

FORM 10-K  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

☒ Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Fiscal Year Ended July 1, 1989

or

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission 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:

Title of each class	Name of each exchange on which registered (a)
Common Stock, par value \$1	New York Stock Exchange
	Pacific Stock Exchange
	Midwest 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 8, 1989, 122,026,848 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, 1989 was approximately \$11.7 billion.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's 1989 Annual Report to Stockholders are incorporated by reference in Part II hereof.

Portions of the registrant's Proxy Statement for its 1989 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 1, 1989, the Company employed approximately 125,800 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, software and services and a leader in systems integration.

The Company does more than half its business outside the United States, developing and manufacturing products and providing customer services in the Americas, Europe, and the Pacific Rim. Most of the Company's products are of its own design and are sold under its own name.

The Company offers a full range of desktop, timesharing, transaction processing, and scientific systems for research, computation, communications, education, data analysis, industrial control, commercial data processing, electronic publishing, word processing, personal computing, computer integrated manufacturing, health care, instrumentation, engineering and simulation.

The Company's marketing objective is to provide the products and services needed to build enterprise-wide networks. To this end, in addition to the range of products and services developed or acquired directly by the Company, the Company has entered into strategic alliances with telecommunication companies, independent software developers and component manufacturers.

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

	1989	1988	1987	1986	1985
Product sales	64.3%	65.7%	66.6%	67.2%	67.8%
Service and other revenues	35.7%	34.3%	33.4%	32.8%	32.2%
	<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 six-processor VAX 6000, 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, ULTRIX 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 resources exploration, data communications, medical systems and word processing. Current VAX systems and servers include VAXstations, MicroVAX, the multiprocessor VAX 6000 family and VAXcluster systems. Fully supported VAX system prices range from \$7,000 for the MicroVAX 3100 to over \$1.0 million for the largest VAX 6000. VAXstation workstations start at under \$5,000. The Company has also introduced a line of reduced instruction set computing (RISC)/UNIX(TM)-based workstations, systems and servers. These high performance products range from the DECstation 2100 priced at \$8,000 to the dual processor DECsystem 5820 priced at \$200,000.

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 11, 1989, the Company announced a variety of new and improved products that significantly increase VAX system performance while lowering system prices, and extended its UNIX-based RISC systems product set. Also announced were expanded network application support which allows customers to build a network of multivendor systems, servers and desktop devices.

## 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 the users of those systems. 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 28,000 field service professionals located in more than 60 countries are dedicated to customer satisfaction through Digital and multi-vendor hardware maintenance, software support, desktop services, network services, customized hardware and software systems and support integration. 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 4,500 people develops and delivers this training in a variety of formats (computer based education, lecture/lab, self-paced, etc.) in over 140 training facilities worldwide.

The Company maintains a highly skilled staff of approximately 8,750 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 1985 - 1989 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 1, 1989, prices were decreased for a selected number of hardware products. However, from time to time selective price increases have been effected.

During the year, the Company implemented user-based licensing pricing on the operating system software on selected systems to enable customers to acquire licenses priced in accordance with their own utilization requirements.

In the second fiscal quarter, the Company offered customers in the U.S. a choice of warranty service levels on new product purchases. This permits customers to order new products with the service level appropriate to their business needs.

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 870 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, customer-service-only service centers and distribution centers. 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.

Operating under the umbrella term of Complementary Solutions Organizations (CSO's), the third party relationships outlined below are supported by an extensive variety of formal training and support programs which foster the relationship between the Company and its customers, regardless of the channel of delivery. Cooperative Marketing Partner (CMP) arrangements with software developers and Original Equipment Manufacturers (OEM's) meeting defined criteria, and selected software companies where the solutions developed are sold and supported by the Company, are an increasingly important part of the Company's focus on providing complete solutions to its customers. Independent resellers, including OEM's, Complementary Software Houses (CSH's), and Authorized Distributors, continue to be an important area of sales and distribution for the Company.

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 1, 1989, 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 55% of total sales for the fiscal year ended July 1, 1989, 50% for the fiscal year ended July 2, 1988, and 47% for the fiscal year ended June 27, 1987. These international sales and marketing operations are conducted through subsidiaries, by direct sales from the parent company and through various representative and distributorship arrangements. Fluctuations in exchange rates, trade policies and structural changes such as those taking place in Europe may affect the level of demand for the Company's products and services. 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, international in scope 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. Though analyses vary as to 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 suppliers of networked computers systems and services.

