wide variety of applications and programs, including scientific research and computation, communications, education, data analysis, industrial control systems, time-sharing systems, business data processing systems, medical systems, instrumentation and simulation. Most of the Company's products are of its own design and are sold under its own name. The executive offices are located in Maynard, Massachusetts.

#### *Principal Products*

Over a period of years, the Company has developed a family of computers which has been designated as PDP® (Programmed Data Processor). The Company introduced its first computer in 1960. Although new models are continually in development, all earlier models are in use, and parts, service, and additional equipment for these models are still being sold.

There are currently in production various models of the PDP-8, PDP-11, PDP-12, PDP-14, PDP-15 and DECsystem-10 computers and computer systems. The purchase price of all computer systems will vary depending upon the accessory and peripheral equipment. Prices of the Company's processors, computers and computer systems range from approximately \$1,000 for the PDP-8/A, to \$4,000 for the PDP-8/F mini-computer, to \$200,000 for the PDP-11/45 time-sharing system, and from \$300,000 to in excess of \$1,500,000 for the DECsystem-10. In the past several years, the Company's prices for its computer systems have been reduced from time to time as new products have been introduced and existing products improved. However, in the past several months, charges for various support and maintenance services and certain products have been increased. In general, management expects to continue price reductions for computer systems as circumstances warrant.

The PDP-8, PDP-11 and PDP-12 families are small general purpose digital computers. They are used, among other things, for recording, interpreting and performing computations on data collected in scientific experiments and for controlling industrial machines and processes. These computers are also used in the fields of education, oceanography, data communications, medical systems, commercial typesetting, and commercial data processing. Members of the PDP-11 family range from the PDP-11/05, a low-cost Original Equipment Manufacturer (OEM) oriented model, to the large PDP-11/45 model capable of time-sharing and batch processing operations. The PDP-14 family of programmable controllers is used for the control and monitoring of machine tools, materials handling equipment, and other industrial applications.

The Company also manufactures and sells the PDP-15, a computer used for data collection and analysis, process control, data communications, computer-aided design, data base management systems and other applications.

The DECsystem-10 is the largest computer system presently being manufactured by the Company and was designed for use in time-sharing, batch processing, and real-time applications. In time-

sharing, a number of operators may use the computer at the same time on independent projects, including operating via telephone or other remote line. DECsystem-10 installations are used in a variety of applications, including scientific research, management information systems, commercial time-sharing systems, and in computation centers at universities, high schools and government agencies.

The Company has developed a family of solid state, printed circuit digital modules and a line of accessories for use with these modules. These modules are packed digital circuits which can perform decision-making arithmetic, control and other functions. They form the basic building blocks for computers and a variety of other digital systems. They are used extensively by the Company in its computers and other systems products but are also manufactured for stock and are sold from widely distributed catalogues.

In addition to the computers described above, the Company manufactures several types of peripheral devices including magnetic tape, tape cassette and disk storage devices, cathode ray tube display systems, analog to digital converters, perforated tape readers and punches and teleprinter devices. The Company also buys peripheral equipment from other manufacturers for use with its own computers.

In June 1974 the Company announced a program to sell separately selected processors and certain peripherals on a volume basis at price levels that reflect reduced services. Prospective purchasers of these items include OEM customers, systems suppliers and end-users. This program is being undertaken by the Company on a selected product basis. For this reason, and particularly because implementation of the program has just commenced, the Company is not in a position to evaluate its future significance.

The Company develops, offers and maintains a library of computer programs to be used with its computer systems in general and specific applications.

The Company provides extensive support and maintenance services to its customers under its warranty programs and service contracts. The field service organization services customers throughout the world.

### ***Sales and Distribution***

The Company markets its products throughout the world, using its own sales engineers located in 96 sales offices in 30 states and 24 foreign countries.

The Company's general policy is to sell and not to rent its products. Customers who prefer lease arrangements for the Company's equipment are frequently referred to and financed by third parties.

Many of the markets served by the Company are affected by cyclical factors beyond the Company's control. These factors include, for example, changes in levels of spending by industry for capital equipment and changes in government policies with regard to the funding of various governmentally supported programs.

For the year ended June 29, 1974, approximately 4% of the Company's total sales were made directly to various agencies of the U.S. Government. No other single customer accounted for more than 3% of total sales.

The Company's business subject to the Renegotiation Act of 1951 has been cleared through fiscal 1971. In the opinion of management the effect, if any, of renegotiation for subsequent years will not be significant.

For the year ended June 29, 1974, sales by the Company to customers abroad amounted to approximately 39% of total sales. This segment of the business is conducted through foreign subsidiaries, by direct sales from the parent company and, to a lesser extent, through various representative and distributorship arrangements. In view of the location and diversification of the Company's international activities, the Company does not feel that there are any special risks beyond the normal business risks attendant to its sales abroad. The Company engages in some currency hedging transactions to reduce currency revaluation risks. See Note B of Notes to Consolidated Financial Statements for further information with respect to the Company's foreign subsidiaries.

A substantial portion of quarterly shipments tend to be made in the last month of each fiscal quarter. As a result, events affecting scheduled shipments toward the end of the fiscal quarter may have disproportionate effects on the results of operations for that particular quarter.

#### ***Federal Economic Stabilization Program***

Through June 29, 1974, the close of the Company's most recent fiscal year, the several controls imposed under the Economic Stabilization Act did not have a material effect upon the operations of the Company.

#### ***Competition***

The Company faces strong competition in both domestic and foreign markets. Competition comes from firms of all sizes and types, some of which are larger and have greater total resources than the Company. The absence of authoritative statistics makes it impossible, in the Company's opinion, to state the Company's relative position in the industry. Independent surveys have indicated that in terms of gross revenues the Company is the 6th, 7th or 8th largest active manufacturer of computers in the United States. The Company believes that it is a principal manufacturer of small high speed general purpose digital computers.

#### ***Raw Materials and Supplies***

The Company's manufacturing operations require a wide variety of electronic and mechanical components and raw materials. The Company has multiple commercial sources of supply for most of the components and raw materials which it uses, but it has experienced occasional delays in obtaining timely deliveries of some items. The Company evaluates on an ongoing basis whether to continue to purchase or to manufacture the components and peripheral equipment presently being purchased from outside sources.

#### ***Environmental Affairs***

The Company's manufacturing facilities are subject to numerous laws and regulations designed to protect the environment, particularly from plant wastes and emissions. In the opinion of management, compliance with these laws and regulations will not have a material effect upon the capital expenditures, earnings and competitive position of the Company.

### ***Licenses, Patents, Trademarks***

The Company owns a number of patents and patent applications relating to its products. The patents and patent applications, although of value to the Company, are not considered to be of material importance to the business as a whole. The Company also owns copyrights, trademarks and proprietary information, some of which are considered to be valuable assets of the Company.

From time to time other companies in the industry have claimed that products and components similar to those manufactured by the Company are covered by valid patents held by such other companies. It may be necessary or desirable in the future for the Company to obtain further patent licenses in addition to those it now holds. The Company is presently involved in several legal actions involving rights and claims to patents, trademarks, copyrights or proprietary information. The management of the Company is of the opinion that none of such legal actions will have a substantial effect upon the earnings or financial position of the Company.

### ***Research and Engineering***

The Company is in an industry which is characterized by rapid technological change. The Company has consistently spent a substantial portion of its funds on research and engineering projects, including software development. In the year ended June 29, 1974, the Company spent approximately \$37,000,000 for these purposes.

The Company's primary emphasis is on applied research and engineering which includes developing computers, peripheral equipment and software and expanding product applications.

The Company has approximately 1,000 professional employees involved in research, engineering and programming activities.

### ***Number of Employees***

The Company presently employs approximately 17,600 persons. The Company continues to enjoy good employee relations.

Item 2. Summary of Operations.

CONSOLIDATED STATEMENTS OF INCOME

The following consolidated statements of income of Digital Equipment Corporation for the fiscal years 1970 through 1974 have been examined by Coopers & Lybrand, independent certified public accountants, as set forth in their report elsewhere herein. These statements should be read in conjunction with the other consolidated financial statements and related notes appearing elsewhere herein. Alphabetic note references shown below are to the aforementioned notes to consolidated financial statements.

	Year Ended				
	June 29, 1974	June 30, 1973	July 1, 1972	July 3, 1971	June 27, 1970
Net sales .....	\$360,756,000	\$229,051,000	\$166,262,000	\$146,849,000	\$135,408,000
Service and other revenues (note 2) .....	61,128,000	36,418,000	21,291,000		
Total net operating revenues (Note A) .....	<u>421,884,000</u>	<u>265,469,000</u>	<u>187,553,000</u>	<u>146,849,000</u>	<u>135,408,000</u>
Cost of sales, service and other revenues (notes 4 and 5) .....	227,646,000	142,616,000	98,199,000	76,366,000	67,055,000
Research and engineering expenses (Note A) .....	36,599,000	24,933,000	20,137,000	16,668,000	13,269,000
Selling, general and administrative ex- penses .....	92,500,000	61,174,000	44,301,000	35,979,000	29,213,000
Interest (income) expense, net (note 3)	(1,061,000)	(454,000)	(184,000)	(164,000)	371,000
	<u>355,684,000</u>	<u>228,269,000</u>	<u>162,453,000</u>	<u>128,849,000</u>	<u>109,908,000</u>
Income before Federal and foreign in- come taxes .....	<u>66,200,000</u>	<u>37,200,000</u>	<u>25,100,000</u>	<u>18,000,000</u>	<u>25,500,000</u>
Provision for income taxes (note 6):					
Federal .....	16,400,000	9,100,000	8,000,000	5,600,000	7,700,000
Foreign .....	5,400,000	4,600,000	1,800,000	1,800,000	3,400,000
	<u>21,800,000</u>	<u>13,700,000</u>	<u>9,800,000</u>	<u>7,400,000</u>	<u>11,100,000</u>
Net income .....	<u>\$ 44,400,000</u>	<u>\$ 23,500,000</u>	<u>\$ 15,300,000</u>	<u>\$ 10,600,000</u>	<u>\$ 14,400,000</u>
Weighted average number of common shares outstanding during the year ..	<u>11,687,848</u>	<u>10,874,477</u>	<u>10,282,319</u>	<u>10,043,923</u>	<u>9,534,854</u>
Net income per common share (note 7) .	<u>\$3.80</u>	<u>\$2.16</u>	<u>\$1.49</u>	<u>\$1.06</u>	<u>\$1.51</u>

NOTES TO CONSOLIDATED STATEMENTS OF INCOME

(1) No cash dividends have been paid by the Company.

(2) Service and other revenues for fiscal years prior to fiscal 1972 were less than 10 percent of total net operating revenues and are included in net sales for such years.

(3) Interest costs were \$2,066,000 in 1974, \$718,000 in 1973, \$546,000 in 1972, \$1,062,000 in 1971 and \$756,000 in 1970.

(4) Inventories used in the computation of cost of sales were as follows: June 29, 1974 — \$137,402,000; June 30, 1973 — \$102,743,000; July 1, 1972 — \$62,117,000; July 3, 1971 — \$44,441,000; June 27, 1970 — \$43,043,000; and June 28, 1969 — \$24,823,000.

Notes to Consolidated Statements of Income — (Continued)

(5) Depreciation expense is computed principally on the following bases:

<u>Classification</u>	<u>Depreciation Lives and Methods</u>
Buildings .....	33 years (straight-line)
Leasehold improvements .....	Life of asset or term of lease, whichever is shorter (straight-line)
Machinery and equipment .....	8 and 10 years (sum-of-years), 4 and 5 years (double declining-balance)
Computer systems .....	No depreciation is provided on these systems which are manufactured by the Company and are used for short periods prior to being sold to customers

(6) The total provisions for income taxes are at rates less than the U.S. Federal statutory tax rates for the following reasons:

	<u>1974</u>	<u>1973</u>	<u>1972</u>	<u>1971</u>	<u>1970</u>
U.S. Federal statutory tax rates	48.0%	48.0%	48.0%	48.0%	51.6%
Tax benefit of Puerto Rico non-taxable income(a) .....	(8.0)	(7.0)	(6.4)	(2.2)	(6.7)
Difference between U.S. and foreign tax rates .....	(2.7)	(1.4)	(1.7)	(1.2)	—
Other(b) .....	(4.4)	(2.8)	(.9)	(3.5)	(1.4)
	<u>32.9%</u>	<u>36.8%</u>	<u>39.0%</u>	<u>41.1%</u>	<u>43.5%</u>

(a) The Federal income tax benefits per common share attributable to the tax exempt status of the Company's domestic manufacturing subsidiary in Puerto Rico for the five years ended June 29, 1974 were \$.45, \$.24, \$.16, \$.04 and \$.18, respectively.

(b) The category "Other" includes investment tax credits (which have been credited directly to income) and all other individual items less than 5% of tax expense computed based on the U.S. federal statutory rate.

The components of the 1974 provision for income taxes are as follows:

	<u>Currently Payable</u>	<u>Deferred</u>	<u>Total</u>
U.S. Federal .....	\$19,000,000	(\$2,600,000)	\$16,400,000
Foreign .....	6,000,000	(600,000)	5,400,000
Total .....	<u>\$25,000,000</u>	<u>(\$3,200,000)</u>	<u>\$21,800,000</u>

Deferred tax expense results from timing differences in the recognition of revenues and expenses for tax and financial reporting purposes. The sources of these timing differences in 1974 and the tax effect of each were as follows:

Profit in inventories, principally intercompany sales, included in tax returns but not in financial statements .....	(\$3,800,000)
Installment sales and financing lease revenues included in tax return in excess of revenue in financial statements .....	(800,000)
Taxes provided in financial statements but not in tax return on undistributed earnings of Domestic International Sales Corporation .....	1,100,000
Other .....	300,000
Total .....	<u>(\$3,200,000)</u>

See Note A of Notes to Consolidated Financial Statements for further explanation of the Company's income tax accounting policies.

(7) Net income per common share is computed based on the weighted average number of common shares outstanding during each year. Common stock equivalents arising from stock options have no material effect on net income per common share.

### Item 3. *Properties.*

The principal executive offices of the Company are located in Maynard, Massachusetts. All space which the Company occupies, substantially all of which is owned, is well-maintained and suitable for the advanced technological products manufactured by the Company. Information concerning the principal United States plants and properties is set forth below:

<u>Location</u>	<u>Approx. Size (Sq. Ft.)</u>
Maynard, Mass. ....	1,760,000
Marlboro, Mass. ....	700,000
Westminster, Mass. ....	520,000
Westfield, Mass. ....	520,000

Additional manufacturing facilities are located in Massachusetts, Puerto Rico, Ireland, Canada, Taiwan and Hong Kong. Operations in Puerto Rico were expanded during the fiscal year ended June 29, 1974.

In addition, the Company is considering the construction of new facilities in Phoenix, Arizona, Salem, New Hampshire and certain other locations in Massachusetts.

### Item 4. *Parents and Subsidiaries.*

Subsidiaries of the Company are listed below. The Company owns 100% of the voting securities of each of its subsidiaries.

<u>Name</u>	<u>State or Jurisdiction of Incorporation</u>
Digital Equipment of Canada Limited	Canada
Digital Equipment GmbH	Germany
Digital Equipment Australia Pty. Limited	Australia
Digital Equipment Co. Ltd.	United Kingdom
Digital Equipment France S.A.R.L.	France
Digital Equipment Ab.	Sweden
Digital Equipment Corporation de Puerto Rico	Delaware
Digital Equipment S.p.A.	Italy
Digital Equipment Corporation S.A.	Switzerland
Digital Equipment Corporation International	Massachusetts
Digital Equipment B.V.	Netherlands
DEC Realty Trust	Massachusetts
Digital Equipment N.V.S.A.	Belgium
Digital Incorporated	Delaware
Digital International Sales Corporation	Delaware
DECSYS Computers Limited	Israel
Digital Equipment International Limited	Switzerland
Digital Equipment Corporation International (Europe)	Switzerland

<u>Name</u>	<u>State or Jurisdiction of Incorporation</u>
Digital Equipment Corporation A/S	Norway
Digital Equipment Corporation Gesellschaft M.B.H.	Austria
Digital Equipment New Zealand, Ltd.	New Zealand
Digital Equipment Taiwan Limited	Taiwan
Digital Equipment Corp. A/S	Denmark
Equipo Digital S.A. de C.V.	Mexico
Digital Equipment Corporation O.Y.	Finland
Digital Equipment Comercio e Industria, LTDA	Brazil
Computer Insurance Company Limited	Bermuda
Digital Equipment Caribbean Incorporated	Delaware
Digital Equipment Hong Kong Limited	Hong Kong
Digital Equipment Latin America, Inc.	Delaware

**Item 5. Pending Legal Proceedings.**

The Company has no material pending legal proceedings other than routine litigation incidental to the business.

**Item 6. Increases and Decreases in Outstanding Equity Securities.**

	<u>Par Common Stock Shares of \$1.00</u>
Outstanding June 30, 1973 .....	11,078,755
Issued from time to time throughout the year pursuant to the Company's various stock option plans .....	86,759(1)
Issued on September 11, 1973 in public offering .....	750,000(1)
Treasury shares repurchased in private transactions from time to time throughout the year pursuant to the provisions of the Company's Restricted Stock Purchase Plan .....	(5,584)
Issued in pooling of interests (See Note G of Notes to Consolidated Financial Statements) .....	21,911(1)
Outstanding June 29, 1974 .....	<u>11,931,841</u>

(1) These shares are or will be registered under the Securities Act of 1933.

**Item 7. Approximate Number of Equity Security Holders.**

<u>(1) Title of Class</u>	<u>(2) Number of Record Holders</u>
Common Stock Par Value \$1.00 per share .....	14,319 at August 7, 1974

**Item 8. Executive Officers of the Registrant.**

Kenneth H. Olsen, age 48, President and Chief Executive Officer of the Registrant from 1957 to the present; brother of Stanley C. Olsen.

C. Gordon Bell, age 40, Vice President, Engineering of the Registrant from 1972 to the present; joined the Registrant in 1962 and served as an employee or consultant until his election as Vice President.

Alfred M. Bertocchi, age 47, Vice President-Finance and Treasurer of the Registrant from 1971 to the present; Vice President, Controller of McCord Corporation from 1966 to 1971.

Winston R. Hindle, Jr., age 44, Vice President, Group Manager of the Registrant from 1967 to the present.

Theodore G. Johnson, age 42, Vice President, Sales and Service of the Registrant from 1967 to the present.

Peter J. Kaufmann, age 42, Vice President, Manufacturing of the Registrant from 1966 to the present.

Andrew C. Knowles III, age 38, Vice President, Group Manager of the Registrant from 1972 to the present; employed by Registrant prior to 1972.

Stanley C. Olsen, age 46, Vice President, Group Manager of the Registrant from 1967 to the present; brother of Kenneth H. Olsen.

Edward A. Schwartz, age 36, General Counsel of the Registrant since 1967 and Secretary since 1969.

Richard J. Clayton, age 34, appointed Vice President, Computer Systems Development, in 1974; employed by Registrant between 1968 and 1974 as a Product Group Manager and Product Line Manager.

John Leng, age 40, appointed Vice President, Large Computers, in 1974; employed by Registrant between 1963 and 1974 as an Engineering/Manufacturing Manager, General Manager, Regional Manager and Product Line Manager.

William H. Long, age 41, appointed Vice President, OEM, in 1974; employed by Registrant between 1963 and 1974 as a Design Engineer, Product Group Manager and Product Line Manager.

Julius L. Marcus, age 35, appointed Vice President, Communications, in 1974; employed by Registrant between 1969 and 1974 as a Marketing Manager and Product Line Manager.

Gerald T. Moore, age 45, appointed Vice President, North American Sales, in 1974; employed by Registrant between 1962 and 1974 as a Sales Engineer, District Sales Manager, Regional Sales Manager and North American Sales Manager.

Lawrence J. Portner, age 38, appointed Vice President, Software Development, in 1974; employed by Registrant between 1963 and 1974 as a Software Engineer and Services Group Manager.

Jean-Claude Peterschmitt, age 41, appointed Vice President, Europe, in 1974; employed by Registrant between 1967 and 1974 as a District Manager and European Manager.

Robert W. Puffer, III, age 33, appointed Vice President, Hardware Development, in 1974; employed by Registrant between 1969 and 1974 as a Manager of Manufacturing Engineering and Engineering Manager.

John J. Shields, age 36, appointed Vice President, Field Service and Training, in 1974; employed by Registrant between 1961 and 1974 as a Field Service Engineer, Field Service Manager and Customer Services Manager.

**Item 9. Indemnification of Directors and Officers.**

Section 67 of the Massachusetts Business Corporation Law, Chapter 156B of the General Laws provides:

"Indemnification of directors, officers, employees and other agents of a corporation, and persons who serve at its request as directors, officers, employees or other agents of another organization in which it directly or indirectly owns shares or of which it is a creditor, may be provided by it to whatever extent shall be specified in or authorized by (i) the articles of organization or (ii) a by-law adopted by the stockholders or (iii) a vote adopted by the holders of a majority of the shares of stock entitled to vote on the election of directors. Except as the articles of organization or by-laws otherwise require, indemnification of any persons referred to in the preceding sentence who are not directors of the corporation may be provided by it to the extent authorized by the directors. Such indemnification may include payment by the corporation of expenses incurred in defending a civil or criminal action or proceeding in advance of the final disposition of such action or proceeding, upon receipt of an undertaking by the person indemnified to repay such payment if he shall be adjudicated to be not entitled to indemnification under this section. Any such indemnification may be provided although the person to be indemnified is no longer an officer, director, employee or agent of the corporation or of such other organization.

"No indemnification shall be provided for any person with respect to any matter as to which he shall have been adjudicated in any proceeding not to have acted in good faith in the reasonable belief that his action was in the best interests of the corporation.

"The absence of any express provision for indemnification shall not limit any right of indemnification existing independently of this section.

"A corporation shall have power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or other agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or other agent of another organization in which it owns shares or of which it is a creditor, against any liability incurred by him in any such capacity, or arising out of his status as such, whether or not the corporation would have the power to indemnify him against such liability."

Article V-2 of the Company's By-Laws provides:

"*Indemnification.* Each director, officer and employee shall be indemnified by this corporation against any cost, expense (including attorneys' fees), judgment and/or liability reasonably incurred by or imposed upon him in connection with any action, suit or proceeding, (including any proceeding before any administrative or legislative body or agency), to which he may be made a party or otherwise involved or with which he shall be threatened, by reason of his being

a director, officer or employee of this corporation or of any other corporation which he serves or has served as director, officer or employee at the request of this corporation (whether or not he continues to be an officer, director or employee of this corporation or such other corporation at the time such action, suit or proceeding is brought or threatened), except with respect to matters as to which he shall be finally adjudged in any such action, suit or proceeding not to have acted in good faith in the reasonable belief that his action was in the best interests of this corporation; in the event of settlement of any action, suit or proceeding brought or threatened, such indemnification shall be limited to matters covered by the settlement as to which this corporation is advised by independent counsel (who may be the counsel regularly employed by the corporation) that such director, officer or employee, in the opinion of such counsel, acted in good faith in the reasonable belief that his action was in the best interests of this corporation. The foregoing right of indemnification shall be in addition to any rights to which any director, officer or employee may otherwise be entitled and shall inure to the benefit of the executors or administrators of each such director, officer or employee. This section shall be subject to amendment or repeal only by action of the stockholders."

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Company pursuant to the foregoing provisions, or otherwise, the Company is advised that, in the opinion of the Securities and Exchange Commission, such provisions are against public policy as expressed in the Act and therefore unenforceable. In the event a claim for indemnification under the By-Laws of the Company or otherwise is asserted by an officer or director or controlling person for liabilities arising under the Securities Act of 1933, with respect to the securities referred to herein, the Company will (unless the question has already been determined by a precedent deemed by counsel for the Company to be controlling) submit to a court of competent jurisdiction the question of whether such indemnification by the Company is against public policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue.

The Company and its directors have directors' liability insurance contracts.

**Item 10. Financial Statements and Exhibits Filed.**

(a) Financial Statements and supporting schedules, as indexed on page F-1.

(b) Exhibits.

1 —Computation of net income per share.

(c) Identification of Basic Documents pursuant to Rule 12b-34.

There are hereby identified as basic documents of the registrant pursuant to Rule 12b-34(c) under the Securities Exchange Act of 1934 (the "Act") the following documents filed herein or previously filed with the Securities and Exchange Commission pursuant to the Act or the Securities Act of 1933:

- 1 —Copy of Restated Articles of Organization (Filed as Exhibit 3(a) to Registrant's Registration Statement No. 2-25291 and incorporated herein by reference).
- 2 —Copy of Articles of Amendment filed with the Massachusetts Secretary of State on November 8, 1968. (Filed as Exhibit 3(b) to Registrant's Registration Statement No. 2-34207 and incorporated herein by reference).

- 3 —Copy of Articles of Amendment filed with the Massachusetts Secretary of State on October 31, 1969. (Filed as Exhibit 3(c) to Registrant's Registration Statement No. 2-37080 and incorporated herein by reference).
- 4 —Copy of Articles of Merger filed with the Massachusetts Secretary of State on June 27, 1974. (Filed as Exhibit 1 to Registrant's Form 8-K for the month of June 1974).
- 5 —Copy of By-Laws (Filed as Exhibit 1(a) to Registrant's Registration Statement No. 1-5296 and incorporated herein by reference).
- 6 —Form of Certificate for Common Stock (Filed as Exhibit 4 to Registrant's Form 10-K for the fiscal year ended July 3, 1971 and incorporated herein by reference).

**PART II**

Within 120 days of the close of the fiscal year, the registrant will file with the Commission a definitive proxy statement pursuant to Regulation 14(a) and accordingly, pursuant to section H of the General Instructions, Part II has not been submitted.

**SIGNATURES**

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

DIGITAL EQUIPMENT CORPORATION

ALFRED M. BERTOCCHI

By .....  
Alfred M. Bertocchi,  
Vice President — Finance and Treasurer

September 24, 1974

DIGITAL EQUIPMENT CORPORATION  
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XII Reserves .....	S-5

All other schedules have been omitted since they are not required, not applicable or the information has been included elsewhere in this document.

Individual financial statements of the Company have been omitted because it is primarily an operating company and the consolidated subsidiaries are wholly-owned and are not indebted, in a material amount, to any person other than the parent or the consolidated subsidiaries.

## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

DIGITAL EQUIPMENT CORPORATION  
Maynard, Massachusetts

We have examined the consolidated balance sheets of Digital Equipment Corporation as at June 29, 1974 and June 30, 1973 and the related consolidated statements of income (included under the caption "Consolidated Statements of Income"), stockholders' equity and changes in financial position for the five years ended June 29, 1974 and the supporting schedules for the two years then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the consolidated financial position of Digital Equipment Corporation at June 29, 1974 and June 30, 1973, the consolidated results of its operations and the consolidated changes in its financial position for the five years ended June 29, 1974, and the supporting schedules (pages S-1 through S-5) present fairly the information required to be included therein, all in conformity with generally accepted accounting principles applied on a consistent basis.

Boston, Massachusetts  
August 12, 1974

COOPERS & LYBRAND

# DIGITAL EQUIPMENT CORPORATION

## CONSOLIDATED BALANCE SHEETS

	ASSETS		
		<u>June 29, 1974</u>	<u>June 30, 1973</u>
<b>CURRENT ASSETS</b>			
Cash .....		\$ 7,852,000	\$ 4,960,000
Marketable securities, at cost which approximates market .....		30,894,000	—
Accounts receivable, net of allowances of \$4,735,000 and \$3,017,000 (Schedule XII) .....		144,578,000	107,239,000
Inventories (Note A)			
Raw materials .....		36,445,000	27,315,000
Work-in-process .....		45,592,000	37,650,000
Finished goods .....		55,365,000	37,778,000
		<u>137,402,000</u>	<u>102,743,000</u>
Prepaid expenses .....		3,430,000	1,633,000
<b>TOTAL CURRENT ASSETS</b> .....		<u>324,156,000</u>	<u>216,575,000</u>
<b>INVESTMENTS (Note B)</b>			
Marketable securities, at cost which approximates market .....		18,069,000	5,259,000
<b>PROPERTY, PLANT AND EQUIPMENT, AT COST (Note A and Schedules V and VI)</b>			
Land .....		5,626,000	3,334,000
Buildings .....		50,212,000	27,739,000
Leasehold improvements .....		3,403,000	4,601,000
Computer systems .....		1,373,000	7,574,000
Machinery and equipment .....		66,780,000	40,694,000
		<u>127,394,000</u>	<u>83,942,000</u>
Less accumulated depreciation .....		29,349,000	18,379,000
		<u>98,045,000</u>	<u>65,563,000</u>
		<u>\$440,270,000</u>	<u>\$287,397,000</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Loans payable to banks .....		\$ 8,121,000	\$ 7,823,000
Accounts payable .....		27,977,000	21,206,000
Federal, foreign and state income taxes .....		16,603,000	13,133,000
Salaries, wages and related items .....		12,238,000	8,204,000
Deferred revenues and customer advances (Note A) .....		9,589,000	7,895,000
Current portion of long-term debt .....		345,000	—
Other current liabilities .....		10,663,000	5,590,000
<b>TOTAL CURRENT LIABILITIES</b> .....		<u>85,536,000</u>	<u>63,851,000</u>
Deferred Federal and foreign income taxes .....		4,514,000	—
Long-term debt (Note F) .....		10,575,000	—
<b>STOCKHOLDERS' EQUITY (Note D)</b>			
Common stock, \$1.00 par value; authorized 36,000,000 shares; issued and outstanding 11,931,841 and 11,078,755 shares .....		11,932,000	11,079,000
Additional paid-in capital .....		195,027,000	124,181,000
Retained earnings .....		132,686,000	88,286,000
<b>TOTAL STOCKHOLDERS' EQUITY</b> .....		<u>339,645,000</u>	<u>223,546,000</u>
		<u>\$440,270,000</u>	<u>\$287,397,000</u>

The accompanying notes are an integral part of the financial statements.

## DIGITAL EQUIPMENT CORPORATION

### CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	COMMON STOCK				
	Year Ended				
	July 29, 1974	June 30, 1973	July 1, 1972	July 3, 1971	June 27, 1970
Balance at beginning of period .....	\$ 11,079,000	\$ 10,343,000	\$10,239,000	\$ 9,673,000	\$ 9,216,000
Par value of shares issued under employee stock option and purchase plans, net of repurchases (Note D) .....	81,000	136,000	104,000	66,000	207,000
Par value of common stock sold in public sales .....	750,000	600,000	—	500,000	250,000
Par value of common stock issued in pooling of interests (Note G) .....	22,000	—	—	—	—
Balance at end of period .....	<u>\$ 11,932,000</u>	<u>\$ 11,079,000</u>	<u>\$10,343,000</u>	<u>\$10,239,000</u>	<u>\$ 9,673,000</u>
<b>ADDITIONAL PAID-IN CAPITAL</b>					
Balance at beginning of period .....	\$124,181,000	\$ 69,678,000	\$66,129,000	\$27,785,000	\$11,687,000
Amount in excess of par value received from public sales of common stock .....	63,832,000	49,729,000	—	35,924,000	14,542,000
Amount in excess of par value received on exercise of stock options, net of repurchases (Note D) .....	4,036,000	3,365,000	2,502,000	1,320,000	1,501,000
Restricted stock plan (Note D):					
Charge to operations .....	1,444,000	563,000	435,000	475,000	55,000
Excess federal income tax benefits .....	867,000	700,000	475,000	450,000	—
Other .....	667,000	146,000	137,000	175,000	—
Balance at end of period .....	<u>\$195,027,000</u>	<u>\$124,181,000</u>	<u>\$69,678,000</u>	<u>\$66,129,000</u>	<u>\$27,785,000</u>
<b>RETAINED EARNINGS</b>					
Balance at beginning of period .....	\$ 88,286,000	\$ 64,786,000	\$49,486,000	\$38,886,000	\$24,486,000
Net income per "Consolidated Statements of Income" .....	44,400,000	23,500,000	15,300,000	10,600,000	14,400,000
Balance at end of period .....	<u>\$132,686,000</u>	<u>\$ 88,286,000</u>	<u>\$64,786,000</u>	<u>\$49,486,000</u>	<u>\$38,886,000</u>

The accompanying notes are an integral part of the financial statements.

**DIGITAL EQUIPMENT CORPORATION**  
**CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION**

SOURCE OF FUNDS	Year Ended				
	June 29, 1974	June 30, 1973	July 1, 1972	July 3, 1971	June 27, 1970
From operations:					
Net income .....	\$ 44,400,000	\$23,500,000	\$15,300,000	\$10,600,000	\$14,400,000
Add expenses not requiring working capital in the current period:					
Depreciation (Note A) .....	12,374,000	8,032,000	5,053,000	2,941,000	1,876,000
Book value of computer systems sold (Note A) .....	5,229,000	5,174,000	5,429,000	6,011,000	—
Restricted stock plan — charge to operations (Note D) .....	<u>1,444,000</u>	<u>563,000</u>	<u>435,000</u>	<u>475,000</u>	<u>55,000</u>
	<u>63,447,000</u>	<u>37,269,000</u>	<u>26,217,000</u>	<u>20,027,000</u>	<u>16,331,000</u>
Restricted stock plan — excess Federal income tax benefits (Note D) .....	867,000	700,000	475,000	450,000	—
Sale of common stock .....	64,582,000	50,329,000	—	36,424,000	14,792,000
Deferred Federal and foreign income taxes .....	4,514,000	—	—	—	—
Increase in long-term debt (Note F) .....	10,575,000	—	—	—	—
Cost of marketable securities sold .....	—	5,433,000	—	—	—
Common stock issued under option plans, net of repurchases (Note D) .....	4,117,000	3,501,000	2,606,000	1,386,000	1,708,000
Other .....	<u>689,000</u>	<u>146,000</u>	<u>137,000</u>	<u>175,000</u>	<u>—</u>
	<u>148,791,000</u>	<u>97,378,000</u>	<u>29,435,000</u>	<u>58,462,000</u>	<u>32,831,000</u>
USE OF FUNDS					
Investments in marketable securities .....	12,810,000	—	1,142,000	9,550,000	—
Additions to property, plant and equipment .....	<u>50,085,000</u>	<u>31,810,000</u>	<u>27,714,000</u>	<u>18,393,000</u>	<u>14,938,000</u>
	<u>62,895,000</u>	<u>31,810,000</u>	<u>28,856,000</u>	<u>27,943,000</u>	<u>14,938,000</u>
INCREASE IN WORKING CAPITAL .....	<u>\$ 85,896,000</u>	<u>\$65,568,000</u>	<u>\$ 579,000</u>	<u>\$30,519,000</u>	<u>\$17,893,000</u>
CHANGES IN WORKING CAPITAL					
Cash .....	\$ 2,892,000	\$ 1,568,000	\$(2,006,000)	\$(1,741,000)	\$ 6,290,000
Marketable securities .....	30,894,000	—	(10,315,000)	10,315,000	—
Accounts receivable .....	37,339,000	38,872,000	18,455,000	7,985,000	13,857,000
Inventories .....	34,659,000	40,626,000	17,676,000	1,398,000	18,220,000
Prepaid expenses .....	<u>1,797,000</u>	<u>744,000</u>	<u>90,000</u>	<u>(1,627,000)</u>	<u>1,087,000</u>
Total Current Assets .....	<u>107,581,000</u>	<u>81,810,000</u>	<u>23,900,000</u>	<u>16,330,000</u>	<u>39,454,000</u>
Loans payable to banks .....	(298,000)	793,000	(8,616,000)	20,217,000	(14,616,000)
Commercial paper payable .....	—	5,800,000	(5,800,000)	—	—
Accounts payable .....	(6,771,000)	(12,406,000)	(942,000)	(3,814,000)	228,000
Federal, foreign and state income taxes ..	(3,470,000)	(924,000)	(2,895,000)	(2,275,000)	(4,114,000)
Current portion of long-term debt .....	(345,000)	—	—	—	—
Other current liabilities .....	<u>(10,801,000)</u>	<u>(9,505,000)</u>	<u>(5,068,000)</u>	<u>61,000</u>	<u>(3,059,000)</u>
Total Current Liabilities .....	<u>(21,685,000)</u>	<u>(16,242,000)</u>	<u>(23,321,000)</u>	<u>14,189,000</u>	<u>(21,561,000)</u>
	<u>\$ 85,896,000</u>	<u>\$65,568,000</u>	<u>\$ 579,000</u>	<u>\$30,519,000</u>	<u>\$17,893,000</u>

The accompanying notes are an integral part of the financial statements.

## DIGITAL EQUIPMENT CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### Note A — Significant Accounting Policies

##### *Principles of Consolidation:*

The consolidated financial statements of the Company include the financial statements of the parent and its domestic and foreign subsidiaries, all of which are wholly-owned. All significant inter-company accounts and profits have been eliminated.

##### *Translation of Foreign Currencies:*

The financial statements of foreign subsidiaries have been translated into U.S. dollars as follows: assets and liabilities originating in foreign currencies at fiscal year-end prevailing rates, (except that property, plant and equipment and related depreciation were translated at rates in effect at the asset acquisition dates) and revenues and expenses other than depreciation at average monthly rates. The resulting unrealized gains have been deferred, and the unrealized losses have been charged to income.

Forward exchange contracts are entered into to reduce the impact of foreign currency fluctuations on certain sales transactions and the asset and liability positions of foreign subsidiaries. The gains or losses on these contracts are included in income when the revenue from the sale is recognized or, for assets and liabilities, on the same basis as the translation described in the preceding paragraph.

##### *Revenue Recognition:*

Revenues from equipment sales are recognized at the time the equipment is shipped. Services and other operating revenues are recognized ratably over the contractual period or as the services are performed.

##### *Research and Engineering and Warranty Costs:*

Research and engineering costs and warranty costs are expensed as incurred.

##### *Inventories:*

Inventories are stated at the lower of cost (first-in, first-out) or market.

##### *Taxes:*

In general, the Company's practice is to reinvest the earnings of its foreign subsidiaries and of its domestic subsidiary operating in Puerto Rico in those operations and repatriation of retained earnings is done only when it is advantageous to do so. United States Federal income taxes are provided only on amounts planned to be remitted. The Company has elected to provide for taxes on the entire income of its Domestic International Sales Corporation (DISC). Investment tax credits are credited directly to income.

##### *Property, Plant and Equipment:*

Depreciation expense is computed on a straight-line basis for buildings and leasehold improvements and on either the double declining-balance or sum-of-the-years digits basis for machinery and equipment.

## DIGITAL EQUIPMENT CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

#### Note A — Significant Accounting Policies — (Continued)

When fixed assets are retired or otherwise disposed of, the Company charges accumulated depreciation with the amount of depreciation accrued with respect to the assets being retired and records any resulting gain or loss. When computer systems manufactured by the Company and used in the business are sold, the net book value is charged to cost of sales and the proceeds included in net sales.

Maintenance, repairs, renewals and betterments (not in the nature of capital expenditures) are charged to expense in the period in which incurred.

#### Note B — Foreign and Domestic Subsidiaries

##### a. Foreign Subsidiaries

Information with respect to the Company's foreign manufacturing and sales subsidiaries before elimination of intercompany transactions, is as follows:

	ASSETS	
	June 29, 1974	June 30, 1973
Current assets .....	\$100,993,000	\$61,145,000
Property, plant and equipment — net .....	12,634,000	7,981,000
	<u>\$113,627,000</u>	<u>\$69,126,000</u>
	LIABILITIES AND STOCKHOLDER'S EQUITY	
Current liabilities .....	\$ 32,722,000	\$23,778,000
Intercompany obligations .....	54,246,000	27,292,000
Capital stock .....	1,067,000	927,000
Retained earnings .....	25,592,000	17,129,000
	<u>\$113,627,000</u>	<u>\$69,126,000</u>

##### b. Domestic Subsidiary

Consolidated net income includes income of a domestic manufacturing subsidiary operating in Puerto Rico. Under an exemption which expires in 1981, (for years 1982 through 1991 income is partially exempt), the income of this subsidiary is not subject to Puerto Rican income taxes. Earnings of this subsidiary included in consolidated retained earnings aggregated approximately \$28,000,000 at June 29, 1974. These earnings, if partially or fully repatriated under certain circumstances, may be subject to United States Federal income taxes at normal rates. These earnings have been retained in Puerto Rico and in part invested in marketable securities. The parent company has not made any provision for Federal income taxes with respect to these earnings because it has no current plans to repatriate these earnings.

## DIGITAL EQUIPMENT CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

#### Note C — Pension Plans

The Company has several noncontributory pension plans covering substantially all employees. Pension costs are charged to income and funded currently. Total pension costs were \$3,050,000 in 1974; \$1,750,000 in 1973; \$1,200,000 in 1972; \$1,050,000 in 1971 and \$600,000 in 1970.

#### Note D — Stock Option Plans

##### *Qualified Stock Options*

Under its 1965 Qualified Stock Option Plan, the Company has granted certain officers and key employees options to purchase common stock within five years from the grant date at 100% of market price on the grant date. During fiscal 1974 options to purchase 182,200 shares were granted and options to purchase 18,819 shares were terminated.

Common stock reserved for future grants aggregated 185,174 and 148,555 shares at June 29, 1974 and June 30, 1973, respectively.

Qualified options outstanding at June 29, 1974 follow:

Fiscal Year Granted	Number of Shares	Option Price and Market Price on Grant Date	
		Per Share	Total
1970 .....	8,705	\$89.44 - \$ 96.94	\$ 779,325
1971 .....	15,817	59.25 - 75.50	957,470
1972 .....	48,986	65.50 - 83.12	3,522,115
1973 .....	125	82.13	10,266
1974 .....	179,750	82.44 - 116.50	17,412,540
	<u>253,383</u>		<u>\$22,681,716</u>

Information with respect to qualified options exercisable or exercised in fiscal 1970 through 1974 follow:

Options Which Became Exercisable	Number of Shares	Option Price		Market Price	
		Per Share	Total	Per Share	Total
1970 .....	48,825	\$ 2.67 - \$ 46.88	\$ 876,997	\$65.62 - \$117.50	\$4,750,406(a)
1971 .....	73,900	6.92 - 96.94	3,016,792	53.38 - 85.12	4,844,701(a)
1972 .....	20,815	49.42 - 96.94	1,165,981	61.25 - 91.12	1,563,788(a)
1973 .....	32,057	59.25 - 96.94	2,321,645	78.00 - 94.50	2,703,720(a)
1974 .....	24,026	59.25 - 96.94	1,694,506	94.88 - 116.38	2,541,423(a)

## DIGITAL EQUIPMENT CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

#### Note D — Stock Option Plans — (Continued)

Options Exercised	Number of Shares	Option Price		Market Price	
		Per Share	Total	Per Share	Total
1970 .....	49,153	\$ 2.33 - \$ 45.13	\$ 474,297	\$62.50 - \$122.00	\$4,659,196(b)
1971 .....	29,155	2.67 - 53.50	486,108	53.25 - 88.00	1,880,475(b)
1972 .....	32,901	7.33 - 59.25	1,186,721	65.38 - 96.62	2,649,617(b)
1973 .....	31,065	27.58 - 65.50	1,444,768	77.94 - 104.44	2,700,415(b)
1974 .....	28,794	51.67 - 89.44	1,811,241	80.94 - 121.13	3,081,425(b)

(a) At the date the options become exercisable.

(b) At the date the options were exercised.

Of the 253,383 shares under option at June 29, 1974, 37,800 shares are presently exercisable with 66,608 shares becoming exercisable in fiscal 1975, 59,100 shares in fiscal 1976, 44,937 shares in fiscal 1977, and 44,938 in fiscal 1978.

Of the gross proceeds realized by the Company upon the exercise of options \$1 per share (par value) is credited to the common stock account and the balance is credited to additional paid-in capital. There have been no charges to income in connection with these options other than incidental expenses related to the issuance of the shares.

#### *Restricted Stock Options*

Under its 1968 Restricted Stock Purchase Plan, the Company has granted certain officers and key employees options to purchase common stock at a price determined by the Board of Directors. Shares purchased under the plan are generally subject to repurchase options and restrictions on sales which lapse equally over a ten year period. During fiscal 1974, options to purchase 149,038 shares were granted and options to purchase 7,080 shares were terminated.

Common stock reserved for future grants aggregated 150,837 and 42,795 shares at June 29, 1974 and June 30, 1973, respectively.

Restricted options outstanding at June 29, 1974 follow:

Fiscal Year Granted	Number of Shares	Option Price		Fair Market Value(a)	
		Per Share	Total	Per Share	Total
1972 .....	31,990	\$12.50	\$ 399,875	\$65.50 - \$ 83.75	\$ 2,379,470
1973 .....	95,210	14.00	1,332,940	80.50 - 93.25	7,736,170
1974 .....	148,238	20.25	3,001,820	88.75 - 116.50	15,835,251
	<u>275,438</u>		<u>\$4,734,635</u>		<u>\$25,950,891</u>

## DIGITAL EQUIPMENT CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

#### Note D — Stock Option Plans — (Continued)

Information with respect to options exercised in fiscal 1970 through 1974 follows:

	Number of Shares	Option Price		Fair Market Value(b)	
		Average Per Share	Total	Per Share	Total
1970 .....	123,320	\$ 4.79	\$ 590,800	\$58.50 - \$121.00	\$10,530,436
1971 .....	33,535	7.79	261,290	49.75 - 85.00	2,287,590
1972 .....	67,760	10.59	717,243	61.25 - 96.62	5,529,451
1973 .....	101,450	11.82	1,198,772	75.62 - 102.81	8,962,242
1974 .....	30,160	12.69	382,760	80.13 - 121.13	3,263,060

(a) At dates options were granted.

(b) At dates options were exercised and without regard to restrictions as to sale.

At the time these options are exercised, the common stock account is increased by the par value (\$1 per share) of the shares sold and the remaining portion of the proceeds is credited to additional paid-in capital. The excess of the fair market value (as adjusted for the restrictions for options granted before January 1, 1973) of the shares on the grant date over the option price is charged to operations each year as the restrictions lapse. Such charges to operations amounted to \$1,444,000, \$563,000, \$435,000, \$475,000 and \$55,000 in fiscal years 1974-1970, respectively. The amount actually deductible for Federal income taxes exceeds the amount charged to income for book purposes; the Federal income tax benefits relating to this difference have been credited to additional paid-in capital.

#### *Employee Stock Purchase Plan*

Under the Company's 1968 Stock Purchase Plan, all United States and Canadian employees may be granted options to purchase common stock at 85% of market value on the grant date or on the first business day six months preceding the grant date, whichever is lower. 176,026 unissued shares of common stock were reserved at June 29, 1974 for options to be granted. 27,808 shares were issued at an average price of \$71.16 in fiscal 1974, 12,749 shares were issued at an average price of \$73.70 in fiscal 1973, 13,386 shares at an average price of \$57.12 per share in fiscal 1972, 12,187 shares at \$56.25 in fiscal 1971, and 4,748 shares at \$55.75 in fiscal 1970. There have been no charges to income in connection with the options other than incidental expenses related to the issuance of the shares.

#### Note E — Leases

Minimum annual rentals for the next five years and succeeding three five year periods thereafter under non-cancelable leases (which are principally for leased regional sales offices and manufacturing space) are as follows: 1975 — \$5,200,000; 1976 — \$3,700,000; 1977 — \$2,500,000; 1978 — \$1,900,000; 1979 — \$1,600,000; 1980-1984 — \$4,900,000; 1985-1989 — \$2,300,000 and 1990-1994 — \$2,100,000. The Company has no significant non-capitalized financing leases.

## DIGITAL EQUIPMENT CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

#### Note F — Debt

Long-term debt was assumed by the Company in connection with the purchase in September 1973 of a manufacturing and office facility in Marlboro, Mass. Interest is payable semi-annually at a weighted average interest rate of 5.3%. Principal payments are due as follows: 1975 — \$345,000; 1976 — \$360,000; 1977 — \$380,000; 1978 — \$400,000; 1979 — \$425,000, and 1980-1993 — \$9,010,000.

The Company has various lines of credit with several banks and has used these lines on occasion to finance short-term domestic and foreign operating requirements. During the year the borrowings ranged from \$7,500,000 to \$20,600,000, averaging \$12,000,000. The average interest rate, based on a weighted average of the stated month-end interest rates, paid on these borrowings during this period was approximately 12%. The average interest rate on borrowings outstanding at June 29, 1974, principally in foreign currencies, was approximately 13%.

#### Note G — Pooling of Interests

In June 1974, the Company issued 21,911 shares of its common stock to the holders of all the outstanding common stock of Maynard Industries, Inc. and Maynard Development Co., Inc. which owned certain land and buildings in Maynard, Massachusetts substantially all of which had previously been leased by the Company. This transaction was accounted for as a pooling of interests. The balance sheets of the pooled companies have been included in the June 29, 1974 consolidated balance sheet. Prior balance sheets and the consolidated results of operations for the period ended June 29, 1974 and prior periods have not been restated because the effect would be insignificant.

#### Note H — Supplementary Income Statement Information

	Charged to costs and expenses — Year Ended				
	June 29, 1974	June 30, 1973	July 1, 1972	July 3, 1971	June 27, 1970
Maintenance and repairs .....	\$ 3,384,000	\$ 1,768,000	\$ 931,000	\$ 556,000	\$ 567,000
Depreciation of property, plant and equipment .....	\$12,374,000	\$ 8,032,000	\$ 5,053,000	\$ 2,941,000	\$ 1,876,000
Taxes other than income taxes:					
Payroll .....	\$10,787,000	\$ 6,470,000	\$ 3,949,000	\$ 2,831,000	\$ 2,131,000
State, local and other taxes .....	5,168,000	2,747,000	1,526,000	952,000	1,013,000
Rents .....	\$ 6,625,000	\$ 4,790,000	\$ 3,033,000	\$ 2,133,000	\$ 1,194,000
Advertising costs .....	\$ 4,962,000	\$ 4,088,000	\$ 3,698,000	\$ 3,073,000	\$ 2,422,000
Research and development costs .....	\$36,599,000	\$24,933,000	\$20,137,000	\$16,668,000	\$13,269,000

## DIGITAL EQUIPMENT CORPORATION

## PROPERTY, PLANT AND EQUIPMENT

Year Ended June 29, 1974

Column A	Column B	Column C	Column D	Column E		Column F
Classification	Balance at Beginning of Period	Additions at Cost	Retirements and Sales	Other changes — add (deduct) — describe		Balance at End of Period
				Transfers	Other	
Land .....	\$ 3,334,000	\$ 2,302,000			\$ (10,000)	\$ 5,626,000
Buildings .....	27,739,000	19,294,000(b)	\$ 7,000	\$ 2,504,000	682,000(e)	50,212,000
Leasehold improvements .....	4,601,000	1,405,000	85,000	(2,518,000)		3,403,000
Computer systems(a)	7,574,000	4,459,000	3,165,000	(6,322,000)	(1,173,000)(d)	1,373,000
Machinery and equipment .....	40,694,000	22,625,000(c)	2,095,000	6,336,000	(780,000)(d)	66,780,000
	<u>\$83,942,000</u>	<u>\$50,085,000</u>	<u>\$5,352,000</u>	<u>\$ —</u>	<u>\$(1,281,000)</u>	<u>\$127,394,000</u>

(a) See note A of Notes to Consolidated Financial Statements.

(b) Principally purchase of a manufacturing and office facility in Marlboro, Mass. and expansion of manufacturing facilities in Puerto Rico and U.S.

(c) Principally equipment acquired for use in the Company's manufacturing operations.

(d) Principally computer systems sold included in cost of sales.

(e) Buildings of companies acquired in pooling of interests. See Note G of Notes to Consolidated Financial Statements.

## DIGITAL EQUIPMENT CORPORATION

## PROPERTY, PLANT AND EQUIPMENT

Year Ended June 30, 1973

Column A	Column B	Column C	Column D	Column E		Column F
Classification	Balance at Beginning of Period	Additions at Cost	Retirements and Sales	Other Changes — add (deduct) — describe		Balance at End of Period
				Transfers	Other	
Land .....	\$ 2,451,000	\$ 884,000	\$ 1,000			\$ 3,334,000
Buildings .....	14,271,000	13,635,000(b)	59,000	\$ (108,000)		27,739,000
Leasehold improvements ..	3,747,000	875,000	129,000	108,000		4,601,000
Computer systems(a) ....	7,997,000	4,213,000(c)	1,418,000	(1,296,000)	\$(1,922,000)	7,574,000
Machinery and equipment .....	<u>30,469,000</u>	<u>12,203,000(c)</u>	<u>199,000</u>	<u>1,296,000</u>	<u>(3,075,000)</u>	<u>40,694,000</u>
	<u>\$58,935,000</u>	<u>\$31,810,000</u>	<u>\$1,806,000</u>	<u>\$ —</u>	<u>\$(4,997,000)(d)</u>	<u>\$83,942,000</u>

(a) See note A of Notes to Consolidated Financial Statements.

(b) Principally expansion of administration, manufacturing and training facilities.

(c) Principally equipment acquired for use in the Company's manufacturing operations.

(d) Principally computer systems sold included in cost of sales.

## DIGITAL EQUIPMENT CORPORATION

## ACCUMULATED DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

Year Ended June 29, 1974

Column A	Column B	Column C	Column D	Column E		Column F
Classification	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Retirements and Sales	Other Changes — add (deduct) — describe		Balance at End of Period
				Transfers	Other	
Buildings . . . . .	\$ 959,000	\$ 994,000		\$ 1,422,000	\$ 475,000 (a)	\$ 3,850,000
Leasehold improvements . .	1,642,000	767,000	\$ 70,000	(1,422,000)		917,000
Machinery and equipment . . . .	<u>15,778,000</u>	<u>10,613,000</u>	<u>1,173,000</u>		(636,000)(b)	<u>24,582,000</u>
	<u>\$18,379,000</u>	<u>\$12,374,000</u>	<u>\$1,243,000</u>	<u>\$ —</u>	<u>\$(161,000)</u>	<u>\$29,349,000</u>

(a) Accumulated depreciation related to buildings of companies acquired in pooling of interests. See Note G of Notes to Consolidated Financial Statements.

(b) Computer systems sold included in cost of sales. (See Note A of Notes to Consolidated Financial Statements).

## DIGITAL EQUIPMENT CORPORATION

ACCUMULATED DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT  
Year Ended June 30, 1973

Column A	Column B	Column C	Column D	Column E	Column F
Classification	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Retirements and Sales	Other Changes — add (deduct) — describe	Balance at End of Period
Buildings .....	\$ 524,000	\$ 452,000	\$ 17,000		\$ 959,000
Leasehold improvements .....	1,086,000	652,000	96,000		1,642,000
Machinery and equipment ...	<u>10,366,000</u>	<u>6,928,000</u>	<u>173,000</u>	<u>\$(1,343,000)(a)</u>	<u>15,778,000</u>
	<u>\$11,976,000</u>	<u>\$8,032,000</u>	<u>\$286,000</u>	<u>\$(1,343,000)</u>	<u>\$18,379,000</u>

(a) Computer systems sold included in cost of sales. (See Note A of Notes to Consolidated Financial Statements).

DIGITAL EQUIPMENT CORPORATION  
RESERVES

Column A	Column B	Column C		Column D	Column E
Description	Balance at Beginning of Period	Additions		Deductions from Reserves — Describe	Balance at End of Period
		(1) Charged to Costs and Expenses	(2) Charged to Other Accounts — Describe		
Year Ended June 30, 1973					
Allowance for possible losses on accounts receivable .....	<u>\$1,768,000</u>	<u>\$1,983,000</u>	<u>\$—</u>	<u>\$ 734,000(a)</u>	<u>\$3,017,000</u>
Year Ended June 29, 1974					
Allowance for possible losses on accounts receivable .....	<u>\$3,017,000</u>	<u>\$2,948,000</u>	<u>\$—</u>	<u>\$1,230,000(a)</u>	<u>\$4,735,000</u>

(a) Uncollectible accounts and adjustments.