### **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, software and office supplies; and facilities, consulting, travel and subcontract services. 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.

### **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 and engineering chemical usage, 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 on 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 is 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 on 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 on 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 1, 1989, July 2, 1988, and June 27, 1987, the Company spent approximately \$1,525 million, \$1,307 million, and \$1,010 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 8,300 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	63	President and Director (1957)
Winston R. Hindle, Jr.	59	Senior Vice President, Corporate Operations (1967)
John J. Shields	51	Senior Vice President, Sales, Services, Marketing and International (1974)
John F. Smith	54	Senior Vice President, Engineering, Manufacturing and Product Marketing (1976)
John L. Alexanderson	50	Vice President, U.S. Direct Marketing (1984)
Don K. Busiek	54	Vice President, Systems Integration and Professional Services (1984)
George A. Chamberlain, 3d	53	Vice President, Manufacturing, Engineering and Marketing Finance (1976)
Henry J. Crouse	54	Vice President, Strategic Relations (1981)
James G. Cudmore	50	Vice President, Product Operations (1981)
William R. Demmer	56	Vice President, Mid-Range Systems (1981)
Pier Carlo Falotti	47	Vice President, President and Chief Executive Officer - Europe (1981)
Samuel H. Fuller	43	Vice President, Research (1984)
Rose Ann Giordano	50	Vice President, Public Sector/Consultant Marketing (1984)
Robert M. Glorioso	49	Vice President, High Performance Systems (1985)
David W. Grainger	47	Vice President, U.S. Sales and Services (1984)
William C. Hanson	48	Vice President, Manufacturing Operations (1976)
William J. Heffner	59	Vice President, Open Software/Business Software (1985)
Martin R. Hoffmann	57	Vice President, General Counsel and Secretary (1989)
Robert C. Hughes	49	Vice President, U.S. Sales and Marketing (1984)
Donato A. Infante, Jr.	55	Vice President, Manufacturing/Engineering Information Management and Technology (1986)
Ilene B. Jacobs	42	Vice President and Treasurer (1985)
William R. Johnson, Jr.	47	Vice President, Distributed Systems Engineering/Marketing (1982)
John C. MacKeen	50	Vice President, Telecommunications Industry Marketing and International Programs Office (1985)
Edward B. McDonough	60	Vice President, GIA Operations (1986)
Kevin C. Melia	42	Vice President, Corporate Distribution and Materials (1986)
Albert E. Mullin, Jr.	56	Vice President, Corporate Relations (1981)
James M. Osterhoff	53	Vice President, Finance (1985)
Robert B. Palmer	49	Vice President, Semiconductor and Interconnect Technology (1986)
Richard Poulsen	54	Vice President, General International Area (1981)
Bruce J. Ryan	46	Vice President and Corporate Controller (1985)



F. Grant Saviers	45	Vice President, Storage and Information Management (1981)
Godfrey S. Shingles	50	Vice President, Managing Director, United Kingdom Region (1981)
John L. Sims	55	Vice President, Strategic Resources (1984)
Peter J. Smith	44	Vice President, Product Marketing (1984)
David L. Stone	47	Vice President, International Engineering and Strategic Resources (1986)
William D. Strecker	45	Vice President, Product Strategy and Architecture (1985)
Harvey L. Weiss	46	Vice President, Government Systems Group (1984)
Richard H. Yen	59	Vice President, GIA Manufacturing and Engineering (1984)
Donald P. Zereski	46	Vice President, Customer Services (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. Hoffmann, Mr. Osterhoff and Mr. Palmer. Prior to joining the Company, Mr. Hoffmann had been Managing Partner of the Washington, DC office of the law firm of Gardner, Carton & Douglas for twelve years, and prior thereto, he held a variety of senior positions in the U.S. government. Mr. Osterhoff was a controller at a division of Ford Motor Company for more than five years prior to joining the Company. 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

As of July 1, 1989, the Company occupied approximately 42.3 million square feet of space worldwide. Approximately 66% 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 offered by the Company. Approximately 48% of the space occupied by the Company is owned. Approximately 4.5 million square feet of space for new manufacturing, engineering, sales and administrative facilities are expected to be under construction or completed during fiscal 1990.