EXHIBIT 1 — COMPUTATION OF NET INCOME PER SHARE

Computation of Net Income per Common Share	Year Ended				
	June 29, 1974	June 30, 1973	July 1, 1972	July 3, 1971	June 27, 1970
Net Income .....	<u>\$44,400,000</u>	<u>\$23,500,000</u>	<u>\$15,300,000</u>	<u>\$10,600,000</u>	<u>\$14,400,000</u>
Weighted average number of shares of common stock outstanding during the year .....	11,687,848	10,874,477	10,282,319	10,043,923	9,534,854
Net income per common share ...	<u>\$3.80</u>	<u>\$2.16</u>	<u>\$1.49</u>	<u>\$1.06</u>	<u>\$1.51</u>

COMPUTATION OF NET INCOME PER SHARE IN ACCORDANCE WITH SECURITIES  
AND EXCHANGE COMMISSION REQUIREMENTS

The following computation is being provided in accordance with Securities Exchange Act of 1934 Release No. 9083, even though the amounts of per share net income on the fully diluted basis are not required to be stated under the provisions of Accounting Principles Board Opinion No. 15 since that Opinion provides that any reduction of less than 3% need not be considered dilution.

Weighted average number of shares of common stock outstanding during the year .....	11,687,848	10,874,477	10,282,319	10,043,923	9,534,854
Common stock equivalents from application of treasury stock method to exercised and out- standing options .....	<u>181,826</u>	<u>121,159</u>	<u>110,204</u>	<u>75,648</u>	<u>155,571</u>
Total weighted average number of shares of common stock outstand- ing during the year .....	<u>11,869,674</u>	<u>10,995,636</u>	<u>10,392,523</u>	<u>10,119,571</u>	<u>9,690,425</u>
Net income per common share ....	<u>\$3.74</u>	<u>\$2.14</u>	<u>\$1.47</u>	<u>\$1.05</u>	<u>\$1.49</u>

**FOR REFERENCE**  
Do Not Take From This Room

For Informational Purposes Only  
This report dated September 24, 1979 has not been periodically updated and may not be complete or accurate as of any subsequent date.

# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

## Form 10-K

Annual Report Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934

For the fiscal year ended June 30, 1979

Commission file number 1-5296

### Digital Equipment Corporation

(Exact name of registrant as specified in its charter)

Commonwealth of Massachusetts  
(State or other jurisdiction of  
incorporation or organization)

04-2226590  
(I.R.S. Employer  
Identification No.)

146 Main Street, Maynard, Massachusetts  
(Address of principal executive offices)

01754  
(Zip Code)

Registrant's telephone number, including area code (617) 897-5111

#### Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value \$1	} New York Stock Exchange Pacific Stock Exchange (Common Stock Only)
9 $\frac{3}{8}$ % Sinking Fund Debentures, due March 15, 2000	
4 $\frac{1}{2}$ % Convertible Subordinated Debentures, due December 15, 2002	
Title of each class	Name of each exchange on which registered

Securities registered pursuant to Section 12(g) of the Act: None

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  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the close of the period covered by this report. Number of shares of Common Stock, par value \$1, outstanding as of June 30, 1979: 40,605,516.

## PART I

### Item 1. *Business.*

#### *General*

Digital Equipment Corporation, a Massachusetts corporation founded in 1957, is a company with worldwide operations. At June 30, 1979, the Company employed approximately 44,000 persons and conducted operations in the United States and in more than 40 other countries.

The term "Company" when used herein refers to Digital Equipment Corporation or Digital Equipment Corporation and its subsidiaries, as required by the context.

The Company designs, manufactures, sells and services computers and associated peripheral equipment, and related software and supplies. The Company's products are used in a wide variety of applications and programs, including scientific research, computation, communications, education, data analysis, industrial control, time-sharing, commercial data processing, graphic arts, word processing, health care, instrumentation, engineering and simulation. Most of the Company's products are of its own design and are sold under its own name. The Company's marketing objective is to provide to customers a wide variety of computational resources, including the central processing units, memories, terminals, communications options, software, and field engineering, training and software support services.

The percentages of total operating revenues contributed by the Company's principal classes of products were as follows:

	<u>1979</u>	<u>1978</u>	<u>1977</u>	<u>1976</u>	<u>1975</u>
Equipment sales .....	76.6%	78.5%	80.1%	79.7%	81.2%
Service and other revenues .....	23.4%	21.5%	19.9%	20.3%	18.8%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Service and other revenues includes maintenance service, customer training, software revenues, replacement parts and, to a minor extent, equipment rentals.

#### *Systems and Products*

Over a period of years, the Company has developed a family of computers which have been designated as PDP®. The Company introduced its first computer system in 1960. Although new models are continually in development, earlier models are in use and parts, service and additional equipment for these models are still being sold.

The Company's principal products comprise various models of the PDP-8, PDP-11, DECsystem-10 and DECSYSTEM-20 computer families. Prices of various models of the Company's computer products range from approximately \$900 for the LSI-11/2 (a member of the PDP-11 family), to \$8,000 for the PDP-8/E minicomputer, to \$200,000 for the PDP-11/70, to \$250,000 for the VAX-11/780 system, and for the larger models of the DECsystem-10 family to in excess of \$1,350,000. However, the purchase price of all computer systems will vary depending upon the associated peripheral equipment.

The models included in the PDP-8 and PDP-11 families are general purpose digital computers designed for performing, interpreting and recording computations on collected data. Applications include controlling instruments, machines and industrial processes, education, oceanography, data communications, medical systems, commercial typesetting and commercial data processing.

Members of the PDP-11 family range from the LSI-11/2, a low-cost Original Equipment Manufacturer (OEM) oriented model, to the large VAX-11/780 model, a high-speed 32-bit computer.

The DECsystem-10 and the DECSYSTEM-20 are the largest computer systems presently being manufactured by the Company. These systems are designed for multi-user access, batch processing and real-time applications. Multi-user access (time-sharing) involves a number of operators simultaneously using the computer while working on independent projects or calculations, including operating via telephone or other remote entry methods. DECsystem-10 and DECSYSTEM-20 applications include scientific research, management information systems, commercial time-sharing, educational computation and commercial data processing.

The Company manufactures and sells associated peripheral devices which are used with and are sold as part of the Company's various computer systems. These peripheral devices include magnetic tape, tape cassette and disk storage devices, cathode ray tube display systems, analog to digital converters, perforated tape readers, tape punches, terminals and line printers. Selected peripherals are also manufactured for stock and are sold separately for other independent applications. The Company has become a major manufacturer and one of the leading suppliers of terminals. The Company also buys selected peripheral equipment from other manufacturers for use with its own computer systems.

#### *Software*

The Company designs and sells under license various software products for its computer systems. Software programs are generally designed around a particular computer family to maximize the efficiency of the computer system. Many customers use the operating system software provided by the Company to design their own specific applications software.

#### *Customer Services-Field Engineering, Training and Software Support Services*

The Company provides a field engineering work force to support customer needs related to the maintenance of the computer systems that have been installed. Field service offers maintenance services in the form of a term contract or on a per call basis.

The Company maintains a program of customer training relating to the computer systems and software which it sells. Training may take place at customer sites or at training facilities throughout the world.

The Company maintains a highly trained staff of software specialists who assist customers in using computer systems and software in their applications.

The Company's installed computer system base continues to grow and has resulted in a substantial increase in the level of service income over the years. The Company's service and other revenues as a percentage of its total operating revenues for fiscal years 1975-1979 are set forth on the preceding page.

#### *Pricing*

Prices for the Company's computer systems have generally been reduced as new products have been introduced or existing products improved. However, from time to time selective price increases have been effected. The pricing of new products, in most cases, is intended to provide the customer with an improved price/performance ratio. With respect to field engineering, training and

software support services, prices have generally been increased from time to time in recent years. Management expects to continue its policy of adjusting the prices of its products and services either upward or downward on an individual basis as circumstances warrant.

### ***Sales and Distribution***

The Company markets its products through 163 sales offices located throughout the world, using primarily its own sales engineers.

The Company's general policy is to sell and not to rent its products. Customers who prefer lease arrangements for the Company's equipment are generally financed by third parties.

Many of the markets served by the Company are affected by cyclical factors beyond the Company's control. These factors include, for example, changes in levels of spending by industry for capital equipment and changes in government policies with regard to the funding of various governmentally supported programs.

For the fiscal year ended June 30, 1979, approximately 5% of the Company's total sales were made directly to various agencies of the U.S. Government. During this period no single customer accounted for more than 8% of total sales.

The Company is of the opinion that the dollar amount of backlog is not material to an understanding of the Company's business and historically has not published the dollar amount of the backlog at any given time. It has been and continues to be the Company's objective to minimize the elapsed time from receipt of a purchase order for a computer system to delivery of the equipment.

### ***International Operations***

Sales by the Company to customers abroad amounted to approximately 38% of total sales in each of the fiscal years ended June 30, 1979 and July 1, 1978. Sales and marketing operations outside the United States are conducted through subsidiaries, by direct sales from the parent company and, to a minor extent, through various representative and distributorship arrangements. The consolidated profit margin on sales to customers outside the United States has been substantially the same as on products manufactured and sold to customers in the United States. In view of the location and diversification of the Company's international activities, the Company does not feel that there are any special risks beyond the normal business risks attendant to operations abroad. The Company engages in currency hedging transactions to reduce currency revaluation risks. See Notes A and B of Notes to Consolidated Financial Statements for further information on the Company's international operations, including financial information concerning the Company's international operations by major geographical area.

### ***Competition***

The Company faces strong competition in both domestic and international markets. Competition in the various markets served by the Company comes from firms of various sizes and types, several of which are larger and have greater total resources than the Company. Firms not now in direct competition with the Company in particular markets may introduce competing products in the future. The absence of authoritative statistics makes it impossible, in the Company's opinion, to state the Com-

pany's relative position in the industry. Independent surveys have indicated that in terms of gross revenues the Company is the 4th, 5th, 6th or 7th largest manufacturer of computers in the United States. The Company is a principal manufacturer of small high-speed general purpose digital computers.

#### *Raw Materials and Supplies*

The Company's manufacturing operations require a wide variety of electronic and mechanical components and raw materials. The Company has multiple commercial sources of supply for most of the components and raw materials which it uses. The Company evaluates on an ongoing basis whether to purchase or to manufacture the components and peripheral equipment which it requires.

#### *Environmental Affairs*

The Company's manufacturing facilities are subject to numerous laws and regulations designed to protect the environment, particularly from plant wastes and emissions. In the opinion of management, compliance with these laws and regulations has not had and will not have a material effect upon the capital expenditures, earnings or competitive position of the Company.

#### *Licenses, Patents and Trademarks*

The Company owns a number of patents and patent applications relating to its products. The patents and patent applications, although of value to the Company, are not considered to be of material importance to the business as a whole. The Company also owns copyrights, trademarks and proprietary information, some of which are considered to be valuable assets of the Company.

From time to time other companies in the industry have claimed that products and components similar to those manufactured by the Company are covered by valid patents held by such other companies. It may be necessary or desirable in the future for the Company to obtain further patent licenses in addition to those it now holds. The Company is presently involved in a small number of legal actions concerning rights and claims to patents and trademarks. The management of the Company is of the opinion that none of such legal actions will have a material effect upon the earnings or financial position of the Company.

#### *Research and Engineering*

The Company is in an industry which is characterized by rapid technological change. The Company has consistently spent a substantial portion of its funds on research and engineering projects, including software development. In the fiscal years ended June 30, 1979 and July 1, 1978, the Company spent approximately \$138.3 million and \$115.7 million, respectively, for these purposes.

The Company's primary emphasis is on applied research and engineering which includes developing computers, peripheral equipment and software and expanding product applications.

The Company has approximately 2,600 professional employees involved in research, engineering and programming activities.

#### *Number of Employees*

At June 30, 1979, the Company employed approximately 44,000 persons. The Company continues to enjoy good employee relations.

### *Executive Officers of the Company*

The following table sets forth the names of all executive officers of the Company and certain other information relating to their positions held with the Company and other business experience.

<u>Name</u>	<u>Age</u>	<u>Title (Date of Appointment)</u>
Kenneth H. Olsen	53	President and Director (1957)
C. Gordon Bell	45	Vice President — Engineering (1972)
Alfred M. Bertocchi	52	Vice President — Finance and Administration (1971)
Sheldon A. Davis	53	Vice President — Personnel (1977)
Winston R. Hindle, Jr.	49	Vice President — Corporate Operations (1978)
Theodore G. Johnson	47	Vice President — Sales and International (1978)
Andrew C. Knowles, III	43	Vice President — Corporate Marketing (1978)
John Leng	45	Vice President — Technical Group (1978)
William H. Long	46	Vice President — Corporate Planning (1978)
Julius L. Marcus	40	Vice President — Commercial Group (1978)
Stanley C. Olsen	51	Vice President — Computer Products Group (1978)
Edward A. Schwartz	41	Vice President (1976); General Counsel (1967); Secretary (1969)
John J. Shields	41	Vice President — Customer Services (1979)
John F. Smith	44	Vice President — Manufacturing (1977)
Richard J. Clayton	39	Vice President — Computer Systems Development (1974)
William C. Hanson	38	Vice President — Manufacturing Personnel (1979)
Irwin Jacobs	42	Vice President — Commercial OEM Group (1978)
Edward A. Kramer	43	Vice President — United States Sales (1979)
Gerald T. Moore	48	Vice President — Retail Products Group (1978)
Jean-Claude Peterschmitt	44	Vice President — Europe (1974)
Lawrence J. Portner	42	Vice President — Associate Head, Engineering (1979)
Robert W. Puffer, III	38	Vice President — Mass Storage Manufacturing (1979)
George A. Chamberlain, 3d	43	Treasurer (1976)
William R. Thompson	44	Controller (1978)

Executive officers of the Company are elected annually and hold office until the first meeting of the Board of Directors following the annual meeting of stockholders and until their successors have been chosen and qualified.

All of the executive officers named above have been officers or held managerial positions in the Company for the last five years except Sheldon A. Davis. Mr. Davis was Vice President and Director of Organizational Development of TRW, Inc. from 1972 to 1977.

Kenneth H. Olsen and Stanley C. Olsen are brothers.

Item 2. *Summary of Operations.*

CONSOLIDATED SUMMARY OF OPERATIONS

The following consolidated summary of operations of Digital Equipment Corporation should be read in conjunction with the consolidated financial statements and related notes included elsewhere herein.

	Year Ended				
	June 30, 1979	July 1, 1978	July 2, 1977	July 3, 1976	June 28, 1975
	(In Thousands except per share data)				
REVENUES					
Equipment sales .....	\$1,381,756	\$1,128,099	\$ 847,539	\$586,670	\$433,185
Service and other revenues .....	422,336	308,463	211,075	149,618	100,589
TOTAL OPERATING REVENUES .....	<u>1,804,092</u>	<u>1,436,562</u>	<u>1,058,614</u>	<u>736,288</u>	<u>533,774</u>
COSTS AND EXPENSES					
Cost of equipment sales, service and other revenues .....	1,012,257	802,253	595,170	424,275	301,183
Research and engineering expenses .....	138,266	115,686	79,694	58,387	48,520
Selling, general and administrative expenses ..	370,128	280,990	205,883	136,161	109,314
Interest expense .....	24,262	22,384	11,711	9,882	4,765
Interest income .....	(35,753)	(12,254)	(10,244)	(11,817)	(3,608)
TOTAL COSTS AND EXPENSES .....	<u>1,509,160</u>	<u>1,209,059</u>	<u>882,214</u>	<u>616,888</u>	<u>460,174</u>
INCOME BEFORE INCOME TAXES .....	<u>294,932</u>	<u>227,503</u>	<u>176,400</u>	<u>119,400</u>	<u>73,600</u>
PROVISION FOR INCOME TAXES					
Federal .....	89,388	60,446	52,200	41,600	21,500
Foreign .....	18,811	17,398	6,800	(1,400)	3,700
State .....	8,299	7,470	8,900	5,800	2,400
TOTAL PROVISIONS FOR INCOME TAXES .....	<u>116,498</u>	<u>85,314</u>	<u>67,900</u>	<u>46,000</u>	<u>27,600</u>
NET INCOME .....	<u>\$ 178,434</u>	<u>\$ 142,189</u>	<u>\$ 108,500</u>	<u>\$ 73,400</u>	<u>\$ 46,000</u>
NET INCOME PER SHARE(1) .....	<u>\$4.10</u>	<u>\$3.40</u>	<u>\$2.78</u>	<u>\$1.98</u>	<u>\$1.28</u>
Weighted average number of shares outstanding during each year .....	<u>44,941</u>	<u>43,225</u>	<u>38,991</u>	<u>37,066</u>	<u>35,876</u>

(1) See Note F of Notes to Consolidated Financial Statements for information on the computation of net income per share.

No cash dividends have ever been paid by the Company.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

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 Consolidated Summary of Operations for the three fiscal years ended June 30, 1979 and the percentage changes in those items for such years.

Income and Expense Items as a Percentage of Total Operating Revenues			Summary of Operations Items	Percentage Increase (Decrease)		
1977	1978	1979		1978 to 1979	1977 to 1978	1976 to 1977
80.1%	78.5%	76.6%	Equipment sales	22%	33%	44 %
19.9%	21.5%	23.4%	Service and other revenues	37%	46%	41 %
100.0%	100.0%	100.0%	Total operating revenues	26%	36%	44 %
56.2%	55.8%	56.1%	Cost of equipment sales, service and other revenues	26%	35%	40 %
7.5%	8.1%	7.7%	Research and engineering expenses	20%	45%	36 %
19.5%	19.6%	20.5%	Selling, general and administrative expenses	32%	36%	51 %
1.1%	1.6%	1.3%	Interest expense	8%	91%	19 %
(1.0%)	(.9%)	(2.0%)	Interest income	192%	20%	(13)%
83.3%	84.2%	83.6%	Total costs and expenses	25%	37%	43 %
16.7%	15.8%	16.4%	Income before income taxes	30%	29%	48 %
6.4%	5.9%	6.5%	Income taxes	37%	26%	48 %
10.3%	9.9%	9.9%	Net income	25%	31%	48 %

### Fiscal 1979 versus Fiscal 1978

#### Revenues

Total operating revenues for fiscal 1979 were \$1.804 billion, a 26% increase over the \$1.437 billion reported for fiscal 1978. Equipment sales in fiscal 1979 were \$1.382 billion, an increase of 22% over fiscal 1978 equipment sales of \$1.128 billion. The 22% rate of increase in equipment sales was 11% less than the comparable fiscal 1978 growth rate of 33%. Service and other revenues, which includes maintenance service, software revenues, replacement parts, and, to a minor extent, equipment rentals, was \$422.3 million in fiscal 1979, a 37% increase over fiscal 1978 revenues of \$308.5 million. The 37% growth rate was less than the corresponding fiscal 1978 growth rate of 46%. The lower rate of increase of both equipment sales and service and other revenues experienced by the Company in fiscal 1979 was as expected and consistent with its business plan.

#### International Operations

Sales to customers outside the United States, including export shipments from the United States, were \$679.4 million in fiscal 1979 compared to \$539.5 million in fiscal 1978, an increase of 26%. These sales constituted 38% of total operating revenues in both fiscal 1979 and fiscal 1978. The increase in international sales in fiscal 1979 reflects continued product demand, growth of the Company's international sales and service force, and, in part, the favorable effect of strengthened foreign currencies on the U.S. dollar reported revenues. Additional information on the Company's international operations is included in Notes A and B of Notes to the Consolidated Financial Statements.

### *Expenses*

The Company's gross profit margin decreased slightly from 44.2% in fiscal 1978 to 43.9% in fiscal 1979, primarily as a result of the cost associated with providing customers a higher level of software and training services.

Research and engineering expenses increased 20% from \$115.7 million in fiscal 1978 to \$138.3 million in fiscal 1979. This increase is consistent with the Company's continued investment in new product development.

Selling, general and administrative expenses increased 32% in fiscal 1979. As a percentage of total operating revenues, selling, general and administrative expenses were 20.5% in fiscal 1979 and 19.6% in fiscal 1978. This increase reflects, primarily, substantial additions to the Company's sales force.

Interest expense increased 8% in fiscal 1979 primarily as a result of the interest on the \$250 million of Convertible Subordinated Debentures sold during the first quarter of fiscal 1978. Interest income increased 192% due to the increase in funds available for investment and higher prevailing interest rates.

### *Income*

Income before income taxes increased to \$294.9 million in fiscal 1979 from \$227.5 million in fiscal 1978, and was 16.4% of total operating revenues in fiscal 1979 compared to 15.8% in fiscal 1978. Income before income taxes increased 30% in fiscal 1979, compared to 29% in fiscal 1978. These changes are reflective of the revenue and expense changes discussed above.

Net income increased 25% in fiscal 1979 compared to 31% in fiscal 1978. In fiscal 1979 after-tax income increased less than pre-tax income (25% compared to 30%) because the Company's effective tax rate increased to 39.5% in fiscal 1979 from 37.5% the preceding year.

Earnings per share for fiscal 1979 were \$4.10, a 21% increase over the \$3.40 earnings per share in fiscal 1978. The 21% increase in earnings per share is less than the 25% increase in net income for fiscal 1979 due to the increased number of common stock equivalents and of shares issued under various stock option and purchase plans.

### **Fiscal 1978 versus Fiscal 1977**

#### *Revenues*

Total operating revenues for fiscal 1978 were \$1.437 billion, a 36% increase over the \$1.059 billion reported for fiscal 1977. Equipment sales in fiscal 1978 were \$1.128 billion, an increase of 33% over fiscal 1977 equipment sales of \$847.5 million. The 33% rate of increase in equipment sales was 11% less than the comparable fiscal 1977 growth rate of 44%. Equipment shipments in the second half of fiscal 1978 were affected by a lower rate of growth in customer orders which the Company began to experience in the first half of fiscal 1978.

Service and other revenues were \$308.5 million in fiscal 1978, a 46% increase over fiscal 1977 service and other revenues of \$211.1 million. The 46% growth rate was ahead of the corresponding fiscal 1977 growth rate of 41% as a result of an increased number of customers purchasing such services and the continued growth in the base of installed computer systems.

### *International Operations*

Sales to customers outside the United States, including export shipments from the United States, were \$539.5 million in fiscal 1978 compared to \$378.9 million in fiscal 1977, an increase of 42.4%. These sales constituted 38% of total operating revenues in fiscal 1978 compared to 36% in fiscal 1977. The improvement in international sales in fiscal 1978 reflects continued product demand, shortened product delivery times and, in part, the favorable effect of strengthened foreign currencies on the U.S. dollar reported revenues.

### *Expenses*

The Company's gross profit margin rose slightly from 43.8% in fiscal 1977 to 44.2% in fiscal 1978. Gains in manufacturing productivity, partially offset by higher new product and plant start-up costs, contributed to the gross margin improvement.

Research and engineering expenses increased 45% from \$79.7 million in fiscal 1977 to \$115.7 million in fiscal 1978. As a percentage of total operating revenues, research and engineering expenses were 8.1% in fiscal 1978 and 7.5% in fiscal 1977. This increase reflects, in part, significant additions to the research and engineering organization representing management's continued commitment to new product development efforts.

Selling, general and administrative expenses increased 36%, or approximately at the same growth rate as total operating revenues. As a percentage of total operating revenues, selling, general and administrative expenses were 19.6% in fiscal 1978, slightly higher than the corresponding percentage of 19.5% in fiscal 1977. This reflects major additions to the Company's sales force and increased marketing efforts which were partially offset by management's planned program to decrease the rate of growth of general and administrative expenses.

Interest expense increased 91% in fiscal 1978 as a result of the interest on the \$250 million of Convertible Subordinated Debentures sold during the first quarter of fiscal 1978. Interest income increased 20% due to the increase in funds available for investment.

### *Income*

Income before income taxes increased to \$227.5 million in fiscal 1978 from \$176.4 million in fiscal 1977, and was 15.8% of total operating revenues in fiscal 1978 compared to 16.7% in fiscal 1977. Income before income taxes increased 29% in fiscal 1978, compared to 48% in fiscal 1977. These changes are reflective of the revenue and expense changes discussed above.

Net income increased 31% in fiscal 1978, compared to 48% in fiscal 1977. In fiscal 1978 after-tax income increased more than pre-tax income (31% compared to 29%) because the Company's effective tax rate decreased to 37.5% in fiscal 1978 from 38.5% the preceding year.

Earnings per share for fiscal 1978 was \$3.40, a 22% increase over the \$2.78 per share amount earned in fiscal 1977. The 22% increase in earnings per share is less than the 31% increase in net income for fiscal 1978 due to the inclusion in the average shares outstanding and in the earnings per share calculation in fiscal 1978 of common stock equivalents attributable to the Company's Convertible Subordinated Debentures.

**Item 3. Properties.**

The principal executive offices of the Company are located at 146 Main Street, Maynard, Massachusetts 01754. All space which the Company occupies, substantially all of which is owned, is well-maintained and suitable for the advanced technological products manufactured by the Company. Substantially all of this space is fully utilized and is adequate for the level of business achieved for the year ended June 30, 1979. Information concerning the size and location of the principal plants and properties is set forth below:

<u>City</u>	<u>Approx. Aggregate Size (Sq. Ft.)</u>
Maynard, Massachusetts .....	1,800,000
Marlboro, Massachusetts .....	750,000
Westminster, Massachusetts .....	650,000
Salem, New Hampshire .....	650,000
Merrimack, New Hampshire .....	600,000
Westfield, Massachusetts .....	500,000
Colorado Springs, Colorado .....	430,000
Phoenix, Arizona .....	320,000
Albuquerque, New Mexico .....	300,000
Burlington, Vermont .....	270,000
Galway, Republic of Ireland .....	270,000
Kanata, Canada .....	270,000

Additional manufacturing facilities are located in California, Maine, Massachusetts, New Hampshire, Ireland, Puerto Rico, Scotland, Taiwan, Hong Kong and West Germany. New facilities under construction or on which construction will commence during fiscal 1980 are located in Hudson, Massachusetts, Augusta, Maine, Nashua, New Hampshire and Greenville, South Carolina.

**Item 4. Parents and Subsidiaries.**

The subsidiaries of the Company, all of which are included in the consolidated financial statements, are listed below. The Company owns, directly or indirectly, 100% of the voting securities of each of its subsidiaries.

<u>Name</u>	<u>State or Jurisdiction of Incorporation</u>
Digital Equipment of Canada Limited	Canada
Digital Equipment GmbH	Germany
Digital Equipment International GmbH	Germany

<u>Name</u>	<u>State or Jurisdiction of Incorporation</u>
Digital Equipment Australia Pty. Limited	Australia
Digital Equipment Co. Limited	United Kingdom
Digital Equipment S.a.r.l.	France
Digital Equipment AB	Sweden
Digital Equipment Corporation de Puerto Rico	Delaware
Digital Equipment S.p.A.	Italy
Digital Equipment Corporation S.A.	Switzerland
Digital Equipment Corporation International	Massachusetts
Digital Equipment B.V.	Netherlands
DEC Realty Trust	Massachusetts
Digital Equipment N.V./S.A.	Belgium
Digital Incorporated	Delaware
Digital International Sales Corporation	Delaware
DECSYS Computers Limited	Israel
Digital Equipment International Limited	Switzerland
Digital Equipment Corporation International (Europe)	Switzerland
Digital Equipment Corp. A/S	Norway
Digital Equipment Corporation Ges. m.b. H	Austria
Digital Equipment New Zealand, Limited	New Zealand
Digital Equipment Taiwan Limited	Taiwan
Digital Equipment Corporation ApS	Denmark
Equipo Digital S.A. de C.V.	Mexico
Digital Equipment Corporation Oy	Finland
Digital Equipment Comercio e Industria, LTDA	Brazil
Computer Insurance Company Limited	Bermuda
Digital Computer Taiwan Limited	Taiwan
Digital Equipment International Services, Incorporated	Delaware
Digital Equipment Ireland Limited	Republic of Ireland
Old Colony Insurance Limited	Bermuda
Digital Growth, Inc.	Massachusetts
Digital Computer Hong Kong Limited	Hong Kong
Digital Equipment Scotland Limited	United Kingdom
Digital Realty Limited	Ireland
Digital Equipment Singapore (PTE) Limited	Singapore
Digital Equipment Panama, Inc.	Panama

**Item 5. *Legal Proceedings.***

The Company has no material pending legal proceedings other than routine litigation incidental to the business.

**Item 6. *Increases and Decreases in Outstanding Securities and Indebtedness.***

	<u>Shares of Common Stock \$1.00 Par Value</u>
Outstanding July 1, 1978 .....	39,873,449
Issued from time to time throughout the year pursuant to the Company's various stock option and purchase plans .....	743,052
Treasury shares repurchased in private transactions from time to time throughout the year pursuant to the provisions of the Company's Re- stricted Stock Option Plans .....	<u>(10,985)</u>
Outstanding June 30, 1979 .....	<u>40,605,516</u>
	<u>Amount of 4½% Convertible Subordinated Debentures</u>
Outstanding July 1, 1978 .....	\$249,995,000
Converted to common stock during year .....	—
Outstanding June 30, 1979 .....	<u>\$249,995,000</u>

**Item 7. *Changes in Securities and Changes in Security for Registered Securities.***

Not Applicable.

**Item 8. *Defaults upon Senior Securities.***

Not Applicable.

**Item 9. *Approximate Number of Equity Security Holders.***

<u>Title of Class</u>	<u>Number of Record Holders at June 30, 1979</u>
Common Stock (Par Value \$1.00 per share) .....	28,835
4½% Convertible Subordinated Debentures .....	921

**Item 10. *Submission of Matters to a Vote of Security Holders.***

Not Applicable.

**Item 11. Indemnification of Directors and Officers.**

Pursuant to Massachusetts General Laws, Chapter 156B, section 67, directors or officers may be indemnified if provided by the articles of organization, by-laws or vote of the holders of a majority of the shares of stock. Indemnification may include expenses incurred in defending a civil or criminal action. No indemnification shall be provided for anyone who is adjudicated not to have acted in good faith. A corporation may obtain insurance against liability of a director or officer, whether or not the corporation would have the power to indemnify him against such liability.

Article V-2 of the Company's By-Laws provides for indemnification in accordance with Massachusetts law. In addition, the directors and officers of the Company are covered by liability insurance contracts.

**Item 12. Financial Statements, Exhibits Filed, and Reports on Form 8-K.**

(a) **Financial Statements and supporting schedules, as indexed on page F-1.**

(b) **Exhibits.**

1—Computation of net income per share.

2—By-laws of the Company as amended.

3—Letter from independent accountants regarding change in the presentation of the consolidated statements of changes in financial position.

Shareholders may obtain copies of exhibits 2 and 3 by addressing a written request to Digital Equipment Corporation, Investor Services, 111 Powdermill Road (B79), Maynard, MA 01754.

(c) **Reports on Form 8-K.** No reports on Form 8-K were filed by the Company during the fourth quarter of the fiscal year ended June 30, 1979.

**PART II**

Within 120 days of the close of the fiscal year, the registrant will file with the Commission a definitive proxy statement pursuant to Regulation 14A and, accordingly, pursuant to General Instruction H, Part II has not been submitted.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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

ALFRED M. BERTOCCHI

By .....  
Alfred M. Bertocchi,  
Vice President — Finance and Administration

September 24, 1979

**DIGITAL EQUIPMENT CORPORATION**  
**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES**

	<u>Pages</u>
Report of Independent Certified Public Accountants .....	F-2
Consolidated Financial Statements:	
Consolidated Statements of Income .....	F-3
Consolidated Balance Sheets .....	F-4
Consolidated Statements of Stockholders' Equity .....	F-5
Consolidated Statements of Changes In Financial Position .....	F-6
Notes to Consolidated Financial Statements .....	F-7 to F-19
Schedules:	
V Property, Plant and Equipment .....	S-1, S-2
VI Accumulated Depreciation of Property, Plant and Equipment .....	S-3, S-4
XII Reserves .....	S-5

All other schedules have been omitted since they are not required, not applicable or the information has been included elsewhere in this document.

Individual financial statements of the Company have been omitted because it is primarily an operating company and the consolidated subsidiaries are wholly-owned and are not indebted, in a material amount, to any person other than the parent or the consolidated subsidiaries.

## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

DIGITAL EQUIPMENT CORPORATION  
Maynard, Massachusetts

We have examined the consolidated balance sheets of Digital Equipment Corporation as at June 30, 1979 and July 1, 1978, and the related consolidated statements of income, stockholders' equity and changes in financial position and the supporting schedules for the fiscal years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the consolidated financial position of Digital Equipment Corporation as at June 30, 1979 and July 1, 1978, and the consolidated results of its operations and the consolidated changes in its financial position for the fiscal years then ended, and the supporting schedules (pages S-1 through S-5) present fairly the information required to be included therein, all in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the change, with which we concur, in the presentation of the consolidated statements of changes in financial position as described in Note M to the financial statements.

Boston, Massachusetts  
August 7, 1979

COOPERS & LYBRAND

# DIGITAL EQUIPMENT CORPORATION

## CONSOLIDATED STATEMENTS OF INCOME

	Year Ended	
	June 30, 1979	July 1, 1978
	(In Thousands except per share data)	
REVENUES (Notes A and B)		
Equipment sales .....	\$1,381,756	\$1,128,099
Service and other revenues .....	422,336	308,463
TOTAL OPERATING REVENUES .....	1,804,092	1,436,562
COSTS AND EXPENSES (Notes A and J)		
Cost of equipment sales, service and other revenues (Note D) .....	1,012,257	802,253
Research and engineering expenses .....	138,266	115,686
Selling, general and administrative expenses .....	370,128	280,990
Interest expense .....	24,262	22,384
Interest income .....	(35,753)	(12,254)
TOTAL COSTS AND EXPENSES .....	1,509,160	1,209,059
INCOME BEFORE INCOME TAXES .....	294,932	227,503
PROVISION FOR INCOME TAXES (Notes A, C and E)		
Federal .....	89,388	60,446
Foreign .....	18,811	17,398
State .....	8,299	7,470
TOTAL PROVISION FOR INCOME TAXES .....	116,498	85,314
NET INCOME .....	\$ 178,434	\$ 142,189
NET INCOME PER SHARE (Note F) .....	\$4.10	\$3.40
Weighted average number of shares outstanding .....	44,941	43,225

The accompanying notes are an integral part of these financial statements.

**DIGITAL EQUIPMENT CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**

	<u>June 30,</u> 1979	<u>July 1,</u> 1978
(In Thousands)		
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash .....	\$ 783	\$ 862
Temporary cash investments, at cost which approximates market (Note A) .....	432,240	298,500
Accounts receivable, net of allowances of \$18,182 and \$16,457 (Schedule XII) .....	475,067	375,205
Inventories (Notes A and D):		
Raw materials .....	111,220	78,020
Work-in-process .....	195,424	161,180
Finished goods .....	206,886	188,902
	<u>513,530</u>	<u>428,102</u>
Prepaid expenses .....	18,871	13,052
Deferred Federal and foreign income taxes .....	23,480	9,746
<b>TOTAL CURRENT ASSETS</b> .....	<u>1,463,971</u>	<u>1,125,467</u>
<b>PROPERTY, PLANT AND EQUIPMENT, at cost (Note A and Schedules V and VI)</b>		
Land .....	31,738	25,431
Buildings .....	191,895	175,135
Leasehold improvements .....	31,106	23,556
Machinery and equipment .....	327,342	283,688
	<u>582,081</u>	<u>507,810</u>
Less accumulated depreciation .....	182,872	131,875
	<u>399,209</u>	<u>375,935</u>
<b>TOTAL ASSETS</b> .....	<u>\$1,863,180</u>	<u>\$1,501,402</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Loans payable to banks (Note G) .....	\$ 11,992	\$ 8,822
Accounts payable .....	86,839	50,507
Federal, foreign and state income taxes .....	129,621	63,811
Salaries, wages and related items .....	65,963	44,805
Deferred revenues and customer advances (Note A) .....	57,083	43,870
Current portion of long-term debt .....	972	917
Other current liabilities .....	34,650	25,699
<b>TOTAL CURRENT LIABILITIES</b> .....	<u>387,120</u>	<u>238,431</u>
Deferred Federal and foreign income taxes .....	15,110	16,590
Long-term debt (Note H) .....	340,714	341,623
<b>STOCKHOLDERS' EQUITY (Note K)</b>		
Common stock, \$1.00 par value; authorized 120,000,000 shares; issued and outstanding 40,605,516 and 39,873,449 shares .....	40,606	39,873
Additional paid-in capital .....	398,421	362,110
Retained earnings .....	681,209	502,775
<b>TOTAL STOCKHOLDERS' EQUITY</b> .....	<u>1,120,236</u>	<u>904,758</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b> .....	<u>\$1,863,180</u>	<u>\$1,501,402</u>

The accompanying notes are an integral part of these financial statements.

DIGITAL EQUIPMENT CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years Ended June 30, 1979 and July 1, 1978

	Common Stock	Additional Paid-in Capital	Retained Earnings	Total Stockholders' Equity
	(In Thousands)			
July 2, 1977 .....	\$39,259	\$335,618	\$360,586	\$ 735,463
Shares issued under stock option and purchase plans (Note K) .....	614	17,748		18,362
Restricted stock plans, charge to operations (Note K) .....		6,235		6,235
Stock option and purchase plans — excess Federal income tax benefits (Note K) .....		2,509		2,509
Net income — 1978 .....			142,189	142,189
July 1, 1978 .....	<u>\$39,873</u>	<u>\$362,110</u>	<u>\$502,775</u>	<u>\$ 904,758</u>
Shares issued under stock option and purchase plans (Note K) .....	733	23,579		24,312
Restricted stock plans, charge to operations (Note K) .....		8,602		8,602
Stock option and purchase plans — excess Federal income tax benefits (Note K) .....		4,130		4,130
Net income — 1979 .....			178,434	178,434
June 30, 1979 .....	<u>\$40,606</u>	<u>\$398,421</u>	<u>\$681,209</u>	<u>\$1,120,236</u>

The accompanying notes are an integral part of these financial statements.

## DIGITAL EQUIPMENT CORPORATION

### CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Year Ended	
	June 30, 1979	July 1, 1978
	(In Thousands)	
<b>FUNDS FROM OPERATIONS</b>		
Net income .....	\$178,434	\$142,189
Add — expenses not requiring funds in current period:		
Depreciation (Note A) .....	57,655	50,216
Disposal of property, plant and equipment (Note A) .....	12,982	6,304
Restricted stock plans — charge to operations (Note K) .....	8,602	6,235
Deferred income tax provision (Note E) .....	(11,084)	11,840
Total funds from operations .....	246,589	216,784
<b>FUNDS USED TO SUPPORT OPERATIONS</b>		
Increase (decrease) in working capital:		
Accounts receivable .....	99,862	52,060
Inventories .....	85,428	53,108
Prepaid expenses .....	5,819	(5,607)
Accounts payable .....	(36,332)	10,067
Income taxes .....	(65,810)	9,984
Other current liabilities .....	(43,377)	(30,590)
	45,590	89,022
Additions to property, plant and equipment .....	93,911	167,044
Total funds used to support operations .....	139,501	256,066
Net increase (decrease) in funds from operations .....	107,088	(39,282)
<b>FUNDS PROVIDED BY FINANCING SOURCES</b>		
Increase (decrease) in loans payable to banks (Note G) .....	3,170	(19,008)
Increase (decrease) in long-term debt (Note H) .....	(909)	251,067
Common stock issued under stock option and purchase plans (Note K) .....	24,312	18,362
Total funds from financing sources .....	26,573	250,421
Net increase in cash and temporary cash investments .....	133,661	211,139
Cash and temporary cash investments at beginning of year .....	299,362	88,223
Cash and temporary cash investments at end of year .....	\$433,023	\$299,362

The accompanying notes are an integral part of these financial statements. See Note M for a discussion of the change in the presentation of the above statements.

## DIGITAL EQUIPMENT CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### Note A — Significant Accounting Policies

##### *Principles of Consolidation*

The consolidated financial statements of the Company include the financial statements of the parent and its domestic and foreign subsidiaries, all of which are wholly-owned. All significant inter-company accounts and profits have been eliminated.

##### *Translation of Foreign Currencies*

Assets and liabilities of foreign subsidiaries are translated into U.S. dollars at current exchange rates, except that inventories and property, plant and equipment are translated at historical rates. Income and expense items are translated at average rates of exchange prevailing during the year, except that cost of sales and depreciation are translated at historical rates. Exchange gains and losses arising from translation are included in income currently.

The Company enters into forward exchange contracts to reduce the impact of foreign currency fluctuations on certain sales transactions and the asset and liability positions of foreign subsidiaries. The gains or losses on these contracts are included in income when the revenue from the sale is recognized and for assets and liabilities in the period in which the exchange rates change.

##### *Revenue Recognition*

Revenues from equipment sales are recognized at the time the equipment is shipped. Service and other revenues are recognized ratably over the contractual period or as the services are performed.

##### *Research and Engineering and Warranty Costs*

Research and engineering and warranty costs are expensed as incurred. The Company's accounting policies with respect to warranty costs result in approximately the same charge to expense as would accrual of such warranty costs at the time of sale.

##### *Taxes*

In general, the Company's practice is to reinvest the earnings of its foreign subsidiaries in those operations and repatriation of retained earnings is done only when it is advantageous to do so. Applicable taxes are provided only on amounts planned to be remitted. The Company has elected to provide for taxes on the entire income of its Domestic International Sales Corporation (DISC). Investment tax credits are credited directly to income.

##### *Inventories*

Inventories are stated at the lower of cost (first-in, first-out) or market.

## DIGITAL EQUIPMENT CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

#### Note A — Significant Accounting Policies — (Continued)

##### *Temporary Cash Investments*

Temporary cash investments represent cash invested in certificates of deposit, time deposits and municipal obligations.

##### *Property, Plant and Equipment*

Depreciation expense is computed principally on the following bases:

<u>Classification</u>	<u>Depreciation Lives and Methods</u>
Buildings .....	33 years (straight-line)
Leasehold improvements .....	Life of assets or term of lease, whichever is shorter (straight-line)
Machinery and equipment .....	8 and 10 years (sum-of-years), 4 and 5 years (double declining-balance)

When these assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recorded in the income statement. When computer systems manufactured by the Company and used in the business are sold, the net book value is charged to cost of sales and the proceeds included in equipment sales.

Maintenance, repairs, renewals and betterments (not in the nature of capital expenditures) are charged to expense in the period in which incurred.

#### Note B — International Operations

##### *Industry*

The Company's business consists of the design, manufacture, sale and service of computers and associated peripheral equipment, and related software and supplies.

##### *International Operations*

Sales and marketing operations outside the United States are conducted principally through sales subsidiaries in Canada, Europe, Central and South America and the Far East, by direct sales from the parent corporation and, to a minor extent, through various representative and distributorship arrangements. A substantial portion of these sales consists of products manufactured domestically. The Company's international manufacturing operations include plants in Canada, Taiwan, Hong Kong, West Germany, Ireland and Scotland. The products of these manufacturing plants in most instances are sold to the Company's international sales subsidiaries, the parent corporation, or other international manufacturing plants for further processing.

## DIGITAL EQUIPMENT CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

#### Note B — International Operations — (Continued)

The Company's prices to international customers are designed to yield consolidated profits substantially the same as the profits on products manufactured and sold to customers in the United States. Intercompany transfers between geographic areas are accounted for at discounts from list prices which are designed to be representative of unaffiliated party transactions.

Due to the organizational structure and complex manufacturing process, the results of operations of individual subsidiaries within the geographical areas are only reflective of the separate functions which they perform and may not be indicative of the geographical areas' contribution to consolidated profitability. Financial information concerning the Company's international operations by major geographical area at June 30, 1979 and July 1, 1978 is summarized as follows:

	United States	International		Eliminations	Consolidated
		Europe	Canada, Far East and Americas		
(In Thousands)					
<b>Fiscal 1979</b>					
Sales to unaffiliated customers	\$1,148,701	\$486,451	\$168,940	\$ —	\$1,804,092
Transfers between geographic areas	324,564	—	113,875	(438,439)	—
Total net sales	<u>\$1,473,265</u>	<u>\$486,451</u>	<u>\$282,815</u>	<u>\$(438,439)</u>	<u>\$1,804,092</u>
Operating profit	<u>\$ 203,586</u>	<u>\$ 50,416</u>	<u>\$ 50,487</u>	<u>\$ (21,048)</u>	<u>\$ 283,441</u>
Interest income					35,753
Interest expense					(24,262)
Income before income taxes					<u>\$ 294,932</u>
Identifiable assets	<u>\$1,239,266</u>	<u>\$339,383</u>	<u>\$174,459</u>	<u>\$(322,168)</u>	<u>\$1,430,940</u>
Corporate assets (temporary cash investments)					432,240
Total assets					<u>\$1,863,180</u>
<b>Fiscal 1978</b>					
Sales to unaffiliated customers	\$ 913,128	\$376,888	\$146,546	—	\$1,436,562
Transfers between geographic areas	297,193	—	114,513	\$(411,706)	—
Total net sales	<u>\$1,210,321</u>	<u>\$376,888</u>	<u>\$261,059</u>	<u>\$(411,706)</u>	<u>\$1,436,562</u>
Operating profit	<u>\$ 184,631</u>	<u>\$ 28,270</u>	<u>\$ 34,940</u>	<u>\$ (10,208)</u>	<u>\$ 237,633</u>
Interest income					12,254
Interest expense					(22,384)
Income before income taxes					<u>\$ 227,503</u>
Identifiable assets	<u>\$1,082,697</u>	<u>\$273,661</u>	<u>\$147,711</u>	<u>\$(301,167)</u>	<u>\$1,202,902</u>
Corporate assets (temporary cash investments)					298,500
Total assets					<u>\$1,501,402</u>

## DIGITAL EQUIPMENT CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

#### Note B — International Operations — (Continued)

Sales to unaffiliated customers outside of the United States, including U.S. export sales, were \$679,354,000 for the year ended June 30, 1979 and \$539,513,000 for the year ended July 1, 1978, which each represented 38% of total operating revenues.

The retained earnings of all of the Company's international subsidiaries generally have been reinvested to support their operations. These retained earnings, before elimination of intercompany transactions, aggregated \$185,045,000 at June 30, 1979 and \$112,201,000 at July 1, 1978.

#### Note C — Puerto Rican Operations

The Company has a domestic manufacturing subsidiary located in Puerto Rico, the products of which are sold to other members of the consolidated group. If the earnings of this subsidiary are remitted, they become subject to Puerto Rican withholding taxes at rates not in excess of 10%. As a result of the Tax Reform Act of 1976, remitted funds are not subject to U.S. Federal income taxes. During fiscal 1978 and 1979, the Puerto Rican subsidiary remitted a substantial portion of its accumulated earnings to the parent corporation. Appropriate provisions have been made for the applicable Puerto Rican taxes.

#### Note D — Inventories and Cost of Sales

Inventories used in the computation of cost of sales were as follows:

	(In Thousands)
July 2, 1977 .....	\$374,994
July 1, 1978 .....	428,102
June 30, 1979 .....	513,530

#### Note E — Income Taxes

The total provisions for income taxes are at rates less than the U.S. Federal statutory tax rate for the following reasons:

	1979	1978
U.S. Federal statutory tax rate .....	47.0%	48.0%
Tax benefit of nontaxable income (a):		
Puerto Rico .....	(2.2)	(7.6)
Ireland .....	(2.7)	(2.3)
Difference between U.S. and foreign tax rates .....	(1.8)	(2.7)
State income taxes, net of Federal income tax benefit .....	1.4	1.7
Other .....	(2.2)	.4
	39.5%	37.5%

(a) Consolidated net income includes income of a domestic manufacturing subsidiary operating in Puerto Rico and income of a foreign manufacturing subsidiary operating in Ireland. Under an exemption which expires in 1981 (for years 1982 through 1991 income is partially exempt), the income

## DIGITAL EQUIPMENT CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

#### Note E — Income Taxes — (Continued)

of the subsidiary in Puerto Rico is not subject to Puerto Rican income taxes. See Note C for further explanation of the tax aspects of the Company's operations in Puerto Rico. Under Irish law, the income from products manufactured for export by the subsidiary in Ireland is exempt from Irish taxes for a period of 15 years, which period expires in 1986 (for the years 1987-1991 the income is partially exempt). The income tax benefits per common share attributable to the tax status of these subsidiaries for the two years ended June 30, 1979 and July 1, 1978 were \$.32 and \$.52 respectively.

The components of the provisions for U.S. Federal and foreign income taxes are as follows:

	Year Ended	
	June 30, 1979	July 1, 1978
	(In Thousands)	
U.S. Federal:		
Currently payable .....	\$93,484	\$45,543
Deferred .....	(4,096)	14,903
Total .....	\$89,388	\$60,446
Foreign:		
Currently payable .....	\$25,799	\$20,461
Deferred .....	(6,988)	(3,063)
Total .....	\$18,811	\$17,398

Deferred tax expense results from timing differences in the recognition of revenues and expenses for tax and financial reporting purposes. The sources of these timing differences in the years ended June 30, 1979 and July 1, 1978 and the tax effect of each were as follows:

	Year Ended	
	June 30, 1979	July 1, 1978
	(In Thousands)	
Inventory related transactions .....	\$(23,840)	\$(9,782)
Installment sales, principally intercompany, and financing leases .....	(974)	6,896
Domestic International Sales Corporation profits .....	6,529	6,908
Other .....	7,201	7,818
Total .....	\$(11,084)	\$11,840

In connection with its normal examination of the Company's 1975 tax return, the Internal Revenue Service has proposed certain adjustments. The Company believes its judgments in these matters have been appropriate and intends to contest certain of the adjustments proposed by the IRS. In addition,

## DIGITAL EQUIPMENT CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

#### Note E — Income Taxes — (Continued)

the Company believes any adjustments which might result would not have a material effect on the financial statements.

See Note A of Notes to Consolidated Financial Statements for further explanation of the Company's income tax accounting policies.

#### Note F — Net Income Per Share

Net income per share is based on the weighted average number of common shares and, if their aggregate dilutive effect is material, common share equivalents, outstanding during the year. In fiscal 1979 and 1978 common share equivalents are attributable principally to the \$250 million of Convertible Subordinated Debentures sold by the Company in the first quarter of fiscal 1978, and, to a minor extent, stock options. Prior to fiscal 1978 common share equivalents were solely attributable to stock options and were excluded from per share calculations because their dilutive effect was not material.

#### Note G — Short-Term Debt

Short-term debt and related interest rates at June 30, 1979 and July 1, 1978 were as follows:

	June 30, 1979		July 1, 1978	
	(In Thousands)	Average Interest Rate	(In Thousands)	Average Interest Rate
Loans payable to banks — foreign . . . . .	\$11,992	15.2%	\$8,822	18.1%

The maximum aggregate short-term debt outstanding at any month-end was \$16,871,000 during fiscal 1979 and \$84,979,000 during fiscal 1978 while average short-term borrowings during these years were \$14,006,000 and \$24,588,000, respectively. The average interest rate based on a weighted average of the stated month-end rates was 15.6% in fiscal 1979 and 10.3% in fiscal 1978.

Unused lines of credit for short-term financing were \$122,900,000 at June 30, 1979 and \$113,113,000 at July 1, 1978. At June 30, 1979, certain lines of credit required either the maintenance of compensating balances or the payment of facility fees; \$23,000,000 required the maintenance of compensating balances equal to approximately 10% of such unused lines and \$41,000,000 required the payment of facility fees which in general are approximately the equivalent of 9% compensating balances. After considering "float," none of the cash reflected in the balance sheets at June 30, 1979 and July 1, 1978 was required as compensating balances.

## DIGITAL EQUIPMENT CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

#### Note H — Long-Term Debt

Long-term debt, exclusive of current maturities, consisted of the following:

	<u>June 30, 1979</u>	<u>July 1, 1978</u>
(In Thousands)		
Lease obligations payable 1980-1993 (4.5%-11.7%)(a) .....	\$ 7,154	\$ 7,618
Collateralized obligations maturing serially to 1993 (5.4%)(b) .....	8,565	9,010
Sinking Fund Debentures due March 15, 2000 (9%)(c) .....	75,000	75,000
Convertible Subordinated Debentures due December 15, 2002 (4½%)(d) .....	249,995	249,995
	<u>\$340,714</u>	<u>\$341,623</u>

Principal payments required during the next five fiscal years are as follows: 1980 — \$972,000; 1981 — \$1,034,000; 1982 — \$1,090,000; 1983 — \$1,144,000; and 1984 — \$1,210,000.

(a) Weighted average interest rate at June 30, 1979 of 8.1%.

(b) Interest rate shown is the weighted average rate at June 30, 1979.

(c) Sinking Fund Debentures were issued by the Company in March 1975. Sinking fund payments of \$4,000,000 are required in each of the fiscal years 1985-1999. The Company at its option may increase the sinking fund payments up to an additional \$4,000,000 in each such year. The Debentures are redeemable at the option of the Company at any time, as a whole or in part, at 109¾% of the principal amount during the year beginning March 15, 1975, and at declining percentages each year thereafter. However, prior to March 15, 1985, the Company may not redeem any of the Debentures from the proceeds of funds borrowed at an interest rate less than 9% per annum. The Indenture for the Debentures also contains certain restrictions on future borrowings and dividend distributions.

(d) On September 8, 1977, the Company sold \$250,000,000 of 4½% Convertible Subordinated Debentures. The Debentures are subordinated in right of payment to all senior indebtedness, as defined, and are convertible, subject to prior redemption, into shares of common stock at \$57 per share at any time up to and including the maturity date of December 15, 2002.

Annual sinking fund payments to redeem \$9,000,000 principal amount of the Debentures are required beginning on December 15, 1988 and beginning December 15, 1983, the Company, at its option, may make additional sinking fund payments to redeem up to an additional \$9,000,000 principal amount annually. In each case, the sinking fund redemption price is the principal amount of the Debentures, plus accrued interest to the date of redemption. In addition, the Debentures are redeemable at the option of the Company, at any time, in whole or in part, at 104½% of the principal amount of the Debentures through December 14, 1978, at prices which decrease annually thereafter to December 14, 1997 and thereafter at 100% of the principal amount, together with accrued interest to the date of redemption.

## DIGITAL EQUIPMENT CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

#### Note I — Leases

Minimum annual rentals under noncancelable leases (which are principally for leased regional sales offices and manufacturing space) are as follows: 1980 — \$26,777,000; 1981 — \$24,066,000; 1982 — \$18,987,000; 1983 — \$15,401,000; 1984 — \$11,658,000; 1985-1989 — \$36,027,000; 1990-1994 — \$21,044,000; 1995-1999 — \$16,783,000; 2000 and thereafter — \$15,003,000. Total rental expense for the fiscal years ended June 30, 1979 and July 1, 1978 amounted to \$29,285,000 and \$23,080,000, respectively.

#### Note J — Pension Plans

The Company has several pension plans covering substantially all employees. Pension costs are charged to income and funded currently. Total pension costs were \$23,654,000 in 1979 and \$16,092,000 in 1978.

#### Note K — Stock Options Plans

##### *Qualified Stock Options*

Under its 1965 Qualified Stock Option Plan, the Company has granted certain officers and key employees options to purchase common stock within five years from the grant date at 100% of market price on the grant date. Authority to grant options under the plan expired March 9, 1975. During fiscal 1979 options to purchase 7,250 shares were terminated.