## Item 3. Legal Proceedings.

As previously reported, the Company, a director and certain officers were named as defendants in a class action lawsuit, filed in the U.S. District Court for Massachusetts, involving alleged violations of the Federal securities laws. The claim against the Company is based on a number of alleged misrepresentations and omissions in connection with the disclosure of information concerning the financial results of the Company for the third quarter of the 1988 fiscal year. On January 13, 1989, the District Court dismissed all of the claims against the director and officers and dismissed the claim against the Company to the extent it was based on one of the alleged misrepresentations. On April 20, 1989, the District Court certified a class consisting of purchasers of the Company's common stock during the period from and including January 13, 1988 through March 18, 1988, a shorter period than plaintiffs had originally requested. The Company believes that the remaining claims against it are without merit.



As previously reported, the Company and three of its officers have been named as defendants in a purported class action lawsuit filed in the U.S. District Court for Massachusetts on March 24, 1989. The amended complaint, filed on July 27, 1989, alleges violations of the Federal securities laws and negligent misrepresentation under state law by the Company and certain officers in connection with the disclosure of information concerning the financial results of the Company for its 1989 fiscal year and for the third quarter thereof. It also alleges that two of the individual defendants violated the securities laws in connection with sales of the Company's common stock during the third quarter of fiscal 1989. The amended complaint seeks unspecified damages and other unspecified relief. The Company believes 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. The Company has entered into a consent agreement with EPA in which the Company agreed to pay a fine of \$450,000 and EPA acknowledged that the Company had demonstrated compliance with applicable regulations for a six-month period following the Company's upgrading of its wastewater treatment systems. In addition the Company, along with several other parties, has entered into consent agreements with the EPA for the performance of the Remedial Investigation/Feasibility Studies and/or for preliminary clean-up costs for several 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 40 of the Company's 1989 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 1989 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 1989 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 1989 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 through 4 of the Company's Proxy Statement for its 1989 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 1989 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 1989 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 1989 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 1989 Annual Report to Stockholders:

Report of Independent Accountants (page 42).

Consolidated Statements of Income for fiscal years 1989, 1988 and 1987 (page 43).

Consolidated Balance Sheets as at July 1, 1989 and July 2, 1988 (page 44).

Consolidated Statements of Cash Flows for fiscal years 1989, 1988 and 1987 (page 45).

Consolidated Statements of Stockholders' Equity for fiscal years 1989, 1988 and 1987 (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 1989 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 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 as Exhibit 3(a) to the Company's Annual Report on Form 10-K for the fiscal year ended July 2, 1988 and incorporated herein by reference).
- (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) - 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).
- (b) - 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. 33-25280 and incorporated herein by reference).
- (b) - 1976 Restricted Stock Option Plan, as amended, filed separately under cover of Form SE.
- (c) - 1981 International Employee Stock Purchase Plan (contained in the prospectus included in the Company's Registration Statement No. 33-25279 and incorporated herein by reference).
- (d) - 1985 Restricted Stock Option Plan, as amended, filed separately under cover of Form SE.
- (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 as Exhibit 10(g) to the Company's Annual Report on Form 10-K for the fiscal year ended July 2, 1988 and incorporated herein by reference).
- 11 - Computation of net income per share.
- 13 - The Company's 1989 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 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 1, 1989.



# 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 15, 1989

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 15, 1989
<u>/s/ James M. Osterhoff</u> James M. Osterhoff	Vice President, Finance (Principal Financial Officer)	September 15, 1989
<u>/s/ Bruce J. Ryan</u> Bruce J. Ryan	Vice President and Corporate Controller (Principal Accounting Officer)	September 15, 1989
<u>/s/ Vernon R. Alden</u> Vernon R. Alden	Director	September 15, 1989
<u>/s/ Philip Caldwell</u> Philip Caldwell	Director	September 15, 1989
<u>/s/ Arnaud de Vitry</u> Arnaud de Vitry	Director	September 15, 1989
<u>/s/ Robert R. Everett</u> Robert R. Everett	Director	September 15, 1989
<u>/s/ William H. McLean</u> William H. McLean	Director	September 15, 1989
<u>/s/ Dorothy E. Rove</u> Dorothy E. Rove	Director	September 15, 1989



## Report of Independent 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 1989 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, 1989



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 1, 1989					
Land.....	\$ 299,157	\$ 11,669	\$ (317)	\$ (9,969)	\$ 300,540
Buildings.....	1,283,048	301,843	(8,243)	23,025	1,599,673
Leasehold improvements.....	458,449	99,684	(14,939)	(12,421)	530,773
Machinery and equipment .....	3,169,792	809,842	(161,412)	(635)	3,817,587
	<u>\$5,210,446</u>	<u>\$ 1,223,038</u>	<u>\$ (184,911)</u>	<u>\$ —</u>	<u>\$6,248,573</u>



## CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the Registration Statements (Forms S-8) and related prospectuses of the Digital Equipment Corporation 1976 and 1985 Restricted Stock Option Plans (No. 33-970), 1968 Employee Stock Purchase Plan (No. 33-25280) and 1981 International Employee Stock Purchase Plan (No. 33-25279), of our reports dated July 27, 1989 on our audits of the consolidated financial statements and financial statement schedules of Digital Equipment Corporation as of July 1, 1989 and July 2, 1988 and for each of the three fiscal years in the period ended July 1, 1989, which reports are incorporated by reference or included in this Annual Report on Form 10-K.

/s/ Coopers & Lybrand

Coopers & Lybrand

Boston, Massachusetts  
July 27, 1989



## 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, unless marked with an asterisk..

<u>Name</u>	<u>State or Jurisdiction of Organization</u>
Computer Insurance Company	Rhode Island
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 Incorporated	Peoples Republic of China
Digital Equipment (China) Ltd.	Delaware
Digital Equipment do Brazil Ltda.	Brazil
Digital Equipment Co. Limited	United Kingdom
Digital Equipment Computers A.S.	Turkey
Digital Equipment Corporation A/S	Norway
Digital Equipment Corporation 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 Japan	Japan
Digital Equipment Corporation OY	Finland
Digital Equipment Corporation de Puerto Rico	Delaware
Digital Equipment Corporation (New Zealand) Limited	New Zealand
Digital Equipment Corporation A.G./S.A.	Switzerland
Digital Equipment Corporation Services-Europe	Belgium
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 S.A.	Greece
Digital Equipment (Holdings) B.V.	Netherlands
Digital Equipment Hong Kong Limited	Hong Kong
*Digital Equipment (India) Ltd.	India
Digital Equipment International B.V.	Netherlands
Digital Equipment International Betriebliche Altersversorgungsgesellschaft m.b.H.	West Germany
Digital Equipment International G.m.b.H.	West Germany
Digital Equipment International Limited	Switzerland
Digital Equipment Ireland Limited	Republic of Ireland
Digital Equipment Korea, Incorporated	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
Digital Realty Corporation	Delaware
Old Colony Insurance Limited	Bermuda







EXHIBIT 11, Contd.

Common stock equivalents from application of "treasury stock" method to unexercised and outstanding stock options.....	4,373	5,712	5,105	3,995	1,638
Total number of common and common equivalent shares used in the computation of net income per share.....	127,008	131,923	133,305	130,792	124,112
Net income per share.....	\$ 8.45	\$ 9.90	\$ 8.53	\$ 4.81	\$ 3.71

(a) Adjusted to reflect two-for-one stock split in May 1986.



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 27, 1987					
Allowance for possible losses on accounts receivable..	\$ 52,439	\$ 31,250	\$ 2,635	\$ 17,044 (a)	\$ 69,280

(a) Uncollectible accounts and adjustments.



SCHEDULE X

DIGITAL EQUIPMENT CORPORATION

Supplemental Income Statement Information  
(In Thousands)

Charged to costs and expenses

	Year Ended		
	July 1, 1989	July 2, 1988	June 27, 1987
Maintenance and repairs.....	\$ 283,846	\$ 239,194	\$ 226,746
Advertising costs.....	\$ 159,503	\$ 129,213	\$ 98,504

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.



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 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>
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 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 1, 1989					
Allowance for possible losses on accounts receivable..	\$ 78,148	\$ 10,774	\$ 2,329	\$ 16,906 (a)	\$ 74,345

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



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					
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>

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 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 1, 1989					
Buildings.....	\$ 188,500	\$ 44,069	\$ 81	\$ 306	\$ 232,956
Leasehold improvements.....	174,100	67,284	(14,783)	(221)	226,380
Machinery and equipment.....	1,752,821	548,026	(157,421)	(85)	2,143,341
	<u>\$2,115,421</u>	<u>\$ 659,379</u>	<u>\$ (172,123)</u>	<u>\$ —</u>	<u>\$2,602,677</u>



FORM 10-K  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

- (x) Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Fiscal Year Ended June 30, 1990  
or  
( ) Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-5296

Digital Equipment Corporation

(Exact name of registrant as specified in its charter)

Massachusetts

04-2226590

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer Identification No.)