Information with respect to qualified options outstanding at June 30, 1979 and July 1, 1978 follows:

Fiscal Year Granted	June 30, 1979			July 1, 1978		
	Number of Shares	Option and Market Price on Grant Date		Number of Shares	Option and Market Price on Grant Date	
1974 .....	—0—	\$ —0—	\$ —0—	190,252	\$27.48-\$38.83	\$ 6,779,431
1975 .....	25,575	24.15-	27.40	28,125	18.00-	27.40
	<u>25,575</u>		<u>\$ 618,059</u>	<u>218,377</u>		<u>\$ 7,460,812</u>

Information with respect to these options exercisable or exercised in fiscal 1978 and 1979 follows:

Options Which Became Exercisable	Number of Shares	Option Price		Market Price(a)	
		Per Share	Total	Per Share	Total
1978 .....	119,514	\$18.00-\$38.83	\$3,821,699	\$40.25-\$52.19	\$5,885,913
1979 .....	9,600	18.00-	233,101	45.81-	51.19

## DIGITAL EQUIPMENT CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

#### Note K — Stock Option Plans — (Continued)

Options Exercised	Number of Shares	Option Price		Market Price (b)	
		Per Share	Total	Per Share	Total
1978 .....	147,661	\$18.00—\$38.83	\$4,384,192	\$38.68—\$52.94	\$6,850,354
1979 .....	185,552	18.00— 38.83	6,599,037	45.31— 57.88	9,826,372

(a) At the date the options became exercisable.

(b) At the date the options were exercised.

Of the 25,575 shares under option at June 30, 1979, all are presently exercisable.

Of the gross proceeds realized by the Company upon the exercise of options, \$1 per share (par value) is credited to the common stock account and the balance is credited to additional paid-in capital. There have been no charges to income in connection with these options other than incidental expenses related to the issuance of the shares. Federal income tax benefits relating to such options have been credited to additional paid-in capital.

#### *Restricted Stock Options*

Under its Restricted Stock Option and Purchase Plans, the Company has granted certain officers and key employees options, which are exercisable upon grant, to purchase common stock at a price determined by the Board of Directors. Shares purchased under the plans are generally subject to repurchase options and restrictions on sales which lapse over an extended time period not exceeding 10 years. During fiscal 1979, options to purchase 552,170 shares were granted, options to purchase 108,924 shares were cancelled and options to purchase 147,778 shares were terminated.

Common stock reserved for future grants aggregated 513,095 and 1,104,119 shares at June 30, 1979 and July 1, 1978, respectively.

Information with respect to options outstanding at July 1, 1978 and June 30, 1979 follows:

Fiscal Year Granted	Number of Shares	Option Price		Fair Market Value (a)	
		Per Share	Total	Per Share	Total
		At July 1, 1978			
1972 .....	54,375	\$4.17	\$ 226,581	\$21.83—\$27.92	\$ 1,357,337
1973 .....	156,750	4.67	731,552	26.83— 27.83	4,234,213
1974 .....	312,918	6.75	2,112,197	29.58— 38.83	11,145,757
1975 .....	519,469	9.50— 35.63	14,141,660	18.00— 35.63	14,791,736
1976 .....	622,857	11.00— 59.15	14,226,910	37.81— 59.15	36,688,401
1977 .....	478,374	15.67— 56.29	7,534,128	39.00— 56.29	19,071,473
1978 .....	276,288	18.75— 43.94	5,205,587	43.94— 52.19	14,358,461
	<u>2,421,031</u>		<u>\$44,178,615</u>		<u>\$101,647,378</u>

## DIGITAL EQUIPMENT CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

#### Note K — Stock Option Plans — (Continued)

At June 30, 1979

Fiscal Year Granted	Number of Shares	Option Price		Fair Market Value (a)	
		Per Share	Total	Per Share	Total
1972	42,720	\$4.17	\$ 178,014	\$21.83–\$27.92	\$ 1,071,504
1973	129,430	4.67	604,049	26.83– 27.83	3,496,234
1974	263,256	6.75	1,776,978	29.58– 38.83	9,375,578
1975	439,970	9.70– 35.63	11,920,095	18.00– 35.63	12,503,535
1976	552,837	11.00– 59.15	12,951,156	37.81– 59.15	32,548,918
1977	431,650	15.67– 56.29	6,802,148	39.00– 56.29	17,182,512
1978	257,536	18.75– 43.94	4,853,987	43.94– 52.19	13,387,358
1979	550,220	22.70	12,489,994	46.31– 56.25	28,748,113
	<u>2,667,619</u>		<u>\$51,576,421</u>		<u>\$118,313,752</u>

Information with respect to these options exercised in fiscal 1978 and 1979 follows:

	Number of Shares	Option Price		Fair Market Value (b)	
		Average Per Share	Total	Per Share	Total
1978	146,646	\$13.11	\$1,922,342	\$38.69–\$52.94	\$ 6,822,713
1979	196,658	15.14	2,976,440	45.06– 57.88	10,276,766

(a) At dates options were granted.

(b) At dates options were exercised and without regard to restrictions as to sale.

At the time these options are exercised, the common stock account is increased by the par value (\$1 per share) of the shares sold and the remaining portion of the proceeds is credited to additional paid-in capital. The excess of the fair market value of the shares on the grant date over the option price is charged to operations each year as the restrictions lapse. Such charges to operations amounted to \$8,602,000 in fiscal 1979 and \$6,235,000 in fiscal 1978. The amount deductible for Federal income taxes exceeds the amount charged to income for book purposes; the Federal income tax benefits relating to this difference have been credited to additional paid-in capital.

#### *Employee Stock Purchase Plan*

Under the Company's 1968 Employee Stock Purchase Plan, all United States and Canadian employees may be granted options to purchase common stock at 85% of market value on the first or last business day of the six month payment period, whichever is lower. Common stock reserved for future grants aggregated 791,168 shares at June 30, 1979 and 1,146,540 shares at July 1, 1978. There were 360,842 shares issued at an average price of \$40.84 in fiscal 1979 and 324,237 shares at \$37.25 in fiscal 1978. There have been no charges to income in connection with these options other than incidental expenses related to the issuance of the shares. Federal income tax benefits relating to such options have been credited to additional paid-in capital.

## DIGITAL EQUIPMENT CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

#### Note L — Supplementary Income Statement Information

	Charged to costs and expenses	
	Year Ended	
	June 30, 1979	July 1, 1978
	(In Thousands)	
Maintenance and repairs .....	\$14,614	\$11,690
Depreciation of property, plant and equipment .....	\$57,655	\$50,216
Taxes other than income taxes:		
Payroll .....	\$55,463	\$46,678
State, local and other taxes .....	\$12,066	\$10,078
Rents .....	\$29,285	\$23,080
Advertising costs .....	\$21,444	\$17,147

#### Note M — Change in Presentation

As of June 30, 1979, the Company changed its presentation of the consolidated statements of changes in financial position from one which reflects changes in working capital to one which reflects changes in cash and temporary cash investments. The Company believes that the new format is preferable because it is a more meaningful presentation of the Company's sources and uses of funds. The consolidated statement of changes in financial position for fiscal 1978 has been restated to conform with the fiscal 1979 presentation.

#### Note N — Quarterly Financial Data (Unaudited)

Selected quarterly financial data for fiscal 1979 and fiscal 1978 is set forth below:

	Total Operating Revenues	Gross Profit	Income Before Income Taxes	Net Income	Net Income Per Share
	(In Millions except per share data)				
<b>1979</b>					
First Quarter .....	\$ 388.0	\$166.0	\$ 52.3	\$ 32.2	\$ .75
Second Quarter .....	426.0	183.2	61.6	37.9	.88
Third Quarter .....	465.9	203.6	79.0	46.6	1.07
Fourth Quarter .....	524.2	239.0	102.0	61.7	1.40
Total Year .....	\$1,804.1	\$791.8	\$294.9	\$178.4	4.10
<b>1978</b>					
First Quarter .....	\$ 302.6	\$133.7	\$ 42.9	\$ 26.4	\$ .66
Second Quarter .....	346.6	151.6	51.4	32.5	.77
Third Quarter .....	374.8	163.4	59.2	37.0	.87
Fourth Quarter .....	412.5	185.6	74.0	46.3	1.08
Total Year .....	\$1,436.5	\$634.3	\$227.5	\$142.2	3.40

## DIGITAL EQUIPMENT CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

#### Note O — Replacement Cost Information (Unaudited)

In compliance with Securities and Exchange Commission requirements, the Company has estimated the cost of inventories and plant and equipment as at June 30, 1979 and July 1, 1978, as well as depreciation expense and cost of equipment sales, service and other revenues for the years then ended, on the basis of replacement costs. These estimates assume that all inventories and plant and equipment on hand were replaced as of those points in time. The Company does not presently intend to replace such assets, and the amounts shown do not necessarily represent the costs which would be incurred if such assets were replaced in the future. In addition, numerous subjective judgments are inherent in the calculations.

Management makes no representation as to the usefulness of the data in estimating the effect of inflation on the financial position and results of operations of the Company, and cautions that the data may not be comparable with other companies, including those within the computer manufacturing industry.

Replacement cost and the comparable historical cost information as at June 30, 1979 and July 1, 1978 and for the years then ended is as follows:

	Estimated Replacement Cost	Comparable Historical Cost	Replacement Cost Not Applicable (a)	Amount as Shown in Consolidated Financial Statements
	(In Thousands)			
<b>Fiscal 1979</b>				
Property, plant and equipment as at June 30, 1979:				
Land .....	—	—	\$31,738	\$ 31,738
Buildings .....	\$278,000	\$ 173,234	18,661	191,895
Leasehold improvements .....	34,000	26,522	4,584	31,106
Machinery and equipment .....	316,000	291,476	35,866	327,342
	628,000	491,232	90,849	582,081
Less accumulated depreciation(b) .....	186,000	182,872	—	182,872
	\$442,000	\$ 308,360	\$90,849	\$ 399,209
Inventories .....	\$511,000	\$ 513,530		\$ 513,530
Cost of equipment sales, service and other revenues for year ended June 30, 1979 .....	\$984,000	\$1,012,257		\$1,012,257
Depreciation expense for year ended June 30, 1979(b):				
Charged to cost of equipment sales, service and other revenues .....	\$ 31,000	\$ 32,696		
Charged to other expenses .....	22,000	24,959		
	\$ 53,000	\$ 57,655		

## DIGITAL EQUIPMENT CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

#### Note O — Replacement Cost Information (Unaudited) — (Continued)

	Estimated Replacement Cost	Comparable Historical Cost	Replacement Cost Not Applicable(a)	Amount as Shown in Consolidated Financial Statements
	(In Thousands)			
<b>Fiscal 1978</b>				
Property, plant and equipment as at July 1, 1978:				
Land .....	—	—	\$ 25,431	\$ 25,431
Buildings .....	\$223,000	\$148,762	26,373	175,135
Leasehold improvements .....	26,000	22,173	1,383	23,556
Machinery and equipment .....	266,000	246,604	37,084	283,688
	515,000	417,539	90,271	507,810
Less accumulated depreciation(b) .....	132,000	131,875	—	131,875
	\$383,000	\$285,664	\$ 90,271	\$375,935
Inventories .....	\$413,000	\$428,102		\$428,102
Cost of equipment sales, service and other revenues for year ended July 1, 1978 .....	\$792,000	\$802,253		\$802,253
Depreciation expense for year ended July 1, 1978(b):				
Charged to cost of equipment sales, service and other revenues .....	\$ 24,000	\$ 29,007		
Charged to other expenses .....	14,000	21,209		
	\$ 38,000	\$ 50,216		

(a) Consists primarily of land and construction in process.

(b) As required, replacement cost depreciation expense and accumulated depreciation are based on the straight-line method; however, the Company uses accelerated depreciation methods for most machinery and equipment in its consolidated financial statements.

In general, replacement cost estimates for buildings, leasehold improvements and machinery and equipment are based on published and internally developed price indices and direct costing. Replacement cost estimates for inventories and cost of equipment sales, service and other revenues are based on recent production and service costs. In estimating the replacement cost of inventories and cost of sales, no effect was given to potential changes in direct labor costs, repairs and maintenance, utility and other indirect costs as a result of the assumed replacement of productive capacity.

## DIGITAL EQUIPMENT CORPORATION

## PROPERTY, PLANT AND EQUIPMENT

Year Ended June 30, 1979

(In Thousands)

Column A	Column B	Column C	Column D	Column E		Column F
Classification	Balance at Beginning of Period	Additions at Cost	Retirement and Sales	Other changes — add (deduct) — describe		Balance at End of Period
				Transfers	Other	
Land .....	\$ 25,431	\$ 6,368	\$ (61)	\$ —	\$ —	\$ 31,738
Buildings .....	175,135	19,787(a)	(196)	(2,831)	—	191,895
Leasehold improvements .....	23,556	9,831	(2,281)	—	—	31,106
Machinery and equipment .....	283,688	57,925(b)	(17,102)	2,831	—	327,342
	<u>\$507,810</u>	<u>\$93,911</u>	<u>\$(19,640)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$582,081</u>

(a) Additions to buildings include principally the construction of new and expansion of existing manufacturing and administrative facilities.

(b) Principally equipment acquired for use in the Company's manufacturing operations and to support selling and administrative functions.

## DIGITAL EQUIPMENT CORPORATION

## PROPERTY, PLANT AND EQUIPMENT

Year Ended July 1, 1978

(In Thousands)

Column A	Column B	Column C	Column D	Column E		Column F
Classification	Balance at Beginning of Period	Additions at Cost	Retirements and Sales	Other changes — add (deduct) — describe		Balance at End of Period
				Transfers	Other	
Land .....	\$ 19,730	\$ 6,776	\$ (1,048)	\$ (25)	\$ (2)	\$ 25,431
Buildings .....	114,895	62,224(a)	(1,052)	(932)	—	175,135
Leasehold improvements .....	16,205	8,800	(508)	(943)	2	23,556
Machinery and equipment .....	201,591	89,244(b)	(8,785)	1,900	(262)	283,688
	<u>\$352,421</u>	<u>\$167,044</u>	<u>\$(11,393)</u>	<u>\$ —</u>	<u>\$(262)</u>	<u>\$507,810</u>

(a) Additions to buildings include principally the construction of new and expansion of existing manufacturing and administrative facilities.

(b) Principally equipment acquired for use in the Company's manufacturing operations and to support selling and administrative functions.

## DIGITAL EQUIPMENT CORPORATION

## ACCUMULATED DEPRECIATION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT

Year Ended June 30, 1979

(In Thousands)

Column A	Column B	Column C	Column D	Column E		Column F
Classification	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Retirements and Sales	Other Changes— add (deduct) — describe Transfers Other		Balance at End of Period
Buildings .....	\$ 13,467	\$ 5,611	—	—	\$389	\$ 19,467
Leasehold improvements .....	8,570	2,971	\$(2,255)	—	(40)	9,246
Machinery and equipment .....	109,838	49,073	(4,752)	—	—	154,159
	<u>\$131,875</u>	<u>\$57,655</u>	<u>\$(7,007)</u>	<u>\$ —</u>	<u>\$349</u>	<u>\$182,872</u>

## DIGITAL EQUIPMENT CORPORATION

## ACCUMULATED DEPRECIATION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT

Year Ended July 1, 1978

(In Thousands)

Column A	Column B	Column C	Column D	Column E		Column F
Classification	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Retirements and Sales	Other Changes— add (deduct) — describe Transfers Other		Balance at End of Period
Buildings .....	\$ 9,790	\$ 3,666	—	\$ 8	\$ 3	\$ 13,467
Leasehold improvements .....	4,459	4,561	\$ (416)	(34)	—	8,570
Machinery and equipment .....	<u>72,761</u>	<u>41,989</u>	<u>(4,825)</u>	<u>26</u>	<u>(113)</u>	<u>109,838</u>
	<u>\$87,010</u>	<u>\$50,216</u>	<u>\$(5,241)</u>	<u>\$ —</u>	<u>\$(110)</u>	<u>\$131,875</u>

SCHEDULE XII

DIGITAL EQUIPMENT CORPORATION

VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

Column A	Column B	Column C	Column D	Column E	
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts — Describe	Deductions from Reserves — Describe	Balance at End of Period
Year Ended July 1, 1978 (In Thousands)					
Allowance for possible losses on accounts receivable .....	<u>\$10,865</u>	<u>\$8,631</u>	<u>—</u>	<u>\$3,039(a)</u>	<u>\$16,457</u>
Year Ended June 30, 1979 (In Thousands)					
Allowance for possible losses on accounts receivable .....	<u>\$16,457</u>	<u>\$6,174</u>	<u>—</u>	<u>\$4,449(a)</u>	<u>\$18,182</u>

(a) Uncollectible accounts and adjustments.

**EXHIBIT I — COMPUTATION OF NET INCOME PER SHARE**

	Year Ended				
	June 30, 1979	July 1, 1978	July 2, 1977	July 3, 1976	June 28, 1975
	(In Thousands Except Per Share Data)				
Net income .....	\$178,434	\$142,189	\$108,500	\$ 73,400	\$ 46,000
Add back convertible debenture interest, net of related tax effect .....	5,962	4,761	—	—	—
Net income applicable to common and com- mon equivalent shares .....	<u>\$184,396</u>	<u>\$146,950</u>	<u>\$108,500</u>	<u>\$ 73,400</u>	<u>\$ 46,000</u>
Weighted-average number of common shares outstanding during the year .....	40,125	39,472	38,991	37,066	35,876
Common stock equivalents from application of "if converted" method to convertible debentures .....	4,386	3,579	—	—	—
Common stock equivalents from application of "treasury stock" method to exercised and outstanding stock options (1) .....	430	174	—	—	—
Total number of common and common equiv- alent shares used in the computation of net income per share .....	<u>44,941</u>	<u>43,225</u>	<u>38,991</u>	<u>37,066</u>	<u>35,876</u>
Net income per share (1) .....	<u>\$4.10</u>	<u>\$3.40</u>	<u>\$2.78</u>	<u>\$1.98</u>	<u>\$1.28</u>

(1) Prior to fiscal 1978 common stock equivalents were solely attributable to stock options and were excluded from per share calculations because their dilutive effect was not material. Common stock equivalents attributable to stock options for fiscal years 1977-1975 aggregated 352,283 shares, 737,541 shares and 930,354 shares, respectively. Net income per share amounts for fiscal years 1977-1975, if computed giving effect to common stock equivalents arising from stock options, would have been \$2.76, \$1.94 and \$1.25, respectively.

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Notice

This report dated September 8, 1980 has not been periodically updated and may not be complete or accurate as of any subsequent date.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

Form 10-K

Annual Report Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934

For the fiscal year ended June 28, 1980

Commission file number 1-5296

Digital Equipment Corporation

(Exact name of registrant as specified in its charter)

Commonwealth of Massachusetts  
(State or other jurisdiction of  
incorporation or organization)

04-2226590  
(I.R.S. Employer  
Identification No.)

146 Main Street, Maynard, Massachusetts  
(Address of principal executive offices)

01754  
(Zip Code)

Registrant's telephone number, including area code: (617) 897-5111

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value \$1	} New York Stock Exchange Pacific Stock Exchange (Common Stock Only)
9 $\frac{3}{8}$ % Sinking Fund Debentures, due March 15, 2000	
8 $\frac{7}{8}$ % Convertible Subordinated Debentures, due June 15, 2005	
Title of each class	Name of each exchange on which registered

Securities registered pursuant to Section 12(g) of the Act: None

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  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the close of the period covered by this report. Number of shares of Common Stock, par value \$1, outstanding as of June 28, 1980: 45,568,498.

## PART 1

### Item 1. *Business.*

#### *General*

Digital Equipment Corporation, a Massachusetts corporation founded in 1957, is a company with worldwide operations. At June 28, 1980, the Company employed approximately 55,000 persons and conducted operations in the United States and in 37 other countries.

The term "Company" when used herein refers to Digital Equipment Corporation or Digital Equipment Corporation and its subsidiaries, as required by the context.

The Company designs, manufactures, sells and services computers and associated peripheral equipment, and related software and supplies. The Company's products are used in a wide variety of applications and programs, including scientific research, computation, communications, education, data analysis, industrial control, time-sharing, commercial data processing, graphic arts, word processing, health care, instrumentation, engineering and simulation. Most of the Company's products are of its own design and are sold under its own name. The Company's marketing objective is to provide to customers a wide variety of computational resources, including the central processing units, memories, terminals, communications options, software, and field engineering, training and software support services.

The percentages of total operating revenues contributed by the Company's principal classes of products were as follows:

	<u>1980</u>	<u>1979</u>	<u>1978</u>	<u>1977</u>	<u>1976</u>
Equipment sales . . . . .	75.1%	76.6%	78.5%	80.1%	79.7%
Service and other revenues	<u>24.9%</u>	<u>23.4%</u>	<u>21.5%</u>	<u>19.9%</u>	<u>20.3%</u>
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Service and other revenues includes maintenance service, customer training, software revenues, replacement parts and, to a minor extent, equipment rentals.

#### *Systems and Products*

Over a period of years, the Company has developed a family of computers which have been designated as PDP®. The Company introduced its first computer system in 1960. Although new models are continually in development, earlier models are in use and parts, service and additional equipment for these models are still being sold.

The Company offers one of the broadest ranges of products in the computer industry. It sells small microcomputers such as the LSI-11/2, a variety of minicomputers based on 8 bit (PDP-8), 16 bit (PDP-11) and 32 bit (VAX-11/780) architecture, and large mainframe computers (DECsystem-10 and DECSYSTEM-20). Prices of the Company's products reflect the diversity of its offerings, ranging from as little as \$925 to as much as \$1,350,000.

The models included in the PDP-8 and PDP-11 families are general purpose digital computers designed for performing, interpreting and recording computations on collected data. Applications include controlling instruments, machines and industrial processes, education, natural resource exploration, data communications, medical systems, commercial typesetting and commercial data processing. Members of the PDP-11 family range from the LSI-11/2, a low-cost Original Equipment Manufacturer (OEM) oriented model, to the large high speed VAX-11/780 model.

The DECsystem-10 and the DECSYSTEM-20 are the largest computer systems presently being manufactured by the Company. These systems are designed for multi-user access, batch processing and real-time applications. Multi-user access (time-sharing) involves a number of operators simultaneously using the computer while working on independent projects or calculations, including operating via telephone or other remote entry methods. DECsystem-10 and DECSYSTEM-20 applications include scientific research, management information systems, commercial time-sharing, educational computation and commercial data processing.

The Company manufactures and sells associated peripheral devices which are used with and are sold as part of the Company's various computer systems. These peripheral devices include magnetic tape transports, tape cassette and disk storage devices, cathode ray tube display systems, analog to digital converters, perforated tape readers, tape punches, terminals and line printers. Selected peripherals are also manufactured for stock and are sold separately for other independent applications. The Company is a major manufacturer and supplier of video and printer terminals. The Company also buys selected peripheral equipment from other manufacturers for use with its own computer systems.

#### *Customer Services — Field Engineering, Training and Software Support Services*

The Company provides field engineering to support customer needs related to the maintenance of the computer systems that have been installed. Field engineering offers maintenance services in the form of a term contract or on a per call basis.

The Company maintains a program of customer training relating to the computer systems and software which it sells. Training may take place at customer sites or at company training facilities throughout the world.

The Company maintains a highly trained staff of software specialists who assist customers in using computer systems and software in their applications.

The Company's installed computer system base continues to grow and has resulted in a substantial increase in the level of service income over the years. The Company's service and other revenues as a percentage of its total operating revenues for fiscal years 1976-1980 are set forth on the preceding page.

#### *Software*

The Company designs and sells under license various software products for its computer systems. These products consist of operating systems, languages, data handling services, communications software, special applications software and utility software. Software programs are generally designed around a particular computer family to maximize the efficiency of the computer system. Many customers use the operating system software provided by the Company to design their own specific applications software.

### *Pricing*

Prices for the Company's computer systems have generally been reduced as new products have been introduced or existing products improved. The pricing of new products, in most cases, is intended to provide the customer with an improved price/performance ratio. However, from time to time selective price increases have been effected. With respect to field engineering, training and software support services, prices have generally been increased from time to time in recent years.

Early in fiscal 1980, the Company significantly decreased the price for add-on MOS memory increments for its larger and intermediate machines. Later in the fiscal year prices were increased for a large number of hardware and software products as well as some maintenance services. These increases were due to the impact of inflation on materials and labor. The net effect of these price increases and decreases is within the limits of the federal voluntary price guidelines.

Management expects to continue its policy of adjusting the prices of its products and services on an individual basis either upward or downward as circumstances warrant.

### *Sales and Distribution*

The Company markets its products through 179 sales offices located throughout the world, using primarily its own sales engineers.

The Company's general policy is to sell and not to rent its products. Customers who prefer leasing arrangements are generally financed by third parties.

Many of the markets served by the Company are affected by cyclical factors beyond the Company's control. These factors include, for example, changes in levels of spending by industry for capital equipment and changes in government policies with regard to the funding of various governmentally supported programs.

For the fiscal year ended June 28, 1980, approximately 4% of the Company's total sales were made directly to various agencies of the U.S. Government. During this period no single customer accounted for more than 8% of total sales.

The Company is of the opinion that the dollar amount of backlog is not material to an understanding of the Company's business and historically has not published the dollar amount of the backlog at any given time. It has been and continues to be the Company's objective to minimize the elapsed time from receipt of a purchase order for a computer system to delivery of the equipment.

### *International Operations*

Sales by the Company to customers abroad amounted to approximately 39% of total sales for the fiscal year ended June 28, 1980 and 38% for the fiscal year ended June 30, 1979. Sales and marketing operations outside the United States are conducted through subsidiaries, by direct sales from the parent company and, to a minor extent, through various representative and distributorship arrangements. The consolidated profit margin on sales to customers outside the United States has been substantially the same as on products manufactured and sold to customers in the United States. In view

of the location and diversification of the Company's international activities, the Company does not feel that there are any special risks beyond the normal business risks attendant to conducting business abroad. The Company engages in currency hedging transactions to reduce currency revaluation risks. See Notes A and B of Notes to Consolidated Financial Statements for further information on the Company's international operations, including financial information concerning the Company's international operations by major geographical area.

### *Competition*

The Company faces strong competition in both domestic and international markets. Competition in the various markets served by the Company comes from firms of various sizes and types, several of which are larger and have greater total resources than the Company. Firms not now in direct competition with the Company in particular markets may introduce competing products in the future. The absence of authoritative statistics makes it impossible, in the Company's opinion, to state the Company's relative position in the industry. Independent surveys have indicated that in terms of gross revenues the Company is the 4th, 5th or 6th largest manufacturer of computers in the United States.

### *Raw Materials and Supplies*

The Company's manufacturing operations require a wide variety of electronic and mechanical components and raw materials. The Company has multiple commercial sources of supply for most of the components and raw materials which it uses. The Company evaluates on an ongoing basis whether to purchase or to manufacture the components and peripheral equipment which it requires.

### *Environmental Affairs*

The Company's manufacturing facilities are subject to numerous laws and regulations designed to protect the environment, particularly from plant wastes and emissions. In the opinion of the Company, compliance with these laws and regulations has not had and will not have a material effect upon the capital expenditures, earnings or competitive position of the Company.

### *Licenses, Patents and Trademarks*

The Company owns a number of patents and patent applications relating to its products. The patents and patent applications, although of value to the Company, are not considered to be of material importance to the business as a whole. The Company also owns copyrights, trademarks and proprietary information, some of which are considered to be valuable assets of the Company.

From time to time other companies in the industry have claimed that products and components similar to those manufactured by the Company are covered by valid patents held by such other companies. It may be necessary or desirable in the future for the Company to obtain further patent licenses in addition to those it now holds. The Company is presently involved in a small number of

legal actions concerning rights and claims to patents and trademarks. The Company is of the opinion that none of such legal actions will have a material effect upon the earnings or financial position of the Company.

### *Research and Engineering*

The Company is in an industry which is characterized by rapid technological change. The Company has consistently spent a substantial portion of its funds on research and engineering projects, including software development. In the fiscal years ended June 28, 1980 and June 30, 1979, the Company spent approximately \$186.4 million and \$138.3 million, respectively, for these purposes.

The Company's primary emphasis is on applied research and engineering which includes developing computers, peripheral equipment and software and expanding product applications.

The Company has approximately 2,800 professional employees involved in research, engineering and programming activities.

### *Number of Employees*

At June 28, 1980, the Company employed approximately 55,000 persons. The Company continues to enjoy good employee relations.

### *Executive Officers of the Company*

The following table sets forth the names of all executive officers of the Company and certain other information relating to their positions held with the Company and other business experience.

<u>Name</u>	<u>Age</u>	<u>Title (Date of Appointment)</u>
Kenneth H. Olsen .....	54	President and Director (1957)
C. Gordon Bell .....	46	Vice President — Office of Development/Engineering (1972)
Alfred M. Bertocchi .....	53	Vice President — Finance and Administration (1971)
Sheldon A. Davis .....	54	Vice President — Personnel (1977)
Winston R. Hindle, Jr. ....	50	Vice President — Corporate Operations (1978)
Theodore G. Johnson .....	48	Vice President — Sales and International (1978)
Andrew C. Knowles, III .....	44	Vice President — Technical Group (1980)
William H. Long .....	47	Vice President — Corporate Marketing (1980)
Julius L. Marcus .....	41	Vice President — Commercial Group (1978)
Stanley C. Olsen .....	52	Vice President — Computer Products Group (1978)
Edward A. Schwartz .....	42	Vice President (1976); General Counsel (1967); Secretary (1969)
John J. Shields .....	42	Vice President — Customer Services (1979)
John F. Smith .....	45	Vice President — Manufacturing (1977)

<u>Name</u>	<u>Age</u>	<u>Title (Date of Appointment)</u>
Richard J. Clayton .....	40	Vice President — Computer Systems Development (1974)
William C. Hanson .....	39	Vice President — Manufacturing Personnel and MIS (1979)
Irwin Jacobs .....	43	Vice President — Commercial OEM Group (1978)
Edward A. Kramer .....	44	Vice President — United States Sales (1979)
Gerald T. Moore .....	49	Vice President — Retail Products Group (1978)
Jean-Claude Peterschmitt .....	45	Vice President — Europe (1974)
Lawrence J. Portner .....	43	Vice President — Associate Head, Office of Development/ Engineering (1979)
Robert W. Puffer, III .....	39	Vice President — Mass Storage Manufacturing (1979)
George A. Chamberlain, 3d .....	44	Treasurer (1976)
William R. Thompson .....	45	Controller (1978)

Executive officers of the Company are elected annually and hold office until the first meeting of the Board of Directors following the annual meeting of stockholders and until their successors have been chosen and qualified.

All of the executive officers named above have been officers or held managerial positions in the Company for at least the last five years except Sheldon A. Davis. Mr. Davis was Vice President and Director of Organizational Development of TRW, Inc. from 1972 to 1977.

Kenneth H. Olsen and Stanley C. Olsen are brothers.

Item 2. *Summary of Operations.*

CONSOLIDATED SUMMARY OF OPERATIONS

The following consolidated summary of operations of Digital Equipment Corporation should be read in conjunction with the consolidated financial statements and related notes included elsewhere herein.

	Year Ended				
	June 28, 1980	June 30, 1979	July 1, 1978	July 2, 1977	July 3, 1976
	(In Thousands except per share data)				
REVENUES					
Equipment sales .....	\$1,779,466	\$1,381,756	\$1,128,099	\$ 847,539	\$586,670
Service and other revenues .....	588,579	422,336	308,463	211,075	149,618
TOTAL OPERATING REVENUES .....	<u>2,368,045</u>	<u>1,804,092</u>	<u>1,436,562</u>	<u>1,058,614</u>	<u>736,288</u>
COSTS AND EXPENSES					
Cost of equipment sales, service and other revenues .....	1,319,912	1,012,257	802,253	595,170	424,275
Research and engineering expenses .....	186,392	138,266	115,686	79,694	58,387
Selling, general and administrative expenses .....	478,967	370,128	280,990	205,883	136,161
Interest expense .....	26,996	24,262	22,384	11,711	9,882
Interest income .....	(53,829)	(35,753)	(12,254)	(10,244)	(11,817)
TOTAL COSTS AND EXPENSES .....	<u>1,958,438</u>	<u>1,509,160</u>	<u>1,209,059</u>	<u>882,214</u>	<u>616,888</u>
INCOME BEFORE INCOME TAXES ...	<u>409,607</u>	<u>294,932</u>	<u>227,503</u>	<u>176,400</u>	<u>119,400</u>
PROVISION FOR INCOME TAXES					
Federal .....	116,784	89,388	60,446	52,200	41,600
Foreign .....	34,733	18,811	17,398	6,800	(1,400)
State .....	8,229	8,299	7,470	8,900	5,800
TOTAL PROVISION FOR INCOME TAXES .....	<u>159,746</u>	<u>116,498</u>	<u>85,314</u>	<u>67,900</u>	<u>46,000</u>
NET INCOME .....	<u>\$ 249,861</u>	<u>\$ 178,434</u>	<u>\$ 142,189</u>	<u>\$ 108,500</u>	<u>\$ 73,400</u>
NET INCOME PER SHARE(1) .....	<u>\$5.45</u>	<u>\$4.10</u>	<u>\$3.40</u>	<u>\$2.78</u>	<u>\$1.98</u>
Weighted average number of shares out- standing during each year .....	<u>47,171</u>	<u>44,941</u>	<u>43,225</u>	<u>38,991</u>	<u>37,066</u>

(1) See Note F of Notes to Consolidated Financial Statements for information on the computation of net income per share.

No cash dividends have ever been paid by the Company.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

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 Consolidated Summary of Operations for the three fiscal years ended June 28, 1980 and the percentage changes in those items for such years.

Income and Expense Items as a Percentage of Total Operating Revenues				Percentage Increase		
				1979 to 1980	1978 to 1979	1977 to 1978
1978	1979	1980	<u>Summary of Operations Items</u>			
78.5%	76.6%	75.1%	Equipment sales	29%	22%	33%
21.5%	23.4%	24.9%	Service and other revenues	39%	37%	46%
100.0%	100.0%	100.0%	Total operating revenues	31%	26%	36%
55.8%	56.1%	55.7%	Cost of equipment sales, service and other revenues	30%	26%	35%
8.1%	7.7%	7.9%	Research and engineering expenses	35%	20%	45%
19.6%	20.5%	20.2%	Selling, general and administrative expenses	29%	32%	36%
1.6%	1.3%	1.1%	Interest expense	11%	8%	91%
(.9%)	(2.0%)	(2.2%)	Interest income	51%	192%	20%
84.2%	83.6%	82.7%	Total costs and expenses	30%	25%	37%
15.8%	16.4%	17.3%	Income before income taxes	39%	30%	29%
5.9%	6.5%	6.7%	Income taxes	37%	37%	26%
9.9%	9.9%	10.6%	Net income	40%	25%	31%

### Fiscal 1980 versus Fiscal 1979

#### Revenues

Total operating revenues for fiscal 1980 were \$2.368 billion, a 31% increase over the \$1.804 billion reported for fiscal 1979. Equipment sales in fiscal 1980 were \$1.779 billion, an increase of 29% over fiscal 1979 equipment sales of \$1.382 billion. The 29% rate of increase in equipment sales was 7% more than the comparable fiscal 1979 growth rate of 22%. Service and other revenues, which includes maintenance service, software revenues, replacement parts, and, to a minor extent, equipment rentals, were \$588.6 million in fiscal 1980, a 39% increase over fiscal 1979 revenues of \$422.3 million. The 39% growth rate was 2% more than the corresponding fiscal 1979 growth rate of 37%. The higher rate of increase of both equipment sales and service and other revenues experienced by the Company in fiscal 1980 was due to strong customer order rates experienced throughout the fiscal year both in the United States and internationally. This strong customer demand extended to both older and newer products.

#### International Operations

Sales to customers outside the United States, including export shipments from the United States, were \$928.3 million in fiscal 1980 compared to \$679.4 million in fiscal 1979, an increase of 37%. These sales constituted 39% of total operating revenues in fiscal 1980 compared with 38% in fiscal 1979. The

increase in international sales in fiscal 1980 reflects continued product demand, growth of the Company's international sales and service organizations, and, in part, the favorable effect of strengthened foreign currencies on the U.S. dollar reported revenues. Additional information on the Company's international operations is included in Notes A and B of Notes to the Consolidated Financial Statements.

### *Expenses*

The Company's gross profit margin increased slightly from 43.9% in fiscal 1979 to 44.3% in fiscal 1980, due to increased manufacturing productivity partially offset by higher customer training and field service costs.

Research and engineering expenses increased 35% from \$138.3 million in fiscal 1979 to \$186.4 million in fiscal 1980. This increase is consistent with the Company's continued investment in new product development.

Selling, general and administrative expenses increased 29% in fiscal 1980. This increase reflects, primarily, substantial additions to the Company's sales organization and increased selling and marketing expenses. As a percentage of total operating revenues, selling, general and administrative expenses were 20.2% in fiscal 1980 and 20.5% in fiscal 1979.

Interest expense increased 11% in fiscal 1980 as a result of the interest on the \$400 million 8 $\frac{7}{8}$ % Convertible Subordinated Debentures issued on April 1, 1980, offset by a reduction in interest expense due to the conversion, in the third quarter of fiscal 1980, of the Company's 4 $\frac{1}{2}$ % Convertible Subordinated Debentures. Interest income increased 51% due to the increase in funds available for investment and higher prevailing interest rates.

### *Income*

Income before income taxes increased to \$409.6 million in fiscal 1980 from \$294.9 million in fiscal 1979, and was 17.3% of total operating revenues in fiscal 1980 compared to 16.4% in fiscal 1979. Income before taxes increased 39% in fiscal 1980, compared to 30% in fiscal 1979. These changes are reflective of the revenue and expense changes discussed above.

Net income increased 40% in fiscal 1980 compared to 25% in fiscal 1979. In fiscal 1980 after-tax income increased slightly more than pre-tax income (40% compared to 39%) because the Company's effective tax rate decreased to 39% in fiscal 1980 from 39.5% the preceding year.

Net income per share for fiscal 1980 was \$5.45, a 33% increase over the \$4.10 in fiscal 1979. This 33% increase is less than the 40% increase in net income for fiscal 1980 due to the common stock equivalents attributable to the 8 $\frac{7}{8}$ % Convertible Subordinated Debentures.

### *Fiscal 1979 versus Fiscal 1978*

#### *Revenues*

Total operating revenues for fiscal 1979 were \$1.804 billion, a 26% increase over the \$1.437 billion reported for fiscal 1978. Equipment sales in fiscal 1979 were \$1.382 billion, an increase of 22% over fiscal 1978 equipment sales of \$1.128 billion. The 22% rate of increase in equipment sales was 11%

less than the comparable fiscal 1978 growth rate of 33%. Service and other revenues were \$422.3 million in fiscal 1979, a 37% increase over fiscal 1978 service and other revenues of \$308.5 million. The 37% growth rate was less than the corresponding growth rate of 46% in fiscal 1978. The lower rate of increase of both equipment sales and service and other revenues experienced by the Company in fiscal 1979 was as expected and consistent with its business plan.

### *International Operations*

Sales to customers outside the United States, including export shipments from the United States, were \$679.4 million in fiscal 1979 compared to \$539.5 million in fiscal 1978, an increase of 26%. These sales constituted 38% of total operating revenues in both fiscal 1979 and fiscal 1978. The increase in international sales in fiscal 1979 reflects continued product demand, growth of the Company's international sales and service force, and, in part, the favorable effect of strengthened foreign currencies on the U.S. dollar reported revenues.

### *Expenses*

The Company's gross profit margin decreased slightly from 44.2% in fiscal 1978 to 43.9% in fiscal 1979, primarily as a result of the cost associated with providing customers a higher level of software and training services.

Research and engineering expenses increased 20% from \$115.7 million in fiscal 1978 to \$138.3 million in fiscal 1979. This increase is consistent with the Company's continued investment in new product development.

Selling, general and administrative expenses increased 32% in fiscal 1979. As a percentage of total operating revenues, selling, general and administrative expenses were 20.5% in fiscal 1979 and 19.6% in fiscal 1978. This increase reflects, primarily, substantial additions to the Company's sales force.

Interest expense increased 8% in fiscal 1979 primarily as a result of the interest on the \$250 million of 4½% Convertible Subordinated Debentures issued during the first quarter of fiscal 1978. Interest income increased 192% due to the increase in funds available for investment and higher prevailing interest rates.

### *Income*

Income before income taxes increased to \$294.9 million in fiscal 1979 from \$227.5 million in fiscal 1978, and was 16.4% of total operating revenues in fiscal 1979 compared to 15.8% in fiscal 1978. Income before income taxes increased 30% in fiscal 1979, compared to 29% in fiscal 1978. These changes are reflective of the revenue and expense changes discussed above.

Net income increased 25% in fiscal 1979 compared to 31% in fiscal 1978. In fiscal 1979 after-tax income increased less than pre-tax income (25% compared to 30%) because the Company's effective tax rate increased to 39.5% in fiscal 1979 from 37.5% the preceding year.

Net income per share for fiscal 1979 was \$4.10, a 21% increase over the \$3.40 in fiscal 1978. This 21% increase is less than the 25% increase in net income for fiscal 1979 due to the increased number

of common stock equivalents and shares issued under various employee stock option and purchase plans.

**Item 3. Properties.**

The principal executive offices of the Company are located at 146 Main Street, Maynard, Massachusetts 01754. All space which the Company occupies, substantially all of which is owned, is well-maintained and suitable for the advanced technological products manufactured by the Company. Substantially all of this space is fully utilized and is adequate for the level of business achieved for the year ended June 28, 1980. Information concerning the size and location of the principal plants and properties is set forth below:

<u>City</u>	<u>Approx. Aggregate Size (Sq. Ft.)</u>
Maynard, Massachusetts .....	1,800,000
Marlboro, Massachusetts .....	815,000
Salem, New Hampshire .....	730,000
Westminster, Massachusetts .....	660,000
Merrimack, New Hampshire .....	600,000
Westfield, Massachusetts .....	530,000
Nashua, New Hampshire .....	430,000
Colorado Springs, Colorado .....	430,000
Aquadilla and San German, Puerto Rico .....	390,000
Phoenix, Arizona .....	375,000
Albuquerque, New Mexico .....	320,000
Galway, Republic of Ireland .....	315,000
Springfield, Massachusetts .....	300,000
Ayr, Scotland .....	280,000
Kanata, Canada .....	270,000
Burlington, Vermont .....	270,000
Northboro, Massachusetts .....	230,000
Woburn, Massachusetts .....	230,000
Hudson, Massachusetts .....	220,000

Additional manufacturing facilities are located in California, Maine, Massachusetts, New Hampshire, Republic of Ireland, Taiwan, Hong Kong and West Germany. New facilities under construction or on which construction will commence during fiscal 1981 are located in Arizona, Colorado, Massachusetts, Maine, New Hampshire, South Carolina, Puerto Rico, Hong Kong, Republic of Ireland, West Germany and the United Kingdom.

**Item 4. Parents and Subsidiaries.**

The subsidiaries of the Company, all of which are included in the consolidated financial statements, are listed below. The Company owns, directly or indirectly, 100% of the voting securities of each of its subsidiaries.

<u>Name</u>	<u>State or Jurisdiction of Incorporation</u>
Digital Equipment of Canada Limited	Canada
Digital Equipment GmbH	Germany
Digital Equipment International GmbH	Germany
Digital Equipment Betriebliche Altersversorgungsgesellschaft m.b. H	Germany
Digital Equipment International Betriebliche Altersversorgungsgesellschaft m.b. H	Germany
Digital Equipment Australia Pty. Limited	Australia
Digital Equipment Co. Limited	United Kingdom
Digital Equipment S.a.r.l.	France
Digital Equipment AB	Sweden
Digital Equipment Corporation de Puerto Rico	Delaware
Digital Equipment S.p.A.	Italy
Digital Equipment Corporation S.A.	Switzerland
Digital Equipment Corporation International	Massachusetts
Digital Equipment B.V.	Netherlands
DEC Realty Trust	Massachusetts
Digital Equipment N.V./S.A.	Belgium
Digital Incorporated	Delaware
Digital International Sales Corporation	Delaware
DECSYS Computers Limited	Israel
Digital Equipment International Limited	Switzerland
Digital Equipment Corporation International (Europe)	Switzerland
Digital Equipment Corp. A/S	Norway
Digital Equipment Corporation Ges. m.b. H.	Austria
Digital Equipment New Zealand, Limited	New Zealand
Digital Equipment Taiwan Limited	Taiwan
Digital Equipment Corporation ApS	Denmark
Equipo Digital S.A. de C.V.	Mexico
Digital Equipment Corporation Oy	Finland
Digital Equipment Comercio e Industria, LTDA	Brazil
Computer Insurance Company Limited	Bermuda
Digital Computer Taiwan Limited	Taiwan
Digital Equipment Services, Inc.	Delaware
Digital Equipment Ireland Limited	Republic of Ireland
Old Colony Insurance Limited	Bermuda
Digital Growth, Inc.	Massachusetts
Digital Computer Hong Kong Limited	Hong Kong
Digital Equipment Scotland Limited	United Kingdom
Digital Realty Limited	Republic of Ireland
Digital Equipment Singapore (PTE) Limited	Singapore
Digital Equipment Panama, Inc.	Panama
Digital Equipment Trinidad, Inc.	Delaware
Digital Equipment Centre Technique (Europe) S.a.r.l.	France

**Item 5. Legal Proceedings.**

The Company has no material pending legal proceedings other than routine litigation incidental to the business.

**Item 6. Increases and Decreases in Outstanding Securities and Indebtedness.**

	Shares of Common Stock \$1.00 Par Value
Outstanding June 30, 1979 .....	40,605,516
4½% Convertible Subordinated Debentures converted to common stock during the year .....	4,384,278
Issued from time to time throughout the year pursuant to the Company's various stock option and purchase plans .....	566,505
Treasury stock reissued from time to time throughout the year pursuant to the provisions of the Company's Restricted Stock Option Plans .....	16,199
Treasury shares repurchased in private transactions from time to time throughout the year pursuant to the provisions of the Company's Restricted Stock Option Plans .....	(4,000)
Outstanding June 28, 1980 .....	<u>45,568,498</u>

	Amount of 4½% Convertible Subordinated Debentures(1)
Outstanding June 30, 1979 .....	\$249,995,000
Converted to common stock during year .....	(249,904,000)
Redeemed during year .....	(91,000)
Outstanding June 28, 1980 .....	<u>\$ —</u>

	Amount of 8½% Convertible Subordinated Debentures(2)
Outstanding June 30, 1979 .....	\$ —
Issued in public offering on April 1, 1980 .....	400,000,000
Outstanding June 28, 1980 .....	<u>\$400,000,000</u>

(1) On January 16, 1980, the Company called for redemption on February 15, 1980 all \$249,995,000 of its then outstanding 4½% Convertible Subordinated Debentures, due December 15, 2002. See the Company's Quarterly Report on Form 10-Q for the quarter ended December 29, 1979.

(2) See the Company's Quarterly Report on Form 10-Q for the quarter ended March 29, 1980.

## PART II

Within 120 days of the close of the fiscal year, the registrant will file with the Commission a definitive proxy statement pursuant to Regulation 14A and, accordingly, pursuant to General Instruction H, Part II has not been submitted.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

ALFRED M. BERTOCCHI

By .....

Alfred M. Bertocchi  
Vice President, Finance and Administration

September 8, 1980

**DIGITAL EQUIPMENT CORPORATION**  
**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES**

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Consolidated Statements of Changes In Financial Position .....	F-6
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All other schedules have been omitted since they are not required, not applicable or the information has been included elsewhere in this document.

Individual financial statements of the Company have been omitted because it is primarily an operating company and the consolidated subsidiaries are wholly-owned and are not indebted, in a material amount, to any person other than the parent or the consolidated subsidiaries.

## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

DIGITAL EQUIPMENT CORPORATION  
Maynard, Massachusetts

We have examined the consolidated balance sheets of Digital Equipment Corporation as at June 28, 1980 and June 30, 1979, and the related consolidated statements of income, stockholders' equity and changes in financial position and the supporting schedules for the fiscal years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Digital Equipment Corporation as at June 28, 1980 and June 30, 1979, and the consolidated results of its operations and the consolidated changes in its financial position for the fiscal years then ended, and the supporting schedules (pages S-1 through S-5) present fairly the information required to be included therein, all in conformity with generally accepted accounting principles applied on a consistent basis.

Boston, Massachusetts  
August 5, 1980

COOPERS & LYBRAND

DIGITAL EQUIPMENT CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended	
	June 28, 1980	June 30, 1979
	(In Thousands except per share data)	
REVENUES (Notes A and B)		
Equipment sales .....	\$1,779,466	\$1,381,756
Service and other revenues .....	588,579	422,336
TOTAL OPERATING REVENUES .....	<u>2,368,045</u>	<u>1,804,092</u>
COSTS AND EXPENSES (Notes A and J)		
Cost of equipment sales, service and other revenues (Note D) .....	1,319,912	1,012,257
Research and engineering expenses .....	186,392	138,266
Selling, general and administrative expenses .....	478,967	370,128
Interest expense .....	26,996	24,262
Interest income .....	(53,829)	(35,753)
TOTAL COSTS AND EXPENSES .....	<u>1,958,438</u>	<u>1,509,160</u>
INCOME BEFORE INCOME TAXES .....	<u>409,607</u>	<u>294,932</u>
PROVISION FOR INCOME TAXES (Notes A and E)		
Federal .....	116,784	89,388
Foreign .....	34,733	18,811
State .....	8,229	8,299
TOTAL PROVISION FOR INCOME TAXES .....	<u>159,746</u>	<u>116,498</u>
NET INCOME .....	<u>\$ 249,861</u>	<u>\$ 178,434</u>
NET INCOME PER SHARE (Note F) .....	<u>\$5.45</u>	<u>\$4.10</u>
Weighted average number of shares outstanding .....	<u>47,171</u>	<u>44,941</u>

The accompanying notes are an integral part of these financial statements.

**DIGITAL EQUIPMENT CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**

	<u>June 28,</u> <u>1980</u>	<u>June 30,</u> <u>1979</u>
	(In Thousands)	
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and temporary cash investments (Note C) .....	\$ 616,286	\$ 433,023
Accounts receivable, net of allowances of \$22,151 and \$18,182 (Schedule XII) .....	629,063	475,067
Inventories (Notes A and D):		
Raw materials .....	199,210	111,220
Work-in-process .....	271,348	195,424
Finished goods .....	<u>349,366</u>	<u>206,886</u>
	819,924	513,530
Prepaid expenses .....	30,646	18,871
Net deferred Federal and foreign income tax charges .....	<u>40,693</u>	<u>23,480</u>
<b>TOTAL CURRENT ASSETS</b> .....	<b>2,136,612</b>	<b>1,463,971</b>
<b>PROPERTY, PLANT AND EQUIPMENT, at cost (Note A and Schedules V and VI)</b>		
Land .....	38,261	31,738
Buildings .....	254,609	191,895
Leasehold improvements .....	45,783	31,106
Machinery and equipment .....	<u>433,660</u>	<u>327,342</u>
	772,313	582,081
Less accumulated depreciation .....	<u>242,857</u>	<u>182,872</u>
	529,456	399,209
<b>TOTAL ASSETS</b> .....	<b><u>\$2,666,068</u></b>	<b><u>\$1,863,180</u></b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Loans payable to banks (Note G) .....	\$ 7,555	\$ 11,992
Accounts payable .....	103,104	86,839
Federal, foreign and state income taxes .....	153,518	129,621
Salaries, wages and related items .....	85,925	65,963
Deferred revenues and customer advances (Note A) .....	69,770	57,083
Current portion of long-term debt .....	1,035	972
Other current liabilities .....	<u>57,489</u>	<u>34,650</u>
<b>TOTAL CURRENT LIABILITIES</b> .....	<b>478,396</b>	<b>387,120</b>
Net deferred Federal and foreign income tax credits .....	46,201	15,110
Long-term debt (Note H) .....	489,722	340,714
<b>STOCKHOLDERS' EQUITY (Note K)</b>		
Common stock, \$1.00 par value; authorized 120,000,000 shares; issued and outstanding 45,568,498 and 40,605,516 shares .....	45,569	40,606
Additional paid-in capital .....	675,110	398,421
Retained earnings .....	<u>931,070</u>	<u>681,209</u>
<b>TOTAL STOCKHOLDERS' EQUITY</b> .....	<b><u>1,651,749</u></b>	<b><u>1,120,236</u></b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b> .....	<b><u>\$2,666,068</u></b>	<b><u>\$1,863,180</u></b>

The accompanying notes are an integral part of these financial statements.

DIGITAL EQUIPMENT CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years Ended June 28, 1980 and June 30, 1979

	Common Stock	Additional Paid-in Capital	Retained Earnings	Total Stockholders' Equity
(In Thousands)				
July 1, 1978 .....	\$39,873	\$362,110	\$502,775	\$ 904,758
Shares issued under stock option and purchase plans (Note K) .....	733	23,579		24,312
Restricted stock plans, charge to operations (Note K) .....		8,602		8,602
Stock option and purchase plans — excess Federal income tax benefits (Note K) .....		4,130		4,130
Net income — 1979 .....			178,434	178,434
June 30, 1979 .....	<u>\$40,606</u>	<u>\$398,421</u>	<u>\$681,209</u>	<u>\$1,120,236</u>
Shares issued upon conversion of 4½% debentures (Note H) .....	4,384	241,506		245,890
Shares issued under stock option and purchase plans (Note K) .....	579	21,287		21,866
Restricted stock plans, charge to operations (Note K) .....		9,306		9,306
Stock option and purchase plans — excess Federal income tax benefits (Note K) .....		4,590		4,590
Net income — 1980 .....			249,861	249,861
June 28, 1980 .....	<u>\$45,569</u>	<u>\$675,110</u>	<u>\$931,070</u>	<u>\$1,651,749</u>

The accompanying notes are an integral part of these financial statements.

## DIGITAL EQUIPMENT CORPORATION

### CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Year Ended	
	June 28, 1980	June 30, 1979
	(In Thousands)	
<b>FUNDS FROM OPERATIONS</b>		
Net income .....	\$ 249,861	\$178,434
Add — expenses not requiring funds in current period:		
Depreciation (Note A) .....	69,809	57,655
Disposal of property, plant and equipment (Note A) .....	9,841	12,982
Restricted stock plans — charge to operations (Note K) .....	9,306	8,602
Deferred income tax provision (Note E) .....	18,468	(11,084)
Total funds from operations .....	<u>357,285</u>	<u>246,589</u>
<b>FUNDS USED TO SUPPORT OPERATIONS</b>		
Increase (decrease) in working capital:		
Accounts receivable .....	153,996	99,862
Inventories .....	306,394	85,428
Prepaid expenses .....	11,775	5,819
Accounts payable .....	(16,265)	(36,332)
Income taxes .....	(23,897)	(65,810)
Other current liabilities .....	(55,551)	(43,377)
	<u>376,452</u>	<u>45,590</u>
Additions to property, plant and equipment .....	209,897	93,911
Total funds used to support operations .....	<u>586,349</u>	<u>139,501</u>
Net increase (decrease) in funds from operations .....	(229,064)	107,088
<b>FUNDS PROVIDED BY FINANCING SOURCES</b>		
Increase (decrease) in:		
Loans payable to banks (Note G) .....	(4,437)	3,170
Long-term debt (Note H)		
4½% debentures .....	(249,995)	—
8% debentures .....	400,000	—
Other .....	(997)	(909)
Net increase in stockholders' equity upon conversion of 4½% debentures (Note H)	245,890	—
Common stock issued under stock option and purchase plans (Note K) .....	21,866	24,312
Total funds from financing sources .....	<u>412,327</u>	<u>26,573</u>
Net increase in cash and temporary cash investments .....	183,263	133,661
Cash and temporary cash investments at beginning of year .....	433,023	299,362
Cash and temporary cash investments at end of year .....	<u>\$ 616,286</u>	<u>\$433,023</u>

The accompanying notes are an integral part of these financial statements.

## DIGITAL EQUIPMENT CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### Note A — Significant Accounting Policies

##### *Principles of Consolidation*

The consolidated financial statements of the Company include the financial statements of the parent and its domestic and foreign subsidiaries, all of which are wholly-owned. All significant inter-company accounts and profits have been eliminated.

##### *Translation of Foreign Currencies*

Assets and liabilities of foreign subsidiaries are translated into U.S. dollars at current exchange rates, except that inventories and property, plant and equipment are translated at historical rates. Income and expense items are translated at average rates of exchange prevailing during the year, except that cost of sales and depreciation are translated at historical rates. Exchange gains and losses arising from translation are included in income currently.

The Company enters into forward exchange contracts to reduce the impact of foreign currency fluctuations on certain sales transactions and the asset and liability positions of foreign subsidiaries. The gains or losses on these contracts are included in income when the revenue from the sales is recognized and for assets and liabilities in the period in which the exchange rates change.

##### *Revenue Recognition*

Revenues from equipment sales are recognized at the time the equipment is shipped. Service and other revenues are recognized ratably over the contractual period or as the services are performed.

##### *Research and Engineering and Warranty Costs*

Research and engineering and warranty costs are expensed as incurred. The Company's accounting policies with respect to warranty costs result in approximately the same charge to expense as would accrual of such warranty costs at the time of sale.

##### *Taxes*

In general, the Company's practice is to reinvest the earnings of its foreign subsidiaries in those operations and repatriation of retained earnings is done only when it is advantageous to do so. Applicable taxes are provided only on amounts planned to be remitted. The Company has elected to provide for taxes on the entire income of its Domestic International Sales Corporation (DISC). Investment tax credits are credited directly to income.

##### *Inventories*

Inventories are stated at the lower of cost (first-in, first-out) or market.

## DIGITAL EQUIPMENT CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

#### Note A — Significant Accounting Policies — (Continued)

##### *Property, Plant and Equipment*

Depreciation expense is computed principally on the following bases:

<u>Classification</u>	<u>Depreciation Lives and Methods</u>
Buildings .....	33 years (straight-line)
Leasehold improvements .....	Life of assets or term of lease, whichever is shorter (straight-line)
Machinery and equipment .....	8 and 10 years (sum-of-years), 4 and 5 years (double declining-balance)

When these assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recorded in the income statement. When computer systems manufactured by the Company and used in the business are sold, the net book value is charged to cost of sales and the proceeds included in equipment sales.

Maintenance, repairs, renewals and betterments (not in the nature of capital expenditures) are charged to expense in the period in which incurred.

#### Note B — International Operations

##### *Industry*

The Company's business consists of the design, manufacture, sale and service of computers and associated peripheral equipment, and related software and supplies.

##### *International Operations*

Sales and marketing operations outside the United States are conducted principally through sales subsidiaries in Canada, Europe, Central and South America and the Far East, by direct sales from the parent corporation and, to a minor extent, through various representative and distributorship arrangements. A substantial portion of these sales consists of products manufactured domestically. The Company's international manufacturing operations include plants in Canada, Taiwan, Hong Kong, West Germany, Ireland and Scotland. The products of these manufacturing plants in most instances are sold to the Company's international sales subsidiaries, the parent corporation, or other international manufacturing plants for further processing.

The Company's prices to international customers are designed to yield consolidated profits substantially the same as the profits on products manufactured and sold to customers in the United States. Intercompany transfers between geographic areas are accounted for at discounts from list prices which are designed to be representative of unaffiliated party transactions.

## DIGITAL EQUIPMENT CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

#### Note B — International Operations — (Continued)

Due to the organizational structure and complex manufacturing process, the results of operations of individual subsidiaries within the geographical areas are only reflective of the separate functions which they perform and may not be indicative of the geographical areas' contribution to consolidated profitability. Financial information concerning the Company's international operations by major geographical area is summarized as follows:

Geographic Area	Fiscal Year		
	1980	1979	1978
Sales			
United States		(In Thousands)	
Unaffiliated customers	\$1,474,529	\$1,148,701	\$ 913,128
Intercompany	453,814	324,564	297,193
	<u>1,928,343</u>	<u>1,473,265</u>	<u>1,210,321</u>
Europe			
Unaffiliated customers	678,153	486,451	376,888
Intercompany	—	—	—
	<u>678,153</u>	<u>486,451</u>	<u>376,888</u>
Canada, Far East, Americas			
Unaffiliated customers	215,363	168,940	146,546
Intercompany	187,179	113,875	114,513
	<u>402,542</u>	<u>282,815</u>	<u>261,059</u>
Eliminations	(640,993)	(438,439)	(411,706)
Net sales	<u>\$2,368,045</u>	<u>\$1,804,092</u>	<u>\$1,436,562</u>
Profits			
United States	\$ 267,809	\$ 203,586	\$ 184,631
Europe	79,095	50,416	28,270
Canada, Far East, Americas	71,889	50,487	34,940
Eliminations	(36,019)	(21,048)	(10,208)
Profit from operations	<u>382,774</u>	<u>283,441</u>	<u>237,633</u>
Interest income	53,829	35,753	12,254
Interest expense	(26,996)	(24,262)	(22,384)
Income before income taxes	<u>\$ 409,607</u>	<u>\$ 294,932</u>	<u>\$ 227,503</u>
Assets			
United States	\$1,759,039	\$1,239,266	\$1,082,697
Europe	500,888	339,383	273,661
Canada, Far East, Americas	266,743	174,459	147,711
Corporate assets (temporary cash investments)	598,733	432,240	298,500
Eliminations	(459,335)	(322,168)	(301,167)
Total assets	<u>\$2,666,068</u>	<u>\$1,863,180</u>	<u>\$1,501,402</u>

Sales to unaffiliated customers outside of the United States, including U.S. export sales, were \$928,285,000 for the year ended June 28, 1980, \$679,354,000 for the year ended June 30, 1979 and \$539,513,000 for the year ended July 1, 1978, which represented 39%, 38% and 38%, respectively, of total operating revenues.

## DIGITAL EQUIPMENT CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

#### Note B — International Operations — (Continued)

The retained earnings of substantially all of the Company's international subsidiaries have been reinvested to support their operations. These retained earnings, before elimination of intercompany transactions, aggregated \$303,132,000 at June 28, 1980, \$185,045,000 at June 30, 1979 and \$112,201,000 at July 1, 1978.

#### Note C — Cash and Temporary Cash Investments

The Company's policy is to invest cash in income producing temporary cash investments. Accordingly, uninvested cash balances are kept at minimum levels. Temporary cash investments are valued at cost, which approximates market, and include principally certificates of deposit and time deposits.

#### Note D — Inventories and Cost of Sales

Inventories used in the computation of cost of sales were as follows:

	(In Thousands)
July 1, 1978 .....	\$428,102
June 30, 1979 .....	513,530
June 28, 1980 .....	819,924

#### Note E — Income Taxes

The total provisions for income taxes are at rates less than the U.S. Federal statutory tax rate for the following reasons:

	<u>1980</u>	<u>1979</u>
U.S. Federal statutory tax rate .....	46.0%	47.0%
Tax benefit of nontaxable income (a):		
Puerto Rico .....	(3.7)	(2.2)
Ireland .....	(1.8)	(2.7)
Difference between U.S. and foreign tax rates .....	(.2)	(1.8)
State income taxes, net of Federal income tax benefit .....	1.0	1.4
Other .....	(2.3)	(2.2)
	<u>39.0%</u>	<u>39.5%</u>

(a) Consolidated net income includes income of a domestic manufacturing subsidiary operating in Puerto Rico and of a foreign manufacturing subsidiary operating in Ireland. Effective in fiscal 1981, the Puerto Rican subsidiary converted its income tax exemption grants to the provisions of a new tax law. Under the new tax law, the subsidiary will be subject to tax at a rate of approximately 9% on its manufacturing earnings through fiscal 1995. Previously the income was not subject to Puerto Rican income taxes. Remitted earnings are not subject to U.S. Federal income taxes, but will be subject to Puerto Rican withholding taxes at rates not in excess of 10%, less a partial

## DIGITAL EQUIPMENT CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

#### Note E — Income Taxes — (Continued)

credit for taxes paid to Puerto Rico under the new tax law. Under Irish law, the income from products manufactured for export is exempt from Irish taxes for a period of 15 years, which period expires in 1986 (for the years 1987-1991 the income is partially exempt). The income tax benefits per common share attributable to the tax status of these subsidiaries for the years ended June 28, 1980 and June 30, 1979 were \$.48 and \$.32, respectively.

The components of the provisions for U.S. Federal and foreign income taxes are as follows:

	Year Ended	
	June 28, 1980	June 30, 1979
	(In Thousands)	
U.S. Federal:		
Currently payable .....	\$ 97,832	\$93,484
Deferred .....	18,952	(4,096)
Total .....	\$116,784	\$89,388
Foreign:		
Currently payable .....	\$ 35,217	\$25,799
Deferred .....	(484)	(6,988)
Total .....	\$ 34,733	\$18,811

Deferred tax expense results from timing differences in the recognition of revenues and expenses for tax and financial reporting purposes. The sources of these timing differences in the years ended June 28, 1980 and June 30, 1979 and the tax effect of each were as follows:

	Year Ended	
	June 28, 1980	June 30, 1979
	(In Thousands)	
Inventory related transactions .....	\$(28,774)	\$(23,840)
Installment sales, principally intercompany, and financing leases .....	12,468	(974)
Domestic International Sales Corporation profits .....	11,964	6,529
Depreciation .....	10,455	3,952
Other .....	12,355	3,249
Total .....	\$ 18,468	\$(11,084)

In connection with its normal examinations of the Company's 1975 through 1977 tax returns, the Internal Revenue Service has proposed certain adjustments. The Company believes its judgments in these matters have been appropriate and intends to contest certain of the adjustments proposed by the IRS. In addition, the Company believes any adjustments which might result would not have a material effect on the financial statements.

## DIGITAL EQUIPMENT CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

#### Note E — Income Taxes — (Continued)

See Note A of Notes to Consolidated Financial Statements for further explanation of the Company's income tax accounting policies.

#### Note F — Net Income Per Share

Net income per share is based on the weighted average number of common shares and, if their aggregate dilutive effect is material, common share equivalents, outstanding during the year. In fiscal 1980 and 1979 common share equivalents are attributable principally to Convertible Subordinated Debentures (see Note H) and, to a minor extent, stock options

#### Note G — Short-Term Debt

Short-term debt and related interest rates at June 28, 1980 and June 30, 1979 were as follows:

	June 28, 1980		June 30, 1979
	(In Thousands)	Average Interest Rate	(In Thousands)
Loans payable to banks — foreign . . . . .	\$7,555	18.8%	\$11,992
			15.2%

The maximum aggregate short-term debt outstanding at any month-end was \$18,894,000 during fiscal 1980 and \$16,871,000 during fiscal 1979. Average short-term borrowings during these years, computed on a month-end basis, were \$13,355,000 and \$14,006,000 respectively. The average interest rate based on a weighted average of the stated month-end rates was 14.9% in fiscal 1980 and 15.6% in fiscal 1979.

Unused lines of credit for short term financing were \$78,640,000 at June 28, 1980 and \$122,900,000 at June 30, 1979. At June 28, 1980 certain lines of credit required either the maintenance of compensating balances or the payment of facility fees; \$8,000,000 required the maintenance of compensating balances equal to 5% of such unused lines and \$13,000,000 required the payment of facility fees which in general are approximately the equivalent of 5% compensating balances. After considering "float" none of the cash reflected in the balance sheets at June 28, 1980 and June 30, 1979 was required as compensating balances.

In March, 1980 the Company entered into revolving credit agreements totalling \$150,000,000. These commitments are available on a revolving basis until March, 1983, converting at such time to term loans with final maturities in March, 1987. Borrowing rates under these commitments vary with the prime rate or the London Interbank Offer Rate. There are no compensating balance requirements under these agreements. Commitment fees on the unused portion of the commitment in general approximate 5% compensating balances. These credit arrangements were unused at June 28, 1980.

## DIGITAL EQUIPMENT CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

#### Note H — Long-Term Debt

Long-term debt, exclusive of current maturities, consisted of the following:

	<u>June 28, 1980</u>	<u>June 30, 1979</u>
(In Thousands)		
Lease obligations payable 1981-1993 (4.5%-11.7%)(a) .....	\$ 6,627	\$ 7,154
Collateralized obligations maturing serially to 1993 (5.4%)(b) .....	8,095	8,565
Sinking Fund Debentures due March 15, 2000 (9%)(c) .....	75,000	75,000
Convertible Subordinated Debentures due December 15, 2002 (4½%)(d) .....	—	249,995
Convertible Subordinated Debentures due June 15, 2005 (8%)(e) .....	400,000	—
	<u>\$489,722</u>	<u>\$340,714</u>

Principal payments required during the next five fiscal years are as follows: 1981 — \$1,035,000; 1982 — \$1,093,000; 1983 — \$1,146,000; 1984 — \$1,212,000; and 1985 — \$5,220,000.

(a) Weighted average interest rate at June 28, 1980 of 8.1%.

(b) Interest rate shown is the weighted average rate at June 28, 1980.

(c) Sinking Fund Debentures were issued by the Company in March 1975. Sinking fund payments of \$4,000,000 are required in each of the fiscal years 1985-1999. The Company at its option may increase the sinking fund payments up to an additional \$4,000,000 in each such year. The Debentures are redeemable at the option of the Company at any time, as a whole or in part, at 109% of the principal amount during the year beginning March 15, 1975, and at declining percentages each year thereafter. However, prior to March 15, 1985, the Company may not redeem any of the Debentures from the proceeds of funds borrowed at an interest rate less than 9% per annum. The Indenture for the Debentures also contains certain restrictions on future borrowings and dividend distributions.

(d) On September 8, 1977, the Company sold \$250,000,000 of 4½% Convertible Subordinated Debentures. On January 16, 1980, the Company called for redemption all \$249,995,000 of its then outstanding 4½% Convertible Subordinated Debentures. At the election of the Debentureholders, substantially all of the Debentures were converted into shares of common stock.

(e) On April 1, 1980, the Company issued \$400,000,000 of 8% Convertible Subordinated Debentures. The Debentures are subordinated in right of payment to all senior indebtedness, as defined, and are convertible, subject to prior redemption, into shares of common stock at \$72 per share at any time up to and including the maturity date of June 15, 2005.

Annual sinking fund payments to redeem \$14,400,000 principal amount of the Debentures are required beginning on June 15, 1991, and beginning June 15, 1986, the Company, at its option, may make additional sinking fund payments to redeem up to an additional \$14,400,000 principal amount annually. In each case, the sinking fund redemption price is the principal amount of the Debentures, plus accrued interest to the date of redemption. In addition, the Debentures are redeemable at the

## DIGITAL EQUIPMENT CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

#### Note H — Long-Term Debt — (Continued)

option of the Company, at any time, in whole or in part, at 108 $\frac{7}{8}$ % of the principal amount of the Debentures through June 14, 1981 at prices which decrease annually thereafter to June 14, 2000 and thereafter at 100% of the principal amount, together with accrued interest to the date of redemption.

#### Note I — Leases

Minimum annual rentals under noncancelable leases (which are principally for leased regional sales offices and manufacturing space) are as follows: 1981 — \$50,580,000; 1982 — \$45,516,000; 1983 — \$38,720,000; 1984 — \$30,331,000; 1985 — \$21,276,000; 1986-1990 — \$49,438,000; 1991-1995 — \$28,133,000; 1996-2000 — \$17,462,000; 2001 and thereafter — \$2,886,000. Total rental expense for the fiscal years ended June 28, 1980 and June 30, 1979 amounted to \$55,961,000 and \$37,306,000, respectively.

#### Note J — Pension Plans

The Company and its subsidiaries have pension plans covering substantially all of their employees. Total pension expense was \$34,784,000 in fiscal 1980 and \$23,654,000 in fiscal 1979. Annual contributions are made to the plans equal to the amounts accrued for pension expense. A change during fiscal 1980 in the actuarial assumptions used in computing pension expense had the effect of reducing net income for the year by approximately \$2,400,000.

A comparison of accumulated plan benefits and plan net assets for the Company's domestic defined benefit plans and for those foreign subsidiaries with defined benefit plans, determined as of the beginning of each respective fiscal year is presented below. Foreign subsidiaries with insured plans, rather than defined benefit plans, have been excluded from this information.

	June 28, 1980	June 30, 1979
	(In Thousands)	
Actuarial present value of accumulated plan benefits:		
Vested .....	\$19,559	\$ 9,903
Nonvested .....	19,292	11,713
	\$38,851	\$21,616
Net assets available for benefits .....	\$67,831	\$42,154

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 6 percent for both 1980 and 1979.

#### Note K — Stock Option Plans

##### *Qualified Stock Options*

Under its 1965 Qualified Stock Option Plan, the Company granted certain officers and key employees options to purchase common stock within five years from the grant date at 100% of market price on the grant date. Authority to grant options under the plan expired March 9, 1975. During fiscal 1980 options to purchase 15,000 shares were cancelled. There were no qualified options outstanding at June 28, 1980, and none which became exercisable during fiscal 1980.

## DIGITAL EQUIPMENT CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

#### Note K — Stock Option Plans — (Continued)

Information with respect to qualified options outstanding at June 30, 1979 and options exercisable during fiscal 1979 follows:

<u>Fiscal Year Granted</u>	June 30, 1979		
	<u>Number of Shares</u>	<u>Option and Market Price on Grant Date</u>	
1975 .....	25,575	\$24.15-\$27.40	<u>\$618,059</u>
	<u>25,575</u>		<u>\$618,059</u>

<u>Options Which Became Exercisable</u>	<u>Number of Shares</u>	<u>Option Price</u>		<u>Market Price (a)</u>	
		<u>Per Share</u>	<u>Total</u>	<u>Per Share</u>	<u>Total</u>
1979 .....	9,600	\$18.00-\$27.40	\$233,101	\$45.81-\$51.19	\$489,900

Information with respect to these options exercised in fiscal 1979 and 1980 follows:

<u>Options Exercised</u>	<u>Number of Shares</u>	<u>Option Price</u>		<u>Market Price (b)</u>	
		<u>Per Share</u>	<u>Total</u>	<u>Per Share</u>	<u>Total</u>
1979 .....	185,552	\$18.00-\$38.83	\$6,599,037	\$45.31-\$57.88	\$9,826,372
1980 .....	10,575	\$24.15-\$27.40	\$ 256,319	\$61.38-\$66.13	\$ 688,684

(a) At the date the options became exercisable.

(b) At the date the options were exercised.

Of the gross proceeds realized by the Company upon the exercise of options, \$1 per share (par value) is credited to the common stock account and the balance is credited to additional paid-in capital. There have been no charges to income in connection with these options other than incidental expenses related to the issuance of the shares. Federal income tax benefits relating to such options have been credited to additional paid-in capital.

#### *Restricted Stock Options*

Under its Restricted Stock Option and Purchase Plans, the Company has granted certain officers and key employees options, which are exercisable upon grant, to purchase common stock at a price determined by the Board of Directors. Shares purchased under the plans are generally subject to repurchase options and restrictions on sales which lapse over an extended time period not exceeding 10

## DIGITAL EQUIPMENT CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

#### Note K — Stock Option Plans — (Continued)

years. During fiscal 1980 options to purchase 753,640 shares were granted, options to purchase 133,950 shares were cancelled and options to purchase 73,505 shares were terminated.

Common stock reserved for future grants aggregated 1,619,900 and 513,095 shares at June 28, 1980 and June 30, 1979, respectively.

Information with respect to options outstanding at June 30, 1979 and June 28, 1980 follows:

Fiscal Year Granted	Number of Shares	Option Price		Fair Market Value (a)	
		Per Share	Total	Per Share	Total
		At June 30, 1979			
1972	42,720	\$4.17	\$ 178,014	\$21.83–\$27.79	\$ 1,071,504
1973	129,430	4.67	604,049	26.83– 27.83	3,496,234
1974	263,256	6.75	1,776,978	29.58– 38.83	9,375,578
1975	439,970	9.50– 35.63	11,920,095	18.00– 35.63	12,503,535
1976	552,837	11.00– 59.15	12,951,156	37.81– 59.15	32,548,918
1977	431,650	15.67– 56.29	6,802,148	39.00– 56.29	17,182,512
1978	257,536	18.75– 43.94	4,853,987	43.94– 52.19	13,387,358
1979	550,220	22.70	12,489,994	46.31– 56.25	28,748,113
	2,667,619		\$51,576,421		\$118,313,752

Fiscal Year Granted	Number of Shares	Option Price		Fair Market Value (a)	
		Per Share	Total	Per Share	Total
		At June 28, 1980			
1972	31,020	\$4.17	\$ 129,260	\$21.83–\$27.79	\$ 784,484
1973	106,635	4.67	497,666	26.83– 27.83	2,879,862
1974	217,185	6.75	1,465,999	29.58– 38.83	7,740,109
1975	365,580	9.50– 35.63	9,961,885	18.00– 35.63	10,444,247
1976	481,685	11.00– 59.15	11,429,112	37.81– 59.15	28,367,445
1977	384,251	15.67– 56.29	6,055,710	39.00– 56.29	15,312,743
1978	233,239	18.75– 43.94	4,385,825	43.94– 52.19	12,124,571
1979	513,664	22.70	11,660,173	46.31– 56.25	26,830,377
1980	751,290	27.60– 33.60	20,999,604	61.38– 72.88	50,736,550
	3,084,549		\$66,585,234		\$155,220,388

Information with respect to these options exercised in fiscal 1979 and 1980 follows:

	Number of Shares	Option Price		Fair Market Value (b)	
		Average Per Share	Total	Per Share	Total
		At June 28, 1980			
1979	196,658	\$15.14	\$2,976,440	\$45.06–\$57.88	\$10,276,766
1980	202,760	15.67	3,177,323	53.44– 80.44	13,095,569

(a) At dates options were granted.

(b) At dates options were exercised and without regard to restrictions as to sale.

## DIGITAL EQUIPMENT CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

#### Note K — Stock Option Plans — (Continued)

At the time these options are exercised, the common stock account is increased by the par value (\$1 per share) of the shares sold and the remaining portion of the proceeds is credited to additional paid-in capital. The excess of the fair market value of the shares on the grant date over the option price is charged to operations each year as the restrictions lapse. Such charges to operations amounted to \$9,306,000 in fiscal 1980 and \$8,602,000 in fiscal 1979. The amount deductible for Federal income taxes exceeds the amount charged to income for book purposes; the Federal income tax benefits relating to this difference have been credited to additional paid-in capital.

#### *1968 Employee Stock Purchase Plan*

Under the Company's 1968 Employee Stock Purchase Plan, all United States, Canadian and German employees may be granted options to purchase common stock at 85% of market value on the first or last business day of the six month payment period, whichever is lower. Common stock reserved for future grants aggregated 1,411,781 shares at June 28, 1980 and 791,168 shares at June 30, 1979. There were 379,387 shares issued at an average price of \$50.02 in fiscal 1980 and 360,842 shares at \$40.84 in fiscal 1979. There have been no charges to income in connection with these options other than incidental expenses related to the issuance of the shares. Federal income tax benefits relating to such options have been credited to additional paid-in capital.

#### Note L — Supplementary Income Statement Information

	Charged to costs and expenses	
	Year Ended	
	June 28, 1980	June 30, 1979
	(In Thousands)	
Maintenance and repairs .....	\$25,116	\$14,614
Depreciation of property, plant and equipment .....	\$69,809	\$57,655
Taxes other than income taxes:		
Payroll .....	\$72,215	\$55,463
State, local and other taxes .....	\$12,336	\$12,066
Rents .....	\$55,961	\$37,306
Advertising costs .....	\$22,131	\$21,444

## DIGITAL EQUIPMENT CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

#### Note M — Quarterly Financial Data (Unaudited)

Selected quarterly financial data for fiscal 1980 and fiscal 1979 is set forth below:

	<u>Total Operating Revenues</u>	<u>Gross Profit</u>	<u>Income Before Income Taxes</u>	<u>Net Income</u>	<u>Net Income Per Share</u>
(In Millions except per share data)					
<u>1980</u>					
First Quarter .....	\$ 487.5	\$ 215.1	\$ 74.8	\$ 45.2	\$1.02
Second Quarter .....	553.9	242.8	89.1	54.0	1.21
Third Quarter .....	627.2	279.0	110.6	66.9	1.45
Fourth Quarter .....	699.4	311.2	135.1	83.8	1.73
Total Year .....	<u>\$2,368.0</u>	<u>\$1,048.1</u>	<u>\$409.6</u>	<u>\$249.9</u>	5.45
<u>1979</u>					
First Quarter .....	\$ 388.0	\$166.0	\$ 52.3	\$ 32.2	\$ .75
Second Quarter .....	426.0	183.2	61.6	37.9	.88
Third Quarter .....	465.9	203.6	79.0	46.6	1.07
Fourth Quarter .....	524.2	239.0	102.0	61.7	1.40
Total Year .....	<u>\$1,804.1</u>	<u>\$791.8</u>	<u>\$294.9</u>	<u>\$178.4</u>	4.10

#### Note N — Supplementary Information on the Effects of Inflation (Unaudited)

##### *General Background*

To provide readers of financial statements with information to assist them in assessing the effects of inflation, the Financial Accounting Standards Board issued Statement No. 33, Financial Reporting and Changing Prices, which requires disclosure of certain experimental information on the effects of inflation on business enterprises. The two different methods ("constant dollar" and "current cost") for estimating the effects of inflation are described below. Both methods involve the use of assumptions, approximations, and estimates, and therefore, the resulting measurements should be viewed in that context and not as precise indicators of the effects of inflation.

##### *Constant Dollar*

This method provides data adjusted for the rate of general inflation using the Consumer Price Index for all Urban Consumers as the broad-based measure of the general inflation rate. The objective of this approach is to provide financial information in dollars of equivalent value or purchasing power (constant dollars), so that revenues for each year are matched with expenses expressed in units of corresponding value.

## DIGITAL EQUIPMENT CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

#### Note N — Supplementary Information on the Effects of Inflation (Unaudited) — (Continued)

##### *Current Cost*

This method of measurement adjusts for "changes in specific prices." The objective of this method is to reflect the current cost of replacing resources, rather than the historical cost amounts actually spent to acquire them. Adjustments for changes in specific prices of property, plant and equipment were principally based on external price indexes specifically or closely related to the resources being measured, or internally developed indexes, and in the case of inventories and cost of sales, on recent production cost experience.

##### *Consolidated Statement of Income Adjusted for the Effects of Inflation*

The amounts reported in the primary (historical cost) statement of income have been adjusted only for depreciation expense and the inventory component of cost of sales, in arriving at the net income amounts adjusted for constant dollars and current costs since these are the costs most affected by inflation. Revenues and all other operating expenses are considered to reflect the average price levels for the year, and accordingly have not been adjusted.

Although the adjustments for depreciation expense and the inventory component of cost of sales affect the pretax income amounts, no adjustments have been made to the respective provisions for income taxes.

The adjustments to depreciation and cost of sales included in the adjusted net income amounts were as follows:

	<u>Adjustment for General Inflation (constant dollars)</u>	<u>Adjustment for Changes in Specific Prices (current costs)</u>
(In Millions)		
Depreciation expense .....	\$13.1	\$4.1
Cost of sales, exclusive of depreciation .....	<u>68.8</u>	<u>5.8</u>
Total reduction in net income .....	<u>\$81.9</u>	<u>\$9.9</u>

The depreciation adjustments reduce net income in both cases, since the Company's property, plant, and equipment under both methods has been adjusted upwards, reflecting the replacement of historical costs by costs adjusted for the general inflation rate and in the case of current costs, adjusted for the specific estimated current costs.

The general inflation adjustment substitutes the higher costs measured by the general inflation rate for the lower historical cost of sales included in the primary financial statements. Cost of sales is also higher under the current cost method because the Company's first-in, first-out method of valuing

## DIGITAL EQUIPMENT CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

#### Note N — Supplementary Information on the Effects of Inflation (Unaudited) — (Continued)

inventories results in historical inventory costs being included in cost of sales reported in the primary (historical cost) income statement, whereas under the current cost method, the corresponding cost of sales element reflects higher current manufacturing costs.

The Company believes that the current cost method is more representative of its actual cost experience, and therefore the more relevant indicator of the effects of inflation on the Company's costs.

#### *Purchasing Power of Net Monetary Assets*

Net monetary assets are cash and temporary cash investments and fixed dollar claims to money. The Company's net monetary assets remained fixed in amount, while the amount of goods and services they could purchase declined because of inflation by \$39,660,000 based on the change in the Consumer Price Index.

#### *Current Cost of Inventories and Property, Plant and Equipment*

The current cost of inventories and property, plant and equipment, net of accumulated depreciation, and the corresponding historical cost amounts at June 28, 1980 were as follows:

	<u>Inventories</u>	<u>Property, Plant and Equipment, Net</u>
	(In Millions)	
Current Cost .....	\$866.8	\$683.4
Historical Cost .....	819.9	529.4
Difference .....	\$ 46.9	\$154.0

The current cost of inventories is approximately 6% higher than the corresponding historical cost, which is reflective of the higher costs which would be incurred if the fiscal 1980 year-end inventories were to be replaced at the expected current costs. This is not necessarily a fair measure of the expected inflation effect on fiscal 1981 cost of sales, since the 1981 cost of sales will include the lower historical costs in inventory at the end of fiscal 1980, as well as the cost of products manufactured and sold in fiscal 1981, which are different and have different costs from those in inventory at the end of fiscal 1980.

Net property, plant and equipment at current costs exceeded the corresponding historical cost by \$154.0 million. The current cost method assumes replacement of all the Company's property, plant and equipment as at June 28, 1980. However, the Company's property, plant and equipment is relatively new, with 87% of it having been acquired in the last 5 fiscal years. Consequently, the Company's future capital expenditures will be principally to expand, rather than replace existing capacity.

## DIGITAL EQUIPMENT CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

#### Note N — Supplementary Information on the Effects of Inflation (Unaudited) — (Continued)

The increase in the current cost of inventories held during fiscal 1980 was \$56.1 million and in property, plant and equipment was \$42.8 million. The increases during fiscal 1980, measured by the general inflation rate, were \$90.1 million for inventories and \$79.5 million for property, plant and equipment.

#### *Five-Year Comparison of Selected Supplementary Financial Data Adjusted for Effects of Changing Prices*

The five-year comparison shows the effect of adjusting historical revenues to dollar amounts expressed in terms of average 1980 dollars, as measured by the Consumer Price Index. Revenues for 1976-1979 would be higher, and the increase in revenues from each of those years to 1980 would be correspondingly less. The market price per share amounts show a similar trend of less growth from the earlier years to 1980.

DIGITAL EQUIPMENT CORPORATION

CONSOLIDATED STATEMENT OF INCOME AND CHANGES IN STOCKHOLDERS' EQUITY  
ADJUSTED FOR THE EFFECTS OF INFLATION FOR THE YEAR ENDED JUNE 28, 1980

	As Reported In the Primary Statements (Historical Costs)	Adjusted For General Inflation (Constant Dollars)	Adjusted For Changes In Specific Prices (Current Costs)
(In Millions except per share data)			
<i>Statement of Income</i>			
Total operating revenues	\$2,368.0	\$2,368.0	\$2,368.0
Cost of equipment sales, service and other revenues(a)	1,281.4	1,350.2	1,287.2
Research and engineering expenses(a)	177.4	177.4	177.4
Depreciation expense	69.8	82.9	73.9
Selling, general and administrative expenses(a)	456.6	456.6	456.6
Interest (income) expense, net	(26.8)	(26.8)	(26.8)
Total costs and expenses	1,958.4	2,040.3	1,968.3
Income before income taxes	409.6	327.7	399.7
Provision for income taxes	159.7	159.7	159.7
Net income	\$ 249.9	\$ 168.0	\$ 240.0
Net income per share	\$5.45	\$ 3.72	\$ 5.25
<i>Stockholders' equity</i>			
Stockholders' equity, June 30, 1979	\$1,120.2	\$1,318.1	\$1,326.9
Net income as reported above	249.9	168.0	240.0
Loss from decline in purchasing power of net monetary assets	—	(39.7)	(39.7)
Excess of increase in general price level of inventories and property, plant and equipment over increase in specific prices	—	—	(70.7)
Increase in common stock and additional paid-in capital	281.6	281.6	281.6
Stockholders' equity, June 28, 1980	\$1,651.7	\$1,728.0	\$1,738.1

(a) Excludes depreciation expense

FIVE YEAR COMPARISON OF SELECTED SUPPLEMENTARY DATA  
ADJUSTED FOR EFFECTS OF INFLATION

	1980	1979	1978	1977	1976
(In Millions except per share data)					
<i>Total operating revenues:</i>					
As reported in financial statements	\$2,368.0	\$1,804.1	\$1,436.6	\$1,058.6	\$ 736.3
Restated in average 1980 dollars	2,368.0	2,045.0	1,781.2	1,400.6	1,030.5
<i>Market price per common share:</i>					
Actual at year end	67.12	55.75	46.62	46.25	58.75
Restated in average 1980 dollars	63.10	59.88	55.53	59.20	80.37
Average Consumer Price Index (1967 = 100)	232.6	205.2	187.6	175.8	166.2

Adjusted data on dividends per common share is not presented, because no cash dividends have ever been paid by the Company.

## SCHEDULE V

## DIGITAL EQUIPMENT CORPORATION

## PROPERTY, PLANT AND EQUIPMENT

Year Ended June 28, 1980

(In Thousands)

Column A	Column B	Column C	Column D	Column E		Column F
Classification	Balance at Beginning of Period	Additions at Cost	Retirements and Sales	Other changes — add (deduct) — describe		Balance at End of Period
				Transfers	Other	
Land .....	\$ 31,738	\$ 13,107	\$ (774)	\$(5,810)	\$ —	\$ 38,261
Buildings .....	191,895	56,513(a)	(343)	6,544	—	254,609
Leasehold improvements .....	31,106	14,642	(85)	120	—	45,783
Machinery and equipment .....	327,342	125,635(b)	(18,463)	(854)	—	433,660
	<u>\$582,081</u>	<u>\$209,897</u>	<u>\$(19,665)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$772,313</u>

(a) Additions to buildings include principally the construction of new and expansion of existing manufacturing and administrative facilities.

(b) Principally equipment acquired for use in the Company's manufacturing operations and to support selling and administrative functions.

## SCHEDULE V

## DIGITAL EQUIPMENT CORPORATION

## PROPERTY, PLANT AND EQUIPMENT

Year Ended June 30, 1979  
(In Thousands)

Column A	Column B	Column C	Column D	Column E		Column F
Classification	Balance at Beginning of Period	Additions at Cost	Retirements and Sales	Other changes — add (deduct) — describe		Balance at End of Period
				Transfers	Other	
Land .....	\$ 25,431	\$ 6,368	\$ (61)	\$ —	\$ —	\$ 31,738
Buildings .....	175,135	19,787 (a)	(196)	(2,831)	—	191,895
Leasehold improvements .....	23,556	9,831	(2,281)	—	—	31,106
Machinery and equipment .....	283,688	57,925 (b)	(17,102)	2,831	—	327,342
	<u>\$507,810</u>	<u>\$93,911</u>	<u>\$(19,640)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$582,081</u>

(a) Additions to buildings include principally the construction of new and expansion of existing manufacturing and administrative facilities.

(b) Principally equipment acquired for use in the Company's manufacturing operations and to support selling and administrative functions.

## SCHEDULE VI

## DIGITAL EQUIPMENT CORPORATION

## ACCUMULATED DEPRECIATION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT

Year Ended June 28, 1980  
(In Thousands)

Column A	Column B	Column C	Column D	Column E		Column F
Classification	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Retirements and Sales	Other changes — add (deduct) — describe		Balance at End of Period
				Transfers	Other	
Buildings .....	\$ 19,467	\$ 6,307	\$ (71)	\$ 518	\$ 55	\$ 26,276
Leasehold improvements .....	9,246	4,634	(282)	225	15	13,838
Machinery and equipment .....	154,159	58,868	(8,937)	(743)	(604)	202,743
	<u>\$182,872</u>	<u>\$69,809</u>	<u>\$(9,290)</u>	<u>\$ —</u>	<u>\$(534)</u>	<u>\$242,857</u>

SCHEDULE VI

DIGITAL EQUIPMENT CORPORATION

ACCUMULATED DEPRECIATION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT

Year Ended June 30, 1979  
(In Thousands)

Column A	Column B	Column C	Column D	Column E		Column F
Classification	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Retirements and Sales	Other changes — add (deduct) — describe		Balance at End of Period
				Transfers	Other	
Buildings .....	\$ 13,467	\$ 5,611	—	—	\$389	\$ 19,467
Leasehold improvements .....	8,570	2,971	\$(2,255)	—	(40)	9,246
Machinery and equipment .....	109,838	49,073	(4,752)	—	—	154,159
	<u>\$131,875</u>	<u>\$57,655</u>	<u>\$(7,007)</u>	<u>\$ —</u>	<u>\$349</u>	<u>\$182,872</u>

SCHEDULE XII

DIGITAL EQUIPMENT CORPORATION

VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

Column A	Column B	Column C	Column D	Column E	
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts — Describe	Deductions from Reserves — Describe	Balance at End of Period
Year Ended June 30, 1979 (In Thousands)					
Allowance for possible losses on accounts receivable .....	<u>\$16,457</u>	<u>\$6,174</u>	<u>—</u>	<u>\$4,449(a)</u>	<u>\$18,182</u>
Year Ended June 28, 1980 (In Thousands)					
Allowance for possible losses on accounts receivable .....	<u>\$18,182</u>	<u>\$8,833</u>	<u>—</u>	<u>\$4,864(a)</u>	<u>\$22,151</u>

(a) Uncollectible accounts and adjustments.

EXHIBIT I — COMPUTATION OF NET INCOME PER SHARE

	Year Ended				
	June 28, 1980	June 30, 1979	July 1, 1978	July 2, 1977	July 3, 1976
	(In Thousands Except Per Share Data)				
Net income .....	\$249,861	\$178,434	\$142,189	\$108,500	\$ 73,400
Add back convertible debenture interest, net of related tax effect .....	7,455	5,962	4,761	—	—
Net income applicable to common and common equivalent shares .....	\$257,316	\$184,396	\$146,950	\$108,500	\$ 73,400
Weighted-average number of common shares outstanding during the year .....	42,634	40,125	39,472	38,991	37,066
Common stock equivalents from application of "if converted" method to convertible debentures ..	3,949	4,386	3,579	—	—
Common stock equivalents from application of "treasury stock" method to exercised and outstanding stock options(1) .....	588	430	174	—	—
Total number of common and common equivalent shares used in the computation of net income per share .....	47,171	44,941	43,225	38,991	37,066
Net income per share(1) .....	\$5.45	\$4.10	\$3.40	\$2.78	\$1.98

(1) Prior to fiscal 1978 common stock equivalents were solely attributable to stock options and were excluded from per share calculations because their dilutive effect was not material. Common stock equivalents attributable to stock options for fiscal years 1977 and 1976 aggregated 352,283 shares and 737,541 shares, respectively. Net income per share amounts for fiscal years 1977 and 1976, if computed giving effect to common stock equivalents arising from stock options, would have been \$2.76 and \$1.94 respectively.

**FOR REFERENCE**

Do Not Take From This Room

**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

**Form 10-K**

Annual Report Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934

For the fiscal year ended June 27, 1981

Commission file number 1-5296

**Digital Equipment Corporation**

*(Exact name of registrant as specified in its charter)*

Commonwealth of Massachusetts  
*(State or other jurisdiction of  
incorporation or organization)*

04-2226590  
*(I.R.S. Employer  
Identification No.)*

146 Main Street, Maynard, Massachusetts  
*(Address of principal executive offices)*

01754  
*(Zip Code)*

Registrant's telephone number, including area code: (617) 897-5111

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value \$1	New York Stock Exchange Pacific Stock Exchange
9 $\frac{3}{8}$ % Sinking Fund Debentures, due March 15, 2000	New York Stock Exchange
<i>Title of each class</i>	<i>Name of each exchange on which registered</i>

Securities registered pursuant to Section 12(g) of the Act: None

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  No

As of September 9, 1981, 54,425,381 shares of the registrant's Common Stock, par value \$1, were issued and outstanding. The aggregate market value of the registrant's voting stock held by non-affiliates of the registrant at September 9, 1981 was approximately \$4.66 billion.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's 1981 Annual Report to Stockholders are incorporated by reference in Part II hereof.

Portions of the registrant's Proxy Statement, dated September 25, 1981, are incorporated by reference in Parts I and III hereof.

## PART I

### Item 1. *Business.*

#### *General*

Digital Equipment Corporation, a Massachusetts corporation founded in 1957, is a company with worldwide operations. At June 27, 1981, the Company employed approximately 63,000 persons and conducted operations in the United States and in 37 other countries.

The term "Company" when used herein refers to Digital Equipment Corporation or Digital Equipment Corporation and its subsidiaries, as required by the context.

The Company designs, manufactures, sells and services computers and associated peripheral equipment, and related software and supplies. The Company's products are used in a wide variety of applications and programs, including scientific research, computation, communications, education, data analysis, industrial control, time-sharing, commercial data processing, graphic arts, word processing, health care, instrumentation, engineering and simulation. Most of the Company's products are of its own design and are sold under its own name. The Company's marketing objective is to provide to customers a wide variety of computational resources, including the central processing units, memories, terminals, communications options, software, and field engineering, training and software support services.

The percentages of total operating revenues contributed by the Company's principal classes of products were as follows:

	<u>1981</u>	<u>1980</u>	<u>1979</u>	<u>1978</u>	<u>1977</u>
Equipment sales . . . . .	74.6%	75.1%	76.6%	78.5%	80.1%
Service and other revenues . . . . .	<u>25.4%</u>	<u>24.9%</u>	<u>23.4%</u>	<u>21.5%</u>	<u>19.9%</u>
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Service and other revenues includes maintenance service, customer training, software revenues, replacement parts and, to a minor extent, equipment rentals.

#### *Systems and Products*

The Company offers one of the broadest ranges of products in the computer industry. It sells small microcomputers such as the LSI-11/2, a variety of minicomputers based on 12 bit (PDP®-8), 16 bit (PDP-11) and 32 bit (VAX-11/780 and VAX-11/750) architecture, and large mainframe computers (DECsystem-10 and DECSYSTEM-20). Prices of the Company's products reflect the diversity of its offerings, ranging from as little as \$650 to as much as \$1,350,000.

The models included in the PDP-8 and PDP-11 families are general purpose digital computers designed for performing, interpreting and recording computations on collected data. Applications

include controlling instruments, machines and industrial processes, education, natural resource exploration, data communications, medical systems, commercial typesetting and commercial data processing. Members of the PDP-11 family range from the LSI-11/2, a low-cost Original Equipment Manufacturer (OEM) oriented model, to the large high speed VAX-11/780 model.

The DECsystem-10 and the DECSYSTEM-20 are the largest computer systems presently being manufactured by the Company. These systems are designed for multi-user access, batch processing and real-time applications. Multi-user access (time-sharing) involves a number of operators simultaneously using the computer while working on independent projects or calculations, including operating via telephone or other remote entry methods. DECsystem-10 and DECSYSTEM-20 applications include scientific research, management information systems, commercial time-sharing, educational computation and commercial data processing.

The Company manufactures and sells associated peripheral devices which are used with and are sold as part of the Company's various computer systems. These peripheral devices include magnetic tape transports, tape cassette and disk storage devices, cathode ray tube display systems, analog to digital converters, perforated tape readers, tape punches, terminals and line printers. Selected peripherals are also manufactured for stock and are sold separately for other independent applications. The Company is a major manufacturer and supplier of video and printer terminals. The Company also buys selected peripheral equipment from other manufacturers for use with its own computer systems.

#### *Customer Services — Field Engineering, Training and Software Support Services*

The Company provides field engineering to support customer needs related to the maintenance of the computer systems that have been installed. Field engineering offers maintenance services in the form of a term contract or on a per call basis.

The Company maintains a program of customer training relating to the computer systems and software which it sells. Training may take place at customer sites or at Company training facilities throughout the world.

The Company maintains a highly trained staff of software specialists who assist customers in using computer systems and software in their applications.

The Company's installed computer system base continues to grow and has resulted in a substantial increase in the level of service income over the years. The Company's service and other revenues as a percentage of its total operating revenues for fiscal years 1977-1981 are set forth on the preceding page.

#### *Software*

The Company designs and sells under license various software products for its computer systems. These products consist of operating systems, languages, data handling services, communications software, special applications software and utility software. Software programs are generally designed around a particular computer family to maximize the efficiency of the computer system. Many customers use the operating system software provided by the Company to design their own specific applications software.

### *Pricing*

Prices for the Company's computer systems have generally been reduced as new products have been introduced or existing products improved. The pricing of new products, in most cases, is intended to provide the customer with an improved price/performance ratio. However, from time to time selective price increases have been effected. With respect to field engineering, training and software support services, prices have generally been increased from time to time in recent years. During the fiscal year ended June 27, 1981, prices were increased for a large number of hardware and software products as well as some maintenance services. These increases were made in response to the impact of inflation on the cost of materials and labor.

Management expects to continue its policy of adjusting the prices of its products and services on an individual basis either upward or downward as circumstances warrant.

### *Sales and Distribution*

The Company markets its products through 195 sales offices located throughout the world, using primarily its own sales engineers.

The Company's general policy is to sell and not to rent its products. Customers who prefer leasing arrangements are generally financed by third parties.

Many of the markets served by the Company are affected by cyclical factors beyond the Company's control. These factors include, for example, changes in levels of spending by industry for capital equipment and changes in government policies with regard to the funding of various governmentally supported programs.

For the fiscal year ended June 27, 1981, approximately 4% of the Company's total sales were made directly to various agencies of the U.S. Government, and no single customer of the Company accounted for more than 7% of total sales.

The Company is of the opinion that the dollar amount of backlog is not material to an understanding of the Company's business and historically has not published the dollar amount of the backlog at any given time. It has been and continues to be the Company's objective to minimize the elapsed time from receipt of a purchase order for a computer system to delivery of the equipment.

### *International Operations*

Sales by the Company to customers outside the United States amounted to approximately 41% of total sales for the fiscal year ended June 27, 1981 and 39% for the fiscal year ended June 28, 1980. These international sales and marketing operations are conducted through subsidiaries, by direct sales from the parent company and, to a minor extent, through various representative and distributorship arrangements. The consolidated profit margin on sales to customers outside the United States has been substantially the same as on products manufactured and sold to customers in the United States. In view of the location and diversification of the Company's international activities, the Company does not feel that there are any special risks beyond the normal business risks attendant to conducting business

abroad. The Company engages in currency hedging transactions to reduce currency risks. See Notes A and B of Notes to Consolidated Financial Statements incorporated by reference herein for further information on the Company's international operations, including financial information concerning the Company's international operations by major geographical area.

### *Competition*

The Company faces strong competition in both domestic and international markets. Competition in the various markets served by the Company comes from firms of various sizes and types, several of which are larger and have greater total resources than the Company. Firms not now in direct competition with the Company in particular markets may introduce competing products in the future. The absence of authoritative statistics makes it impossible, in the Company's opinion, to state the Company's relative position in the industry. Independent surveys have indicated that in terms of gross revenues the Company is one of the largest manufacturers of computers in the world.

### *Raw Materials and Supplies*

The Company's manufacturing operations require a wide variety of electronic and mechanical components and raw materials. The Company has multiple commercial sources of supply throughout the world for most of the components and raw materials which it uses. The Company evaluates on an ongoing basis whether to purchase or to manufacture the components and peripheral equipment which it requires.

### *Environmental Affairs*

The Company's manufacturing facilities are subject to numerous laws and regulations designed to protect the environment, particularly from plant wastes and emissions. In the opinion of the Company, compliance with these laws and regulations has not had and should not have a material effect upon the capital expenditures, earnings or competitive position of the Company.

### *Intellectual Property*

The Company owns a number of patents and patent applications relating to its products. The patents and patent applications, although of value to the Company, are not considered to be of material importance to the business as a whole. The Company also owns copyrights, trademarks and proprietary information, some of which are considered to be valuable assets of the Company. Collectively, the patents, patent applications, copyrights, trademarks and proprietary information are referred to as intellectual property.

From time to time the Company has commenced legal actions against other companies to protect or enforce its intellectual property rights. Similarly, from time to time other companies in the industry have claimed that products and components manufactured by the Company are covered by the intellectual property rights of such other companies. It may be necessary or desirable in the future for the Company to obtain further patent licenses in addition to those it now holds. The Company is presently involved in a small number of intellectual property legal actions. The Company is of the opinion that none of such legal actions will have a material effect upon the earnings or financial position of the Company.

### *Research and Engineering*

The Company is in an industry which is characterized by rapid technological change. The Company has consistently spent a substantial portion of its funds on research and engineering projects, including software development. In the fiscal years ended June 27, 1981 and June 28, 1980, the Company spent approximately \$251.2 million and \$186.4 million, respectively, for these purposes.

The Company's primary emphasis is on applied research and engineering which includes developing or enhancing computers, peripheral equipment and software and expanding product applications.

The Company has approximately 3,100 professional employees involved in research, engineering and programming activities.

### *Executive Officers of the Company*

The following table sets forth the names of all executive officers of the Company and certain other information relating to their positions held with the Company.

<u>Name</u>	<u>Age</u>	<u>Present Title (Year First Became Officer)</u>
Kenneth H. Olsen .....	55	President and Director (1957)
C. Gordon Bell .....	47	Vice President, Office of Development/Engineering (1972)
Alfred M. Bertocchi .....	54	Vice President, Finance and Administration (1971)
Roger C. Cady .....	43	Vice President, Manufacturing, Distribution & Control Product Group*
George A. Chamberlain, 3d ....	45	Vice President and Treasurer (1976)
Richard J. Clayton .....	41	Vice President, Manufacturing Technology (1974)
Henry J. Crouse .....	46	Vice President, External Resources*
James G. Cudmore .....	42	Vice President, LSI Group Manager*
Sheldon A. Davis .....	55	Vice President, Personnel (1977)
William R. Demmer .....	48	Vice President, 32-bit Systems Engineering*
Ulf O. Fagerquist .....	43	Vice President, Large Systems Engineering*
Pier-Carlo Falotti .....	39	Vice President, European Field Service*
William C. Hanson .....	40	Vice President, Systems Manufacturing (1976)
Winston R. Hindle, Jr. ....	51	Vice President, Corporate Operations (1967)
Irwin Jacobs .....	44	Vice President, Commercial OEM Group (1976)
Theodore G. Johnson .....	49	Vice President, Corporate Marketing (1967)
Andrew C. Knowles, III .....	45	Vice President, Group Manager (1972)

\* Elected June 28, 1981.

<u>Name</u>	<u>Age</u>	<u>Present Title (Year First Became Officer)</u>
Edward A. Kramer .....	45	Vice President, United States Sales (1976)
William H. Long .....	48	Vice President, Sales and International (1974)(1)
Seaforth M. Lyle .....	45	Vice President, Group Manager <sup>°</sup>
Ward D. MacKenzie .....	42	Vice President, Group Manager <sup>°</sup>
Julius L. Marcus .....	42	Vice President, Group Manager (1974)
Gerald T. Moore .....	50	Vice President, General International Area Sales (1976)
Albert E. Mullin, Jr. ....	48	Vice President, Corporate Relations <sup>°</sup>
Stanley C. Olsen .....	53	Vice President, Group Manager (1967)(2)
Jean-Claude Peterschmitt ..	46	Vice President, Europe (1974)
Lawrence J. Portner .....	44	Vice President, Associate Head, Office of Development/ Engineering (1974)
Richard Poulsen .....	46	Vice President, Field Service <sup>°</sup>
Robert W. Puffer, III .....	40	Vice President, Mass Storage Manufacturing (1976)
F. Grant Saviers .....	37	Vice President, Storage Systems Engineering <sup>°</sup>
Edward A. Schwartz .....	43	Vice President, General Counsel and Secretary (1969)
Joel Schwartz .....	39	Vice President, Laboratory Products Group <sup>°</sup>
John J. Shields .....	43	Vice President, Group Manager (1974)
Godfrey S. Shingles .....	42	Vice President, European Marketing <sup>°</sup>
John F. Smith .....	46	Vice President, Manufacturing (1976)
William R. Thompson .....	46	Vice President and Controller (1978)
William G. Witmore .....	44	Vice President, General International Area <sup>°</sup>

(1) On leave of absence until October 1981.

(2) On leave of absence until July 1982.

<sup>°</sup> Elected June 28, 1981.

Executive officers of the Company are elected annually and hold office until the first meeting of the Board of Directors following the annual meeting of stockholders and until their successors have been chosen and qualified.

All of the executive officers named above have been officers or held managerial positions in the Company for at least the last five years except Sheldon A. Davis. Mr. Davis was Vice President and Director of Organizational Development of TRW, Inc. from 1972 to 1977.

Kenneth H. Olsen and Stanley C. Olsen are brothers.

**Item 2. *Properties.***

At June 27, 1981, the Company occupied approximately thirteen million square feet of manufacturing and administrative space throughout the world. Approximately 90% of this space is located in the United States. Substantially all of the Company's facilities are fully utilized and are well-maintained and suitable for the advanced technological products manufactured by the Company. Approximately 80% of these facilities are owned by the Company. New manufacturing and administrative facilities under construction or on which construction will commence during fiscal 1982 are expected to contain approximately three million square feet of space.

**Item 3. *Legal Proceedings.***

The Company has no material pending legal proceedings other than routine litigation incidental to the business.

**Item 4. *Security Ownership of Certain Beneficial Owners and Management.***

See the section entitled "Stock Ownership of Nominees" appearing on page 4 of the Company's Proxy Statement, dated September 25, 1981, which is incorporated herein by reference.

## PART II

### **Item 5. *Market for the Registrant's Common Stock and Related Security Holder Matters.***

See the section entitled "Common Stock Information" appearing on page 29 of the Company's 1981 Annual Report to Stockholders, which is incorporated herein by reference.

### **Item 6. *Selected Financial Data.***

See the section entitled "Ten Year Financial Summary" appearing on pages 22-23 of the Company's 1981 Annual Report to Stockholders, which is incorporated herein by reference.

### **Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations.***

See the section entitled "Management's Discussion and Analysis of Results of Operations and Financial Condition" appearing on pages 24-29 of the Company's 1981 Annual Report to Stockholders, which is incorporated herein by reference.

### **Item 8. *Financial Statements and Supplementary Data.***

The financial statements and supplementary data from the Company's 1981 Annual Report to Stockholders which are incorporated by reference herein are indexed under Item 11(a)(1). See also the financial statement schedules appearing herein, as indexed under Item 11(a)(2).

### PART III

#### Item 9. *Directors and Executive Officers of the Registrant.*

See the section entitled "Nominees for Directors" appearing on pages 2-3 of the Company's Proxy Statement, dated September 25, 1981, which is incorporated herein by reference. See also the section entitled "Executive Officers of the Company" appearing in Part I hereof.

#### Item 10. *Management Remuneration and Transactions.*

See the section entitled "Remuneration and Other Information" appearing on pages 6-8 of the Company's Proxy Statement, dated September 25, 1981, which is incorporated herein by reference.

## PART IV

### Item 11. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

(a) The following documents are filed as part of this report:

(1) Financial statements from the Company's 1981 Annual Report to Stockholders which are incorporated by reference herein:

Report of Independent Certified Public Accountants (page 30).