146 Main Street, Maynard, Massachusetts  
(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:

Title of each class	Name of each exchange on which registered (a)
Common Stock, par value \$1	New York Stock Exchange
	Pacific Stock Exchange
	Midwest 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 7, 1990, 119,373,697 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, 1990 was approximately \$7.6 billion.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's 1990 Annual Report to Stockholders are incorporated by reference in Part II hereof.

Portions of the registrant's Proxy Statement for its 1990 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 30, 1990, the Company employed approximately 124,000 persons and conducted operations in the United States and in more than 80 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 largest suppliers of networked computer systems, software and services and a leader in multivendor systems integration.

The Company does more than half its business outside the United States, developing and manufacturing products and providing customer services in the Americas, Europe and the Pacific Rim. Most of the Company's products are of its own design and are sold under its own name.

The Company offers a full range of desktop, client-server and production systems for research computation, multivendor networking, communications, timesharing, transaction processing, education, data analysis, industrial control, commercial data processing, electronic publishing, personal computing, computer integrated manufacturing, health care, instrumentation, software development, engineering and simulation.

The Company's marketing objective is to provide the products and services needed to build enterprise-wide networks. To this end, in addition to the range of products and services developed or acquired directly by the Company, the Company has entered into strategic alliances with telecommunication companies, independent software developers and component manufacturers.

For the last five fiscal years, the percentage of total operating revenues contributed by the Company's principal classes of products was as follows:

	1990	1989	1988	1987	1986
Product sales	<u>62.9%</u>	<u>64.3%</u>	<u>65.7%</u>	<u>66.6%</u>	<u>67.2%</u>
Service and other revenues	<u>37.1%</u>	<u>35.7%</u>	<u>34.3%</u>	<u>33.4%</u>	<u>32.8%</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, sales of 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 desktop VAX workstations to VAX 9000 mainframe systems, serving from one to one thousand users. The Company has also introduced a line of reduced instruction set computing (RISC)/UNIX(TM)-based computers that range from high performance desktop workstations to large, general purpose computer systems and servers. In addition, the Company offers clustered systems, fault tolerant computer systems, personal computers, desktop integration products and a full range of peripheral and data storage devices. These products are supported by industry standard software languages and tools, networking software and layered application products. Prices of the Company's products range from less than \$100 for accessories to multi-million dollar VAX 9000 mainframe computer systems.

Most of the Company's systems are general purpose digital computers, designed for performing, interpreting and recording computations on collected data or acting as servers providing computing resources across a network. 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 machine control, engineering design, natural resources exploration, data communications, medical systems and word processing. Current VAX systems and servers include VAXstations, MicroVAX, the multiprocessor VAX 6000 family, VAXcluster systems and VAX 9000 mainframes. Fully supported VAX system prices range from \$7,000 for the MicroVAX 3100 to over \$2 million for the largest VAX 9000. VAXstation workstations start at under \$5,000. The Company's (RISC)/UNIX(TM)-based workstations, systems and servers range from the DECstation 2100 priced at \$6,000 to the four processor DECsystem 5840 priced at \$160,000.

The Company engineers, manufactures and sells a variety of hardware and software products that integrate personal computers from major vendors in the industry. The Company also 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 9, 1990, the Company announced a new high performance server, the VAX 4000, and a variety of specialized server products, as well as high speed networking and network management products.

## 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 the users of those systems. Many customers use the system software provided by the Company to design their own specific application software.

#### **Services - Enterprise Integration Services and Customer Services**

The Company provides one of the industry's most comprehensive portfolios of services, including the planning, design, implementation and management of information technology solutions. These services are delivered by 18,000 Enterprise Integration Services (EIS) employees and an additional 26,000 Customer Services employees located in the United States and over 80 countries around the world.

The EIS organization provides customers with quality solutions and professional services on a global basis. As the Company's systems integrator, EIS builds those solutions -- from systems integration, consulting, software, hardware, training, information services and third-party products and services -- into systems tailored specifically to the business goals of the Company's customers.

The Customer Services organization is dedicated to customer satisfaction through Digital and multivendor hardware maintenance, software support, desktop services, network services and support integration.

The Company's focus on service 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 1986 - 1990 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 June 30, 1990, prices were decreased for a selected number of hardware products.

During the year, price increases were instituted on some software products to recognize enhanced functionality. Other price increases were also selectively effected during the year.

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 870 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, customer-service-only service centers and distribution centers. 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.