Consolidated Statements of Income for fiscal years 1981, 1980 and 1979 (page 31).

Consolidated Balance Sheets as at June 27, 1981 and June 28, 1980 (page 32).

Consolidated Statements of Stockholders' Equity for fiscal years 1981, 1980 and 1979 (page 33).

Consolidated Statements of Changes in Financial Position for fiscal years 1981, 1980 and 1979 (page 34).

Notes to Consolidated Financial Statements (pages 35-40).

Ten Year Financial Summary (pages 22-23).

Supplementary Financial Information (pages 41-44).

The Company's 1981 Annual Report to Stockholders is not to be deemed filed as part of this report except for those parts thereof specifically incorporated by reference herein.

(2) Financial statement schedules required to be filed by Item 8 of this form:

<u>Page</u>	<u>Schedule Number and Description</u>
S-1	V—Property, Plant and Equipment.
S-2	VI—Accumulated Depreciation and Amortization of Property, Plant and Equipment.
S-3	VIII—Valuation and Qualifying Accounts and Reserves.
S-4	X—Supplementary Income Statement Information.

All other schedules have been omitted since they are not required, not applicable or the information has been included in the financial statements or the notes thereto.

Individual financial statements of the Company have been omitted because it is primarily an operating company and the consolidated subsidiaries are wholly-owned and are not indebted, in a material amount, to any person other than the parent or the consolidated subsidiaries.

(3) Exhibits:

3(a) —Restated Articles of Organization of the Company, as amended (filed as Exhibit 20 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended September 27, 1980 and incorporated herein by reference).

(b) —By-laws of the Company, as amended (filed as Exhibit 20 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended March 28, 1981 and incorporated herein by reference).

- 4 —Indenture dated as of March 15, 1975 between the Company and Morgan Guaranty Trust Company of New York, Trustee (filed as Exhibit 1 to the Company's Current Report on Form 8-K for the month of March 1975 and incorporated herein by reference).
- 10(a) —1968 Employee Stock Purchase Plan (contained in the prospectus included in the Company's Registration Statement No. 2-73946 and incorporated herein by reference).
- (b) —1968 Restricted Stock Purchase Plan (contained in the prospectus included in Post-Effective Amendment No. 1 to the Company's Registration Statement No. 2-52104 and incorporated herein by reference).
- (c) —1976 Restricted Stock Option Plan (contained in the prospectus included in the Company's Registration Statement No. 2-73945 and incorporated herein by reference).
- (d) —1981 International Employee Stock Purchase Plan (contained in the prospectus included in the Company's Registration Statement No. 2-73942 and incorporated herein by reference).
- 11 —Computation of Net Income Per Share.
- 13 —The Company's 1981 Annual Report to Stockholders, certain portions of which have been incorporated herein by reference.
- 22 —List of subsidiaries.

**(b) Reports on Form 8-K:**

No reports on Form 8-K were filed or were required to be filed by the Company during the fourth quarter of the fiscal year ended June 27, 1981.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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)

KENNETH H. OLSEN

By .....  
Kenneth H. Olsen, President

Date: September 25, 1981

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
KENNETH H. OLSEN ..... Kenneth H. Olsen	President (Principal Executive Officer) and Director	September 25, 1981
ALFRED M. BERTOCCHI ..... Alfred M. Bertocchi	Vice President — Finance and Administration (Principal Financial Officer)	September 25, 1981
WILLIAM R. THOMPSON ..... William R. Thompson	Controller (Principal Accounting Officer)	September 25, 1981
..... Vernon R. Alden	Director	September , 1981
..... Philip Caldwell	Director	September , 1981
ARNAUD DE VITRY ..... Arnaud de Vitry	Director	September 25, 1981
GEORGES F. DORIOT ..... Georges F. Doriot	Director	September 25, 1981
WILLIAM H. McLEAN ..... William H. McLean	Director	September 25, 1981
DOROTHY E. ROWE ..... Dorothy E. Rowe	Director	September 25, 1981

### CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference, in this Annual Report on Form 10-K and in the Registration Statements (Form S-8) and related prospectuses of the Digital Equipment Corporation 1968 Restricted Stock Purchase and 1976 Restricted Stock Option Plans (No. 2-73945), 1968 Employee Stock Purchase Plan (No. 2-73946) and 1981 International Employee Stock Purchase Plan (No. 2-73942), of our report dated August 4, 1981, which is included on page 30 of the Annual Report to Stockholders of Digital Equipment Corporation for the fiscal year ended June 27, 1981. Our examination of the financial statements included an examination of the financial statement schedules listed under Item 11(a)(2) on page 10 of this Form 10-K.

In our opinion the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly the information required to be included therein in conformity with generally accepted accounting principles applied on a consistent basis.

COOPERS & LYBRAND

Boston, Massachusetts  
August 4, 1981

## SCHEDULE V

## DIGITAL EQUIPMENT CORPORATION

## PROPERTY, PLANT AND EQUIPMENT

(In Thousands)

Column A	Column B	Column C	Column D	Column E	Column F
Classification	Balance at Beginning of Period	Additions at Cost	Retirements and Sales	Other changes — add (deduct) — describe Transfers	Balance at End of Period
<b>Year Ended June 27, 1981</b>					
Land	\$ 38,261	\$ 18,110	\$ 1	\$ (374)	\$ 55,998
Buildings	254,609	119,620(a)	(697)	4,929	378,461
Leasehold improvements	45,783	29,439	(9,694)	(764)	64,764
Machinery and equipment	433,660	231,313(b)	(31,962)	(3,791)	629,220
	<u>\$772,313</u>	<u>\$398,482</u>	<u>\$(42,352)</u>	<u>\$ —</u>	<u>\$1,128,443</u>
<b>Year Ended June 28, 1980</b>					
Land	\$ 31,738	\$ 13,107	\$ (774)	\$(5,810)	\$ 38,261
Buildings	191,895	56,513(a)	(343)	6,544	254,609
Leasehold improvements	31,106	14,642	(85)	120	45,783
Machinery and equipment	327,342	125,635(b)	(18,463)	(854)	433,660
	<u>\$582,081</u>	<u>\$209,897</u>	<u>\$(19,665)</u>	<u>\$ —</u>	<u>\$ 772,313</u>
<b>Year Ended June 30, 1979</b>					
Land	\$ 25,431	\$ 6,368	\$ (61)	\$ —	\$ 31,738
Buildings	175,135	19,787(a)	(196)	(2,831)	191,895
Leasehold improvements	23,556	9,831	(2,281)	—	31,106
Machinery and equipment	283,688	57,925(b)	(17,102)	2,831	327,342
	<u>\$507,810</u>	<u>\$ 93,911</u>	<u>\$(19,640)</u>	<u>\$ —</u>	<u>\$ 582,081</u>

(a) Additions to buildings include principally the construction of new and expansion of existing manufacturing and administrative facilities.

(b) Principally equipment acquired for use in the Company's manufacturing operations and to support selling and administrative functions.

## SCHEDULE VI

## DIGITAL EQUIPMENT CORPORATION

ACCUMULATED DEPRECIATION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT  
(In Thousands)

Column A	Column B	Column C	Column D	Column E	Column F
Classification	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Retirements and Sales	Other changes — add (deduct) — describe Transfers	Balance at End of Period
<b>Year Ended June 27, 1981</b>					
Buildings .....	\$ 26,276	\$ 7,782	\$ (5)	\$ 576	\$ 34,629
Leasehold improvements .....	13,838	6,716	(1,223)	(262)	19,069
Machinery and equipment .....	202,743	87,641	(14,824)	(314)	275,246
	<u>\$242,857</u>	<u>\$102,139</u>	<u>\$(16,052)</u>	<u>\$ —</u>	<u>\$328,944</u>
<b>Year Ended June 28, 1980</b>					
Buildings .....	\$ 19,467	\$ 6,307	\$ (16)	\$ 518	\$ 26,276
Leasehold improvements .....	9,246	4,634	(267)	225	13,838
Machinery and equipment .....	154,159	58,868	(9,541)	(743)	202,743
	<u>\$182,872</u>	<u>\$ 69,809</u>	<u>\$ (9,824)</u>	<u>\$ —</u>	<u>\$242,857</u>
<b>Year Ended June 30, 1979</b>					
Buildings .....	\$ 13,467	\$ 5,611	\$ 389	\$ —	\$ 19,467
Leasehold improvements .....	8,570	2,971	(2,295)	—	9,246
Machinery and equipment .....	109,838	49,073	(4,752)	—	154,159
	<u>\$131,875</u>	<u>\$ 57,655</u>	<u>\$ (6,658)</u>	<u>\$ —</u>	<u>\$182,872</u>

## SCHEDULE VIII

## DIGITAL EQUIPMENT CORPORATION

## VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

(In Thousands)

Column A	Column B	Column C	Column D	Column E	
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts — Describe	Deductions from Reserves — Describe	Balance at End of Period
Year Ended June 27, 1981					
Allowance for possible losses on accounts receivable .....	<u>\$22,151</u>	<u>\$11,422</u>	<u>—</u>	<u>\$8,045(a)</u>	<u>\$25,528</u>
Year Ended June 28, 1980					
Allowance for possible losses on accounts receivable .....	<u>\$18,182</u>	<u>\$ 8,833</u>	<u>—</u>	<u>\$4,864(a)</u>	<u>\$22,151</u>
Year Ended June 30, 1979					
Allowance for possible losses on accounts receivable .....	<u>\$16,457</u>	<u>\$ 6,174</u>	<u>—</u>	<u>\$4,449(a)</u>	<u>\$18,182</u>

(a) Uncollectible accounts and adjustments.

## DIGITAL EQUIPMENT CORPORATION

## Supplementary Income Statement Information

(In Thousands)

	Charged to costs and expenses		
	Year Ended		
	June 27, 1981	June 28, 1980	June 30, 1979
Maintenance and repairs .....	\$ 31,965	\$25,116	\$14,614
Depreciation of property, plant and equipment .....	\$102,139	\$69,809	\$57,655
Taxes other than income taxes:			
Payroll .....	\$ 99,289	\$72,215	\$55,463
State, local and other taxes .....	\$ 21,148	\$12,336	\$12,066
Advertising costs .....	\$ 31,947	\$22,131	\$21,444

## EXHIBIT 11

## COMPUTATION OF NET INCOME PER SHARE

	Year Ended				
	June 27, 1981	June 28, 1980	June 30, 1979	July 1, 1978	July 2, 1977
	(In Thousands Except Per Share Data)				
Net income .....	\$343,297	\$249,861	\$178,434	\$142,189	\$108,500
Add back convertible debenture interest, net of related tax effect .....	8,840	7,455	5,962	4,761	—
Net income applicable to common and common equivalent shares .....	\$352,137	\$257,316	\$184,396	\$146,950	\$108,500
Weighted-average number of common shares outstanding during the year .....	48,496	42,634	40,125	39,472	38,991
Common stock equivalents from application of "if converted" method to convertible debentures ..	3,136	3,949	4,386	3,579	—
Common stock equivalents from application of "treasury stock" method to exercised and outstanding stock options(1) .....	935	588	430	174	—
Total number of common and common equivalent shares used in the computation of net income per share .....	52,567	47,171	44,941	43,225	38,991
Net income per share(1) .....	\$6.70	\$5.45	\$4.10	\$3.40	\$2.78

(1) Prior to fiscal 1978 common stock equivalents were solely attributable to stock options and were excluded from per share calculations because their dilutive effect was not material. Common stock equivalents attributable to stock options for fiscal year 1977 aggregated 352,283 shares and net income per share, if computed giving effect to common stock equivalents arising from stock options, would have been \$2.76.

## SUBSIDIARIES

The following is a list of the Company's subsidiaries. The Company owns, directly or indirectly, 100% of the voting securities of each subsidiary.

<u>Name</u>	<u>State or Jurisdiction of Incorporation</u>
Digital Equipment of Canada Limited	Canada
Digital Equipment GmbH	Germany
Digital Equipment International GmbH	Germany
Digital Equipment Betriebliche Altersversorgungsgesellschaft m.b. H	Germany
Digital Equipment International Betriebliche Altersversorgungsgesellschaft m.b. H	Germany
Digital Equipment Australia Pty. Limited	Australia
Digital Equipment Co. Limited	United Kingdom
Digital Equipment S.a.r.l.	France
Digital Equipment AB	Sweden
Digital Equipment Corporation de Puerto Rico	Delaware
Digital Equipment S.p.A.	Italy
Digital Equipment Corporation S.A.	Switzerland
Digital Equipment Corporation International	Massachusetts
Digital Equipment B.V.	Netherlands
Digital Equipment N.V./S.A.	Belgium
Digital Incorporated	Delaware
Digital International Sales Corporation	Delaware
Digital Equipment (DEC) Limited	Israel
Digital Equipment International Limited	Switzerland
Digital Equipment Corporation International (Europe)	Switzerland
Digital Equipment Corp. A/S	Norway
Digital Equipment Corporation Ges. m.b. H.	Austria
Digital Equipment New Zealand, Limited	New Zealand
Digital Equipment Taiwan Limited	Taiwan
Digital Equipment Corporation ApS	Denmark
Digital Equipment de Mexico, S.A. de C.V.	Mexico
Digital Equipment Corporation Oy	Finland
Digital Equipment Comercio e Industria, LTDA	Brazil
Computer Insurance Company Limited	Bermuda
Digital Computer Taiwan Limited	Taiwan
Digital Equipment Services, Inc.	Delaware
Digital Equipment Ireland Limited	Republic of Ireland
Old Colony Insurance Limited	Bermuda
Digital Growth, Inc.	Massachusetts
Digital Computer Hong Kong Limited	Hong Kong
Digital Equipment Scotland Limited	United Kingdom
Digital Realty Limited	Republic of Ireland
Digital Equipment Singapore (PTE) Limited	Singapore
Digital Equipment Panama, Inc.	Panama
Digital Equipment Trinidad, Inc.	Delaware
Digital Equipment Centre Technique (Europe) S.a.r.l.	France
Kam Hon Development Company Limited	Hong Kong
Worton Grange Property Company Limited	United Kingdom
Digital Equipment International B.V.	Netherlands

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**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

**Form 10-K**

Annual Report Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934

For the fiscal year ended July 3, 1982

Commission file number 1-5296

**Digital Equipment Corporation**

*(Exact name of registrant as specified in its charter)*

Commonwealth of Massachusetts  
*(State or other jurisdiction of  
incorporation or organization)*

04-2226590  
*(I.R.S. Employer  
Identification No.)*

146 Main Street, Maynard, Massachusetts  
*(Address of principal executive offices)*

01754  
*(Zip Code)*

Registrant's telephone number, including area code: (617) 493-5350

**Securities registered pursuant to Section 12(b) of the Act:**

Common Stock, par value \$1

New York Stock Exchange  
Pacific Stock Exchange

9 $\frac{3}{8}$ % Sinking Fund Debentures,  
due March 15, 2000

New York Stock Exchange

*Title of each class*

*Name of each exchange on  
which registered*

**Securities registered pursuant to Section 12(g) of the Act: None**

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     No

As of September 10, 1982, 55,319,793 shares of the registrant's Common Stock, par value \$1, were issued and outstanding. The aggregate market value of the registrant's voting stock held by non-affiliates of the registrant at September 10, 1982, was approximately \$4.4 billion.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's 1982 Annual Report to Stockholders are incorporated by reference in Part II hereof.

Portions of the registrant's Proxy Statement, dated September 24, 1982, are incorporated by reference in Part III hereof.

## PART I

### Item 1. *Business.*

#### *General*

Digital Equipment Corporation, a Massachusetts corporation founded in 1957, is a company with worldwide operations. At July 3, 1982, the Company employed approximately 67,100 persons and conducted operations in the United States and in 37 other countries.

The term "Company" when used herein refers to Digital Equipment Corporation or Digital Equipment Corporation and its subsidiaries, as required by the context.

The Company designs, manufactures, sells and services computers and associated peripheral equipment, and related software and supplies. The Company's products are used worldwide in a wide variety of applications and programs, including scientific research, computation, communications, education, data analysis, industrial control, time-sharing, commercial data processing, graphic arts, word processing, health care, instrumentation, engineering and simulation. Most of the Company's products are of its own design and are sold under its own name. The Company's marketing objective is to provide to customers a wide variety of computational resources, including the central processing units, memories, terminals, communications options, software, and field engineering, training and software support services.

The percentages of total operating revenues contributed by the Company's principal classes of products were as follows:

	<u>1982</u>	<u>1981</u>	<u>1980</u>	<u>1979</u>	<u>1978</u>
Equipment sales .....	72.0%	74.6%	75.1%	76.6%	78.5%
Service and other revenues	<u>28.0%</u>	<u>25.4%</u>	<u>24.9%</u>	<u>23.4%</u>	<u>21.5%</u>
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Service and other revenues includes maintenance service, customer training, software revenues, replacement parts and, to a minor extent, equipment rentals.

#### *Systems and Products*

The Company offers one of the broadest ranges of products in the computer industry. It sells small microprocessors such as the MICRO/T-11, a series of personal computers, a variety of mini-computers based on 12 bit (PDP-8), 16 bit (PDP-11) and 32 bit (VAX) architecture, and large main-frame computers (DECsystem-10 and DECSYSTEM-20). Prices of the Company's products reflect the diversity of its offerings, ranging from as little as \$75 to as much as \$2,000,000.

The models included in the PDP-8 and PDP-11 families are general purpose digital computers designed for performing, interpreting and recording computations on collected data. Applications include instrument control, machines and industrial processes, education, natural resource exploration, data communications, medical systems, commercial typesetting and commercial data processing. Members of the PDP-11 family range from the LSI-11/2, a low-cost Original Equipment Manufacturer (OEM) oriented model, to the large high speed VAX-11/780 model.

The DECsystem-10 and the DECSYSTEM-20 are the largest computer systems presently being manufactured by the Company. These systems are designed for multi-user access, batch processing and real-time applications. Multi-user access (time-sharing) involves a number of operators simultaneously using the computer while working on independent projects or calculations, including operating via telephone or other remote entry methods. DECsystem-10 and DECSYSTEM-20 applications include scientific research, management information systems, commercial time-sharing, educational computation and commercial data processing.

The Company manufactures and sells associated peripheral devices which are used with and are sold as part of the Company's various computer systems. These peripheral devices include magnetic tape transports, tape cassette and disk storage devices, cathode ray tube display systems, analog to digital converters, perforated tape readers, tape punches, terminals and line printers. Selected peripherals are also manufactured for stock and are sold separately for other independent applications. The Company is a major manufacturer and supplier of video and printer terminals. The Company also buys selected peripheral equipment from other manufacturers for use with its own computer systems.

#### *Customer Services — Field Engineering, Training and Software Support Services*

The Company provides field engineering to support customer needs related to the maintenance of the computer systems that have been installed. Field engineering offers maintenance services in the form of a term contract or on a per call basis.

The Company maintains a program of customer training relating to the computer systems and software which it sells. Training may take place at customer sites or at Company training facilities throughout the world.

The Company maintains a highly trained staff of software specialists who assist customers in using computer systems and software in their applications.

The Company's installed computer system base continues to grow and has resulted in a substantial increase in the level of service income over the years. The Company's service and other revenues as a percentage of its total operating revenues for fiscal years 1978-1982 are set forth on the preceding page.

#### *Software*

The Company designs and sells under license various software products for its computer systems. These products consist of operating systems, languages, data handling services, communications software, special applications software and utility software. Software programs are generally designed around a particular computer family to maximize the efficiency of the computer system. Many customers use the operating system software provided by the Company to design their own specific applications software.

#### *Pricing*

Prices for the Company's computer systems have generally been reduced as new products have been introduced or existing products improved. The pricing of new products, in most cases, is intended to provide the customer with an improved price/performance ratio. However, from time to time

selective price increases have been effected. During the fiscal year ended July 3, 1982, prices were decreased for a large number of hardware and software products as well as some maintenance services.

Management expects to continue its policy of adjusting the prices of its products and services on an individual basis either upward or downward as circumstances warrant.

### ***Sales and Distribution***

The Company markets its products through 214 sales offices located throughout the world, using primarily its own sales personnel.

The Company's general policy is to sell and not to rent its products. Customers who prefer leasing arrangements are generally financed by third parties.

Many of the markets served by the Company are affected by cyclical factors beyond the Company's control. These factors include, for example, changes in levels of spending by industry for capital equipment and changes in government policies with regard to the funding of various government supported programs.

For the fiscal year ended July 3, 1982, approximately 4% of the Company's total sales were made directly to various agencies of the U.S. Government, and no single customer of the Company accounted for more than 8% of total sales.

The Company is of the opinion that the dollar amount of backlog is not material to an understanding of the Company's business and historically has not published the dollar amount of the backlog at any given time. It has been and continues to be the Company's objective to minimize the elapsed time from receipt of a purchase order for a computer system to delivery of the equipment.

### ***International Operations***

Sales by the Company to customers outside the United States amounted to approximately 37% of total sales for the fiscal year ended July 3, 1982, 41% for the fiscal year ended June 27, 1981, and 39% for the fiscal year ended June 28, 1980. These international sales and marketing operations are conducted through subsidiaries, by direct sales from the parent company and, to a minor extent, through various representative and distributorship arrangements. The consolidated profit margin on sales to customers outside the United States has been substantially the same as on products manufactured and sold to customers in the United States. In view of the location and diversification of the Company's international activities, the Company does not feel that there are any special risks beyond the normal business risks attendant to conducting business abroad. The Company engages in currency hedging transactions to reduce currency risks. See Notes A and B of Notes to Consolidated Financial Statements incorporated by reference herein for further information on the Company's international operations, including financial information concerning the Company's international operations by major geographical area.

### ***Competition***

The computer industry is highly competitive, and the methods of competition include marketing, product performance, price, service, and technology, among others. Competition in the various markets served by the Company comes from firms of various sizes and types, several of which are larger and have greater total resources than the Company. Firms not now in direct competition with

the Company in particular markets may introduce competing products in the future. The absence of authoritative statistics makes it impossible for the Company to state the Company's relative position in the industry, though independent surveys have indicated that in terms of gross revenues the Company is one of the largest manufacturers of computers.

#### ***Raw Materials and Supplies***

The Company's manufacturing operations require a wide variety of electronic and mechanical components and raw materials. The Company has multiple commercial sources of supply throughout the world for most of the components and raw materials which it uses. The Company evaluates on an ongoing basis whether to purchase or to manufacture the components and peripheral equipment which it requires.

#### ***Environmental Affairs***

The Company's manufacturing facilities are subject to numerous laws and regulations designed to protect the environment, particularly from plant wastes and emissions. In the opinion of the Company, compliance with these laws and regulations has not had and should not have a material effect upon the capital expenditures, earnings or competitive position of the Company.

#### ***Intellectual Property***

The Company owns a number of patents and patent applications relating to its products. The patents and patent applications, although of value to the Company, are not considered to be of material importance to the business as a whole. The Company also owns copyrights, trademarks and proprietary information, some of which are considered to be valuable assets of the Company. Collectively, the patents, patent applications, copyrights, trademarks and proprietary information are referred to as intellectual property.

From time to time the Company has commenced legal actions against other companies to protect or enforce its intellectual property rights. Similarly, from time to time other companies in the industry have claimed that products and components manufactured by the Company are covered by the intellectual property rights of such other companies. It may be necessary or desirable in the future for the Company to obtain further patent licenses in addition to those it now holds. The Company is presently involved in a small number of intellectual property legal actions. The Company is of the opinion that none of such legal actions will have a material effect upon the earnings or financial position of the Company.

#### ***Research and Engineering***

The Company is in an industry which is characterized by rapid technological change. The Company has consistently spent a substantial portion of its funds on research and engineering projects, including software development. In the fiscal years ended July 3, 1982, June 27, 1981, and June 28, 1980, the Company spent approximately \$349.8 million, \$251.2 million, and \$186.4 million, respectively, for these purposes.

The Company's primary emphasis is on applied research and engineering which includes developing or enhancing computers, peripheral equipment and software and expanding product applications.

The Company has approximately 3,400 professional employees involved in research, engineering and programming activities.

### *Executive Officers of the Company*

The following table sets forth the names of all executive officers of the Company and certain other information relating to their positions held with the Company.

<u>Name</u>	<u>Age</u>	<u>Present Title (Year First Became Officer)</u>
Kenneth H. Olsen	56	President and Director (1957)
C. Gordon Bell	48	Vice President, Engineering (1972)
Alfred M. Bertocchi	55	Vice President, Finance and Administration (1971)
Roger C. Cady	44	Vice President, Manufacturing, Distribution & Control Product Group (1981)
George A. Chamberlain, 3d	46	Vice President and Treasurer (1976)
Richard J. Clayton	42	Vice President, Manufacturing Technology (1974)
Henry J. Crouse	47	Vice President, External Resources (1981)
James G. Cudmore	43	Vice President, Manufacturing Group Manager (1981)
Sheldon A. Davis	56	Vice President, European Personnel (1977)
William R. Demmer	49	Vice President, 32-bit Systems (1981)
Ulf O. Fagerquist	44	Vice President, Large Systems Engineering (1981)
Pier-Carlo Falotti	40	Vice President, European Field Service (1981)
William C. Hanson	41	Vice President, Systems Manufacturing (1976)
Winston R. Hindle, Jr.	52	Vice President, Corporate Operations (1967)
Theodore G. Johnson	50	Vice President, Corporate Marketing (1967)
William R. Johnson, Jr.	40	Vice President, Systems Communications Engineering (1982)
Andrew C. Knowles, III	46	Vice President, Group Manager (1972)
Edward A. Kramer	46	Vice President, United States Area Sales (1976)
William H. Long	49	Vice President, Laboratory Data Products Group (1974)
Ward D. MacKenzie	43	Vice President, Group Manager (1981)
Julius L. Marcus	43	Vice President, Group Manager (1974)
Gerald T. Moore	51	Vice President, General International Area Sales (1974)
Albert E. Mullin, Jr.	49	Vice President, Corporate Relations (1981)
Jean-Claude Peterschmitt	47	Vice President, Europe (1974)
Lawrence J. Portner	45	Vice President, Corporate Planning (1974)
Richard Poulsen	47	Vice President, Field Service (1981)
Robert W. Puffer, III	41	Vice President, Storage Systems Manufacturing (1974)

<u>Name</u>	<u>Age</u>	<u>Present Title (Year First Became Officer)</u>
F. Grant Saviers .....	38	Vice President, Storage Systems Development (1981)
Edward A. Schwartz .....	44	Vice President, General Counsel and Secretary (1969)
Joel Schwartz .....	40	Vice President, Professional Computer Group (1981)
John J. Shields .....	44	Vice President, Group Manager (1974)
Godfrey S. Shingles .....	43	Vice President, European Marketing (1981)
John F. Smith .....	47	Vice President, Manufacturing (1976)
William R. Thompson .....	47	Vice President and Controller (1978)
William G. Witmore .....	45	Vice President, General International Area (1981)

Executive officers of the Company are elected annually and hold office until the first meeting of the Board of Directors following the annual meeting of stockholders and until their successors have been chosen and qualified. All of the executive officers named have been officers or held managerial positions in the Company for at least the last five years.

**Item 2. *Properties.***

At July 3, 1982, the Company occupied approximately twenty-one million square feet of space throughout the world. Approximately 81% of this space is located in the United States. Substantially all of the Company's facilities are fully utilized and are well-maintained and suitable for the advanced technological products and services of the Company. Approximately 53% of these facilities are owned by the Company. New manufacturing and administrative facilities under construction or on which construction is expected to commence during fiscal 1983, are expected to contain approximately two million square feet of space.

**Item 3. *Legal Proceedings.***

The Company has no material pending legal proceedings other than routine litigation incidental to the business.

**Item 4. *Submission of Matters to a Vote of Security Holders.***

No matter was submitted during the fourth quarter of the fiscal year covered by this report to a vote of security holders, through the solicitation of proxies or otherwise.

## PART II

**Item 5. *Market for the Registrant's Common Equity and Related Stockholder Matters.***

See the section entitled "Common Stock Information", which is incorporated herein by reference, appearing on page 30 of the Company's 1982 Annual Report to Stockholders.

**Item 6. *Selected Financial Data.***

See the section entitled "Eleven Year Financial Summary", which is incorporated herein by reference, appearing on pages 24-25 of the Company's 1982 Annual Report to Stockholders.

**Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations.***

See the section entitled "Management's Discussion and Analysis of Results of Operations and Financial Condition", which is incorporated herein by reference, appearing on pages 26-31 of the Company's 1982 Annual Report to Stockholders.

**Item 8. *Financial Statements and Supplementary Data.***

The financial statements and supplementary data which are incorporated herein by reference from the Company's 1982 Annual Report to Stockholders are indexed under Item 13(a)(1). See also the financial statement schedules appearing herein, as indexed under Item 13(a)(2).

**Item 9. *Disagreements on Accounting and Financial Disclosure.***

None.

### PART III

**Item 10. *Directors and Executive Officers of the Registrant.***

See the section entitled "Nominees for Directors", which is incorporated herein by reference, appearing on pages 2 and 3 of the Company's Proxy Statement, dated September 24, 1982. See also the section entitled "Executive Officers of the Company" appearing in Part I hereof.

**Item 11. *Management Remuneration and Transactions.***

See the section entitled "Remuneration and Other Information", which is incorporated herein by reference, appearing on pages 6 through 11 of the Company's Proxy Statement, dated September 24, 1982.

**Item 12. *Security Ownership of Certain Beneficial Owners and Management.***

See the section entitled "Stock Ownership of Nominees", which is incorporated herein by reference, appearing on page 4 of the Company's Proxy Statement, dated September 24, 1982.

## PART IV

### Item 13. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

(a) The following documents are filed as part of this report:

(1) Financial statements which are incorporated herein by reference from the Company's 1982 Annual Report to Stockholders:

Report of Independent Certified Public Accountants (page 32).

Consolidated Statements of Income for fiscal years 1982, 1981 and 1980 (page 33).

Consolidated Balance Sheets as at July 3, 1982 and June 27, 1981 (page 34).

Consolidated Statements of Stockholders' Equity for fiscal years 1982, 1981 and 1980 (page 35).

Consolidated Statements of Changes in Financial Position for fiscal years 1982, 1981 and 1980 (page 36).

Notes to Consolidated Financial Statements (pages 37-43).

Eleven Year Financial Summary (pages 24-25).

Supplementary Financial Information (pages 44-47).

The Company's 1982 Annual Report to Stockholders is not to be deemed filed as part of this report except for those parts thereof specifically incorporated herein by reference.

(2) Financial statement schedules:

<u>Page</u>	
S-1	Report of Independent Certified Public Accountants.
S-2	V—Property, Plant and Equipment.
S-3	VI—Accumulated Depreciation and Amortization of Property, Plant and Equipment.
S-4	VIII—Valuation and Qualifying Accounts and Reserves.
S-5	X—Supplementary Income Statement Information.

All other schedules have been omitted since they are not required, not applicable or the information has been included in the financial statements or the notes thereto.

Individual financial statements of the Company have been omitted because it is primarily an operating company and the consolidated subsidiaries are wholly-owned and are not indebted, in a material amount, to any person other than the parent or the consolidated subsidiaries.

(3) Exhibits:

3(a) —Restated Articles of Organization of the Company, as amended (filed as Exhibit 20 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended September 26, 1981 and incorporated herein by reference).

(b) —By-laws of the Company, as amended (filed as Exhibit 20 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended March 27, 1981 and incorporated herein by reference).

- 4 —Indenture dated as of March 15, 1975 between the Company and Morgan Guaranty Trust Company of New York, Trustee (filed as Exhibit 1 to the Company's Current Report on Form 8-K for the month of March 1975 and incorporated herein by reference).
- 10(a) —1968 Employee Stock Purchase Plan (contained in the prospectus included in the Company's Registration Statement No. 2-73946 and incorporated herein by reference).
- (b) —1968 Restricted Stock Purchase Plan (contained in the prospectus included in Post-Effective Amendment No. 1 to the Company's Registration Statement No. 2-52104 and incorporated herein by reference).
- (c) —1976 Restricted Stock Option Plan (contained in the prospectus included in the Company's Registration Statement No. 2-73945 and incorporated herein by reference).
- (d) —1981 International Employee Stock Purchase Plan (contained in the prospectus included in the Company's Registration Statement No. 2-73942 and incorporated herein by reference).
- 11 —Computation of Net Income Per Share.
- 13 —The Company's 1982 Annual Report to Stockholders, certain portions of which have been incorporated herein by reference.
- 22 —List of subsidiaries.
- 24 —Consent of Independent Certified Public Accountants.

(b) Reports on Form 8-K:

No reports on Form 8-K were filed or were required to be filed by the Company during the fourth quarter of the fiscal year ended July 3, 1982.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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)

KENNETH H. OLSEN

By .....  
Kenneth H. Olsen, President

Date: September 24, 1982

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
KENNETH H. OLSEN ..... Kenneth H. Olsen	President (Principal Executive Officer) and Director	September 24, 1982
ALFRED M. BERTOCCHI ..... Alfred M. Bertocchi	Vice President — Finance and Administration (Principal Financial Officer)	September 24, 1982
WILLIAM R. THOMPSON ..... William R. Thompson	Controller (Principal Accounting Officer)	September 24, 1982
VERNON R. ALDEN ..... Vernon R. Alden	Director	September 24, 1982
..... Philip Caldwell	Director	September , 1982
..... Arnaud de Vitry	Director	September , 1982
GEORGES F. DORIOT ..... Georges F. Doriot	Director	September 24, 1982
WILLIAM H. McLEAN ..... William H. McLean	Director	September 24, 1982
DOROTHY E. ROWE ..... Dorothy E. Rowe	Director	September 24, 1982

**Report of Independent Certified Public Accountants**

Our report on the consolidated financial statements of Digital Equipment Corporation has been incorporated by reference from the 1982 Annual Report to Stockholders of Digital Equipment Corporation and appears on page 32 therein. In connection with our examinations of such financial statements, we have also examined the related financial statement schedules listed in the index on page 9 of this Form 10-K.

In our opinion, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly the information required to be included therein in conformity with generally accepted accounting principles applied on a consistent basis.

COOPERS & LYBRAND

Boston, Massachusetts  
August 10, 1982

## SCHEDULE V

## DIGITAL EQUIPMENT CORPORATION

## Property, Plant and Equipment

(In Thousands)

Column A	Column B	Column C	Column D	Column E	Column F
Classification	Balance at Beginning of Period	Additions at Cost	Retirements and Sales	Other changes — add (deduct) — describe Transfers	Balance at End of Period
<b>Year Ended July 3, 1982</b>					
Land .....	\$ 55,998	\$ 29,478	\$ (1,914)	\$ (276)	\$ 83,286
Buildings .....	378,461	191,746(a)	(2,779)	(346)	567,082
Leasehold improvements .....	64,764	29,330	(3,963)	1,590	91,721
Machinery and equipment .....	629,220	260,686(b)	(25,633)	(968)	863,305
	<u>\$1,128,443</u>	<u>\$511,240</u>	<u>\$(34,289)</u>	<u>\$ —</u>	<u>\$1,605,394</u>
<b>Year Ended June 27, 1981</b>					
Land .....	\$ 38,261	\$ 18,110	\$ 1	\$ (374)	\$ 55,998
Buildings .....	254,609	119,620(a)	(697)	4,929	378,461
Leasehold improvements .....	45,783	29,439	(9,694)	(764)	64,764
Machinery and equipment .....	433,660	231,313(b)	(31,962)	(3,791)	629,220
	<u>\$772,313</u>	<u>\$398,482</u>	<u>\$(42,352)</u>	<u>\$ —</u>	<u>\$1,128,443</u>
<b>Year Ended June 28, 1980</b>					
Land .....	\$ 31,738	\$ 13,107	\$ (774)	\$(5,810)	\$ 38,261
Buildings .....	191,895	56,513(a)	(343)	6,544	254,609
Leasehold improvements .....	31,106	14,642	(85)	120	45,783
Machinery and equipment .....	327,342	125,635(b)	(18,463)	(854)	433,660
	<u>\$582,081</u>	<u>\$209,897</u>	<u>\$(19,665)</u>	<u>\$ —</u>	<u>\$ 772,313</u>

(a) Additions to buildings include principally the construction of new and expansion of existing manufacturing and administrative facilities.

(b) Principally equipment acquired for use in the Company's manufacturing operations and to support selling and administrative functions.

SCHEDULE VI

DIGITAL EQUIPMENT CORPORATION

Accumulated Depreciation and Amortization of Property, Plant and Equipment  
(In Thousands)

Column A	Column B	Column C	Column D	Column E	Column F
Classification	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Retirements and Sales	Other changes — add (deduct) — describe Transfers	Balance at End of Period
<b>Year Ended July 3, 1982</b>					
Buildings .....	\$ 34,629	\$ 12,821	\$ 51	\$ (52)	\$ 47,449
Leasehold improvements .....	19,069	11,409	(2,337)	(62)	28,079
Machinery and equipment .....	<u>275,246</u>	<u>128,399</u>	<u>(18,367)</u>	<u>114</u>	<u>385,392</u>
	<u>\$328,944</u>	<u>\$152,629</u>	<u>\$(20,653)</u>	<u>\$ —</u>	<u>\$460,920</u>
<b>Year Ended June 27, 1981</b>					
Buildings .....	\$ 26,276	\$ 7,782	\$ (5)	\$ 576	\$ 34,629
Leasehold improvements .....	13,838	6,716	(1,223)	(262)	19,069
Machinery and equipment .....	<u>202,743</u>	<u>87,641</u>	<u>(14,824)</u>	<u>(314)</u>	<u>275,246</u>
	<u>\$242,857</u>	<u>\$102,139</u>	<u>\$(16,052)</u>	<u>\$ —</u>	<u>\$328,944</u>
<b>Year Ended June 28, 1980</b>					
Buildings .....	\$ 19,467	\$ 6,307	\$ (16)	\$ 518	\$ 26,276
Leasehold improvements .....	9,246	4,634	(267)	225	13,838
Machinery and equipment .....	<u>154,159</u>	<u>58,868</u>	<u>(9,541)</u>	<u>(743)</u>	<u>202,743</u>
	<u>\$182,872</u>	<u>\$ 69,809</u>	<u>\$ (9,824)</u>	<u>\$ —</u>	<u>\$242,857</u>

SCHEDULE VIII

DIGITAL EQUIPMENT CORPORATION

Valuation and Qualifying Accounts and Reserves  
(In Thousands)

Column A	Column B	Column C	Column D	Column E	
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts — Describe	Deductions from Reserves — Describe	Balance at End of Period
<b>Year Ended July 3, 1982</b>					
Allowance for possible losses on accounts receivable .....	<u>\$25,528</u>	<u>\$ 9,395</u>	<u>—</u>	<u>\$8,272(a)</u>	<u>\$26,651</u>
<b>Year Ended June 27, 1981</b>					
Allowance for possible losses on accounts receivable .....	<u>\$22,151</u>	<u>\$11,422</u>	<u>—</u>	<u>\$8,045(a)</u>	<u>\$25,528</u>
<b>Year Ended June 28, 1980</b>					
Allowance for possible losses on accounts receivable .....	<u>\$18,182</u>	<u>\$ 8,833</u>	<u>—</u>	<u>\$4,864(a)</u>	<u>\$22,151</u>

(a) Uncollectible accounts and adjustments.

SCHEDULE X

DIGITAL EQUIPMENT CORPORATION

Supplementary Income Statement Information

(In Thousands)

	Charged to costs and expenses		
	Year Ended		
	July 3, 1982	June 27, 1981	June 28, 1980
Maintenance and repairs .....	\$ 55,572	\$ 31,965	\$25,116
Depreciation of property, plant and equipment .....	\$152,629	\$102,139	\$69,809
Taxes other than income taxes:			
Payroll .....	\$118,457	\$ 99,289	\$72,215
State, local and other taxes .....	\$ 22,487	\$ 21,148	\$12,336
Advertising costs .....	\$ 45,470	\$ 31,947	\$22,131

EXHIBIT 11

Computation of Net Income Per Share

	Year Ended				
	July 3, 1982	June 27, 1981	June 28, 1980	June 30, 1979	July 1, 1978
	(In Thousands Except Per Share Data)				
Net income .....	\$417,155	\$343,297	\$249,861	\$178,434	\$142,189
Add back convertible debenture interest, net of related tax effect .....	—	8,840	7,455	5,962	4,761
Net income applicable to common and common equivalent shares .....	<u>\$417,155</u>	<u>\$352,137</u>	<u>\$257,316</u>	<u>\$184,396</u>	<u>\$146,950</u>
Weighted-average number of common shares outstanding during the year .....	54,658	48,496	42,634	40,125	39,472
Common stock equivalents from application of "if converted" method to convertible debentures ..	—	3,136	3,949	4,386	3,579
Common stock equivalents from application of "treasury stock" method to exercised and outstanding stock options .....	<u>771</u>	<u>935</u>	<u>588</u>	<u>430</u>	<u>174</u>
Total number of common and common equivalent shares used in the computation of net income per share .....	<u>55,429</u>	<u>52,567</u>	<u>47,171</u>	<u>44,941</u>	<u>43,225</u>
Net income per share .....	<u>\$7.53</u>	<u>\$6.70</u>	<u>\$5.45</u>	<u>\$4.10</u>	<u>\$3.40</u>

## SUBSIDIARIES

The following is a list of the Company's subsidiaries. The Company owns, directly or indirectly, 100% of the voting securities of each subsidiary.

<u>Name</u>	<u>State or Jurisdiction of Organization</u>
Digital Equipment of Canada Limited	Canada
Digital Equipment GmbH	Germany
Digital Equipment International GmbH	Germany
Digital Equipment Betriebliche Altersversorgungsgesellschaft m.b. H.	Germany
Digital Equipment International Betriebliche Altersversorgungsgesellschaft m.b. H	Germany
Digital Equipment Australia Pty. Limited	Australia
Digital Equipment Co. Limited	United Kingdom
Digital Equipment France	France
Digital Equipment AB	Sweden
Digital Equipment Corporation de Puerto Rico	Delaware
Digital Equipment S.p.A.	Italy
Digital Equipment Corporation S.A.	Switzerland
Digital Equipment Corporation International	Massachusetts
Digital Equipment B.V.	Netherlands
Digital Equipment N.V./S.A.	Belgium
Digital Incorporated	Delaware
Digital International Sales Corporation	Delaware
Digital Equipment (DEC) Limited	Israel
Digital Equipment International Limited	Switzerland
Digital Equipment Corporation International (Europe)	Switzerland
Digital Equipment Corporation A/S	Norway
Digital Equipment Corporation Gesellschaft m.b.H.	Austria
Digital Equipment New Zealand, Limited	New Zealand
Digital Equipment Taiwan Limited	Taiwan
Digital Equipment Corporation A/S	Denmark
Digital Equipment de Mexico, S.A. de C.V.	Mexico
Digital Equipment Corporation Oy	Finland
Digital Equipment Comercio e Industria, LTDA	Brazil
Computer Insurance Company Limited	Bermuda
Digital Computer Taiwan Limited	Taiwan
Digital Equipment Services, Inc.	Delaware
Digital Equipment Ireland Limited	Republic of Ireland
Old Colony Insurance Limited	Bermuda
Digital Growth, Inc.	Massachusetts
Digital Equipment Hong Kong Limited	Hong Kong
Digital Equipment Scotland Limited	United Kingdom
Digital Realty Limited	Republic of Ireland
Digital Equipment Singapore (PTE) Limited	Singapore
Digital Equipment Panama, Inc.	Panama
Digital Equipment Trinidad, Inc.	Delaware
Digital Equipment Centre Technique (Europe) S.A.R.L.	France
Kam Hon Development Company Limited	Hong Kong
Worton Grange Property Company Limited	United Kingdom
Digital Equipment International B.V.	Netherlands
Digital Equipment (Holdings) B.V.	Netherlands
Digital Equipment Parts Center B.V.	Netherlands
Nihon Digital Equipment Research and Development Center KK.	Japan

**Consent of Independent Certified Public Accountants**

We consent to the incorporation by reference in the Registration Statements (Forms S-8) and related prospectuses of the Digital Equipment Corporation 1968 Restricted Stock Purchase and 1976 Restricted Stock Option Plans (No. 2-73945), 1968 Employee Stock Purchase Plan (No. 2-73946) and 1981 International Employee Stock Purchase Plan (No. 2-73942), of: (1) our report dated August 10, 1982 on our examinations of the consolidated financial statements of Digital Equipment Corporation as of July 3, 1982 and June 27, 1981 and for the three fiscal years ended July 3, 1982, which report is included in the 1982 Annual Report to Stockholders of Digital Equipment Corporation; and (2) our report dated August 10, 1982 on our examinations of the financial statement schedules of Digital Equipment Corporation as of July 3, 1982 and June 27, 1981 and for the three fiscal years ended July 3, 1982, which report is included in this Annual Report on Form 10-K.

**COOPERS & LYBRAND**

Boston, Massachusetts  
August 10, 1982

# FOR REFERENCE

Do Not Take From This Room

## SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549

### Form 10-K

Annual Report Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934

For the fiscal year ended July 2, 1983

Commission file number 1-5296

## Digital Equipment Corporation

(Exact name of registrant as specified in its charter)

Commonwealth of Massachusetts  
(State or other jurisdiction of  
incorporation or organization)

04-2226590  
(I.R.S. Employer  
Identification No.)

146 Main Street, Maynard, Massachusetts  
(Address of principal executive offices)

01754  
(Zip Code)

Registrant's telephone number, including area code: (617) 493-5350

#### Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value \$1

New York Stock Exchange  
Pacific Stock Exchange

9 $\frac{3}{8}$ % Sinking Fund Debentures,  
due March 15, 2000

New York Stock Exchange

Title of each class

Name of each exchange on  
which registered

#### Securities registered pursuant to Section 12(g) of the Act: None

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  No

As of September 9, 1983, 56,508,703 shares of the registrant's Common Stock, par value \$1, were issued and outstanding. The aggregate market value of the registrant's voting stock held by non-affiliates of the registrant at September 9, 1983, was approximately \$5.7 billion.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's 1983 Annual Report to Stockholders are incorporated by reference in Part II hereof.

Portions of the registrant's Proxy Statement, dated September 23, 1983, are incorporated by reference in Part III hereof.

## PART I

### Item 1. *Business.*

#### *General*

Digital Equipment Corporation, a Massachusetts corporation founded in 1957, is a company with worldwide operations. At July 2, 1983, the Company employed approximately 73,000 persons and conducted operations in the United States and in 43 other countries.

The term "Company" when used herein refers to Digital Equipment Corporation or Digital Equipment Corporation and its subsidiaries, as required by the context.

The Company designs, manufactures, sells and services computers and associated peripheral equipment, and related software and supplies. The Company's products are used worldwide in a wide variety of applications and programs, including scientific research, computation, communications, education, data analysis, industrial control, time-sharing, commercial data processing, graphic arts, word processing, office automation, health care, instrumentation, engineering and simulation. Most of the Company's products are of its own design and are sold under its own name. The Company's marketing objective is to provide to customers a wide variety of computational resources, including the central processing units, memories, terminals, communications options, software, and field engineering, training and software support services.

The percentages of total operating revenues contributed by the Company's principal classes of products were as follows:

	<u>1983</u>	<u>1982</u>	<u>1981</u>	<u>1980</u>	<u>1979</u>
Equipment sales . . . . .	67.1%	72.0%	74.6%	75.1%	76.6%
Service and other revenues	32.9%	28.0%	25.4%	24.9%	23.4%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Service and other revenues includes maintenance service, customer training, software revenues, replacement parts and, to a minor extent, equipment rentals.

#### *Systems and Products*

The Company offers one of the broadest ranges of products in the computer industry. It sells small microprocessors such as the MICRO/T-11, a series of personal computers, a variety of mini-computers based on 12 bit (PDP-8), 16 bit (PDP-11) and 32 bit (VAX) architecture, and large main-frame computers (DECsystem-10 and DECSYSTEM-20). Prices of the Company's products reflect the diversity of its offerings, ranging from as little as \$75 to as much as \$2,000,000.

The models included in the PDP-8, PDP-11 and VAX families are general purpose digital computers designed for performing, interpreting and recording computations on collected data. Applications include instrument control, machines and industrial processes, education, natural resource exploration, data communications, medical systems, commercial typesetting, commercial data processing and word processing. Members of the PDP-11 family range from the MICRO/T-11, a low-cost Original Equipment Manufacturer (OEM) oriented microprocessor, to the PDP-11/44, a powerful

midrange system. The VAX family of computers currently includes four models: the VAX-11/730, 750, 780 and 782. Fully supported system prices range from \$40,000 for the VAX-11/730 to \$450,000 for the high performance VAX-11/782. Entry level versions of the four models start at \$20,000 for the VAX-11/730 and range up to \$395,000 for the VAX-11/782.

The DECsystem-10 and the DECSYSTEM-20 are the largest computer systems presently being manufactured by the Company. These systems are designed for multi-user access, batch processing and real-time applications. Applications include scientific research, management information systems, commercial time-sharing, educational computation and commercial data processing.

The Company manufactures and sells associated peripheral devices which are used with and are sold as part of the Company's various computer systems. These peripheral devices include magnetic tape transports, tape cassette and disk storage devices, cathode ray tube display systems, analog to digital converters, perforated tape readers, tape punches, terminals and line printers. Selected peripherals are also manufactured for stock and are sold separately for other independent applications. The Company is a major manufacturer and supplier of video and printer terminals. The Company also buys selected peripheral equipment from other manufacturers for use with its own computer systems.

#### *Customer Services — Field Engineering, Training and Software Support Services*

The Company provides field engineering to support customer needs related to the maintenance of the computer systems that have been installed. Field engineering offers maintenance services in the form of a term contract or on a per call basis.

The Company maintains a program of customer training relating to the computer systems and software which it sells. Training may take place at customer sites or at Company training facilities throughout the world.

The Company maintains a highly trained staff of software specialists who assist customers in using computer systems and software in their applications.

The Company's installed computer system base continues to grow and has resulted in a substantial increase in the level of service income over the years. The Company's service and other revenues as a percentage of its total operating revenues for fiscal years 1979-1983 are set forth on the preceding page.

#### *Software*

The Company designs and sells under license various software products for its computer systems. These products consist of operating systems, languages, data handling services, communications software, special applications software and utility software. Software programs are generally designed around a particular computer family to maximize the efficiency of the computer system. Many customers use the operating system software provided by the Company to design their own specific applications software.

#### *Pricing*

Prices for the Company's computer systems have generally been reduced as new products have been introduced or existing products improved. The pricing of new products, in most cases, is intended to provide the customer with an improved price/performance ratio. However, from time to time

selective price increases have been effected. During the fiscal year ended July 2, 1983, prices were decreased for a large number of hardware and software products as well as some maintenance services.

Management expects to continue its policy of adjusting the prices of its products and services on an individual basis either upward or downward as economic, competitive, or other circumstances warrant.

### ***Sales and Distribution***

The Company markets its products through approximately 200 sales offices located throughout the world, using primarily its own sales personnel. In addition to the 200 sales offices, the Company also operates approximately 350 additional outlets for the Company's products and services comprised of distributor offices, business center stores, remote service points and field service only service centers. Independent resellers, including Original Equipment Manufacturers (OEM), continue to be an important area of sales and distribution for the Company. Programs such as the "Authorized Digital Computer Distributor" program have been initiated to foster the relationship between the Company and its OEM's. The Company's general policy is to sell and not to rent its products. Customers who prefer leasing arrangements are generally financed by third parties.

Many of the markets served by the Company are affected by cyclical factors beyond the Company's control. For example, the Company is directly affected by changes in the level of spending by industry for capital equipment, and indirectly affected by shifts in government policy and funding of programs which impact government contractors which do business with the Company.

For the fiscal year ended July 2, 1983, approximately 5% of the Company's total sales were made directly to various agencies of the U.S. Government, and no single customer of the Company accounted for more than 7% of total sales.

The Company is of the opinion that the dollar amount of backlog is not material to an understanding of the Company's business and historically has not published the dollar amount of the backlog at any given time. It has been and continues to be the Company's objective to minimize the elapsed time from receipt of a purchase order for a computer system to delivery of the equipment.

### ***International Operations***

Sales by the Company to customers outside the United States amounted to approximately 36% of total sales for the fiscal year ended July 2, 1983, 37% for the fiscal year ended July 3, 1982, and 41% for the fiscal year ended June 27, 1981. These international sales and marketing operations are conducted through subsidiaries, by direct sales from the parent company and through various representative and distributorship arrangements. The consolidated profit margin on sales to customers outside the United States has been substantially the same as on products manufactured and sold to customers in the United States. In view of the location and diversification of the Company's international activities, the Company does not feel that there are any special risks beyond the normal business risks attendant to conducting business abroad. The Company engages in currency hedging transactions to reduce currency risks. See Notes A and B of Notes to Consolidated Financial Statements incorporated by reference herein for further information on the Company's international operations, including financial information concerning the Company's international operations by major geographical area.

### ***Competition***

The computer industry is highly competitive, and the methods of competition include marketing, product performance, price, service, and technology, among others. Present and potential competition in the various markets served by the Company comes from firms of various sizes and types, several of which are larger and have greater total resources than the Company. Firms not now in direct competition with the Company may introduce competing products in the future. Analyses vary as to the Company's relative position in the industry though independent surveys have indicated that in terms of gross revenues the Company is one of the largest manufacturers of computers.

### ***Raw Materials and Supplies***

The Company's manufacturing operations require a wide variety of electronic and mechanical components and raw materials. The Company has multiple commercial sources of supply throughout the world for most of the components and raw materials which it uses. The Company evaluates on an ongoing basis whether to purchase or to manufacture directly or through licensing arrangements the components and peripheral equipment which it requires.

### ***Environmental Affairs***

The Company's manufacturing facilities are subject to numerous laws and regulations designed to protect the environment, particularly from plant wastes and emissions. In the opinion of the Company, compliance with these laws and regulations has not had and should not have a material effect upon the capital expenditures, earnings or competitive position of the Company.

### ***Intellectual Property***

The Company owns a number of patents and patent applications relating to its products. The patents and patent applications, although of significant value to the Company, are not considered to be of material importance to the business as a whole. The Company also owns, or has license rights to, copyrights, trademarks and proprietary information, some of which are considered to be valuable assets of the Company. Collectively, the patents, patent applications, license rights, copyrights, trademarks and proprietary information are referred to as intellectual property.

From time to time the Company has commenced legal actions against other companies to protect or enforce its intellectual property rights. Similarly, from time to time other companies in the industry have claimed that products and components manufactured by the Company are covered by the intellectual property rights of such other companies. It may be necessary or desirable in the future for the Company to obtain further patent licenses in addition to those it now holds. The Company is presently involved in a small number of intellectual property legal actions. The Company is of the opinion that none of such legal actions will have a material effect upon the earnings or financial position of the Company.

### ***Research and Engineering***

The Company is in an industry which is characterized by rapid technological change. The Company has consistently spent a substantial portion of its funds on research and engineering projects, including software development. In the fiscal years ended July 2, 1983, July 3, 1982, and June 27, 1981, the Company spent approximately \$472 million, \$350 million, and \$251 million, respectively, for these purposes.

The Company's primary emphasis is on applied research and engineering which includes developing or enhancing computers, peripheral equipment and software and expanding product applications.

The Company has approximately 3,900 professional employees involved in research, engineering and programming activities.

#### *Executive Officers of the Company*

The following table sets forth the names and ages of all executive and other officers of the Company and certain information relating to their positions held with the Company.

<u>Name</u>	<u>Age</u>	<u>Present Title (Year First Became Officer)</u>
Kenneth H. Olsen	57	President and Director (1957)
Alfred M. Bertocchi	56	Vice President, Finance and Administration (1971)
Roger C. Cady	45	Vice President, Group Manager-Engineering (1981)
George A. Chamberlain, 3d	47	Vice President and Treasurer (1976)
Richard J. Clayton	43	Vice President, Manufacturing Technology (1974)
Henry J. Crouse	48	Vice President, Manufacturing-Europe (1981)
James G. Cudmore	44	Vice President, Group Manager-Engineering (1981)
Sheldon A. Davis	57	Vice President, Organization-Europe (1977)
William R. Demmer	50	Vice President, 32-bit Systems (1981)
Pier-Carlo Falotti	41	Vice President, Field Operations-Europe (1981)
William C. Hanson	42	Vice President, Systems Manufacturing (1976)
Winston R. Hindle, Jr.	53	Vice President, Corporate Operations (1967)
Theodore G. Johnson	51	Vice President (1967)(1)
William R. Johnson, Jr.	41	Vice President, Systems & Communications Engineering (1982)
Edward A. Kramer	47	Vice President, Corporate Marketing (1976)
William H. Long	50	Vice President, Group Manager (1974)
Ward D. MacKenzie	44	Vice President, Group Manager (1981)
Julius L. Marcus	44	Vice President, Group Manager-Engineering (1974)
Albert E. Mullin, Jr.	50	Vice President, Corporate Relations (1981)
Jean-Claude Peterschmitt	48	Vice President, Europe (1974)
Richard Poulsen	48	Vice President, Field Service (1981)
F. Grant Saviers	39	Vice President, Storage Systems (1981)
Edward A. Schwartz	45	Vice President, General Counsel and Secretary (1969)
Joel Schwartz	41	Vice President, Group Manager (1981)

(1) On leave of absence through December, 1983.

<u>Name</u>	<u>Age</u>	<u>Present Title (Year First Became Officer)</u>
John J. Shields .....	45	Vice President, Sales & Service (1974)
Godfrey S. Shingles .....	44	Vice President, Group Manager-Europe(1981)
John F. Smith .....	48	Vice President, Manufacturing & Engineering (1976)
William R. Thompson .....	48	Vice President, External Resources (1978)
William G. Witmore .....	46	Vice President, General International Area (1981)

Officers of the Company are elected annually and hold office until the first meeting of the Board of Directors following the annual meeting of stockholders and until their successors have been chosen and qualified. All of the officers named have been officers or held managerial positions in the Company for at least the last five years.

**Item 2. *Properties.***

At July 2, 1983, the Company occupied approximately 23 million square feet of space throughout the world. Approximately 78% of this space is located in the United States. Substantially all of the Company's facilities are fully utilized, well-maintained and suitable for the advanced technological products and services of the Company. Approximately 54% of these facilities are owned by the Company. Approximately 1.5 million square feet of space for new manufacturing or administrative facilities will be under construction or completed during fiscal 1984.

**Item 3. *Legal Proceedings.***

The Company has no material pending legal proceedings other than routine litigation incidental to the business.

**Item 4. *Submission of Matters to a Vote of Security Holders.***

During the fourth quarter of the fiscal year covered by this report, no matter was submitted to a vote of security holders, through the solicitation of proxies or otherwise.

## PART II

### Item 5. *Market for the Registrant's Common Equity and Related Stockholder Matters.*

See the section entitled "Common Stock Information", which is incorporated herein by reference, appearing on page 34 of the Company's 1983 Annual Report to Stockholders.

### Item 6. *Selected Financial Data.*

See the section entitled "Eleven Year Financial Summary", which is incorporated herein by reference, appearing on pages 28 and 29 of the Company's 1983 Annual Report to Stockholders.

### Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations.*

See the section entitled "Management's Discussion and Analysis of Results of Operations", which is incorporated herein by reference, appearing on pages 30 through 35 of the Company's 1983 Annual Report to Stockholders.

### Item 8. *Financial Statements and Supplementary Data.*

The financial statements and supplementary data which are incorporated herein by reference from the Company's 1983 Annual Report to Stockholders are indexed under Item 14(a)(1). See also the financial statement schedules appearing herein, as indexed under Item 14(a)(2).

### Item 9. *Disagreements on Accounting and Financial Disclosure.*

None.

5-1	Report of Independent Certified Public Accountants
5-2	V-Property, Plant and Equipment
5-3	VII-Unamortized Depreciation and Amortization of Property, Plant and Equipment
5-4	VIII-Valuations and Qualifying Accounts and Reserves
5-5	X-Supplementary Income Statement Information

All other schedules have been omitted since they are not required, not applicable or the information has been furnished in other financial statements or financial reports.

Individual financial statements of the Company have been omitted because it is primarily an operating company and the consolidated subsidiaries are wholly-owned and are not included in a national market, in any, parent other than the parent or the consolidated subsidiaries.

#### (2) Exhibits

- (a) Financial Statements and Supplementary Data of the Company, as amended (filed as Exhibit 4 in the Company's Quarterly Report on Form 10-Q for the first quarter ended April 2, 1983 and incorporated herein by reference).
- (b) History of the Company, as amended (filed as Exhibit 21 in the Company's Quarterly Report on Form 10-Q for the first quarter ended March 26, 1983 and incorporated herein by reference).

### PART III

**Item 10. *Directors and Executive Officers of the Registrant.***

See the section entitled "Nominees for Directors", which is incorporated herein by reference, appearing on pages 2 and 3 of the Company's Proxy Statement, dated September 26, 1983. See also the section entitled "Executive Officers of the Company" appearing in Part I hereof.

**Item 11. *Management Remuneration.***

See the section entitled "Remuneration and Other Information", which is incorporated herein by reference, appearing on pages 6 through 13 of the Company's Proxy Statement, dated September 26, 1983.

**Item 12. *Security Ownership of Certain Beneficial Owners and Management.***

See the section entitled "Stock Ownership of Nominees", which is incorporated herein by reference, appearing on page 4 of the Company's Proxy Statement, dated September 26, 1983.

**Item 13. *Certain Relationships and Related Transactions.***

See the section entitled "Certain Relationships and Related Transactions," which is incorporated herein by reference, at pages 4 and 5 of the Company's Proxy Statement, dated September 26, 1983.

## PART IV

### Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

(a) The following documents are filed as part of this report:

(1) Financial statements which are incorporated herein by reference from the Company's 1983 Annual Report to Stockholders:

Report of Independent Certified Public Accountants (page 36).

Consolidated Statements of Income for fiscal years 1983, 1982 and 1981 (page 37).

Consolidated Balance Sheets as at July 2, 1983 and July 3, 1982 (page 38).

Consolidated Statements of Stockholders' Equity for fiscal years 1983, 1982 and 1981 (page 39).

Consolidated Statements of Changes in Financial Position for fiscal years 1983, 1982 and 1981 (page 40).

Notes to Consolidated Financial Statements (pages 41 through 47).

Eleven Year Financial Summary (pages 28 and 29).

Supplementary Financial Information (pages 48 through 51).

The Company's 1983 Annual Report to Stockholders is not to be deemed filed as part of this report except for those parts thereof specifically incorporated herein by reference.

(2) Financial statement schedules:

Page	
S-1	Report of Independent Certified Public Accountants.
S-2	V—Property, Plant and Equipment.
S-3	VI—Accumulated Depreciation and Amortization of Property, Plant and Equipment.
S-4	VIII—Valuation and Qualifying Accounts and Reserves.
S-5	X—Supplementary Income Statement Information.

All other schedules have been omitted since they are not required, not applicable or the information has been included in the financial statements or the notes thereto.

Individual financial statements of the Company have been omitted because it is primarily an operating company and the consolidated subsidiaries are wholly-owned and are not indebted, in a material amount, to any person other than the parent or the consolidated subsidiaries.

(3) Exhibits:

3(a) —Restated Articles of Organization of the Company, as amended (filed as Exhibit 4 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended April 2, 1983 and incorporated herein by reference).

(b) —By-laws of the Company, as amended (filed as Exhibit 20 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended March 28, 1981 and incorporated herein by reference).

- 4 —Indenture dated as of March 15, 1975 between the Company and Morgan Guaranty Trust Company of New York, Trustee (filed as Exhibit 1 to the Company's Current Report on Form 8-K for the month of March 1975 and incorporated herein by reference).
- 10(a) —1968 Employee Stock Purchase Plan (contained in the prospectus included in Post-Effective Amendment No. 1 to the Company's Registration Statement No. 2-73946 and incorporated herein by reference).
- (b) —1968 Restricted Stock Purchase Plan (contained in the prospectus included in Post-Effective Amendment No. 1 to the Company's Registration Statement No. 2-52104 and incorporated herein by reference).
- (c) —1976 Restricted Stock Option Plan (contained in the prospectus included in Post-Effective Amendment No. 2 to the Company's Registration Statement No. 2-73945 and incorporated herein by reference).
- (d) —1981 International Employee Stock Purchase Plan (contained in the prospectus included in Post-Effective Amendment No. 1 to the Company's Registration Statement No. 2-73942 and incorporated herein by reference).
- 11 —Computation of Net Income Per Share.
- 13 —The Company's 1983 Annual Report to Stockholders, certain portions of which have been incorporated herein by reference.
- 22 —List of subsidiaries.
- 24 —Consent of Independent Certified Public Accountants.

**(b) Reports on Form 8-K:**

No reports on Form 8-K were filed or were required to be filed by the Company during the fourth quarter of the fiscal year ended July 2, 1983.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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 KENNETH H. OLSEN  
Kenneth H. Olsen, President

Date: September 26, 1983

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
..... KENNETH H. OLSEN ..... Kenneth H. Olsen	President (Principal Executive Officer) and Director	September 26, 1983
..... ALFRED M. BERTOCCHI ..... Alfred M. Bertocchi	Vice President — Finance and Administration (Principal Financial and Accounting Officer)	September 26, 1983
..... Vernon R. Alden	Director	September , 1983
..... Philip Caldwell	Director	September , 1983
..... Arnaud de Vitry	Director	September , 1983
..... GEORGES F. DORiot ..... Georges F. Doriot	Director	September 26, 1983
..... WILLIAM H. McLEAN ..... William H. McLean	Director	September 26, 1983
..... DOROTHY E. ROWE ..... Dorothy E. Rowe	Director	September 26, 1983

**Report of Independent Certified Public Accountants**

Our report on the consolidated financial statements of Digital Equipment Corporation has been incorporated by reference from the 1983 Annual Report to Stockholders of Digital Equipment Corporation and appears on page 36 therein. In connection with our examinations of such financial statements, we have also examined the related financial statement schedules listed in the index on page 9 of this Form 10-K.

In our opinion, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly the information required to be included therein in conformity with generally accepted accounting principles applied on a consistent basis.

**COOPERS & LYBRAND**

Boston, Massachusetts  
August 9, 1983

## SCHEDULE V

## DIGITAL EQUIPMENT CORPORATION

Property, Plant and Equipment  
(In Thousands)

Column A	Column B	Column C	Column D	Column E	Column F
Classification	Balance at Beginning of Period	Additions at Cost	Retirements and Sales	Other changes — add (deduct) Transfers	Balance at End of Period
<b>Year Ended July 2, 1983</b>					
Land .....	\$ 83,286	\$ 8,968	\$ (325)	\$ 273	\$ 92,202
Buildings .....	567,082	63,799(a)	(6,754)	(4,974)	619,153
Leasehold improvements .....	91,721	23,884	(4,323)	2,157	113,439
Machinery and equipment .....	863,305	322,564(b)	(51,839)	2,544	1,136,574
	<u>\$1,605,394</u>	<u>\$419,215</u>	<u>\$(63,241)</u>	<u>\$ —</u>	<u>\$1,961,368</u>
<b>Year Ended July 3, 1982</b>					
Land .....	\$ 55,998	\$ 29,478	\$ (1,914)	\$ (276)	\$ 83,286
Buildings .....	378,461	191,746(a)	(2,779)	(346)	567,082
Leasehold improvements .....	64,764	29,330	(3,963)	1,590	91,721
Machinery and equipment .....	629,220	260,686(b)	(25,633)	(968)	863,305
	<u>\$1,128,443</u>	<u>\$511,240</u>	<u>\$(34,289)</u>	<u>\$ —</u>	<u>\$1,605,394</u>
<b>Year Ended June 27, 1981</b>					
Land .....	\$ 38,261	\$ 18,110	\$ 1	\$ (374)	\$ 55,998
Buildings .....	254,609	119,620(a)	(697)	4,929	378,461
Leasehold improvements .....	45,783	29,439	(9,694)	(764)	64,764
Machinery and equipment .....	433,660	231,313(b)	(31,962)	(3,791)	629,220
	<u>\$772,313</u>	<u>\$398,482</u>	<u>\$(42,352)</u>	<u>\$ —</u>	<u>\$1,128,443</u>

(a) Additions to buildings include principally the construction of new and expansion of existing manufacturing and administrative facilities.

(b) Principally equipment acquired for use in the Company's manufacturing operations and to support selling and administrative functions.

SCHEDULE VI

DIGITAL EQUIPMENT CORPORATION

Accumulated Depreciation and Amortization of Property, Plant and Equipment  
(In Thousands)

Column A	Column B	Column C	Column D	Column E	Column F
Classification	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Retirements and Sales	Other changes — add (deduct) Transfers	Balance at End of Period
<b>Year Ended July 2, 1983</b>					
Buildings .....	\$ 47,449	\$ 17,199	\$ (281)	\$ (17)	\$ 64,350
Leasehold improvements .....	28,079	14,809	(3,227)	70	39,731
Machinery and equipment .....	385,392	171,206	(38,984)	(53)	517,561
	<u>\$460,920</u>	<u>\$203,214</u>	<u>\$(42,492)</u>	<u>\$ —</u>	<u>\$621,642</u>
<b>Year Ended July 3, 1982</b>					
Buildings .....	\$ 34,629	\$ 12,821	\$ 51	\$ (52)	\$ 47,449
Leasehold improvements .....	19,069	11,409	(2,337)	(62)	28,079
Machinery and equipment .....	275,246	128,399	(18,367)	114	385,392
	<u>\$328,944</u>	<u>\$152,629</u>	<u>\$(20,653)</u>	<u>\$ —</u>	<u>\$460,920</u>
<b>Year Ended June 27, 1981</b>					
Buildings .....	\$ 26,276	\$ 7,782	\$ (5)	\$ 576	\$ 34,629
Leasehold improvements .....	13,838	6,716	(1,223)	(262)	19,069
Machinery and equipment .....	202,743	87,641	(14,824)	(314)	275,246
	<u>\$242,857</u>	<u>\$102,139</u>	<u>\$(16,052)</u>	<u>\$ —</u>	<u>\$328,944</u>

SCHEDULE VIII

DIGITAL EQUIPMENT CORPORATION

Valuation and Qualifying Accounts and Reserves  
(In Thousands)

Column A	Column B	Column C	Column D	Column E	
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions from Reserves	Balance at End of Period
<b>Year Ended July 2, 1983</b>					
Allowance for possible losses on accounts receivable .....	<u>\$26,651</u>	<u>\$ 8,181</u>	<u>—</u>	<u>\$5,533(a)</u>	<u>\$29,299</u>
<b>Year Ended July 3, 1982</b>					
Allowance for possible losses on accounts receivable .....	<u>\$25,528</u>	<u>\$ 9,395</u>	<u>—</u>	<u>\$8,272(a)</u>	<u>\$26,651</u>
<b>Year Ended June 27, 1981</b>					
Allowance for possible losses on accounts receivable .....	<u>\$22,151</u>	<u>\$11,422</u>	<u>—</u>	<u>\$8,045(a)</u>	<u>\$25,528</u>

(a) Uncollectible accounts and adjustments.

SCHEDULE X

DIGITAL EQUIPMENT CORPORATION

Supplementary Income Statement Information

(In Thousands)

	Charged to costs and expenses		
	Year Ended		
	July 2, 1983	July 3, 1982	June 27, 1981
Maintenance and repairs .....	\$ 72,842	\$ 55,572	\$ 31,965
Depreciation of property, plant and equipment .....	\$203,214	\$152,629	\$102,139
Taxes other than income taxes:			
Payroll .....	\$125,948	\$118,457	\$ 99,289
State, local and other taxes .....	\$ 26,990	\$ 22,487	\$ 21,148
Advertising costs .....	\$ 71,590	\$ 45,470	\$ 31,947

EXHIBIT 11

Computation of Net Income Per Share

	Year Ended				
	July 2, 1983	July 3, 1982	June 27, 1981	June 28, 1980	June 30, 1979
	(In Thousands Except Per Share Data)				
Net income .....	\$283,622	\$417,155	\$343,297	\$249,861	\$178,434
Add back convertible debenture interest, net of related tax effect .....	—	—	8,840	7,455	5,962
Net income applicable to common and common equivalent shares .....	\$283,622	\$417,155	\$352,137	\$257,316	\$184,396
Weighted-average number of common shares outstanding during the year .....	55,691	54,658	48,496	42,634	40,125
Common stock equivalents from application of "if converted" method to convertible debentures ..	—	—	3,136	3,949	4,386
Common stock equivalents from application of "treasury stock" method to exercised and outstanding stock options .....	985	771	935	588	430
Total number of common and common equivalent shares used in the computation of net income per share .....	56,676	55,429	52,567	47,171	44,941
Net income per share .....	\$5.00	\$7.53	\$6.70	\$5.45	\$4.10

## SUBSIDIARIES

The following is a list of the Company's subsidiaries. The Company owns, directly or indirectly, 100% of the voting securities of each subsidiary.

<u>Name</u>	<u>State or Jurisdiction of Organization</u>
Digital Equipment of Canada Limited	Canada
Digital Equipment GmbH	Germany
Digital Equipment International GmbH	Germany
Digital Equipment Betriebliche Altersversorgungsgesellschaft m.b. H.	Germany
Digital Equipment International Betriebliche Altersversorgungsgesellschaft m.b. H.	Germany
Digital Equipment Corporation (Australia) Pty. Limited	Australia
Digital Equipment Co. Limited	United Kingdom
Digital Equipment France	France
Digital Equipment AB	Sweden
Digital Equipment Corporation de Puerto Rico	Delaware
Digital Equipment S.p.A.	Italy
Digital Equipment Corporation S.A.	Switzerland
Digital Equipment Corporation International	Massachusetts
Digital Equipment B.V.	Netherlands
Digital Equipment N.V./S.A.	Belgium
Digital Incorporated	Delaware
Digital International Sales Corporation	Delaware
Digital Equipment (DEC) Limited	Israel
Digital Equipment International Limited	Switzerland
Digital Equipment Corporation International (Europe)	Switzerland
Digital Equipment Corporation A/S	Norway
Digital Equipment Corporation Gesellschaf m.b.H.	Austria
Digital Equipment Corporation (New Zealand) Limited	New Zealand
Digital Equipment Taiwan Limited	Taiwan
Digital Equipment Corporation A/S	Denmark
Digital Equipment de Mexico, S.A. de C.V.	Mexico
Digital Equipment Corporation Oy	Finland
Digital Equipment Comercio e Industria, LTDA	Brazil
Computer Insurance Company Limited	Bermuda
Digital Computer Taiwan Limited	Taiwan
Digital Equipment Services, Inc.	Delaware
Digital Equipment Ireland Limited	Republic of Ireland
Old Colony Insurance Limited	Bermuda
Digital Growth, Inc.	Massachusetts
Digital Equipment Hong Kong Limited	Hong Kong
Digital Equipment Scotland Limited	United Kingdom
Digital Realty Limited	Republic of Ireland
Digital Equipment Singapore (PTE) Limited	Singapore
Digital Equipment Panama, Inc.	Panama
Digital Equipment Trinidad, Inc.	Delaware
Digital Equipment Centre Technique (Europe) S.A.R.L.	France
Kam Hon Development Company Limited	Hong Kong
Worton Grange Property Company Limited	United Kingdom
Digital Equipment International B.V.	Netherlands
Digital Equipment (Holdings) B.V.	Netherlands
Digital Equipment Parts Center B.V.	Netherlands
Nihon Digital Equipment Corporation	Japan
Nihon Digital Equipment Research and Development Center KK.	Japan

**Consent of Independent Certified Public Accountants**

We consent to the incorporation by reference in the Registration Statements (Forms S-8) and related prospectuses of the Digital Equipment Corporation 1968 Restricted Stock Purchase and 1976 Restricted Stock Option Plans (No. 2-73945), 1968 Employee Stock Purchase Plan (No. 2-73946) and 1981 International Employee Stock Purchase Plan (No. 2-73942), of: (1) our report dated August 9, 1983, on our examinations of the consolidated financial statements of Digital Equipment Corporation as of July 2, 1983 and July 3, 1982 and for the three fiscal years ended July 2, 1983, which report is included in the 1983 Annual Report to Stockholders of Digital Equipment Corporation; and (2) our report dated August 9, 1983 on our examinations of the financial statement schedules of Digital Equipment Corporation as of July 2, 1983 and July 3, 1982 and for the three fiscal years ended July 2, 1983, which report is included in this Annual Report on Form 10-K.

**COOPERS & LYBRAND**

Boston, Massachusetts  
August 9, 1983

# FOR REFERENCE

Do Not Take From This Room

## SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549

### Form 10-K

Annual Report Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934

For the fiscal year ended June 30, 1984

Commission file number 1-5296

## Digital Equipment Corporation

(Exact name of registrant as specified in its charter)

Commonwealth of Massachusetts  
(State or other jurisdiction of  
incorporation or organization)

04-2226590  
(I.R.S. Employer  
Identification No.)

146 Main Street, Maynard, Massachusetts  
(Address of principal executive offices)

01754  
(Zip Code)

Registrant's telephone number, including area code: (617) 493-5350

#### Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value \$1	New York Stock Exchange Pacific Stock Exchange
9 $\frac{3}{8}$ % Sinking Fund Debentures, due March 15, 2000	New York Stock Exchange
8% Convertible Subordinated Debentures Due 2009	New York Stock Exchange
<i>Title of each class</i>	<i>Name of each exchange on which registered</i>

#### Securities registered pursuant to Section 12(g) of the Act: None

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  No

As of September 7, 1984, 58,048,905 shares of the registrant's Common Stock, par value \$1, were issued and outstanding. The aggregate market value of the registrant's voting stock held by non-affiliates of the registrant as of September 7, 1984 was approximately \$5.25 billion.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's 1984 Annual Report to Stockholders are incorporated by reference in Part II hereof.

Portions of the registrant's Proxy Statement, dated September 24, 1984, are incorporated by reference in Part III hereof.

## PART I

### Item 1. *Business.*

#### *General*

Digital Equipment Corporation, a Massachusetts corporation founded in 1957, is a company with worldwide operations. At June 30, 1984, the Company employed approximately 85,600 persons and conducted operations in the United States and in 47 other countries.

The term "Company" when used herein refers to Digital Equipment Corporation or Digital Equipment Corporation and its subsidiaries, as required by the context.

The Company designs, manufactures, sells and services computers and associated peripheral equipment, and related software and supplies. The Company's products are used worldwide in a wide variety of applications and programs, including scientific research, computation, communications, education, data analysis, industrial control, time-sharing, commercial data processing, graphic arts, word processing, office automation, health care, instrumentation, engineering and simulation. Most of the Company's products are of its own design and are sold under its own name. The Company's marketing objective is to provide to customers a wide variety of computational resources, including the central processing units, memories, terminals, communications options, software, and field engineering, training and software support services.

The percentages of total operating revenues contributed by the Company's principal classes of products were as follows:

	<u>1984</u>	<u>1983</u>	<u>1982</u>	<u>1981</u>	<u>1980</u>
Equipment sales .....	68.6%	67.1%	72.0%	74.6%	75.1%
Service and other revenues	31.4%	32.9%	28.0%	25.4%	24.9%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Service and other revenues includes maintenance service, customer training, software revenues, replacement parts and, to a minor extent, equipment rentals.

#### *Systems and Products*

The Company offers one of the broadest ranges of products in the computer industry. It sells small microprocessors such as the T-11, a series of personal computers, a variety of minicomputers based on 16 bit (PDP-11) and 32 bit (VAX) architecture, and large mainframe computers (DECsystem-10 and DECSYSTEM-20). Prices of the Company's products reflect the diversity of its offerings, ranging from as little as \$35 to as much as \$2,000,000.

The models included in the PDP-11 and VAX families are general purpose digital computers designed for performing, interpreting and recording computations on collected data. Applications include instrument control, machine and industrial processes, education, natural resource exploration, data communications, medical systems, commercial typesetting, commercial data processing and word processing. Members of the PDP-11 family range from the MICRO/T-11, a low-cost Original Equipment Manufacturer (OEM) oriented microprocessor, to the PDP-11/44, a powerful

midrange system. The VAX family of computers currently includes eight models: MICROVAX I, VAX-11/725, 730, 750, 780, 782, 785 and VAXCLUSTER systems. Fully supported system prices range from \$20,000 for the MICROVAX I to \$350,000 for the high performance VAX-11/785. Entry level prices for the VAX family start at \$10,000 for the MICROVAX and range up to approximately \$1 million for the VAXCLUSTER systems.

The DECsystem-10 and the DECSYSTEM-20 are the largest computer systems presently being manufactured by the Company. These systems are designed for multi-user access, batch processing and real-time applications. Applications include scientific research, management information systems, commercial time-sharing, educational computation and commercial data processing. These systems are being further integrated with the VAX family of computers so that the DEC 10/20 customers can effectively meet their growth needs with both families of products.

The Company manufactures and sells associated peripheral devices which are used with and are sold as part of the Company's various computer systems. These peripheral devices include magnetic tape transports, tape cassette and disk storage devices, cathode ray tube display systems, analog to digital converters, perforated tape readers, tape punches, terminals and line printers. Selected peripherals are also manufactured for stock and are sold separately for other independent applications. The Company is a major manufacturer and supplier of video and printer terminals. The Company also buys selected peripheral equipment from other manufacturers for use with its own computer systems.

#### *Customer Services — Field Engineering, Training and Software Support Services*

The Company provides total maintenance services on all its hardware sales, including corrective maintenance service in the form of term contracts or on a time and materials basis, network support service and various environmental and risk management support services. The field service organization has approximately 17,300 employees located in forty-eight countries worldwide.

The Company maintains a variety of training/education programs on its products and services for both customers and employees. Through a worldwide organization of approximately 2,500 people, this training is delivered in a variety of advanced methods (computer based education/lecture/self-paced, etc.) as well as a continuing program of lecture-based training in 28 centers worldwide.

The Company maintains a highly trained staff of approximately 4,000 software specialists who assist customers in using the Company's computer systems, and in developing and customizing application software.

The Company's installed computer system base continues to grow and has resulted in a substantial increase in the level of service income over the years. The Company's service and other revenues as a percentage of its total operating revenues for fiscal years 1980-1984 are set forth on the preceding page.

#### *Software*

The Company designs and sells under license various software products for its computer systems. These products consist of operating systems, languages, data handling services, communications software, special applications software and utility software. Software programs are generally designed around a particular computer family to maximize the efficiency of the computer system. Many customers use the operating system software provided by the Company to design their own specific application software.

### *Pricing*

Prices for the Company's computer systems have generally been reduced as new products have been introduced or existing products improved. The pricing of new products, in most cases, is intended to provide the customer with an improved price/performance ratio. However, from time to time selective price increases have been effected. During the fiscal year ended June 30, 1984, prices were decreased for a selected number of hardware and software products as well as some maintenance services.

Management expects to continue its policy of adjusting the prices of its products and services on an individual basis either upward or downward as economic, competitive or other circumstances warrant.

### *Sales and Distribution*

The Company markets its products through more than 200 sales offices located throughout the world, using primarily its own sales personnel. In addition to its sales offices, the Company also operates or supports approximately 425 additional outlets for the Company's products and services comprised of distributor offices, business center stores, remote service points and field service only service centers. Independent resellers, including Original Equipment Manufacturers (OEM's), continue to be an important area of sales and distribution for the Company. Programs such as the "Authorized Digital Computer Distributor" program have been initiated to foster the relationship between the Company and its OEM's. The Company's general policy is to sell and not to rent its products. Customers who prefer leasing arrangements are given assistance in obtaining such financing.

Many of the markets served by the Company are affected by cyclical factors beyond the Company's control. For example, the Company is directly affected by changes in the level of spending by industry for capital equipment, and indirectly affected by shifts in government policy and funding of programs which impact government contractors which do business with the Company.

For the fiscal year ended June 30, 1984, approximately 5% of the Company's total sales were made directly to various agencies of the U.S. Government, and no other customer of the Company accounted for more than 3% of total sales.

The Company is of the opinion that the dollar amount of backlog is not material to an understanding of the Company's business and historically has not published the dollar amount of the backlog at any given time. It has been and continues to be the Company's objective to minimize the elapsed time from receipt of a purchase order for a computer system to delivery of the equipment.

### *International Operations*

Sales by the Company to customers outside the United States amounted to approximately 35% of total sales for the fiscal year ended June 30, 1984, 37% for the fiscal year ended July 2, 1983, and 37% for the fiscal year ended July 3, 1982. These international sales and marketing operations are conducted through subsidiaries, by direct sales from the parent company and through various representative and distributorship arrangements. The consolidated profit margin on sales to customers outside the United States has been substantially the same as on products manufactured and sold to customers in the United States. In view of the location and diversification of the Company's international activities, the Company does not feel that there are any special risks beyond the normal business risks attendant to conducting business abroad. The Company engages in currency hedging transactions to reduce currency risks. See Notes A and B of Notes to Consolidated Financial Statements incorporated

by reference herein for further information on the Company's international operations, including financial information concerning the Company's international operations by major geographical area.

### ***Competition***

The computer industry is highly competitive, and the methods of competition include marketing, product performance, price, service, and technology, among others. Present and potential competition in the various markets served by the Company comes from firms of various sizes and types, several of which are larger and have greater total resources than the Company. Firms not now in direct competition with the Company may introduce competing products in the future. Analyses vary as to the Company's relative position in the industry though independent surveys have indicated that in terms of gross revenues the Company is one of the largest manufacturers of computers.

### ***Raw Materials and Supplies***

The Company's manufacturing operations require a wide variety of electronic and mechanical components and raw materials. The Company has multiple commercial sources of supply throughout the world for most of the components and raw materials which it uses. The Company evaluates on an ongoing basis whether to purchase or to manufacture directly or through licensing arrangements the components and peripheral equipment which it requires.

### ***Environmental Affairs***

The Company's manufacturing facilities are subject to numerous laws and regulations designed to protect the environment, particularly from plant wastes and emissions. In the opinion of the Company, compliance with these laws and regulations has not had and should not have a material effect upon the capital expenditures, earnings or competitive position of the Company.

### ***Intellectual Property***

The Company owns a number of patents and patent applications relating to its products. The patents and patent applications, although of significant value to the Company, are not considered to be of material importance to the business as a whole. The Company also owns, or has license rights to, copyrights, trademarks and proprietary information, some of which are considered to be valuable assets of the Company. Collectively, the patents, patent applications, license rights, copyrights, trademarks and proprietary information are referred to as intellectual property.

From time to time the Company has commenced legal actions against other companies to protect or enforce its intellectual property rights. Similarly, from time to time other companies in the industry have claimed that products and components manufactured by the Company are covered by the intellectual property rights of such other companies. It may be necessary or desirable in the future for the Company to obtain further patent licenses in addition to those it now holds. The Company is presently involved in a small number of intellectual property legal actions. The Company is of the opinion that none of such legal actions will have a material effect upon the earnings or financial position of the Company.

### ***Research and Engineering***

The Company is in an industry which is characterized by rapid technological change. The Company has consistently spent a substantial portion of its funds on research and engineering projects, including software development. In the fiscal years ended June 30, 1984, July 2, 1983, and July 3, 1982,

the Company spent approximately \$631 million, \$472 million, and \$350 million, respectively, for these purposes.

The Company's primary emphasis is on applied research and engineering which includes developing or enhancing computers, peripheral equipment and software and expanding product applications.

The Company has approximately 4,500 professional employees involved in research, engineering and programming activities.

*Executive Officers of the Company*

The following table sets forth the names and ages of all executive and other officers of the Company and certain information relating to their positions held with the Company.

<u>Name</u>	<u>Age</u>	<u>Present Title (Year First Became Officer)</u>
Kenneth H. Olsen .....	58	President and Director (1957)
John L. Alexanderson .....	45	Vice President, Peripherals and Supplies Group (1984)
Alfred M. Bertocchi .....	57	Vice President, Finance and Administration (1971)
Don K. Busiek .....	49	Vice President, Corporate Software Services (1984)
George A. Chamberlain, 3d .....	48	Vice President, Engineering & Mfg. Finance (1976)
Henry J. Crouse .....	49	Vice President, Manufacturing-Europe (1981)
James G. Cudmore .....	45	Vice President, Group Manager Low-End-Engineering (1981)
Sheldon A. Davis .....	58	Vice President, Organization-Europe (1977)
William R. Demmer .....	51	Vice President, 32-bit Systems (1981)
Pier-Carlo Falotti .....	42	Vice President, Field Operations-Europe (1981)
Samuel H. Fuller .....	38	Vice President, Research and Architecture (1984)
Rose Ann Giordano .....	45	Vice President, Large Systems Marketing (1984)
David W. Grainger .....	42	Vice President, Area Manager, Western and Central States (1984)
William C. Hanson .....	43	Vice President, Systems Manufacturing (1976)
G. William Helm, Jr. ....	43	Treasurer (1983)
Winston R. Hindle, Jr. ....	54	Vice President, Corporate Operations (1967)
Robert C. Hughes .....	44	Vice President, Business and Office Systems Marketing (1984)
William R. Johnson, Jr. ....	42	Vice President, Systems & Clusters Engineering (1982)
Jeffrey C. Kalb .....	42	Vice President, Group Manager, Large Scale Integration (1984)
Edward A. Kramer .....	48	Vice President, Technical Marketing (1976)
Delbert E. Lippert .....	42	Vice President, Educational Services (1984)

<u>Name</u>	<u>Age</u>	<u>Present Title (Year First Became Officer)</u>
William H. Long*	51	Vice President, Corporate Projects (1974)
Ward D. MacKenzie	45	Vice President, Group Manager (1981)
Albert E. Mullin, Jr.	51	Vice President, Corporate Relations (1981)
Jean-Claude Peterschmitt	49	Vice President, Europe (1974)
Richard Poulsen	49	Vice President, Field Service (1981)
F. Grant Saviers	40	Vice President, Storage Systems (1981)
Edward A. Schwartz	46	Vice President, General Counsel and Secretary (1969)
Joel Schwartz	42	Vice President, Educational Marketing (1981)
John J. Shields	46	Vice President, Group Manager (1974)
Godfrey S. Shingles	45	Vice President, Managing Director, United Kingdom Region (1981)
Charles E. Shue	37	Vice President, Area Manager, Northeast States (1984)
John L. Sims	50	Vice President, Corporate Personnel (1984)
John F. Smith	49	Vice President, Manufacturing & Engineering (1976)
Peter J. Smith	39	Vice President, Computer Aided Engineering and Manufacturing (1984)
Harvey L. Weiss	41	Vice President, Area Manager, Mid-Atlantic and Southern States (1984)
William G. Witmore	47	Vice President, General International Area (1981)
Richard H. Yen	54	Vice President, Far East Engineering and Manufacturing (1984)

\* On leave of absence through September, 1985.

Officers of the Company are elected annually and hold office until the first meeting of the Board of Directors following the annual meeting of stockholders and until their successors have been chosen and qualified. All of the officers named have been officers or held managerial positions in the Company for at least the last five years, except Mr. Kalb who was Vice President, Engineering, of Data General Corporation from 1979 to 1981.

## **Item 2. Properties.**

At June 30, 1984, the Company occupied approximately 24.5 million square feet of space throughout the world. Approximately 79% of this space is located in the United States. Substantially all of the Company's facilities are fully utilized, well-maintained and suitable for the advanced technological products and services of the Company. Approximately 55% of these facilities are owned by the Company. Approximately one million square feet of space for new manufacturing or administrative facilities will be under construction or completed during fiscal 1985.

**Item 3. *Legal Proceedings.***

As previously reported, on or about December 10, 1983, the Commonwealth of Massachusetts ("Commonwealth") instituted a proceeding in the U.S. District Court for Massachusetts, naming approximately 325 individuals and entities, including the Company, and alleging that the defendants had contracted with a licensed disposal company, which is no longer in business, for the disposal of certain materials during the period 1971-1978, at a site known as Silresim, located in Lowell, Massachusetts. The Commonwealth sought reimbursement of its expenses for surface cleanup of the site. In March of 1984, the Commonwealth entered an Agreement for Judgment with approximately 220 of the named parties, including the Company, whereunder the defendants, without admitting any liability, agreed to collectively reimburse approximately \$2,000,000 to the Commonwealth including approximately \$123,000 from the Company. Further study of the site under the auspices of the U.S. Environmental Protection Agency is planned to determine what future groundwater cleanup measures, if any, are required. Based on information currently available, the Company believes that its participation in any additional cleanup measures that may be necessary should not have a material adverse effect upon the Company.

As previously reported, the Company has been named in various lawsuits filed in the U.S. District Court for Massachusetts and elsewhere alleging violations of the Federal securities laws and/or other laws in connection with the disclosure of information concerning the financial performance of the Company for the quarter ending October 1, 1983, and seeking unspecified amounts of damages and other unspecified relief. The Massachusetts lawsuits have been consolidated, and a consolidated complaint which includes most of the lawsuits has been filed. The Company has filed a motion to dismiss the consolidated complaint and believes that all the lawsuits are without merit.

Other than as set forth above the Company has no material pending legal proceedings other than routine litigation incidental to the business.

**Item 4. *Submission of Matters to a Vote of Security Holders.***

During the fourth quarter of the fiscal year covered by this report, no matter was submitted to a vote of security holders, through the solicitation of proxies or otherwise.

## PART II

**Item 5. *Market for the Registrant's Common Equity and Related Stockholder Matters.***

See the section entitled "Common Stock Information", which is incorporated herein by reference, appearing on page 32 of the Company's 1984 Annual Report to Stockholders.

**Item 6. *Selected Financial Data.***

See the section entitled "Eleven Year Financial Summary", which is incorporated herein by reference, appearing on pages 26 and 27 of the Company's 1984 Annual Report to Stockholders.

**Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations.***

See the sections entitled "Management's Discussion and Analysis of Results of Operations" and "Management's Discussion and Analysis of Financial Condition", which are incorporated herein by reference, appearing on pages 28 through 33 of the Company's 1984 Annual Report to Stockholders.

**Item 8. *Financial Statements and Supplementary Data.***

The financial statements and supplementary data which are incorporated herein by reference from the Company's 1984 Annual Report to Stockholders are indexed under Item 14(a)(1). See also the financial statement schedules appearing herein, as indexed under Item 14(a)(2).

**Item 9. *Disagreements on Accounting and Financial Disclosure.***

None.

### PART III

**Item 10. *Directors and Executive Officers of the Registrant.***

See the section entitled "Nominees for Directors", which is incorporated herein by reference, appearing on pages 2 and 3 of the Company's Proxy Statement, dated September 24, 1984. See also the section entitled "Executive Officers of the Company" appearing in Part I hereof.

**Item 11. *Executive Compensation.***

See the section entitled "Executive Compensation and Other Information", which is incorporated herein by reference, appearing on pages 6 through 13 of the Company's Proxy Statement, dated September 24, 1984.

**Item 12. *Security Ownership of Certain Beneficial Owners and Management.***

See the section entitled "Stock Ownership of Nominees", which is incorporated herein by reference, appearing on page 4 of the Company's Proxy Statement, dated September 24, 1984.

**Item 13. *Certain Relationships and Related Transactions.***

See the section entitled "Certain Relationships and Related Transactions," which is incorporated herein by reference, at pages 4 and 5 of the Company's Proxy Statement, dated September 24, 1984.

## PART IV

### Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

(a) The following documents are filed as part of this report:

- (1) Financial statements which are incorporated herein by reference from the Company's 1984 Annual Report to Stockholders:
  - Report of Independent Certified Public Accountants (page 34).
  - Consolidated Statements of Income for fiscal years 1984, 1983 and 1982 (page 35).
  - Consolidated Balance Sheets as at June 30, 1984 and July 2, 1983 (page 36).
  - Consolidated Statements of Stockholders' Equity for fiscal years 1984, 1983 and 1982 (page 37).
  - Consolidated Statements of Changes in Financial Position for fiscal years 1984, 1983 and 1982 (page 38).
  - Notes to Consolidated Financial Statements (pages 39 through 46).
  - Eleven Year Financial Summary (pages 26 and 27).
  - Supplementary Financial Information (pages 47 through 50).

The Company's 1984 Annual Report to Stockholders is not to be deemed filed as part of this report except for those parts thereof specifically incorporated herein by reference.

(2) Financial statement schedules:

<u>Page</u>	
S-1	Report of Independent Certified Public Accountants.
S-2	V—Property, Plant and Equipment.
S-3	VI—Accumulated Depreciation and Amortization of Property, Plant and Equipment.
S-4	VIII—Valuation and Qualifying Accounts and Reserves.
S-5	X—Supplementary Income Statement Information.

All other schedules have been omitted since they are not required, not applicable or the information has been included in the financial statements or the notes thereto.

Individual financial statements of the Company have been omitted because it is primarily an operating company and the consolidated subsidiaries are wholly-owned and are not indebted, in a material amount, to any person other than the parent or the consolidated subsidiaries.

(3) Exhibits:

- 3(a) —Restated Articles of Organization of the Company, as amended (filed as Exhibit 4 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended April 2, 1983 and incorporated herein by reference).
- (b) —By-laws of the Company, as amended (filed as Exhibit 20 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended March 28, 1981 and incorporated herein by reference).

- 4(a) —Indenture dated as of March 15, 1975 between the Company and Morgan Guaranty Trust Company of New York, Trustee (filed as Exhibit 1 to the Company's Current Report on Form 8-K for the month of March 1975 and incorporated herein by reference).
- (b) —Fiscal Agency Agreement among Digital Equipment Overseas Finance N.V., Digital Equipment Corporation, and Morgan Guaranty Trust Company of New York, dated as of March 15, 1984, relating to \$150,000,000 11¾% Guaranteed Notes Due 1989 (filed as Exhibit 4(a) to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1984 and incorporated herein by reference).
- (c) —Specimen 11¾% Guaranteed Notes Due 1989.
- (d) —Indenture between Digital Equipment Corporation and The Chase Manhattan Bank (National Association), Trustee, dated as of April 1, 1984 (filed as Exhibit 4(c) to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1984 and incorporated herein by reference).
- (e) —Specimen 12½% Note Due 1994 (filed as Exhibit 4(d) to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1984 and incorporated herein by reference).
- (f) —Specimen 13% Sinking Fund Debenture Due 2014 (filed as Exhibit 4(e) to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1984 and incorporated herein by reference).
- (g) —Indenture dated as of September 1, 1984 between the Company and Morgan Guaranty Trust Company of New York, Trustee.
- 10(a) —1968 Employee Stock Purchase Plan.
- (b) —1968 Restricted Stock Purchase Plan (contained in the prospectus included in Post-Effective Amendment No. 1 to the Company's Registration Statement No. 2-52104 and incorporated herein by reference).
- (c) —1976 Restricted Stock Option Plan (contained in the prospectus included in Post-Effective Amendment No. 2 to the Company's Registration Statement No. 2-73945 and incorporated herein by reference).
- (d) —1981 International Employee Stock Purchase Plan.
- (e) —Deferred Compensation Plan for Non-Employee Directors.
- 11 —Computation of Net Income Per Share.
- 13 —The Company's 1984 Annual Report to Stockholders, certain portions of which have been incorporated herein by reference.
- 22 —List of subsidiaries.
- 24 —Consent of Independent Certified Public Accountants.

(b) Reports on Form 8-K:

No reports on Form 8-K were filed or were required to be filed by the Company during the fourth quarter of the fiscal year ended June 30, 1984.



## Report of Independent Certified Public Accountants

Our report on the consolidated financial statements of Digital Equipment Corporation has been incorporated by reference from the 1984 Annual Report to Stockholders of Digital Equipment Corporation and appears on page 34 therein. In connection with our examinations of such financial statements, we have also examined the related financial statement schedules listed in the index on page 10 of this Form 10-K.

In our opinion, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly the information required to be included therein in conformity with generally accepted accounting principles applied on a consistent basis.

COOPERS & LYBRAND

Boston, Massachusetts  
August 7, 1984

## SCHEDULE V

## DIGITAL EQUIPMENT CORPORATION

Property, Plant and Equipment  
(In Thousands)

Column A	Column B	Column C	Column D	Column E	Column F
Classification	Balance at Beginning of Period	Additions at Cost	Retirements and Sales	Other changes — add (deduct) Transfers	Balance at End of Period
<b>Year Ended June 30, 1984</b>					
Land .....	\$ 92,202	\$ 5,972	\$ (981)	\$ 324	\$ 97,517
Buildings .....	619,153	61,691	(4,466)	2,517	678,895
Leasehold improvements .....	113,439	39,889	(3,472)	1,129	150,985
Machinery and equipment .....	<u>1,136,574</u>	<u>344,587</u>	<u>(52,802)</u>	<u>(3,970)</u>	<u>1,424,389</u>
	<u>\$1,961,368</u>	<u>\$452,139</u>	<u>\$(61,721)</u>	<u>\$ —</u>	<u>\$2,351,786</u>
<b>Year Ended July 2, 1983</b>					
Land .....	\$ 83,286	\$ 8,968	\$ (325)	\$ 273	\$ 92,202
Buildings .....	567,082	63,799(a)	(6,754)	(4,974)	619,153
Leasehold improvements .....	91,721	23,884	(4,323)	2,157	113,439
Machinery and equipment .....	<u>863,305</u>	<u>322,564(b)</u>	<u>(51,839)</u>	<u>2,544</u>	<u>1,136,574</u>
	<u>\$1,605,394</u>	<u>\$419,215</u>	<u>\$(63,241)</u>	<u>\$ —</u>	<u>\$1,961,368</u>
<b>Year Ended July 3, 1982</b>					
Land .....	\$ 55,998	\$ 29,478	\$ (1,914)	\$ (276)	\$ 83,286
Buildings .....	378,461	191,746(a)	(2,779)	(346)	567,082
Leasehold improvements .....	64,764	29,330	(3,963)	1,590	91,721
Machinery and equipment .....	<u>629,220</u>	<u>260,686(b)</u>	<u>(25,633)</u>	<u>(968)</u>	<u>863,305</u>
	<u>\$1,128,443</u>	<u>\$511,240</u>	<u>\$(34,289)</u>	<u>\$ —</u>	<u>\$1,605,394</u>

(a) Additions to buildings include principally the construction of new and expansion of existing manufacturing and administrative facilities.

(b) Principally equipment acquired for use in the Company's manufacturing operations and to support selling and administrative functions.

## SCHEDULE VI

## DIGITAL EQUIPMENT CORPORATION

Accumulated Depreciation and Amortization of Property, Plant and Equipment  
(In Thousands)

Column A	Column B	Column C	Column D	Column E	Column F
Classification	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Retirements and Sales	Other changes — add (deduct) Transfers	Balance at End of Period
<b>Year Ended June 30, 1984</b>					
Buildings .....	\$ 64,350	\$ 21,396	\$ (430)	\$ 94	\$ 85,410
Leasehold improvements .....	39,731	18,613	(2,053)	170	56,461
Machinery and equipment .....	<u>517,561</u>	<u>212,622</u>	<u>(31,344)</u>	<u>(264)</u>	<u>698,575</u>
	<u>\$621,642</u>	<u>\$252,631</u>	<u>\$(33,827)</u>	<u>\$ —</u>	<u>\$840,446</u>
<b>Year Ended July 2, 1983</b>					
Buildings .....	\$ 47,449	\$ 17,199	\$ (281)	\$ (17)	\$ 64,350
Leasehold improvements .....	28,079	14,809	(3,227)	70	39,731
Machinery and equipment .....	<u>385,392</u>	<u>171,206</u>	<u>(38,984)</u>	<u>(53)</u>	<u>517,561</u>
	<u>\$460,920</u>	<u>\$203,214</u>	<u>\$(42,492)</u>	<u>\$ —</u>	<u>\$621,642</u>
<b>Year Ended July 3, 1982</b>					
Buildings .....	\$ 34,629	\$ 12,821	\$ 51	\$ (52)	\$ 47,449
Leasehold improvements .....	19,069	11,409	(2,337)	(62)	28,079
Machinery and equipment .....	<u>275,246</u>	<u>128,399</u>	<u>(18,367)</u>	<u>114</u>	<u>385,392</u>
	<u>\$328,944</u>	<u>\$152,629</u>	<u>\$(20,653)</u>	<u>\$ —</u>	<u>\$460,920</u>

SCHEDULE VIII

DIGITAL EQUIPMENT CORPORATION

Valuation and Qualifying Accounts and Reserves  
(In Thousands)

Column A	Column B	Column C	Column D	Column E	
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions from Reserves	Balance at End of Period
<b>Year Ended June 30, 1984</b>					
Allowance for possible losses on accounts receivable .....	<u>\$29,299</u>	<u>\$22,938</u>	<u>—</u>	<u>\$13,725(a)</u>	<u>\$38,512</u>
<b>Year Ended July 2, 1983</b>					
Allowance for possible losses on accounts receivable .....	<u>\$26,651</u>	<u>\$ 8,181</u>	<u>—</u>	<u>\$5,533(a)</u>	<u>\$29,299</u>
<b>Year Ended July 3, 1982</b>					
Allowance for possible losses on accounts receivable .....	<u>\$25,528</u>	<u>\$ 9,395</u>	<u>—</u>	<u>\$8,272(a)</u>	<u>\$26,651</u>

(a) Uncollectible accounts and adjustments.

SCHEDULE X

DIGITAL EQUIPMENT CORPORATION

Supplementary Income Statement Information

(In Thousands)

	Charged to costs and expenses		
	Year Ended		
	June 30, 1984	July 2, 1983	July 3, 1982
Maintenance and repairs .....	\$ 99,739	\$ 72,842	\$ 55,572
Depreciation of property, plant and equipment .....	\$252,631	\$203,214	\$152,629
Taxes other than income taxes:			
Payroll .....	\$154,923	\$125,948	\$118,457
State, local and other taxes .....	\$ 34,756	\$ 26,990	\$ 22,487
Advertising costs .....	\$ 90,872	\$ 71,590	\$ 45,470

## EXHIBIT 11

## Computation of Net Income Per Share

	Year Ended				
	June 30, 1984	July 2, 1983	July 3, 1982	June 27, 1981	June 28, 1980
	(In Thousands Except Per Share Data)				
Net income .....	\$328,779	\$283,622	\$417,155	\$343,297	\$249,861
Add back convertible debenture interest, net of related tax effect .....	—	—	—	8,840	7,455
Net income applicable to common and common equivalent shares .....	<u>\$328,779</u>	<u>\$283,622</u>	<u>\$417,155</u>	<u>\$352,137</u>	<u>\$257,316</u>
Weighted-average number of common shares outstanding during the year .....	56,923	55,691	54,658	48,496	42,634
Common stock equivalents from application of "if converted" method to convertible debentures ..	—	—	—	3,136	3,949
Common stock equivalents from application of "treasury stock" method to exercised and outstanding stock options .....	<u>441</u>	<u>985</u>	<u>771</u>	<u>935</u>	<u>588</u>
Total number of common and common equivalent shares used in the computation of net income per share .....	<u>57,364</u>	<u>56,676</u>	<u>55,429</u>	<u>52,567</u>	<u>47,171</u>
Net income per share .....	<u>\$5.73</u>	<u>\$5.00</u>	<u>\$7.53</u>	<u>\$6.70</u>	<u>\$5.45</u>

## SUBSIDIARIES

The following is a list of the Company's subsidiaries. The Company owns, directly or indirectly, 100% of the voting securities of each subsidiary.

<u>Name</u>	<u>State or Jurisdiction of Organization</u>
Digital Equipment of Canada Limited — Digital Equipment du Canada Limitee	Canada
Digital Equipment GmbH	Germany
Digital Equipment International GmbH	Germany
Digital Equipment Betriebliche Altersversorgungsgesellschaft m.b. H.	Germany
Digital Equipment International Betriebliche Altersversorgungsgesellschaft m.b. H	Germany
Digital Equipment Corporation (Australia) Pty. Limited	Australia
Digital Equipment Co. Limited	United Kingdom
Digital Equipment France	France
Digital Equipment Aktiebolag AB	Sweden
Digital Equipment Corporation de Puerto Rico	Delaware
Digital Equipment S.p.A.	Italy
Digital Equipment Corporation S.A.	Switzerland
Digital Equipment Corporation International	Massachusetts
Digital Equipment B.V.	Netherlands
Digital Equipment N.V./S.A.	Belgium
Digital Incorporated	Delaware
Digital International Sales Corporation	Delaware
Digital Equipment (DEC) Limited	Israel
Digital Equipment International Limited	Switzerland
Digital Equipment Corporation International (Europe)	Switzerland
Digital Equipment Corporation A/S	Norway
Digital Equipment Corporation Gesellschaft m.b.H.	Austria
Digital Equipment Corporation (New Zealand) Limited	New Zealand
Digital Equipment Taiwan Limited	Taiwan
Digital Equipment Corporation A/S	Denmark
Digital Equipment de Mexico, S.A. de C.V.	Mexico
Digital Equipment Corporation OY	Finland
Digital Equipment Comercio e Industria, Ltda.	Brazil
Computer Insurance Company Limited	Bermuda
Digital Computer Taiwan Limited	Taiwan
Digital Equipment Services, Inc.	Delaware
Digital Equipment Ireland Limited	Republic of Ireland
Old Colony Insurance Limited	Bermuda
Digital Growth, Inc.	Massachusetts
Digital Equipment Hong Kong Limited	Hong Kong

(continued)

<u>Name</u>	<u>State or Jurisdiction of Organization</u>
Digital Equipment Scotland Limited	United Kingdom
Digital Realty Limited	Republic of Ireland
Digital Equipment Singapore (PTE) Limited	Singapore
Digital Equipment Panama, Inc.	Panama
Digital Equipment Trinidad, Inc.	Delaware
Digital Equipment Centre Technique (Europe) S.A.R.L.	France
Kam Hon Development Company Limited	Hong Kong
Digital Equipment International B.V.	Netherlands
Digital Equipment (Holdings) B.V.	Netherlands
Digital Equipment Parts Center B.V.	Netherlands
Nihon Digital Equipment Corporation	Japan
Nihon Digital Equipment Research and Development Center KK (Nihon R&D Center)	Japan
Digital Equipment Portugal, Limitada	Portugal
Digital Equipment Caribbean, Inc.	Delaware
Digital Equipment Overseas Finance N.V.	Netherlands Antilles
Digital Equipment Finance Corporation	Delaware
Digital Equipment Portugal, Limitada	Portugal
Digital Equipment Corporation (Consultancy) Limited	United Kingdom
Digital Equipment Carribean, Inc.	Delaware
Digital Equipment Finance Corporation	Delaware
Digital Equipment Overseas Finance N.V.	Netherlands Antilles

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## Form 10-K

**digital**

Annual Report Pursuant to Section 13 or 15(d)  
of the Securities Exchange Act of 1934

For the fiscal year ended June 29, 1985

Commission file number 1-5296

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# Digital Equipment Corporation

(Exact name of registrant as specified in its charter)

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Commonwealth of Massachusetts (State or other jurisdiction of incorporation or organization)	04-2226590 (I.R.S. Employer Identification No.)
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146 Main Street, Maynard, Massachusetts (Address of principal executive offices)	01754 (Zip Code)
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(617) 493-5350

(Registrant's telephone number, including area code)

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Securities registered pursuant to  
Section 12(b) of the Act:

Common Stock, par value \$1

New York Stock Exchange  
Pacific Stock Exchange

9% Sinking Fund Debentures due March 15, 2000  
8% Convertible Subordinated Debentures Due 2009

New York Stock Exchange  
New York Stock Exchange

(Title of each class)

(Name of each exchange on which reg-  
istered)

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Securities registered pursuant to  
Section 12(g) of the Act: None

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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  No

As of September 13, 1985, 59,465,225 shares of the registrant's Common Stock, par value \$1, were issued and outstanding. The aggregate market value of the registrant's voting stock held by non-affiliates of the registrant as of September 13, 1985 was approximately \$6.11 billion.

### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's 1985 Annual Report to Stockholders are incorporated by reference in Part II hereof.

Portions of the registrant's Proxy Statement, dated September 18, 1985, are incorporated by reference in Part III hereof.

## PART I

### Item 1. *Business.*

#### *General*

Digital Equipment Corporation, a Massachusetts corporation founded in 1957, is a company with worldwide operations. At June 29, 1985, the Company employed approximately 89,000 persons and conducted operations in the United States and in 53 other countries.

The term "Company" when used herein refers to Digital Equipment Corporation or Digital Equipment Corporation and its subsidiaries, as required by the context.

The Company designs, manufactures, sells and services computers and associated peripheral equipment, and related software and supplies. The Company's products are used worldwide in a wide variety of applications and programs, including scientific research, computation, communications, education, data analysis, industrial control, time-sharing, commercial data processing, graphic arts, word processing, office automation, health care, instrumentation, engineering and simulation. Most of the Company's products are of its own design and are sold under its own name. The Company's marketing objective is to provide to customers a wide variety of computational resources, including central processing units, memories, terminals, communications options, software, and field engineering, training and software support services.

The percentages of total operating revenues contributed by the Company's principal classes of products were as follows:

	<u>1985</u>	<u>1984</u>	<u>1983</u>	<u>1982</u>	<u>1981</u>
Equipment sales .....	67.8%	68.6%	67.1%	72.0%	74.6%
Service and other revenues .....	<u>32.2%</u>	<u>31.4%</u>	<u>32.9%</u>	<u>28.0%</u>	<u>25.4%</u>
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Service and other revenues include maintenance service, customer training, software revenues, replacement parts and, to a minor extent, equipment rentals.

#### *Systems and Products*

The Company offers one of the broadest ranges of compatible hardware, software and communications products in the computer industry. Its VAX product line ranges from the smallest MICROVAX microprocessors to the largest VAX 8600 and VAXCLUSTERS, serving from one to a thousand users. In addition, the Company offers personal computers, workstations, minicomputers, large systems and a wide variety of peripheral and data storage devices. Prices of the Company's products reflect the diversity of its offerings, ranging from as little as \$35 to as much as \$2,000,000. In addition it offers a full spectrum of software operating systems, languages and layered application products.

The models included in the 16 bit PDP-11 and 32 bit VAX families are general purpose digital computers designed for performing, interpreting and recording computations on collected data. Applications include instrument control, machine and industrial processes, education, natural resource exploration, data communications, medical systems, commercial typesetting, commercial data processing and word processing. Members of the PDP-11 family range from the MICRO/T-11, a low-cost Original Equipment Manufacturer (OEM) oriented microprocessor, to the PDP-11/44, a powerful midrange system. The VAX family of computers currently includes ten models: MICROVAX I, MICROVAX II, VAX-11/725, 730, 750, 780, 782, 785, 8600 and VAXCLUSTER systems. Fully supported system prices range from \$20,000 for the MICROVAX I to over \$400,000 for the high performance VAX-8600. Entry level prices for the VAX family start at \$10,000 for the MICROVAX I and extend to over \$1 million for the VAXCLUSTER systems. DECSYSTEM-10 and the DECSYSTEM-20 systems are designed for multi-user access, batch processing and real-time applications. Applications include scientific research, management information systems, commercial time-sharing, educational computation

and commercial data processing. These systems are being further integrated with the VAX family of computers so that the DEC 10/20 customers can effectively meet their growth needs with both families of products.

The Company manufactures and sells associated peripheral devices which are used with and are sold as part of the Company's various computer systems. These peripheral devices include magnetic tape transports, tape cassette and disk storage devices, cathode ray tube display systems, analog to digital converters, perforated tape readers, tape punches, terminals and line printers. Selected peripherals are also manufactured for stock and are sold separately for other independent applications. The Company is a major manufacturer and supplier of video and printer terminals. The Company also buys selected peripheral equipment from other manufacturers for use with its own computer systems.

#### *Customer Services — Field Engineering, Training and Software Support Services*

The Company provides total maintenance services on all its software and hardware sales, including corrective maintenance service in the form of term contracts or on a time and materials basis, network support service and various environmental and risk management support services. The field service organization has approximately 19,300 employees located in 54 countries worldwide.

The Company maintains a variety of training/education programs on its products and services for both customers and employees. Through a worldwide organization of approximately 3,000 people, this training is delivered in a variety of formats (computer based education/lecture based/self-paced, etc.) in over 40 training facilities worldwide.

The Company maintains a highly trained staff of approximately 4,000 software specialists who assist customers in using the Company's computer systems, and in developing and customizing application software.

The Company's installed computer system base continues to grow and has resulted in a substantial increase in the level of service income over the years. The Company's service and other revenues as a percentage of its total operating revenues for fiscal years 1981-1985 are set forth on the preceding page.

#### *Software*

The Company designs and sells under license various software products for its computer systems. These products consist of operating systems, languages, data handling services, communications software, special applications software and utility software. Software programs are generally designed around a particular computer family to maximize the efficiency of the computer system. Many customers use the operating system software provided by the Company to design their own specific application software.

#### *Pricing*

Prices for the Company's computer systems have generally been reduced as new products have been introduced or existing products improved. The pricing of new products, in most cases, is intended to provide the customer with an improved price/performance ratio. However, from time to time selective price increases have been effected. During the fiscal year ended June 29, 1985, prices were decreased for a selected number of hardware and software products as well as some maintenance services.

Management expects to continue its policy of adjusting the prices of its products and services on an individual basis either upward or downward as economic, competitive or other circumstances warrant.

### *Sales and Distribution*

The Company markets its products through approximately 300 sales offices located throughout the world, using primarily its own sales personnel. In addition to its sales offices, the Company also operates or supports approximately 350 additional outlets for the Company's products and services comprised of distributor offices, business center stores, remote service points and field service only service centers. Independent resellers, including Original Equipment Manufacturers (OEM's), continue to be an important area of sales and distribution for the Company. Programs such as the "Authorized Digital Computer Distributor" program have been initiated to foster the relationship between the Company and its OEM's. The Company's general policy is to sell and not to rent its products. Customers who prefer leasing arrangements are given assistance in obtaining such financing.

Many of the markets served by the Company are affected by cyclical factors beyond the Company's control. For example, the Company is directly affected by changes in the level of spending by industry for capital equipment, and indirectly affected by shifts in government policy and funding of programs which impact government contractors which do business with the Company.

For the fiscal year ended June 29, 1985, approximately 5.5% of the Company's total sales were made directly to various agencies of the U.S. Government, and no other customer of the Company accounted for more than 2% of total sales.

The Company is of the opinion that the dollar amount of backlog is not material to an understanding of the Company's business and historically has not published the dollar amount of the backlog at any given time. It has been and continues to be the Company's objective to minimize the elapsed time from receipt of a purchase order for a computer system to delivery of the equipment.

### *International Operations*

Sales by the Company to customers outside the United States amounted to approximately 39.5% of total sales for the fiscal year ended June 29, 1985, 35% for the fiscal year ended June 30, 1984, and 36% for the fiscal year ended July 2, 1983. These international sales and marketing operations are conducted through subsidiaries, by direct sales from the parent company and through various representative and distributorship arrangements. The consolidated profit margin on sales to customers outside the United States has been substantially the same as on products manufactured and sold to customers in the United States. In view of the location and diversification of the Company's international activities, the Company does not feel that there are any special risks beyond the normal business risks attendant to conducting business abroad. The Company engages in currency hedging transactions to reduce currency risks. See Notes A and B of Notes to Consolidated Financial Statements incorporated by reference herein for further information on the Company's international operations, including financial information concerning the Company's international operations by major geographical area.

### *Competition*

The computer industry is highly competitive, and the methods of competition include marketing, product performance, price, service, and technology, among others. Present and potential competition in the various markets served by the Company comes from firms of various sizes and types, several of which are larger and have greater total resources than the Company. Firms not now in direct competition with the Company may introduce competing products in the future. Analyses vary as to the Company's relative position in the industry though independent surveys have indicated that in terms of gross revenues the Company is one of the largest manufacturers of computers.

### *Raw Materials and Supplies*

The Company's manufacturing operations require a wide variety of electronic and mechanical components and raw materials. The Company has multiple commercial sources of supply throughout the world for most of the components and raw materials which it uses. The Company evaluates on an

ongoing basis whether to purchase or to manufacture directly or through licensing arrangements many of the components and peripheral equipment which it requires.

#### *Environmental Affairs*

The Company's manufacturing facilities are subject to numerous laws and regulations designed to protect the environment, particularly from plant wastes and emissions. In the opinion of the Company, compliance with these laws and regulations has not had and should not have a material effect upon the capital expenditures, earnings or competitive position of the Company.

#### *Intellectual Property*

The Company owns a number of patents and patent applications relating to its products. The patents and patent applications, although of significant value to the Company, are not considered to be of material importance to the business as a whole. The Company also owns, or has license rights to, copyrights, trademarks, mask works and proprietary information, some of which are considered to be valuable assets of the Company. Collectively, the patents, patent applications, license rights, copyrights, trademarks, mask works and proprietary information are referred to as intellectual property.

From time to time the Company has commenced legal actions against other companies to protect or enforce its intellectual property rights. Similarly, from time to time other companies in the industry have claimed that products and components manufactured by the Company are covered by the intellectual property rights of such other companies. It may be necessary or desirable in the future for the Company to obtain further patent licenses in addition to those it now holds. The Company is presently involved in a small number of intellectual property legal actions. The Company is of the opinion that none of such legal actions will have a material effect upon the earnings or financial position of the Company.

#### *Research and Engineering*

The Company is in an industry which is characterized by rapid technological change. The Company has consistently spent a substantial portion of its funds on research and engineering projects, including software development. In the fiscal years ended June 29, 1985, June 30, 1984, and July 2, 1983, the Company spent approximately \$717 million, \$631 million, and \$472 million, respectively, for these purposes.

The Company's primary emphasis is on applied research and engineering which includes developing or enhancing computers, peripheral equipment and software and expanding product applications.

The Company has approximately 5,100 professional employees involved in research, engineering and programming activities.

#### *Executive Officers of the Company*

The following table sets forth the names and ages of all executive and other officers of the Company and certain information relating to their positions held with the Company.

<u>Name</u>	<u>Age</u>	<u>Present Title (Year First Became Officer)</u>
Kenneth H. Olsen .....	59	President and Director (1957)
John L. Alexanderson .....	46	Vice President, Peripherals and Supplies Group (1984)
Don K. Busiek .....	50	Vice President, Corporate Software Services (1984)
George A. Chamberlain, 3d.....	49	Vice President, Engineering & Mfg. Finance (1976)
Henry J. Crouse .....	50	Vice President, Manufacturing Europe (1981)
James G. Cudmore .....	46	Vice President, Group Manager, Product Operations (1981)
William R. Demmer .....	52	Vice President, Mid-Range Systems Business Group (1981)
Pier-Carlo Falotti .....	43	Vice President, Field Operations-Europe (1981)
Samuel H. Fuller .....	39	Vice President, Research and Architecture (1984)

<u>Name</u>	<u>Age</u>	<u>Present Title (Year First Became Officer)</u>
Rose Ann Giordano .....	46	Vice President, Large Systems Marketing (1984)
Robert M. Glorioso .....	45	Vice President, High Performance Systems and Clusters (1985)
David W. Grainger .....	43	Vice President, Area Manager, Western and Central States (1984)
William C. Hanson .....	44	Vice President, Manufacturing Operations (1976)
William J. Heffner .....	55	Vice President, Software Systems (1985)
Winston R. Hindle, Jr. ....	55	Vice President, Corporate Operations (1967)
Robert C. Hughes .....	45	Vice President, Business and Office Systems Marketing (1984)
Ilene B. Jacobs .....	38	Treasurer (1985)
William R. Johnson, Jr. ....	43	Vice President, Distributed Systems (1982)
Jeffrey C. Kalb .....	43	Vice President, Group Manager, Low-End Systems and Technologies (1984)
Edward A. Kramer .....	49	Vice President, Technical Marketing (1976)
Jack MacKeen .....	46	Vice President, OEM/BCG Group (1985)
Albert E. Mullin, Jr. ....	52	Vice President, Corporate Relations (1981)
James M. Osterhoff .....	49	Vice President, Finance (1985)
Jean-Claude Peterschmitt ....	50	Vice President, Chairman Europe (1974)
Richard Poulsen .....	50	Vice President, Field Service (1981)
Bruce J. Ryan .....	42	Controller (1985)
F. Grant Saviers .....	41	Vice President, Storage Systems (1981)
Edward A. Schwartz .....	47	Vice President, General Counsel and Secretary (1969)
Joel Schwartz .....	43	Vice President, Educational Marketing (1981)
John J. Shields .....	47	Vice President, Group Manager, Sales, Services and International (1974)
Godfrey S. Shingles .....	46	Vice President, Managing Director, United Kingdom Region (1981)
Charles E. Shue .....	38	Vice President, Area Manager, Northeast States (1984)
John L. Sims .....	51	Vice President, Corporate Personnel (1984)
John F. Smith .....	50	Vice President, Engineering & Manufacturing (1976)
Peter J. Smith .....	40	Vice President, Computer Aided Engineering and Manufacturing (1984)
William D. Strecker .....	41	Vice President, Engineering Project Strategy and Architecture (1985)
Harvey L. Weiss .....	42	Vice President, Area Manager, Mid-Atlantic and Southern States (1984)
William G. Witmore .....	48	Vice President, General International Area (1981)
Richard H. Yen .....	55	Vice President, Far East Engineering and Manufacturing (1984)

Officers of the Company are elected annually and hold office until the first meeting of the Board of Directors following the annual meeting of stockholders and until their successors have been chosen and qualified. All of the officers named have been officers or held managerial positions in the Company for at least the last five years, except Mr. Kalb who was Vice President, Engineering, of Data General Corporation from 1979 to 1981 and Mr. Osterhoff who was a Controller at a division of Ford Motor Company for more than five years prior to joining the Company.

**Item 2. Properties.**

At June 29, 1985, the Company occupied approximately 29.3 million square feet of space throughout the world. Approximately 71% of this space is located in the United States. Substantially all

of the Company's facilities are fully utilized, well maintained and suitable for the advanced technological products and services of the Company. Approximately 50% of these facilities are owned by the Company. Approximately two million square feet of space for new manufacturing or administrative facilities will be under construction or completed during fiscal 1986.

**Item 3. *Legal Proceedings.***

As previously reported, the Company has been named in various lawsuits filed in the U.S. District Court for Massachusetts and elsewhere alleging violations of the Federal securities laws and/or other laws in connection with the disclosure of information concerning the financial performance of the Company for the quarter ending October 1, 1983, and seeking unspecified amounts of damages and other unspecified relief. The Massachusetts lawsuits were consolidated, and a consolidated complaint which includes most of the lawsuits was filed. In November 1984, the court denied the Company's motion to dismiss the consolidated complaint. The Company continues to believe that all the lawsuits are without merit.

Other than as set forth above the Company has no material pending legal proceedings other than routine litigation incidental to the business.

**Item 4. *Submission of Matters to a Vote of Security Holders.***

During the fourth quarter of the fiscal year covered by this report, no matter was submitted to a vote of security holders, through the solicitation of proxies or otherwise.

## PART II

**Item 5. *Market for the Registrant's Common Equity and Related Stockholder Matters.***

See the section entitled "Common Stock Information", which is incorporated herein by reference, appearing on page 40 of the Company's 1985 Annual Report to Stockholders.

**Item 6. *Selected Financial Data.***

See the section entitled "Eleven Year Financial Summary", which is incorporated herein by reference, appearing on pages 34 and 35 of the Company's 1985 Annual Report to Stockholders.

**Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations.***

See the sections entitled "Management's Discussion and Analysis of Results of Operations" and "Management's Discussion and Analysis of Financial Condition", which are incorporated herein by reference, appearing on pages 36 through 41 of the Company's 1985 Annual Report to Stockholders.

**Item 8. *Financial Statements and Supplementary Data.***

The financial statements and supplementary data which are incorporated herein by reference from the Company's 1985 Annual Report to Stockholders are indexed under Item 14(a)(1). See also the financial statement schedules appearing herein, as indexed under Item 14(a)(2).

**Item 9. *Disagreements on Accounting and Financial Disclosure.***

None.

### PART III

**Item 10. *Directors and Executive Officers of the Registrant.***

See the section entitled "Nominees for Directors", which is incorporated herein by reference, appearing on pages 2 and 3 of the Company's Proxy Statement, dated September 18, 1985. See also the section entitled "Executive Officers of the Company" appearing in Part I hereof.

**Item 11. *Executive Compensation.***

See the section entitled "Executive Compensation and Other Information", which is incorporated herein by reference, appearing on pages 6 through 13 of the Company's Proxy Statement, dated September 18, 1985.

**Item 12. *Security Ownership of Certain Beneficial Owners and Management.***

See the section entitled "Stock Ownership of Nominees", which is incorporated herein by reference, appearing on page 4 of the Company's Proxy Statement, dated September 18, 1985.

**Item 13. *Certain Relationships and Related Transactions.***

See the section entitled "Certain Relationships and Related Transactions", which is incorporated herein by reference, appearing on page 5 of the Company's Proxy Statement, dated September 18, 1985.

## PART IV

### Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

(a) The following documents are filed as part of this report:

- (1) Financial statements which are incorporated herein by reference from the Company's 1985 Annual Report to Stockholders:

Report of Independent Certified Public Accountants (page 42).

Consolidated Statements of Income for fiscal years 1985, 1984 and 1983 (page 43).

Consolidated Balance Sheets as at June 29, 1985 and June 30, 1984 (page 44).

Consolidated Statements of Stockholders' Equity for fiscal years 1985, 1984 and 1983 (page 45).

Consolidated Statements of Changes in Financial Position for fiscal years 1985, 1984 and 1983 (page 46).

Notes to Consolidated Financial Statements (pages 47 through 55).

Eleven Year Financial Summary (pages 34 and 35).

Supplementary Financial Information (pages 56 through 59).

The Company's 1985 Annual Report to Stockholders is not to be deemed filed as part of this report except for those parts thereof specifically incorporated herein by reference.

(2) Financial statement schedules:

<u>Page</u>	
S-1	Report of Independent Certified Public Accountants.
S-2	V—Property, Plant and Equipment.
S-3	VI—Accumulated Depreciation and Amortization of Property, Plant and Equipment.
S-4	VIII—Valuation and Qualifying Accounts and Reserves.
S-5	X—Supplementary Income Statement Information.

All other schedules have been omitted since they are not required, not applicable or the information has been included in the financial statements or the notes thereto.

Individual financial statements of the Company have been omitted because it is primarily an operating company and the consolidated subsidiaries are wholly-owned and are not indebted, in a material amount, to any person other than the parent or the consolidated subsidiaries.

(3) Exhibits:

- 3(a) —Restated Articles of Organization of the Company, as amended (filed as Exhibit 4 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended April 2, 1983 and incorporated herein by reference).
- (b) —By-laws of the Company, as amended.

- 4(a) — Indenture dated as of March 15, 1975 between the Company and Morgan Guaranty Trust Company of New York, Trustee (filed as Exhibit 1 to the Company's Current Report on Form 8-K for the month of March 1975 and incorporated herein by reference), and Instrument of Appointment and Acceptance of Successor Trustee and Appointment of Agent among the Company, Morgan Guaranty Trust Company of New York and United States Trust Company of New York, dated as of March 8, 1985 (filed as Exhibit 19 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 30, 1985 and incorporated herein by reference).
- (b) — Fiscal Agency Agreement among Digital Equipment Overseas Finance N.V., Digital Equipment Corporation, and Morgan Guaranty Trust Company of New York, dated as of March 15, 1984, relating to \$150,000,000 11¾% Guaranteed Notes Due 1989 (filed as Exhibit 4(a) to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1984 and incorporated herein by reference).
- (c) — Specimen 11¾% Guaranteed Notes Due 1989 (filed as Exhibit 4(c) to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1984 and incorporated herein by reference).
- (d) — Indenture between Digital Equipment Corporation and The Chase Manhattan Bank (National Association), Trustee, dated as of April 1, 1984 (filed as Exhibit 4(c) to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1984 and incorporated herein by reference).
- (e) — Specimen 12¾% Note Due 1994 (filed as Exhibit 4(d) to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1984 and incorporated herein by reference).
- (f) — Specimen 13% Sinking Fund Debenture Due 2014 (filed as Exhibit 4(e) to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1984 and incorporated herein by reference).
- (g) — Indenture dated as of September 1, 1984 between the Company and Morgan Guaranty Trust Company of New York, Trustee (filed as Exhibit 4(g) to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1984 and incorporated herein by reference).
- 10(a) — 1968 Employee Stock Purchase Plan.
- (b) — 1968 Restricted Stock Purchase Plan (contained in the prospectus included in Post-Effective Amendment No. 1 to the Company's Registration Statement No. 2-52104 and incorporated herein by reference).
- (c) — 1976 Restricted Stock Option Plan (contained in the prospectus included in Post-Effective Amendment No. 2 to the Company's Registration Statement No. 2-73945 and incorporated herein by reference).
- (d) — 1981 International Employee Stock Purchase Plan (filed as Exhibit 10(d) to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1984 and incorporated herein by reference).
- (e) — 1985 Restricted Stock Option Plan.
- (f) — Deferred Compensation Plan for Non-Employee Directors (filed as Exhibit 10(e) to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1984 and incorporated herein by reference).
- 11 — Computation of Net Income Per Share.
- 13 — The Company's 1985 Annual Report to Stockholders, certain portions of which have been incorporated herein by reference.
- 22 — List of subsidiaries.
- 24 — Consent of Independent Certified Public Accountants.

(b) Reports on Form 8-K:

No reports on Form 8-K were filed or were required to be filed by the Company during the fourth quarter of the fiscal year ended June 29, 1985.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant had duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DIGITAL EQUIPMENT CORPORATION  
(Registrant)

By ..... /s/ KENNETH H. OLSEN  
Kenneth H. Olsen, President

Date: September 18, 1985

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
..... /s/ KENNETH H. OLSEN Kenneth H. Olsen	President (Principal Executive Officer) and Director	September 18, 1985
..... /s/ JAMES M. OSTERHOFF James M. Osterhoff	Vice President — Finance (Principal Financial Officer)	September 18, 1985
..... /s/ BRUCE J. RYAN Bruce J. Ryan	Controller (Principal Accounting Officer)	September 18, 1985
..... /s/ VERNON R. ALDEN Vernon R. Alden	Director	September 18, 1985
..... Philip Caldwell	Director	September , 1985
..... Arnaud de Vitry	Director	September , 1985
..... /s/ GEORGES F. DORIOT Georges F. Doriot	Director	September 18, 1985
..... /s/ WILLIAM H. MCLEAN William H. McLean	Director	September 18, 1985
..... /s/ DOROTHY E. ROWE Dorothy E. Rowe	Director	September 18, 1985

## Report of Independent Certified Public Accountants

Our report on the consolidated financial statements of Digital Equipment Corporation has been incorporated by reference from the 1985 Annual Report to Stockholders of Digital Equipment Corporation and appears on page 42 therein. In connection with our examinations of such financial statements, we have also examined the related financial statement schedules listed in the index on page 9 of this Form 10-K.

In our opinion, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly the information required to be included therein in conformity with generally accepted accounting principles applied on a consistent basis.

Boston, Massachusetts  
August 6, 1985

COOPERS & LYBRAND

## SCHEDULE V

## DIGITAL EQUIPMENT CORPORATION

Property, Plant and Equipment  
(In Thousands)

Column A	Column B	Column C	Column D	Column E	Column F
Classification	Balance at Beginning of Period	Additions at Cost	Retirements and Sales	Other changes—add (deduct) Transfers	Balance at End of Period
<b>Year Ended June 29, 1985</b>					
Land .....	\$ 97,517	\$ 168	\$ (30)	\$ (163)	\$ 97,492
Buildings .....	678,895	68,856	(3,193)	1,267	745,825
Leasehold improvements .....	150,985	40,928	(5,657)	4,436	190,692
Machinery and equipment .....	<u>1,424,389</u>	<u>461,832</u>	<u>(87,058)</u>	<u>(5,540)</u>	<u>1,793,623</u>
	<u>\$2,351,786</u>	<u>\$571,784</u>	<u>\$ (95,938)</u>	<u>\$ —</u>	<u>\$2,827,632</u>
<b>Year Ended June 30, 1984</b>					
Land .....	\$ 92,202	\$ 5,972	\$ (981)	\$ 324	\$ 97,517
Buildings .....	619,153	61,691	(4,466)	2,517	678,895
Leasehold improvements .....	113,439	39,889	(3,472)	1,129	150,985
Machinery and equipment .....	<u>1,136,574</u>	<u>344,587</u>	<u>(52,802)</u>	<u>(3,970)</u>	<u>1,424,389</u>
	<u>\$1,961,368</u>	<u>\$452,139</u>	<u>\$ (61,721)</u>	<u>\$ —</u>	<u>\$2,351,786</u>
<b>Year Ended July 2, 1983</b>					
Land .....	\$ 83,286	\$ 8,968	\$ (325)	\$ 273	\$ 92,202
Buildings .....	567,082	63,799	(6,754)	(4,974)	619,153
Leasehold improvements .....	91,721	23,884	(4,323)	2,157	113,439
Machinery and equipment .....	<u>863,305</u>	<u>322,564</u>	<u>(51,839)</u>	<u>2,544</u>	<u>1,136,574</u>
	<u>\$1,605,394</u>	<u>\$419,215</u>	<u>\$ (63,241)</u>	<u>\$ —</u>	<u>\$1,961,368</u>

## DIGITAL EQUIPMENT CORPORATION

Accumulated Depreciation and Amortization of Property, Plant and Equipment  
(In Thousands)

Column A	Column B	Column C	Column D	Column E	Column F
Classification	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Retirements and Sales	Other Changes —add (deduct) Transfers	Balance at End of Period
<b>Year Ended June 29, 1985</b>					
Buildings .....	\$ 85,410	\$ 22,792	\$ (389)	\$ 817	\$ 108,630
Leasehold improvements .....	56,461	24,525	(3,397)	677	78,266
Machinery and equipment .....	<u>698,575</u>	<u>267,758</u>	<u>(55,132)</u>	<u>(1,494)</u>	<u>909,707</u>
	<u>\$840,446</u>	<u>\$315,075</u>	<u>\$(58,918)</u>	<u>\$ —</u>	<u>\$1,096,603</u>
<b>Year Ended June 30, 1984</b>					
Buildings .....	\$ 64,350	\$ 21,396	\$ (430)	\$ 94	\$ 85,410
Leasehold improvements .....	39,731	18,613	(2,053)	170	56,461
Machinery and equipment .....	<u>517,561</u>	<u>212,622</u>	<u>(31,344)</u>	<u>(264)</u>	<u>698,575</u>
	<u>\$621,642</u>	<u>\$252,631</u>	<u>\$(33,827)</u>	<u>\$ —</u>	<u>\$ 840,446</u>
<b>Year Ended July 2, 1983</b>					
Buildings .....	\$ 47,449	\$ 17,199	\$ (281)	\$ (17)	\$ 64,350
Leasehold improvements .....	28,079	14,809	(3,227)	70	39,731
Machinery and equipment .....	<u>385,392</u>	<u>171,206</u>	<u>(38,984)</u>	<u>(53)</u>	<u>517,561</u>
	<u>\$460,920</u>	<u>\$203,214</u>	<u>\$(42,492)</u>	<u>\$ —</u>	<u>\$ 621,642</u>

SCHEDULE VIII

DIGITAL EQUIPMENT CORPORATION

Valuation and Qualifying Accounts and Reserves  
(In Thousands)

Column A	Column B	Column C		Column D	Column E
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to other Accounts	Deductions from Reserves	Balance at End of Period
Year Ended June 29, 1985					
Allowance for possible losses on accounts receivable .....	<u>\$38,512</u>	<u>\$23,577</u>	<u>—</u>	<u>\$21,159(a)</u>	<u>\$40,930</u>
Year Ended June 30, 1984					
Allowance for possible losses on accounts receivable .....	<u>\$29,299</u>	<u>\$22,938</u>	<u>—</u>	<u>\$13,725(a)</u>	<u>\$38,512</u>
Year Ended July 2, 1983					
Allowance for possible losses on accounts receivable .....	<u>\$26,651</u>	<u>\$ 8,181</u>	<u>—</u>	<u>\$ 5,533(a)</u>	<u>\$29,299</u>

(a) Uncollectible accounts and adjustments.

**DIGITAL EQUIPMENT CORPORATION**  
**Supplemental Income Statement Information**

(In Thousands)

	Charged to costs and expenses		
	Year Ended		
	June 29, 1985	June 30, 1984	July 2, 1983
Maintenance and repairs .....	\$125,721	\$ 99,739	\$ 72,842
Depreciation of property, plant and equipment .....	\$315,075	\$252,631	\$203,214
Taxes other than income taxes:			
Payroll .....	\$184,137	\$154,923	\$125,948
State, local and other taxes .....	\$ 39,264	\$ 34,756	\$ 26,990
Advertising costs .....	\$ 88,079	\$ 90,872	\$ 71,590

## Computation of Net Income Per Share

	Year Ended				
	June 29, 1985	June 30, 1984	July 2, 1983	July 3, 1982	June 27, 1981
	(In Thousands Except Per Share Data)				
Net income .....	\$446,682	\$328,779	\$283,622	\$417,155	\$343,297
Add back convertible debenture interest, net of related tax effect ..	13,890	—	—	—	8,840
Net income applicable to common and common equivalent shares	<u>\$460,572</u>	<u>\$328,779</u>	<u>\$283,622</u>	<u>\$417,155</u>	<u>\$352,137</u>
Weighted-average number of common shares outstanding during the year .....	58,441	56,923	55,691	54,658	48,496
Common stock equivalents from application of "if converted" method to convertible debentures .....	2,796	—	—	—	3,136
Common stock equivalents from application of "treasury stock" method to exercised and outstanding stock options .....	819	441	985	771	935
Total number of common and common equivalent shares used in the computation of net income per share .....	<u>62,056</u>	<u>57,364</u>	<u>56,676</u>	<u>55,429</u>	<u>52,567</u>
Net income per share .....	<u>\$7.42</u>	<u>\$5.73</u>	<u>\$5.00</u>	<u>\$7.53</u>	<u>\$6.70</u>

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-K

Annual Report Pursuant to Section 13 or 15(d)  
of the Securities Exchange Act of 1934

For Fiscal Year Ended June 28, 1986

File Number 1-5296

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

Massachusetts (State or other jurisdiction of  
incorporation or organization) 04-2226590 (I.R.S. Employer Identification No.)

146 Main Street, Maynard, Massachusetts (Address of principal executive offices) 01754 (Zip Code)

(617) 493-5350

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value \$1	New York Stock Exchange Pacific Stock Exchange
9 3/8% Sinking Fund Debentures due March 15, 2000 (Title of each class)	New York Stock Exchange (Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: None

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  NO

As of September 15, 1986, 128,928,057 shares of the registrant's Common Stock, par value \$1, were issued and outstanding. The aggregate market value of the registrant's voting stock held by non-affiliates of the registrant as of September 8, 1986 was approximately \$12.7 billion.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's 1986 Annual Report to Stockholders are incorporated by reference in Part II hereof.

Portions of the registrant's Proxy Statement for its 1986 Annual Meeting of Stockholders are incorporated by reference in Part III hereof.

## PART I

### Item 1. Business.

#### General

Digital Equipment Corporation, a Massachusetts corporation founded in 1957, is a company with worldwide operations. At June 28, 1986, the Company employed approximately 94,700 persons and conducted operations in the United States and in 58 other countries.

The term "Company" when used herein refers to Digital Equipment Corporation or Digital Equipment Corporation and its subsidiaries, as required by the context.

The Company is a leading supplier of networked computer systems. It designs, manufactures, sells and services computers and associated peripheral equipment, and related software and supplies. The Company's products are used worldwide in a wide variety of applications and programs, including scientific research, computation, communications, education, data analysis, industrial control, time-sharing, commercial data processing, graphic arts, word processing, office automation, health care, instrumentation, engineering and simulation. Most of the Company's products are of its own design and are sold under its own name. The Company's marketing objective is to provide to customers a wide variety of computational resources, including central processing units, memories, terminals, communications options, software, networking and field engineering, training and software support services.

The percentage of total operating revenues contributed by the Company's principal classes of products were as follows:

	1986	1985	1984	1983	1982
Equipment sales...	65.4%	67.8%	68.6%	67.1%	72.0%
Service and other revenues.....	34.6%	32.2%	31.4%	32.9%	28.0%
	100.0%	100.0%	100.0%	100.0%	100.00

Service and other revenues include maintenance service, customer training, software revenues, replacement parts and, to a minor extent, equipment rentals.

#### Systems and Products

The Company offers one of the broadest ranges of compatible hardware, software and communications products in the computer industry. Its VAX product line ranges from the smallest MICROVAX to the largest VAX 8800 and VAXCLUSTERS, serving from one to a thousand users. In addition, the Company offers personal computers, workstations, PDP-11 minicomputers, large systems and a wide variety of peripheral and data storage devices. Prices of the Company's products reflect the diversity of its offerings, ranging from as little as \$35 to as much as \$2,000,000. In addition it

total operating revenues for fiscal years 1982-1986 are set forth on page 1.

### Software

The Company designs and sells under license various software products for its computer systems. These products consist of operating systems, language processors, productivity aids, data handling services, communication software and special applications software. Software is generally designed for a particular computer family to maximize the efficiency of that computer system. Many customers use the system software provided by the Company to design their own specific application software.

### Pricing

Prices for the Company's computer systems have generally been reduced as new products have been introduced or existing products improved. The pricing of new products, in most cases, is intended to provide the customer with an improved price/performance ratio. However, from time to time selective price increases have been effected. During the fiscal year ended June 28, 1986, prices were decreased for a selected number of hardware products.

The Company expects to continue its policy of adjusting the prices of its products and services on an individual basis either upward or downward as economic, competitive or other circumstances warrant.

### Sales and Distribution

The Company markets its products through approximately 275 sales offices located throughout the world, using primarily its own sales personnel. In addition to its sales offices, the Company also operates or supports approximately 350 additional outlets for the Company's products and services comprised of distributor offices, remote service points, and field-service-only service centers. Software developers and independent resellers, including Original Equipment Manufacturers (OEM's) and authorized distributors, continue to be an important area of sales and distribution for the Company. Cooperative marketing arrangements, such as Cooperative Marketing Partner (CMP) programs with software developers and System Cooperative Marketing Programs (SCMP's) with OEM's meeting certain criteria, are an increasingly important part of the Company's focus on providing complete solutions to its customers. In addition, programs such as the Authorized Digital Computer Distributor program have been initiated to foster the relationship between the Company and its OEM's. The Company's general policy is to sell and not to rent its products. Customers who prefer leasing arrangements are given assistance in obtaining such financing.

Many of the markets served by the Company are affected by cyclical factors beyond the Company's control. For example, the Company is directly affected by changes in the level of spending by industry for capital equipment, and indirectly affected by shifts in government policy and funding of programs which impact government contractors which do business with the Company.

## Environmental Affairs

The Company's facilities are subject to numerous laws and regulations designed to protect human health and safety and the environment, particularly from manufacturing wastes and emissions. In the opinion of the Company, compliance with these laws and regulations has not had and should not have a material effect upon the capital expenditures, earnings or competitive position of the Company.

## Intellectual Property

The Company owns a number of patents and patent applications relating to its products. The patents and patent applications, although of significant value to the Company, are not considered to be of material importance to the business as a whole. The Company also owns, or has license rights to, copyrights, trademarks, mask works and proprietary information, some of which are considered to be valuable assets of the Company. Collectively, the patents, patent applications, license rights, copyrights, trademarks, mask works and proprietary information are referred to as intellectual property.

From time to time the Company has commenced legal actions against other companies to protect or enforce its intellectual property rights. Similarly, from time to time other companies in the industry have claimed that products and components manufactured by the Company are covered by the intellectual property rights of such other companies. It may be necessary or desirable in the future for the Company to obtain further patent licenses in addition to those it now holds. The Company is presently involved in a small number of intellectual property legal actions. The Company is of the opinion that none of such legal actions will have a material effect upon the earnings or financial position of the Company.

## Research and Engineering

The Company is in an industry which is characterized by rapid technological change. The Company has consistently spent a substantial portion of its funds on research and engineering projects, including software development. In the fiscal years ended June 28, 1986, June 29, 1985, and June 30, 1984, the Company spent approximately \$814 million, \$717 million and \$631 million, respectively for these purposes.

The Company's primary emphasis is on applied research and engineering which includes developing or enhancing computers, peripheral equipment and software and expanding product applications.

The Company has approximately 5,700 professional employees involved in research, engineering and programming activities.

## Executive Officers of the Company

The following table sets forth the names and ages of all executive and other officers of the Company and certain information relating to their positions held with the Company.

Richard Poulsen	51	Vice President, General International Area (1981)
Bruce J. Ryan	43	Vice President and Corporate Controller (1985)
F. Grant Saviers	42	Vice President, Storage Systems (1981)
Edward A. Schwartz	48	Vice President, General Counsel and Secretary (1969)
Godfrey S. Shingles	47	Vice President, Managing Director, United Kingdom Region (1981)
Charles E. Shue	39	Vice President, U.S. Sales (1984)
John L. Sims	52	Vice President, Personnel/Administration (1984)
Peter J. Smith	41	Vice President, Product Marketing (1984)
David L. Stone	44	Vice President, International Engineering and Strategic Resources (1986)
William D. Strecker	42	Vice President, Product Strategy and Architecture (1985)
Harvey L. Weiss	43	Vice President, U.S. Operations and Government Systems Group (1984)
William G. Witmore	49	Vice President, Basic Industry Marketing (1981)
Richard H. Yen	56	Vice President, GIA Manufacturing and Engineering (1984)
Donald P. Zereski	43	Vice President, U.S. Field Service (1986)

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Officers of the Company are elected annually and hold office until the first meeting of the Board of Directors following the annual meeting of stockholders and until their successors have been chosen and qualified. All of the officers named have been officers or held managerial positions in the Company for at least the last five years, except Mr. Osterhoff and Mr. Palmer. Prior to joining the Company Mr. Osterhoff was a Controller at a division of Ford Motor Company for more than five years. Mr. Palmer, one of the founders of Mostek Corporation, was Executive Vice President of Semiconductor Operations of United Technologies Corporation, which acquired Mostek in 1980.

## Item 2. Properties.

At June 28, 1986, the Company occupied approximately 32.3 million square feet of space throughout the world. Approximately 69% of this space is located in the United States. Substantially all of the Company's facilities are fully utilized, well maintained and suitable for the advanced technological products and services of the Company. Approximately 49% of these facilities are owned by the Company. Approximately 642,000 square feet of space for new manufacturing and engineering facilities will be under construction or completed during fiscal 1987.

## Item 3. Legal Proceedings.

As previously reported, the Company has been named in various lawsuits filed in the U.S. District Court for Massachusetts and elsewhere alleging violations of the Federal securities laws and/or other laws in connection

## PART II

### Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters.

See the section entitled "Common Stock Information", which is incorporated herein by reference, appearing on page 36 of the Company's 1986 Annual Report to Stockholders.

### Item 6. Selected Financial Data.

See the section entitled "Eleven Year Financial Summary", which is incorporated herein by reference, appearing on pages 30 and 31 of the Company's 1986 Annual Report to Stockholders.

### Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

See the sections entitled "Management's Discussion and Analysis of Results of Operations" and "Management's Discussion and Analysis of Financial Condition", which are incorporated herein by reference, appearing on pages 32 through 37 of the Company's 1986 Annual Report to Stockholders.

### Item 8. Financial Statements and Supplementary Data.

The financial statements and supplementary data which are incorporated herein by reference from the Company's 1986 Annual Report to Stockholders are indexed under Item 14(a)(1). See also the financial statement schedules appearing herein, as indexed under Item 14(a)(2).

### Item 9. Disagreements on Accounting and Financial Disclosure.

None.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

(a) The following documents are filed as part of this report:

- (1) Financial statements which are incorporated herein by reference from the Company's 1986 Annual Report to Stockholders:

Report of Independent Certified Public Accountants (page 38).

Consolidated Statements of Income for fiscal years 1986, 1985 and 1984 (page 39).

Consolidated Balance Sheets as at June 28, 1986 and June 29, 1985 (page 40).

Consolidated Statements of Stockholders' Equity for fiscal years 1986, 1985 and 1984 (page 41).

Consolidated Statements of Changes in Financial Position for fiscal years 1986, 1985 and 1984 (page 42).

Notes to Consolidated Financial Statements (pages 43 through 50).

Eleven Year Financial Summary (pages 30 and 31).

Supplementary Financial Information (pages 51 and 52).

The Company's 1986 Annual Report to Stockholders is not to be deemed filed as part of this report except for those parts thereof specifically incorporated herein by reference.

- (2) Financial statement schedules:

Page

S-1	Report of Independent Certified Public Accountants.
S-2	V - Property, Plant and Equipment.
S-4	VI - Accumulated Depreciation and Amortization of Property, Plant and Equipment.
S-6	VIII - Valuation and Qualifying Accounts and Reserves.
S-8	X - Supplementary Income Statement Information.

- 10(a) - 1968 Employee Stock Purchase Plan (contained in the prospectus included in the Company's Registration Statement No. 33-969 and incorporated herein by reference).
- (b) - 1968 Restricted Stock Purchase Plan (contained in the prospectus included in Post-Effective Amendment No. 1 to the Company's Registration Statement No. 2-52104 and incorporated herein by reference).
- (c) - 1976 Restricted Stock Option Plan (contained in the prospectus included in Post-Effective Amendment No. 2 to the Company's Registration Statement No. 2-73945 and incorporated herein by reference).
- (d) - 1981 International Employee Stock Purchase Plan (filed as Exhibit 10(d) to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1984 and incorporated herein by reference).
- (e) - 1985 Restricted Stock Option Plan (contained in the prospectus included in the Company's Registration Statement No. 33-970 and incorporated herein by reference).
- (f) - Deferred Compensation Plan for Non-Employee Directors (filed as Exhibit 10(e) to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1984 and incorporated herein by reference).
- 11 - Computation of Net Income Per Share.
- 13 - The Company's 1986 Annual Report to Stockholders, certain portions of which have been incorporated herein by reference.
- 22 - List of subsidiaries.
- 24 - Consent of Independent Certified Public Accountants.
- (b) Reports on Form 8-K:

No reports on Form 8-K were filed or were required to be filed by the Company during the fourth quarter of the fiscal year ended June 28, 1986.

Report of Independent Certified Public Accountants

Our report on the consolidated financial statements of Digital Equipment Corporation has been incorporated by reference in this Form 10-K from page 38 of the 1986 Annual Report to Stockholders of Digital Equipment Corporation. In connection with our examinations of such financial statements, we have also examined the related financial statement schedules listed in the index on page 11 of this Form 10-K.

In our opinion, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly the information required to be included therein.

Coopers & Lybrand

Boston, Massachusetts  
July 28, 1986

SCHEDULE V, Contd.

Column A	Column B	Column C	Column D	Column E	Column F
Classification	Balance at Beginning of Period	Additions at Cost	Balance at Retirements and Sales	Other changes -add (deduct) Transfers	Balance at End of Period
Year Ended					
June 29, 1985					
Land.....	\$ 97,517	\$ 168	\$ (30)	\$ (163)	\$ 97,492
Buildings.....	678,895	68,856	(3,193)	1,267	745,825
Leasehold improvements.....	150,985	40,928	(5,657)	4,436	190,692
Machinery and equipment.....	1,424,389	461,832	(87,058)	(5,540)	1,793,623
	<u>\$ 2,351,786</u>	<u>\$ 571,784</u>	<u>\$ (95,938)</u>	<u>\$ —</u>	<u>\$2,827,632</u>
Column A	Column B	Column C	Column D	Column E	Column F
Classification	Balance at Beginning of Period	Additions at Cost	Retirements and Sales	Other changes -add (deduct) Transfers	Balance at End of Period
Year Ended					
June 30, 1984					
Land.....	\$ 92,202	\$ 5,972	\$ (981)	\$ 324	\$ 97,517
Buildings.....	619,153	61,691	(4,466)	2,517	678,895
Leasehold improvements.....	113,439	39,889	(3,472)	1,129	150,985
Machinery and equipment.....	1,136,574	344,587	(52,802)	(3,970)	1,424,389
	<u>\$ 1,961,368</u>	<u>\$ 452,139</u>	<u>\$ (61,721)</u>	<u>\$ —</u>	<u>\$2,351,786</u>
Column A	Column B	Column C	Column D	Column E	Column F

SCHEDULE VI, Cont'd.

Column A	Column B	Column C	Column D	Column E	Column F
Classification	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Retirements and Sales	Other changes -add (deduct) Transfers	Balance at End of Period
Year Ended June 29, 1985					
Buildings..... Leasehold	\$ 85,410	\$ 22,792	\$ (389)	\$ 817	\$ 108,630
Improvements..... Machinery and equipment.....	56,461 698,575	24,525 267,758	(3,397) (55,132)	677 (1,494)	78,266 909,707
	<u>\$ 840,446</u>	<u>\$ 315,075</u>	<u>\$ (58,918)</u>	<u>\$ —</u>	<u>\$ 1,096,603</u>
Column A	Column B	Column C	Column D	Column E	Column F
Classification	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Retirements and Sales	Other changes -add (deduct) Transfers	Balance at End of Period
Year Ended June 30, 1984					
Buildings..... Leasehold	\$ 64,350	\$ 21,396	\$ (430)	\$ 94	\$ 85,410
Improvements..... Machinery and equipment.....	39,731 517,561	18,613 212,622	(2,053) (31,344)	170 (264)	56,461 698,575
	<u>\$ 621,642</u>	<u>\$ 252,631</u>	<u>\$ (33,827)</u>	<u>\$ —</u>	<u>\$ 840,446</u>

SCHEDULE VIII, Cont.

Column A	Column B	Column C	Column D	Column E	Column F
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions from Reserves	Balance at End of Period
Year Ended June 30, 1984					
Allowance for possible losses on accounts receivable..	\$ 29,299	\$ 22,938	—	\$ 13,725 (a)	\$ 38,512

(a) Uncollectible accounts and adjustments.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

Form 10-K

Annual Report Pursuant to Section 13 or 15(d)  
of the Securities Exchange Act of 1934

For Fiscal Year Ended June 27, 1987

File Number 1-5296

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

Massachusetts (State or other jurisdiction of  
incorporation or organization) 04-2226590 (I.R.S. Employer Identification No.)

146 Main Street, Maynard, Massachusetts (Address of principal executive offices) 01754 (Zip Code)

(617) 493-5350  
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered (a)
Common Stock, par value \$1	New York Stock Exchange Pacific Stock Exchange

a) In addition, shares of Common Stock of the Registrant are listed on certain stock exchanges in Switzerland and West Germany.

Securities registered pursuant to Section 12(g) of the Act: None

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  NO

As of September 8, 1987, 126,755,523 shares of the registrant's Common Stock, par value \$1, were issued and outstanding. The aggregate market value of the registrant's voting stock held by non-affiliates of the registrant as of September 8, 1987 was approximately \$22.8 billion.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's 1987 Annual Report to Stockholders are incorporated by reference in Part II hereof.

Portions of the registrant's Proxy Statement for its 1987 Annual Meeting of Stockholders are incorporated by reference in Part III hereof.

## PART I

### Item 1. Business.

#### General

Digital Equipment Corporation, a Massachusetts corporation founded in 1957, is a company with worldwide operations. At June 27, 1987, the Company employed approximately 110,500 persons and conducted operations in the United States and in 62 other countries.

The term "Company" when used herein refers to Digital Equipment Corporation or Digital Equipment Corporation and its subsidiaries, as required by the context.

The Company is a leading supplier of networked computer systems. It designs, manufactures, sells and services computers and associated peripheral equipment, and related software and supplies. The Company's products are used worldwide in a wide variety of applications and programs, including scientific research, computation, communications, education, data analysis, industrial control, time-sharing, commercial data processing, graphic arts, word processing, office automation, health care, instrumentation, engineering and simulation. Most of the Company's products are of its own design and are sold under its own name. The Company's marketing objective is to provide to customers a wide variety of computational resources, including central processing units, memories, terminals, communications options, software, networking and field engineering, training and software support services.

The percentage of total operating revenues contributed by the Company's principal classes of products were as follows:

	1987	1986	1985	1984	1983
Product sales	66.6%	67.2%	67.8%	68.1%	66.2%
Service and other revenues.....	33.4%	32.8%	32.2%	31.9%	33.8%
	100.0%	100.0%	100.0%	100.0%	100.0%
	=====	=====	=====	=====	=====

Service and other revenues include maintenance service, customer training, software services, replacement parts and, to a minor extent, equipment rentals.

#### Systems and Products

The Company offers one of the broadest ranges of compatible hardware, software, and communications products in the computer industry. Its line of VAX systems ranges from the smallest MicroVAX to the largest VAX 8800, extending to mainframe applications through VAXclusters, and serves from one to one thousand users. In addition, the Company offers workstations, personal computers, PDP-11 minicomputers, and a full range of peripheral and data storage devices. These products are supported by VAX/VMS and industry standard operating systems, a full spectrum of software languages and tools, networking software and layered applications products. Prices

of the Company's products range from less than \$100 for accessories to as much as \$4,800,000 for the VAX 8978 VAXcluster system.

The models included in the 32-bit VAX and 16-bit PDP-11 families are general purpose digital computers, designed for performing, interpreting, and recording computations on collected data. Applications span the range from corporate-wide information systems to computer-aided engineering, including instrument control, machine and industrial processes, education, natural resource exploration, data communications, medical systems, word processing, publishing, end-user computing and commercial data processing. Members of the PDP-11 systems family range from Micro PDP-11/53 to PDP-11/84, a powerful mid-range system. The VAX family of computers includes the MicroVAX II, the VAX 8250, 8530, 8550, 8650 and 8700 systems, the multiprocessor VAX 8350 and 8800 systems, and VAXcluster systems such as the VAX 8974 and 8978. Fully supported VAX system prices range from \$20,000 for the MicroVAX II to over \$650,000 for the VAX 8800. VAXstation workstations start at under \$5,000.

The Company manufactures and sells data storage and associated peripheral devices which are used with and are sold as part of the Company's various computer systems. These devices include magnetic tape transports, tape cassette and disk storage devices, cathode ray tube display systems, analog to digital converters, terminals and line printers. Selected peripherals are also manufactured for stock and are sold separately for other independent applications. The Company is a major manufacturer and supplier of video terminals. The Company also buys selected peripheral equipment from other manufacturers for use with its own computer systems.

In early September 1987, the Company announced a variety of new products, including a new generation of departmental computers, engineering workstations and Phase V of the Digital Network Architecture (DNA).

#### **Software**

The Company designs or acquires from third parties and distributes under license various software products for its computer systems. These products consist of operating systems, language processors, productivity aids, data handling services, communication software and special applications software. Software is generally designed for a particular computer family to maximize the efficiency of that computer system. Many customers use the system software provided by the Company to design their own specific application software.

#### **Customer Services - Field Engineering, Training and Software Support Services**

The Company provides maintenance services on its software and hardware sales, including corrective maintenance service in the form of term contracts or on a time and materials basis. The Company also provides network support service and various environmental and risk management support services. The field service organization has approximately 25,000 employees located in 63 countries worldwide.

The Company provides a worldwide network of training on its products and services for both customers and employees. The educational services organization of approximately 3,200 people delivers this training in a variety of formats (computer based education, lecture/lab, self-paced, etc.) in over 100 training facilities worldwide.

The Company maintains a highly trained staff of approximately 6,500 software specialists worldwide who assist customers in using the Company's computer systems, and in developing and customizing application software.

The Company's installed computer system base continues to grow and has resulted in an increase in the level of service income over the years. The Company's service and other revenues as a percentage of its total operating revenues for fiscal years 1983-1987 are set forth on page 1.

### Pricing

Prices for the Company's computer systems have generally been reduced as new products have been introduced or existing products improved. The pricing of new products, in most cases, is intended to provide the customer with an improved price/performance ratio. However, from time to time selective price increases have been effected. During the fiscal year ended June 27, 1987, prices were decreased for a selected number of hardware products.

The Company expects to continue its policy of adjusting the prices of its products and services on an individual basis either upward or downward as economic, competitive or other circumstances warrant.

### Sales and Distribution

The Company markets its products through approximately 475 sales offices located throughout the world, using primarily its own sales personnel. In addition to its sales offices, the Company also operates or supports approximately 300 additional outlets for the Company's products and services comprised of distributor offices, remote service points, field-service-only service centers and distribution centers. Software developers and independent resellers, including Original Equipment Manufacturers (OEM's) and authorized distributors, continue to be an important area of sales and distribution for the Company. Cooperative marketing arrangements, such as Cooperative Marketing Partner (CMP) programs with software developers and System Cooperative Marketing Programs (SCMP's) with OEM's meeting certain criteria, are an increasingly important part of the Company's focus on providing complete solutions to its customers. In addition, a variety of formal training and support programs foster the relationship between the Company and its OEM's. The Company's general policy is to sell and not to rent its products. Customers who prefer leasing arrangements are given assistance in obtaining such financing.

Many of the markets served by the Company are affected by cyclical factors beyond the Company's control. For example, the Company is directly affected by changes in the level of spending by industry for capital

equipment, and indirectly affected by shifts in government policy and funding of programs which impact government contractors which do business with the Company.

For the fiscal year ended June 27, 1987, approximately 4% of the Company's total sales were made directly to various agencies of the U.S. Government, and no other customer of the Company accounted for more than 2% of total sales.

The Company is of the opinion that the dollar amount of backlog is not material to an understanding of the Company's business and historically has not published such data. It has been and continues to be the Company's objective to minimize the time from the receipt of a purchase order for a computer system to delivery of the equipment.

### International Operations

Sales by the Company to customers outside the United States amounted to approximately 47% of total sales for the fiscal year ended June 27, 1987, 42% for the fiscal year ended June 28, 1986, and 40% for the fiscal year ended June 29, 1985. These international sales and marketing operations are conducted through subsidiaries, by direct sales from the parent company and through various representative and distributorship arrangements. In view of the location and diversification of the Company's international activities, the Company does not feel that there are any special risks beyond the normal business risks attendant to conducting business abroad. The Company engages in currency hedging transactions to reduce currency risks. See Notes A and C of Notes to Consolidated Financial Statements incorporated by reference herein for further information on the Company's international operations, including financial information concerning the Company's international operations by major geographical area.

### Competition

The computer industry is highly competitive, and the methods of competition include marketing, product performance, price, service, and technology, among others. Present and potential competition in the various markets served by the Company comes from firms of various sizes and types, some of which are larger and have greater total resources than the Company. Firms not now in direct competition with the Company may introduce competing products in the future. Mergers of large firms within the industry may also alter the competitive situation. Analyses vary as to the Company's relative position in the industry though independent surveys have indicated that in terms of gross revenues the Company is one of the largest manufacturers of computers.

### Raw Materials and Supplies

The Company's engineering, manufacturing and customer support operations require a wide variety of electronic and mechanical components and raw materials. The Company has multiple commercial sources of supply throughout the world for most of the components and raw materials which it uses. The Company evaluates on an ongoing basis whether to purchase, manufacture directly or license many of the components and peripheral

equipment which it requires. Additionally, many purchased services supporting internal demands are evaluated in a similar manner.

### **Environmental Affairs**

The Company's facilities are subject to numerous laws and regulations designed to protect human health and safety and the environment, particularly from manufacturing wastes and emissions. In the opinion of the Company, compliance with these laws and regulations has not had and should not have a material effect upon the capital expenditures, earnings or competitive position of the Company. Pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (the "Superfund Act") and the Superfund Amendments and Reauthorization Act of 1986 ("SARA"), the Company has been notified that it may be a potentially responsible party for sharing the cost of cleaning up certain hazardous waste disposal sites. Such costs are not expected to have a material effect upon the earnings or financial position of the Company.

### **Intellectual Property**

The Company owns a number of patents and patent applications relating to its products. The patents and patent applications, although of significant value to the Company, are not considered to be of material importance to the business as a whole. The Company also owns, or has license rights to, copyrights, trademarks, mask works and proprietary information, some of which are considered to be valuable assets of the Company. Collectively, the patents, patent applications, license rights, copyrights, trademarks, mask works and proprietary information are referred to as intellectual property.

From time to time the Company has commenced legal actions against other companies to protect or enforce its intellectual property rights. Similarly, from time to time other companies in the industry have claimed that products and components manufactured by the Company are covered by the intellectual property rights of such other companies. It may be necessary or desirable in the future for the Company to obtain further patent licenses in addition to those it now holds. The Company is presently involved in a small number of intellectual property legal actions. The Company is of the opinion that none of such legal actions will have a material effect upon the earnings or financial position of the Company.

### **Research and Engineering**

The Company is in an industry which is characterized by rapid technological change. The Company has consistently spent a substantial portion of its funds on research and engineering projects, including software development. In the fiscal years ended June 27, 1987, June 28, 1986, and June 29, 1985, the Company spent approximately \$1,010 million, \$814 million and \$717 million, respectively for these purposes.

The Company's primary emphasis is on applied research and engineering which includes developing or enhancing computers, peripheral equipment and software and expanding product applications.

The Company has approximately 7,000 professional employees involved in research, engineering and programming activities.

#### Executive Officers of the Company

The following table sets forth the names and ages of all executive and other officers of the Company and certain information relating to their positions held with the Company.

<u>NAME</u>	<u>AGE</u>	<u>PRESENT TITLE (YEAR FIRST BECAME OFFICER)</u>
Kenneth H. Olsen	61	President and Director (1957)
Winston R. Hindle, Jr.	57	Senior Vice President, Corporate Operations (1967)
John J. Shields	49	Senior Vice President, Sales, Services, Marketing and International (1974)
John F. Smith	52	Senior Vice President, Engineering, Manufacturing and Product Marketing (1976)
John L. Alexanderson	48	Vice President, Peripherals and Supplies Group (1984)
Don K. Busiek	52	Vice President, Software and Educational Services and Computer Special Systems (1984)
George A. Chamberlain, 3d	51	Vice President, Manufacturing, Engineering & Marketing Finance (1976)
Henry J. Crouse	52	Vice President, Group Manager (1981)
James G. Cudmore	48	Vice President, Product Operations (1981)
William R. Demmer	54	Vice President, Mid-Range Systems Business Group (1981)
Pier Carlo Falotti	45	Vice President, President and Chief Executive Officer - Europe (1981)
Samuel H. Fuller	41	Vice President, Research (1984)
Rose Ann Giordano	48	Vice President, Consultant and Information Systems Marketing (1984)
Robert M. Glorioso	47	Vice President, High Performance Systems (1985)
David W. Grainger	45	Vice President, Corporate Field Service (1984)
William C. Hanson	46	Vice President, Manufacturing Operations (1976)
William J. Heffner	57	Vice President, Systems Software Group (1985)
Robert C. Hughes	47	Vice President, Service Industry Marketing (1984)
Donato A. Infante, Jr.	53	Vice President, Manufacturing Information and Technology (1986)
Ilene B. Jacobs	40	Vice President and Treasurer (1985)
William R. Johnson, Jr.	45	Vice President, Distributed Systems Engineering and Marketing (1982)
John C. MacKeen	48	Vice President, Channels Marketing (1985)
Edward B. McDonough	58	Vice President, GIA Operations (1986)
Kevin C. Melia	40	Vice President, Manufacturing Materials and Corporate Distribution (1986)
Albert E. Mullin, Jr.	54	Vice President, Corporate Relations (1981)
James M. Osterhoff	51	Vice President, Finance (1985)
Robert B. Palmer	47	Vice President, Group Manager, Semiconductor Operations (1986)

Richard Poulsen	52	Vice President, General International Area (1981)
Bruce J. Ryan	44	Vice President and Corporate Controller (1985)
F. Grant Saviers	43	Vice President, Storage Systems (1981)
Edward A. Schwartz	49	Vice President, General Counsel and Secretary (1969)
Godfrey S. Shingles	48	Vice President, Managing Director, United Kingdom Region (1981)
Charles E. Shue	40	Vice President, U.S. Sales (1984)
John L. Sims	53	Vice President, Strategic Resources (1984)
Peter J. Smith	42	Vice President, Product Marketing (1984)
David L. Stone	45	Vice President, International Engineering and Strategic Resources (1986)
William D. Strecker	43	Vice President, Product Strategy and Architecture (1985)
Harvey L. Weiss	44	Vice President, U.S. Operations and Government Systems Group (1984)
William G. Witmore	50	Vice President, Basic Industry Marketing (1981)
Richard H. Yen	57	Vice President, GIA Manufacturing and Engineering (1984)
Donald P. Zereski	44	Vice President, U.S. Field Service (1986)

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Officers of the Company are elected annually and hold office until the first meeting of the Board of Directors following the annual meeting of stockholders and until their successors have been chosen and qualified. All of the officers named have been officers or held managerial positions in the Company for at least the last five years, except Mr. Osterhoff and Mr. Palmer. Prior to joining the Company Mr. Osterhoff was a Controller at a division of Ford Motor Company for more than five years. Mr. Palmer, one of the founders of Mostek Corporation, was Executive Vice President of Semiconductor Operations of United Technologies Corporation, which acquired Mostek in 1980.

## Item 2. Properties.

At June 27, 1987, the Company occupied approximately 33.6 million square feet of space throughout the world. Approximately 68% of this space is located in the United States. Substantially all of the Company's facilities are fully utilized, well maintained and suitable for the advanced technological products and services of the Company. Approximately 48% of these facilities are owned by the Company. Approximately nine million square feet of space for new manufacturing, engineering, sales and administrative facilities will be under construction or completed during fiscal 1988.

**Item 3. Legal Proceedings.**

The Company has no material pending legal proceedings.

**Item 4. Submission of Matters to a Vote of Security Holders.**

During the fourth quarter of the fiscal year covered by this report, no matter was submitted to a vote of security holders, through the solicitation of proxies or otherwise.

## PART II

### **Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters.**

See the section entitled "Common Stock Information", which is incorporated herein by reference, appearing on page 40 of the Company's 1987 Annual Report to Stockholders.

### **Item 6. Selected Financial Data.**

See the section entitled "Eleven Year Financial Summary", which is incorporated herein by reference, appearing on pages 34 and 35 of the Company's 1987 Annual Report to Stockholders.

### **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

See the sections entitled "Management's Discussion and Analysis of Results of Operations" and "Management's Discussion and Analysis of Financial Condition", which are incorporated herein by reference, appearing on pages 36 through 41 of the Company's 1987 Annual Report to Stockholders.

### **Item 8. Financial Statements and Supplementary Data.**

The financial statements and supplementary data which are incorporated herein by reference from the Company's 1987 Annual Report to Stockholders are indexed under Item 14(a)(1). See also the financial statement schedules appearing herein, as indexed under Item 14(a)(2).

### **Item 9. Disagreements on Accounting and Financial Disclosure.**

None.

### PART III

#### Item 10. Directors and Executive Officers of the Registrant.

See the section entitled "Nominees for Directors", which is incorporated herein by reference, appearing on pages 2 and 3 of the Company's Proxy Statement for its 1987 Annual Meeting of Stockholders. See also the section entitled "Executive Officers of the Company" appearing in Part I hereof.

#### Item 11. Executive Compensation.

See the section entitled "Executive Compensation and Other Information", which is incorporated herein by reference, appearing on pages 6 through 13 of the Company's Proxy Statement for its 1987 Annual Meeting of Stockholders.

#### Item 12. Security Ownership of Certain Beneficial Owners and Management.

See the section entitled "Stock Ownership of Nominees", which is incorporated herein by reference, appearing on page 4 of the Company's Proxy Statement for its 1987 Annual Meeting of Stockholders.

#### Item 13. Certain Relationships and Related Transactions.

See the section entitled "Certain Relationships and Related Transactions", which is incorporated herein by reference, appearing on page 5 of the Company's Proxy Statement for its 1987 Annual Meeting of Stockholders.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

(a) The following documents are filed as part of this report:

- (1) Financial statements which are incorporated herein by reference from the Company's 1987 Annual Report to Stockholders:

Report of Independent Certified Public Accountants (page 42).

Consolidated Statements of Income for fiscal years 1987, 1986 and 1985 (page 43).

Consolidated Balance Sheets as at June 27, 1987 and June 28, 1986 (page 44).

Consolidated Statements of Changes in Financial Position for fiscal years 1987, 1986 and 1985 (page 45).

Consolidated Statements of Stockholders' Equity for fiscal years 1987, 1986 and 1985 (page 46).

Notes to Consolidated Financial Statements (pages 47 through 55).

Eleven Year Financial Summary (pages 34 and 35).

Supplementary Financial Information (page 56).

The Company's 1987 Annual Report to Stockholders is not to be deemed filed as part of this report except for those parts thereof specifically incorporated herein by reference.

(2) Financial statement schedules:

Page

S-1	Report of Independent Certified Public Accountants.
S-2	V - Property, Plant and Equipment.
S-4	VI - Accumulated Depreciation and Amortization of Property, Plant and Equipment.
S-6	VIII - Valuation and Qualifying Accounts and Reserves.
S-8	X - Supplementary Income Statement Information.

All other schedules have been omitted since they are not required, not applicable or the information has been included in the financial statements or the notes thereto.

Individual financial statements of the Company have been omitted because it is primarily an operating company and the consolidated subsidiaries are not indebted, in a material amount, to any person other than the parent or the consolidated subsidiaries.

(3) Exhibits:

- 3(a) - Restated Articles of Organization of the Company, as amended, filed separately under cover of Form SE.
- (b) - By-laws of the Company, as amended.
- 4(a) - Fiscal Agency Agreement among Digital Equipment Overseas Finance N.V., Digital Equipment Corporation, and Morgan Guaranty Trust Company of New York, dated as of March 15, 1984, relating to \$150,000,000 11 3/4% Guaranteed Notes Due 1989 (filed as Exhibit 4(a) to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1984 and incorporated herein by reference).
- (b) - Specimen 11 3/4% Guaranteed Note Due 1989 (filed as Exhibit 4(c) to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1984 and incorporated herein by reference).
- (c) - Indenture between Digital Equipment Corporation and The Chase Manhattan Bank (National Association), Trustee, dated as of April 1, 1984 (filed as Exhibit 4(c) to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1984 and incorporated herein by reference).
- (d) - Specimen 12 5/8% Note Due 1994 (filed as Exhibit 4(d) to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1984 and incorporated herein by reference).
- 10(a) - 1968 Employee Stock Purchase Plan (contained in the prospectus included in the Company's Registration Statement No. 33-969 and incorporated herein by reference).
- (b) - 1968 Restricted Stock Purchase Plan (contained in the prospectus included in Post Effective Amendment No. 1 to the Company's Registration Statement No. 2-52104 and incorporated herein by reference).
- (c) - 1976 Restricted Stock Option Plan (contained in the prospectus included in Post-Effective Amendment No. 2 to

the Company's Registration Statement No. 2-73945 and incorporated herein by reference).

- (d) - 1981 International Employee Stock Purchase Plan (filed as Exhibit 10(d) to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1984 and incorporated herein by reference).
- (e) - 1985 Restricted Stock Option Plan (contained in the prospectus included in the Company's Registration Statement No. 33-970 and incorporated herein by reference).
- (f) - Deferred Compensation Plan for Non-Employee Directors as Amended and Restated Effective 18 May 1987.
- (g) - Retirement Arrangement for Non-Employee Directors.
- 11 - Computation of Net Income Per Share.
- 13 - The Company's 1987 Annual Report to Stockholders, certain portions of which have been incorporated herein by reference, filed separately under cover of Form SE.
- 22 - List of subsidiaries.
- 24 - Consent of Independent Certified Public Accountants.

(b) Reports on Form 8-K:

No reports on Form 8-K were filed or were required to be filed by the Company during the fourth quarter of the fiscal year ended June 27, 1987.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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)

Date: September 11, 1987

By /s/ Kenneth H. Olsen  
Kenneth H. Olsen  
President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Kenneth H. Olsen</u> Kenneth H. Olsen	President (Principal Executive Officer) and Director	September 11, 1987
<u>/s/ James M. Osterhoff</u> James M. Osterhoff	Vice President, Finance (Principal Financial Officer)	September 11, 1987
<u>/s/ Bruce J. Ryan</u> Bruce J. Ryan	Vice President and Corporate Controller (Principal Accounting Officer)	September 11, 1987
<u>/s/ Vernon R. Alden</u> Vernon R. Alden	Director	September 11, 1987
<u>/s/ Philip Caldwell</u> Philip Caldwell	Director	September 11, 1987
<u>/s/ Arnaud de Vitry</u> Arnaud de Vitry	Director	September 11, 1987
<u>/s/ Robert R. Everett</u> Robert R. Everett	Director	September 11, 1987
<u>/s/ William H. McLean</u> William H. McLean	Director	September 11, 1987
<u>/s/ Dorothy E. Rowe</u> Dorothy E. Rowe	Director	September 11, 1987

**Report of Independent Certified Public Accountants**

Our report on the consolidated financial statements of Digital Equipment Corporation has been incorporated by reference in this Form 10-K from page 42 of the 1987 Annual Report to Stockholders of Digital Equipment Corporation. In connection with our examinations of such financial statements, we have also examined the related financial statement schedules listed in the index on page 11 of this Form 10-K.

In our opinion, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly the information required to be included therein.

/s/ Coopers & Lybrand

**Coopers & Lybrand**

Boston, Massachusetts  
July 22, 1987

SCHEDULE V

DIGITAL EQUIPMENT CORPORATION

Property, Plant and Equipment  
(In Thousands)

Column A	Column B	Column C	Column D	Column E	Column F
Classification	Balance at Beginning of Period	Additions at Cost	Retirements and Sales	Other changes -add (deduct) Transfers	Balance at End of Period
Year Ended					
June 27, 1987					
Land.....	\$ 118,074	\$ 40,653	\$ (2,057)	\$ (8,190)	\$ 148,480
Buildings.....	809,245	74,021	(1,596)	8,085	889,755
Leasehold improvements.....	232,021	82,598	(20,245)	256	294,630
Machinery and equipment .....	2,103,339	551,087	(127,818)	(151)	2,526,457
	<u>\$3,262,679</u>	<u>\$ 748,359</u>	<u>\$ (151,716)</u>	<u>\$ --</u>	<u>\$3,859,322</u>

SCHEDULE V, Contd.

Column A	Column B	Column C	Column D	Column E	Column F
Classification	Balance at Beginning of Period	Additions at Cost	Retirements and Sales	Other changes -add (deduct) Transfers	Balance at End of Period
Year Ended					
June 28, 1986					
Land.....	\$ 97,492	\$ 20,261	\$ (204)	\$ 525	\$ 118,074
Buildings.....	745,825	71,420	(5,715)	(2,285)	809,245
Leasehold improvements.....	190,692	49,443	(10,763)	2,649	232,021
Machinery and equipment.....	1,793,623	423,081	(112,476)	(889)	2,103,339
	<u>\$2,827,632</u>	<u>\$ 564,205</u>	<u>\$ (129,158)</u>	<u>—</u>	<u>\$3,262,679</u>
	_____	_____	_____	_____	_____
	_____	_____	_____	_____	_____
Column A	Column B	Column C	Column D	Column E	Column F
Classification	Balance at Beginning of Period	Additions at Cost	Retirements and Sales	Other changes -add (deduct) Transfers	Balance at End of Period
Year Ended					
June 29, 1985					
Land.....	\$ 97,517	\$ 168	\$ (30)	\$ (163)	\$ 97,492
Buildings.....	678,895	68,856	(3,193)	1,267	745,825
Leasehold improvements.....	150,985	40,928	(5,657)	4,436	190,692
Machinery and equipment.....	1,424,389	461,832	(87,058)	(5,540)	1,793,623
	<u>\$2,351,786</u>	<u>\$ 571,784</u>	<u>\$ (95,938)</u>	<u>—</u>	<u>\$2,827,632</u>
	_____	_____	_____	_____	_____
	_____	_____	_____	_____	_____

SCHEDULE VI

DIGITAL EQUIPMENT CORPORATION

Accumulated Depreciation and Amortization of Property, Plant and Equipment  
(In Thousands)

Column A	Column B	Column C	Column D	Column E	Column F
Classification	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Retirements and Sales	Other changes -add (deduct) Transfers	Balance at End of Period
Year Ended June 27, 1987					
Buildings.....	\$ 130,940	\$ 28,384	\$ 269	\$ (46)	\$ 159,547
Leasehold improvements.....	105,449	41,160	(12,779)	(1,652)	132,178
Machinery and equipment.....	1,159,212	365,143	(85,750)	1,698	1,440,303
	<u>\$1,395,601</u>	<u>\$ 434,687</u>	<u>\$ (98,260)</u>	<u>\$ —</u>	<u>\$1,732,028</u>

SCHEDULE VI, Contd.

Column A	Column B	Column C	Column D	Column E	Column F
Classification	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Retirements and Sales	Other changes -add (deduct) Transfers	Balance at End of Period
Year Ended June 28, 1986					
Buildings.....	\$ 108,630	\$ 24,669	\$ (2,330)	\$ (29)	\$ 130,940
Leasehold improvements.....	78,266	33,108	(6,864)	939	105,449
Machinery and equipment.....	909,707	326,267	(75,852)	(910)	1,159,212
	<u>\$1,096,603</u>	<u>384,044</u>	<u>\$ (85,046)</u>	<u>—</u>	<u>\$1,395,601</u>

Column A	Column B	Column C	Column D	Column E	Column F
Classification	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Retirements and Sales	Other changes -add (deduct) Transfers	Balance at End of Period
Year Ended June 29, 1985					
Buildings.....	\$ 85,410	\$ 22,792	\$ (389)	\$ 817	\$ 108,630
Leasehold improvements.....	56,461	24,525	(3,397)	677	78,266
Machinery and equipment.....	698,575	267,758	(55,132)	(1,494)	909,707
	<u>\$ 840,446</u>	<u>\$ 315,075</u>	<u>\$ (58,918)</u>	<u>\$ —</u>	<u>\$1,096,603</u>

SCHEDULE VIII

DIGITAL EQUIPMENT CORPORATION

Valuation and Qualifying Accounts and Reserves  
(In Thousands)

Column A	Column B	Column C	Column D	Column E	Column F
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions from Reserves	Balance at End of Period
Year Ended June 27, 1987					
Allowance for possible losses on accounts receivable..	\$ 52,439	\$ 31,250	\$ 2,635	\$ 17,044 (a)	\$ 69,280
	_____	_____	_____	_____	_____
	_____	_____	_____	_____	_____

Column A	Column B	Column C	Column D	Column E	Column F
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions from Reserves	Balance at End of Period
Year Ended June 28, 1986					
Allowance for possible losses on accounts receivable..	\$ 40,930	\$ 25,512	—	\$ 14,003 (a)	\$ 52,439
	_____	_____	_____	_____	_____
	_____	_____	_____	_____	_____

SCHEDULE VIII, Contd.

Column A	Column B	Column C	Column D	Column E	Column F
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions from Reserves	Balance at End of Period
Year Ended June 29, 1985					
Allowance for possible losses on accounts receivable..	\$ 38,512	\$ 23,577	—	\$ 21,159 (a)	\$ 40,930
	_____	_____	_____	_____	_____
	_____	_____	_____	_____	_____

\_\_\_\_\_ (a) Uncollectible accounts and adjustments.

SCHEDULE X

DIGITAL EQUIPMENT CORPORATION

Supplemental Income Statement Information  
(In Thousands)

	Charged to costs and expenses		
	Year Ended		
	June 27, 1987	June 28, 1986	June 29, 1985
Maintenance and repairs.....	\$ 192,452	\$ 174,085	\$ 125,721
Advertising costs.....	\$ 95,097	\$ 81,349	\$ 88,079

Amortization of intangible assets, taxes other than payroll and income taxes, and royalties are not set forth inasmuch as each such item does not exceed one percent of total sales as shown in the related Consolidated Statement of Income.

Computation of Net Income Per Share (1)

	Year Ended				
	June 27, 1987	June 28, 1986	June 29, 1985	June 30, 1984	July 2, 1983
	(In Thousands Except Per Share Data)				
Net income.....	\$1,137,435	\$ 617,420	\$ 446,682	\$ 328,779	\$ 283,622
Add back convertible debenture interest, net of related tax effect.....	—	11,634	13,890	—	—
Net income applicable to common and common equivalent shares.....	\$1,137,435	\$ 629,054	\$ 460,572	\$ 328,779	\$ 283,622
Weighted-average number of common shares outstanding during the year.....	128,200	121,534	116,882	113,846	111,382
Common stock equivalents from application of "if converted" method to convertible debentures.....	—	5,263	5,592	—	—

EXHIBIT 11, Contd.

Common stock equivalents from application of "treasury stock" method to exercised and outstanding stock options.....	5,105	3,995	1,638	882	1,970
Total number of common and common equivalent shares used in the computation of net income per share.....	<u>133,305</u>	<u>130,792</u>	<u>124,112</u>	<u>114,728</u>	<u>113,352</u>
Net income per share.....	<u>\$ 8.53</u>	<u>\$ 4.81</u>	<u>\$ 3.71</u>	<u>\$ 2.87</u>	<u>\$ 2.50</u>

(1) All shares and share data have been adjusted to reflect a two-for-one stock split in the form of a 100% stock dividend distributed on May 9, 1986 to shareholders of record on April 18, 1986.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

Form 10-K

Annual Report Pursuant to Section 13 or 15(d)  
of the Securities Exchange Act of 1934

For Fiscal Year Ended July 2, 1988

File Number 1-5296

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

Massachusetts  
(State or other jurisdiction of  
incorporation or organization)

04-2226590

(I.R.S. Employer Identification No.)

146 Main Street, Maynard, Massachusetts  
(Address of principal executive offices)

01754-2571  
(Zip Code)

(508) 493-5111

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered (a)</u>
Common Stock, par value \$1	New York Stock Exchange Pacific Stock Exchange

a) In addition, shares of Common Stock of the Registrant are listed on certain stock exchanges in Switzerland and West Germany.

Securities registered pursuant to Section 12(g) of the Act: None

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

As of September 2, 1988, 126,568,710 shares of the registrant's Common Stock, par value \$1, were issued and outstanding. The aggregate market value of the registrant's voting stock held by non-affiliates of the registrant as of September 9, 1988 was approximately \$11.7 billion.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's 1988 Annual Report to Stockholders are incorporated by reference in Part II hereof.

Portions of the registrant's Proxy Statement for its 1988 Annual Meeting of Stockholders are incorporated by reference in Part III hereof.

**FOR REFERENCE**

**Do Not Take From This Room**

PART I

Item 1. Business.

General

Digital Equipment Corporation, a Massachusetts corporation founded in 1957, is a company with worldwide operations. At July 2, 1988, the Company employed approximately 121,500 persons and conducted operations in the United States and in more than 60 other countries.

The term "Company" when used herein refers to Digital Equipment Corporation or Digital Equipment Corporation and its subsidiaries, as required by the context.

The Company is one of the world's leading suppliers of networked computer systems. It designs, manufactures, sells and services computers and associated peripheral equipment, and related software and supplies. The Company's products are used worldwide in a wide variety of applications and programs, including scientific research, computation, communications, education, data analysis, industrial control, time-sharing, commercial data processing, graphic arts, word processing, office automation, health care, instrumentation, engineering and simulation. Most of the Company's products are of its own design and are sold under its own name. The Company's marketing objective is to provide to customers a wide variety of computational resources, including central processing units, memories, terminals, communications options, software, networking and field engineering, training and software support services.

The percentage of total operating revenues contributed by the Company's principal classes of products were as follows:

	1988	1987	1986	1985	1984
Product sales	<u>65.7</u>	<u>66.6%</u>	<u>67.2%</u>	<u>67.8%</u>	<u>68.1%</u>
Service and other revenues	<u>34.3</u>	<u>33.4%</u>	<u>32.8%</u>	<u>32.2%</u>	<u>31.9%</u>
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
	-----	-----	-----	-----	-----

Service and other revenues include maintenance service, customer training, software and consulting services, replacement parts and, to a minor extent, equipment rentals.

Systems and Products

The Company offers one of the broadest ranges of compatible hardware, software, and communications products in the computer industry. Its line of VAX systems ranges from the smallest MicroVAX to the four-processor VAX 8840, and extends to mainframe applications through VAXclusters, serving from one to one thousand users. In addition, the Company offers workstations, personal computers and a full range of peripheral and data

storage devices. These products are supported by VAX/VMS and industry standard operating systems, a full spectrum of software languages and tools, networking software and layered applications products. Prices of the Company's products range from less than \$100 for accessories to multi-million dollar VAXcluster systems.

Most of the Company's systems are general purpose digital computers, designed for performing, interpreting, and recording computations on collected data. Applications range from information systems supporting an entire corporation, to computer-aided engineering systems supporting a single individual, to real-time systems supporting an industrial process, and include instrumentation, machine control, education, natural resource exploration, data communications, medical systems, word processing, publishing, end-user computing and commercial data processing. Current VAX systems include VAXstations, MicroVAX, the multiprocessor VAX 6200 and VAX 8800 families and VAXcluster systems. Fully supported VAX system prices range from \$20,000 for the MicroVAX II to over \$1.5 million for the VAX 8840. VAXstation workstations start at under \$5,000.

The Company manufactures and sells data storage and associated peripheral devices which are used with and are sold as part of the Company's various computer systems. These devices include magnetic tape transports, tape cassette and disk storage devices, cathode ray tube display systems, analog to digital converters, terminals and line printers. Selected peripherals are also manufactured for stock and are sold separately for other independent applications. The Company is a major manufacturer and supplier of video terminals. The Company also buys selected peripheral equipment from other manufacturers for use with its own computer systems.

On July 19, 1988, the Company announced a variety of new and improved products, including a systems environment that integrates the capabilities necessary to build transaction processing applications.

#### **Software**

The Company designs or acquires from third parties and distributes under license various software products for its computer systems. These products consist of operating systems, language processors, productivity aids, data handling services, communication software and special applications software. Software is generally designed for a particular computer family to maximize the efficiency of that computer system. Many customers use the system software provided by the Company to design their own specific application software.

#### **Customer Services - Field Engineering, Training and Software Support Services**

The Company provides one of the computer industry's most comprehensive portfolios of customer services including the planning, design, implementation, and management of customer solutions. Nearly 27,000 field

service professionals located in more than 60 countries are dedicated to customer satisfaction through hardware and software support and maintenance, network services, multi-vendor hardware and software support, and program management. The Company has invested extensively in customer support and satisfaction through advanced service technologies. These technologies include expert-system predictive maintenance capabilities and state-of-the-art service facilities, including fourteen customer support centers which provide continuous worldwide support.

The Company offers a worldwide network of training on its products and services for both customers and employees. The educational services organization of approximately 3,500 people develops and delivers this training in a variety of formats (computer based education, lecture/lab, self-paced, etc.) in over 100 training facilities worldwide.

The Company maintains a highly skilled staff of approximately 6,500 software services consultants in more than 60 countries worldwide. These consultants offer business consulting, applications consulting and applications project management and development.

The Company's installed computer system base continues to grow and has resulted in an increase in the level of service income over the years. The Company's service and other revenues as a percentage of its total operating revenues for fiscal years 1984-1988 are set forth on page 1.

#### Pricing

Prices for the Company's computer systems have generally been reduced as new products have been introduced or existing products improved. The pricing of new products, in most cases, is intended to provide the customer with an improved price/performance ratio. During the fiscal year ended July 2, 1988, prices were decreased for a selected number of hardware products. However, from time to time selective price increases have been effected.

In June 1988, the prices of computer systems with embedded memory were increased on average 3.5%, reflecting the higher cost of dynamic random access memory (DRAMS). Add-on memory prices were also increased. Earlier in the year with the announcement of VMS V5.0, a new version of the Company's operating system, the Company introduced cluster licenses for the purchase of layered software products. This permits customers to license software across many interconnected computers at a much lower price.

The Company expects to continue its policy of adjusting the prices of its products and services on an individual basis either upward or downward as economic, competitive or other circumstances warrant.

## Sales and Distribution

The Company markets and supports its products and services through approximately 875 locations throughout the world, using primarily its own sales personnel. In addition to its sales offices, the Company also operates or supports a number of distributor offices, remote service points, field-service-only service centers and distribution centers. Software developers and independent resellers, including Original Equipment Manufacturers (OEM's) and authorized distributors, continue to be an important area of sales and distribution for the Company. Cooperative marketing arrangements, such as Cooperative Marketing Partner (CMP) programs with software developers and System Cooperative Marketing Programs (SCMP's) with OEM's meeting certain criteria, are an increasingly important part of the Company's focus on providing complete solutions to its customers. In addition, all of the above third party relationships operating under the umbrella term of Complementary Solutions Organizations (CSO) are supported by a variety of formal training and support programs. These programs foster the relationship between the Company and its customers, regardless of the channel of delivery. The Company's general policy is to sell and not to rent its products. Customers who prefer leasing arrangements are given assistance in obtaining such financing.

Many of the markets served by the Company are affected by cyclical factors beyond the Company's control. For example, the Company is directly affected by changes in the level of spending by industry for capital equipment, and indirectly affected by shifts in government policy and funding of programs which impact government contractors which do business with the Company.

For the fiscal year ended July 2, 1988, approximately 3% of the Company's total sales were made directly to various agencies of the U.S. Government, and no other customer of the Company accounted for more than 2% of total sales.

The Company is of the opinion that the dollar amount of backlog is not material to an understanding of the Company's business and historically has not published such data. It has been and continues to be the Company's objective to minimize the time from the receipt of a purchase order for a computer system to delivery of the equipment.

## International Operations

Sales by the Company to customers outside the United States amounted to approximately 50% of total sales for the fiscal year ended July 2, 1988, 47% for the fiscal year ended June 27, 1987, and 42% for the fiscal year ended June 28, 1986. These international sales and marketing operations are conducted through subsidiaries, by direct sales from the parent company and through various representative and distributorship arrangements. In view of the location and diversification of the Company's international activities,

the Company does not feel that there are any special risks beyond the normal business risks attendant to conducting business abroad. The Company engages in currency hedging transactions to reduce the impact of currency changes on its operations. See Notes A and C of Notes to Consolidated Financial Statements incorporated by reference herein for further information on the Company's international operations, including financial information concerning the Company's international operations by major geographical area.

### **Competition**

The computer industry is highly competitive and comprised of many companies. The methods of competition include marketing, product performance, price, service, and technology, among others. Present and potential competition in the various markets served by the Company comes from firms of various sizes and types, some of which are larger and have greater total resources than the Company. Firms not now in direct competition with the Company may introduce competing products in the future. Mergers of large firms within the industry may also alter the competitive situation. Analyses vary as to the Company's relative position in the industry though independent surveys have indicated that in terms of gross revenues the Company is one of the largest manufacturers of computers.

### **Raw Materials, Supplies and Services**

The Company's engineering, manufacturing, sales/services and functional organizations rely heavily on external sources of supply. These suppliers provide a broad base of goods and services including raw materials, office supplies, facilities, consulting services, travel, subcontract and software acquisition. The Company has initiated a program of supply base consolidation that is intended to result in the development of global suppliers to support worldwide operations. The Company evaluates on an on-going basis its total procurement strategy to ensure that it is making the best use of both its internal and external resource base.

Today, certain semiconductor components are in short supply worldwide. The Company's current supply plans are designed to minimize the impact of this shortage on the Company's current business plan. However, there may be increased risk to the Company's operations if the shortage becomes substantially worse.

### **Environmental Affairs**

The Company's facilities are subject to numerous laws and regulations designed to protect human health and safety and the environment, particularly from manufacturing wastes and emissions. In the opinion of the Company, compliance with these laws and regulations has not had and should not have a material effect upon the capital expenditures, earnings or competitive position of the Company. Pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (the "Superfund Act"), the Superfund Amendments and Reauthorization Act of 1986 ("SARA") and similar

state laws, the Company has been notified that it may be a potentially responsible party for sharing the cost of cleaning up certain hazardous waste disposal sites. Such costs are not expected to have a material effect upon the earnings or financial position of the Company.

### **Intellectual Property**

The Company owns a number of patents and patent applications relating to its products. The patents and patent applications, although of significant value to the Company, are not considered to be of material importance to the business as a whole. The Company also owns, or has license rights to, copyrights, trademarks, mask works and proprietary information, some of which are considered to be valuable assets of the Company. Collectively, the patents, patent applications, license rights, copyrights, trademarks, mask works and proprietary information are referred to as intellectual property.

From time to time the Company has commenced legal actions against other companies to protect or enforce its intellectual property rights. Similarly, from time to time other companies in the industry have claimed that products and components manufactured by the Company are covered by the intellectual property rights of such other companies. It may be necessary or desirable in the future for the Company to obtain further patent licenses in addition to those it now holds. The Company is presently involved in a small number of intellectual property legal actions. The Company is of the opinion that none of such legal actions will have a material effect upon the earnings or financial position of the Company.

### **Research and Engineering**

The Company is in an industry which is characterized by rapid technological change. The Company has consistently spent a substantial portion of its funds on research and engineering projects, including software development. In the fiscal years ended July 2, 1988, June 27, 1987, and June 28, 1986, the Company spent approximately \$1,307 million, \$1,010 million and \$814 million, respectively for these purposes.

The Company's primary emphasis is on applied research and engineering which includes developing or enhancing computers, peripheral equipment and software and expanding product applications.

The Company has approximately 7,800 professional employees involved in research, engineering and programming activities.

### **Executive Officers of the Company**

The following table sets forth the names and ages of all executive officers of the Company and certain information relating to their positions held with the Company.

<u>NAME</u>	<u>AGE</u>	<u>PRESENT TITLE (YEAR FIRST BECAME OFFICER)</u>
Kenneth H. Olsen	62	President and Director (1957)
Winston R. Hindle, Jr.	58	Senior Vice President, Corporate Operations (1967)
John J. Shields	50	Senior Vice President, Sales, Services, Marketing and International (1974)
John F. Smith	53	Senior Vice President, Engineering, Manufacturing and Product Marketing (1976)
John L. Alexanderson	49	Vice President, Installed Systems Marketing (1984)
Don K. Busiek	53	Vice President, Professional Services (1984)
George A. Chamberlain, 3d	52	Vice President, Manufacturing, Engineering and Marketing Finance (1976)
Henry J. Crouse	53	Vice President, Strategic Relations (1981)
James G. Cudmore	49	Vice President, Product Operations (1981)
William R. Demmer	55	Vice President, Mid-Range Systems (1981)
Pier Carlo Falotti	46	Vice President, President and Chief Executive Officer - Europe (1981)
Samuel H. Fuller	42	Vice President, Research (1984)
Rose Ann Giordano	49	Vice President, Consultant and Information Systems Marketing (1984)
Robert M. Glorioso	48	Vice President, High Performance Systems (1985)
David W. Grainger	46	Vice President, Corporate Field Service (1984)
William C. Hanson	47	Vice President, Manufacturing Operations (1976)
William J. Heffner	58	Vice President, Systems Software (1985)
Robert C. Hughes	48	Vice President, Service Industry Marketing (1984)
Donato A. Infante, Jr.	54	Vice President, Manufacturing/Engineering Information and Technology (1986)
Ilene B. Jacobs	41	Vice President and Treasurer (1985)
William R. Johnson, Jr.	46	Vice President, Distributed Systems Engineering/Marketing (1982)
John C. MacKeen	49	Vice President, Channels Marketing (1985)
Edward B. McDonough	59	Vice President, GIA Operations (1986)
Mevin C. Melia	41	Vice President, Corporate Distribution and Materials (1986)
Albert E. Mullin, Jr.	55	Vice President, Corporate Relations (1981)
James M. Osterhoff	52	Vice President, Finance (1985)
Robert B. Palmer	48	Vice President, Semiconductor Operations (1986)
Richard Poulsen	53	Vice President, General International Area (1981)
Bruce J. Ryan	45	Vice President and Corporate Controller (1985)

F. Grant Saviers	44	Vice President, Storage and Information Management (1981)
Godfrey S. Shingles	49	Vice President, Managing Director, United Kingdom Region (1981)
Charles E. Shue	41	Vice President, U.S. Sales (1984)
John L. Sims	54	Vice President, Strategic Resources (1984)
Peter J. Smith	43	Vice President, Product Marketing (1984)
David L. Stone	46	Vice President, International Engineering and Strategic Resources (1986)
William D. Strecker	44	Vice President, Product Strategy and Architecture (1985)
Harvey L. Weiss	45	Vice President, Government Systems Group (1984)
William G. Witmore	51	Vice President, Basic Industry Marketing (1981)
Richard H. Yen	58	Vice President, GIA Manufacturing and Engineering (1984)
Donald P. Zereski	45	Vice President, U.S. Field Service (1986)

Officers of the Company are elected annually and hold office until the first meeting of the Board of Directors following the annual meeting of stockholders and until their successors have been chosen and qualified. All of the officers named have been officers or held managerial positions in the Company for at least the last five years, except Mr. Osterhoff and Mr. Palmer. Prior to joining the Company Mr. Osterhoff was a Controller at a division of Ford Motor Company for more than five years. Mr. Palmer, one of the founders of Mostek Corporation, was Executive Vice President of Semiconductor Operations of United Technologies Corporation, which acquired Mostek in 1980.

#### Item 2. Properties.

At July 2, 1988, the Company occupied approximately 38.5 million square feet of space worldwide. Approximately 68% of this space is located in the United States. Substantially all of the Company's facilities are fully utilized, well maintained and suitable for the advanced technological products and services of the Company. Approximately 47% of these facilities are owned by the Company. Approximately 4.8 million square feet of space for new manufacturing, engineering, sales and administrative facilities will be under construction or completed during fiscal 1989.

#### Item 3. Legal Proceedings.

The Company, a director and certain officers have been named as defendants in a purported class action lawsuit filed in the U.S. District Court for Massachusetts on June 3, 1988. The complaint alleges violations of

the Federal securities laws by the Company in connection with the disclosure of information concerning the financial results of the Company for the quarter ended March 26, 1988, and by the director and officers in connection with sales of the Company's common stock during the same period. The complaint seeks unspecified amounts of damages and other unspecified relief. The Company believes that the claims asserted against it are without merit.

As previously reported, the Company has received a compliance order from the United States Environmental Protective Agency (EPA) with respect to Clean Water Act violations at the Company's San German, Puerto Rico facility. In addition, during the last fiscal year, the Company, along with several other parties, entered into consent agreements with the EPA for the performance of the Remedial Investigation/Feasibility Studies and/or for preliminary clean-up costs for three hazardous waste sites. The Company expects that the costs associated with these matters will not be material.

Other than as set forth above, the Company has no material pending legal proceedings.

**Item 4. Submission of Matters to a Vote of Security Holders.**

During the fourth quarter of the fiscal year covered by this report, no matter was submitted to a vote of security holders, through the solicitation of proxies or otherwise.

## PART II

### **Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters.**

See the section entitled "Common Stock Information", which is incorporated herein by reference, appearing on page 44 of the Company's 1988 Annual Report to Stockholders.

### **Item 6. Selected Financial Data.**

See the section entitled "Eleven Year Financial Summary", which is incorporated herein by reference, appearing on pages 38 and 39 of the Company's 1988 Annual Report to Stockholders.

### **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

See the sections entitled "Management's Discussion and Analysis of Results of Operations" and "Management's Discussion and Analysis of Financial Condition", which are incorporated herein by reference, appearing on pages 40 through 45 of the Company's 1988 Annual Report to Stockholders.

### **Item 8. Financial Statements and Supplementary Data.**

The financial statements and supplementary data which are incorporated herein by reference from the Company's 1988 Annual Report to Stockholders are indexed under Item 14(a)(1). See also the financial statement schedules appearing herein, as indexed under Item 14(a)(2).

### **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None.

### PART III

**Item 10. Directors and Executive Officers of the Registrant.**

See the section entitled "Nominees for Directors", which is incorporated herein by reference, appearing on pages 2 and 3 of the Company's Proxy Statement for its 1988 Annual Meeting of Stockholders. See also the section entitled "Executive Officers of the Company" appearing in Part I hereof.

**Item 11. Executive Compensation.**

See the section entitled "Executive Compensation and Other Information", which is incorporated herein by reference, appearing on pages 6 through 14 of the Company's Proxy Statement for its 1988 Annual Meeting of Stockholders.

**Item 12. Security Ownership of Certain Beneficial Owners and Management.**

See the section entitled "Stock Ownership of Nominees", which is incorporated herein by reference, appearing on pages 4 and 5 of the Company's Proxy Statement for its 1988 Annual Meeting of Stockholders.

**Item 13. Certain Relationships and Related Transactions.**

See the section entitled "Certain Relationships and Related Transactions", which is incorporated herein by reference, appearing on page 5 of the Company's Proxy Statement for its 1988 Annual Meeting of Stockholders.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

(a) The following documents are filed as part of this report:

(1) Financial statements which are incorporated herein by reference from the Company's 1988 Annual Report to Stockholders:

Report of Independent Certified Public Accountants (page 46).

Consolidated Statements of Income for fiscal years 1988, 1987 and 1986 (page 47).

Consolidated Balance Sheets as at July 2, 1988 and June 27, 1987 (page 48).

Consolidated Statements of Changes in Financial Position for fiscal years 1988, 1987 and 1986 (page 49).

Consolidated Statements of Stockholders' Equity for fiscal years 1988, 1987 and 1986 (page 50).

Notes to Consolidated Financial Statements (pages 51 through 59).

Eleven Year Financial Summary (pages 38 and 39).

Supplementary Financial Information (page 60).

The Company's 1988 Annual Report to Stockholders is not to be deemed filed as part of this report except for those parts thereof specifically incorporated herein by reference.

(2) Financial statement schedules:

Page

S-1	Report of Independent Certified Public Accountants
S-2	V - Property, Plant and Equipment
S-4	VI - Accumulated Depreciation and Amortization of Property, Plant and Equipment
S-6	VIII - Valuation and Qualifying Accounts and Reserves
S-8	X - Supplemental Income Statement Information

All other schedules have been omitted since they are not required, not applicable or the information has been included in the financial statements or the notes thereto.

Individual financial statements of the Company have been omitted because it is primarily an operating company and the consolidated subsidiaries are not indebted, in a material amount, to any person other than to the parent or to other consolidated subsidiaries.

(3) Exhibits:

- 3(a) - Articles of Amendment dated November 5, 1987, further amending the Company's Restated Articles of Organization as amended, filed separately under cover of Form SE.
- (b) - Restated Articles of Organization of the Company as amended up to and through November 4, 1987 (filed as Exhibit 3(a) to the Company's Annual Report on Form 10-K for the fiscal year ended June 27, 1987 and incorporated herein by reference).
- (c) - By-laws of the Company, as amended.
- 4(a) - Fiscal Agency Agreement among Digital Equipment Overseas Finance N.V., Digital Equipment Corporation and Morgan Guaranty Trust Company of New York, dated as of March 15, 1984, relating to \$150,000,000 in aggregate principal amount of 11 3/4% Guaranteed Notes Due 1989 (filed as Exhibit 4(a) to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1984 and incorporated herein by reference).
- (b) - Specimen 11 3/4% Guaranteed Note Due 1989 (filed as Exhibit 4(c) to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1984 and incorporated herein by reference).
- (c) - Indenture between Digital Equipment Corporation and The Chase Manhattan Bank (National Association), Trustee, dated as of April 1, 1984 (filed as Exhibit 4(c) to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1984 and incorporated herein by reference).
- (d) - Specimen 12 5/8% Note Due 1994 (filed as Exhibit 4(d) to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1984 and incorporated herein by reference).

- 10(a) - 1968 Employee Stock Purchase Plan (contained in the prospectus included in the Company's Registration Statement No. 33-969 and incorporated herein by reference).
- (b) - 1976 Restricted Stock Option Plan (contained in the prospectus included in Post-Effective Amendment No. 2 to the Company's Registration Statement No. 2-73945 and incorporated herein by reference).
- (c) - 1981 International Employee Stock Purchase Plan (filed as Exhibit 10(d) to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1984 and incorporated herein by reference).
- (d) - 1985 Restricted Stock Option Plan (contained in the prospectus included in the Company's Registration Statement No. 33-970 and incorporated herein by reference).
- (e) - Deferred Compensation Plan for Non-Employee Directors as Amended and Restated Effective 18 May 1987 (filed as Exhibit 10(f) to the Company's Annual Report on Form 10-K for the fiscal year ended June 27, 1987 and incorporated herein by reference).
- (f) - Retirement Arrangement for Non-Employee Directors (filed as Exhibit 10(g) to the Company's Annual Report on Form 10-K for the fiscal year ended June 27, 1987 and incorporated herein by reference).
- (g) - Form of Indemnification Agreement in effect between the Corporation and each of its officers and directors, filed separately under cover of Form SE.
- 11 - Computation of Net Income Per Share.
- 13 - The Company's 1988 Annual Report to Stockholders, certain portions of which have been incorporated herein by reference, filed separately under cover of Form SE.
- 22 - List of subsidiaries.
- 24 - Consent of Independent Certified Public Accountants.

(b) Reports on Form 8-K:

No reports on Form 8-K were filed or were required to be filed by the Company during the fourth quarter of the fiscal year ended July 2, 1988.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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)

Date: September 9, 1988

By /s/ Kenneth H. Olsen  
Kenneth H. Olsen  
President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Kenneth H. Olsen</u> Kenneth H. Olsen	President (Principal Executive Officer) and Director	September 9, 1988
<u>/s/ James M. Osterhoff</u> James M. Osterhoff	Vice President, Finance (Principal Financial Officer)	September 9, 1988
<u>/s/ Bruce J. Ryan</u> Bruce J. Ryan	Vice President and Corporate Controller (Principal Accounting Officer)	September 9, 1988
<u>/s/ Vernon R. Alden</u> Vernon R. Alden	Director	September 9, 1988
<u>/s/ Philip Caldwell</u> Philip Caldwell	Director	September 9, 1988
<u>/s/ Arnaud de Vitry</u> Arnaud de Vitry	Director	September 9, 1988
<u>/s/ Robert R. Everett</u> Robert R. Everett	Director	September 9, 1988
<u>/s/ William H. McLean</u> William H. McLean	Director	September 9, 1988
<u>/s/ Dorothy E. Rowe</u> Dorothy E. Rowe	Director	September 9, 1988

**Report of Independent Certified Public Accountants**

Our report on the consolidated financial statements of Digital Equipment Corporation has been incorporated by reference in this Form 10-K from page 46 of the 1988 Annual Report to Stockholders of Digital Equipment Corporation. In connection with our audits of such financial statements, we have also audited the related financial statement schedules listed in the index on page 12 of this Form 10-K.

In our opinion, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly, in all material respects, the information required to be included therein.

/s/ Coopers & Lybrand

Coopers & Lybrand

Boston, Massachusetts  
July 27, 1988

**SCHEDULE V**  
**DIGITAL EQUIPMENT CORPORATION**  
**Property, Plant and Equipment**  
**(In Thousands)**

Column A	Column B	Column C	Column D	Column E	Column F
Classification	Balance at Beginning of Period	Additions at Cost	Retirements and Sales	Other Changes add (deduct) Transfers	Balance at End of Period
Year Ended					
July 2, 1988					
Land.....	\$ 148,480	\$ 149,614	\$ (40)	\$ 1,103	\$ 299,157
Buildings.....	889,755	393,406	(10,493)	10,380	1,283,048
Leasehold improvements.....	294,630	184,806	(12,614)	(8,373)	458,449
Machinery and equipment .....	2,526,457	789,753	(143,308)	(3,110)	3,169,792
	<u>\$3,859,322</u>	<u>\$ 1,517,579</u>	<u>\$ (166,455)</u>	<u>\$ —</u>	<u>\$5,210,446</u>
	_____	_____	_____	_____	_____
	_____	_____	_____	_____	_____



SCHEDULE VI

DIGITAL EQUIPMENT CORPORATION

Accumulated Depreciation and Amortization of Property, Plant and Equipment  
(In Thousands)

Column A	Column B	Column C	Column D	Column E	Column F
Classification	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Retirements and Sales	Other Changes add (deduct) Transfers	Balance at End of Period
Year Ended July 2, 1988					
Buildings.....	\$ 159,547	\$ 32,411	\$ (3,527)	\$ 69	\$ 188,500
Leasehold improvements.....	132,178	51,977	(9,757)	(298)	174,100
Machinery and equipment.....	1,440,303	431,119	(118,830)	229	1,752,821
	<u>\$1,732,028</u>	<u>\$ 515,507</u>	<u>\$ (132,114)</u>	<u>\$ —</u>	<u>\$2,115,421</u>



SCHEDULE VIII

DIGITAL EQUIPMENT CORPORATION

Valuation and Qualifying Accounts and Reserves  
(In Thousands)

Column A	Column B	Column C	Column D	Column E	Column F
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions from Reserves	Balance at End of Period
Year Ended July 2, 1988					
Allowance for possible losses on accounts receivable..	\$ 69,280	\$ 26,227	\$ 3,737	\$ 21,096 (a)	\$ 78,148
	_____	_____	_____	_____	_____
	_____	_____	_____	_____	_____

Column A	Column B	Column C	Column D	Column E	Column F
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions from Reserves	Balance at End of Period
Year Ended June 27, 1987					
Allowance for possible losses on accounts receivable..	\$ 52,439	\$ 31,250	\$ 2,635	\$ 17,044 (a)	\$ 69,280
	_____	_____	_____	_____	_____
	_____	_____	_____	_____	_____

SCHEDULE VIII, Contd.

Column A	Column B	Column C	Column D	Column E	Column F
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions from Reserves	Balance at End of Period
Year Ended June 28, 1986					
Allowance for possible losses on accounts receivable..	\$ 40,930	\$ 25,512	—	\$ 14,003 (a)	\$ 52,439
	_____	_____	_____	_____	_____
	_____	_____	_____	_____	_____

(a) Uncollectible accounts and adjustments.

SCHEDULE X

DIGITAL EQUIPMENT CORPORATION

Supplemental Income Statement Information  
(In Thousands)

Charged to costs and expenses

	Year Ended		
	July 2, 1988	June 27, 1987	June 28, 1986
Maintenance and repairs.....	\$ 239,194	\$ 226,746	\$ 174,085
Advertising costs.....	\$ 129,213	\$ 98,504	\$ 81,349

Amortization of intangible assets, taxes other than payroll and income taxes, and royalties are not set forth inasmuch as each such item does not exceed one percent of total sales as shown in the related Consolidated Statements of Income.



EXHIBIT 11, Contd.

Common stock equivalents from application of "treasury stock" method to unexercised and outstanding stock options.....	5,712	5,105	3,995	1,638	882
Total number of common and common equivalent shares used in the computation of net income per share.....	131,923	133,305	130,792	124,112	114,728
Net income per share.....	\$ 9.90	\$ 8.53	\$ 4.81	\$ 3.71	\$ 2.87

(1) All shares and share data have been adjusted to reflect a two-for-one stock split in the form of a 100% stock dividend distributed on May 9, 1986 to shareholders of record on April 18, 1986.

## SUBSIDIARIES

The following is a list of the Company's subsidiaries. The Company owns, directly or indirectly, 100% of the voting securities of each subsidiary.

<u>Name</u>	<u>State or Jurisdiction of Organization</u>
Computer Insurance Company Limited	Bermuda
Digital Computer Taiwan Limited	Taiwan
Digital Equipment Aktiebolag	Sweden
Digital Equipment B.V.	Netherlands
Digital Equipment Betriebliche Altersversorgungsgesellschaft m.b.H.	West Germany
Digital Equipment of Canada Limited/Digital Equipment du Canada Limitee	Canada
Digital Equipment Caribbean, Inc.	Delaware
Digital Equipment Centre Technique (Europe) S.A.R.L.	France
Digital Equipment China, Ltd.	Delaware
Digital Equipment do Brazil Ltda.	Brazil
Digital Equipment Co. Limited	United Kingdom
Digital Equipment Corporation A/S	Norway
Digital Equipment Corp. A/S	Denmark
Digital Equipment Corporation (Australia) Pty. Ltd.	Australia
Digital Equipment Corporation (Consultancy) Limited	States of Jersey
Digital Equipment Corporation Espana, S.A.	Spain
Digital Equipment Corporation Finance B.V.	Netherlands
Digital Equipment Corporation Gesellschaft m.b.H.	Austria
Digital Equipment Corporation International	Massachusetts
Digital Equipment Corporation International (Europe)	Switzerland
Digital Equipment Corporation Ireland Limited	Republic of Ireland
Digital Equipment Corporation OY	Finland
Digital Equipment Corporation de Puerto Rico	Delaware
Digital Equipment Corporation (New Zealand) Limited	New Zealand
Digital Equipment Corporation S.A./A.G.	Switzerland
Digital Equipment (DEC) Limited	Israel
Digital Equipment (DEC) Technical Center (Israel) Limited	Israel
Digital Equipment Filipinas Incorporated	Philippines
Digital Equipment Finance Corporation	Delaware
Digital Equipment Foreign Sales Corporation B.V.	Netherlands

Digital Equipment France	France
Digital Equipment GmbH	West Germany
Digital Equipment Hellas Ltd.	Greece
Digital Equipment (Holdings) B.V.	Netherlands.
Digital Equipment Hong Kong Limited	Hong Kong
Digital Equipment International B.V.	Netherlands
Digital Equipment International Betriebliche Altersversorgungsgesellschaft m.b.H.	West Germany
Digital Equipment International GmbH	West Germany
Digital Equipment International Limited	Switzerland
Digital Equipment (Korea) Inc.	Korea
Digital Equipment (Malaysia) Sdn. Bhd.	Malaysia
Digital Equipment de Mexico, S.A. de C.V.	Mexico
Digital Equipment N.V./S.A.	Belgium
Digital Equipment Overseas Finance N.V.	Netherlands
	Antilles
Digital Equipment Panama, Inc.	Panama
Digital Equipment Parts Center B.V.	Netherlands
Digital Equipment Portugal, Limitada	Portugal
Digital Equipment PRC Limited	Hong Kong
Digital Equipment S.p.A.	Italy
Digital Equipment Scotland Limited	United Kingdom
Digital Equipment Services, Inc.	Delaware
Digital Equipment Singapore (PTE) Limited	Singapore
Digital Equipment Taiwan Limited	Taiwan
Digital Equipment (Thailand) Ltd.	Thailand
Digital Growth, Inc.	Massachusetts
Digital Incorporated	Delaware
Digital International Sales Corporation	Delaware
Kam Hon Development Company, Limited	Hong Kong
Nihon Digital Equipment Corporation KK	Japan
Old Colony Insurance Limited	Bermuda