Operating under the umbrella term of Complementary Solutions Organizations (CSOs), the third party relationships outlined below are supported by a variety of business policies, practices, support programs and training which foster the relationship between the Company and its CSOs. Arrangements with software developers, including Cooperative Marketing Partners (CMPs) and Complementary Software Houses (CSHs), Original Equipment Manufacturers (OEMs) and Authorized Distributors, all meeting defined criteria, are an increasingly important part of the Company's focus on providing complete solutions to its customers.

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, 1990, 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 56% of total sales for the fiscal year ended June 30, 1990, 55% for the fiscal year ended July 1, 1989 and 50% for the fiscal year ended July 2, 1988. These international sales and marketing operations are conducted through subsidiaries, by direct sales from the parent company and through various representative and distributorship arrangements. Fluctuations in exchange rates, trade policies and structural changes such as those taking place in Europe may affect the level of demand for the Company's products and services. In view of the locations and diversification of the Company's international activities, the Company does not believe that there are any special risks beyond the normal business risks attendant to conducting business abroad. The Company enters into forward exchange contracts to delay



the short term impact of foreign currency fluctuations on its operations. See Notes A, C and L 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, international in scope 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. Though analyses vary as to the Company's relative position in the industry, independent surveys have indicated that, in terms of total revenues, the Company is one of the largest suppliers of networked computer systems and services.

### **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, software and office supplies, and facilities, consulting, travel and subcontract services. The Company continues 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.

### **Environmental Affairs**

The Company's facilities are subject to numerous laws and regulations designed to protect human health and safety and the environment, particularly those applicable to manufacturing and engineering chemical usage, 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 on 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 is 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 on 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 on 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, 1990, July 1, 1989 and July 2, 1988, the Company spent \$1,614 million, \$1,525 million and \$1,307 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 10,500 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 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	64	President and Director (1957)
Winston R. Hindle, Jr.	60	Senior Vice President (1967)
John F. Smith	55	Senior Vice President, Operations (1976)
John L. Alexanderson	51	Vice President, U.S. Direct Marketing (1984)
Don K. Busiek	55	Vice President, New Business Development (1984)
George A. Chamberlain, 3d	54	Vice President, Marketing Finance (1976)
Henry J. Crouse	55	Vice President, Strategic Relations (1981)
James G. Cudmore	51	Vice President, Product Operations (1981)
William R. Demmer	57	Vice President, VAX/VMS Systems and Servers (1981)
Pier Carlo Falotti	48	Vice President, President and Chief Executive Officer - Europe (1981)
Samuel H. Fuller	44	Vice President, Corporate Research (1984)
Rose Ann Giordano	51	Vice President, Eastern States (1984)
Robert M. Glorioso	50	Vice President, Information Systems Business (1985)
David W. Grainger	48	Vice President, United States Sales and Services (1984)
William C. Hanson	49	Vice President, Manufacturing Operations (1976)
William J. Heffner	60	Vice President, Software Systems (1985)
Martin R. Hoffmann	58	Vice President, General Counsel, Clerk and Secretary (1989)
Robert C. Hughes	50	Vice President, National Accounts (1984)
Donato A. Infante, Jr.	56	Vice President, Digital Information Management and Technology (1986)
Ilene B. Jacobs	43	Vice President and Treasurer (1985)
William R. Johnson, Jr.	48	Vice President, Telecommunications and Networks Group (1982)
John C. MacKeen	51	Vice President, International Accounts Marketing (1985)
Edward B. McDonough	61	Vice President, General International Area (1986)
Albert E. Mullin, Jr.	57	Vice President, Corporate Relations (1981)
James M. Osterhoff	54	Vice President, Finance (1985)
Robert B. Palmer	50	Vice President, Semiconductor and Interconnect Technology (1986)
Richard Poulsen	55	Vice President, General International Area (1981)
Bruce J. Ryan	47	Vice President and Corporate Controller (1985)
F. Grant Saviers	46	Vice President, PC Systems and Peripherals (1981)
Godfrey S. Shingles	51	Vice President, Managing Director, Digital Equipment Co. Ltd. (1981)
John L. Sims	56	Vice President, Strategic Resources (1984)
Peter J. Smith	45	Vice President, Product and Industry Marketing (1984)



David L. Stone	48	Vice President, Software Product Group (1986)
William D. Strecker	46	Vice President, Engineering (1985)
Harvey L. Weiss	47	Vice President, Government Systems Group (1984)
Richard H. Yen	60	Vice President, General International Area Manufacturing and Engineering (1984)
Donald P. Zereski	47	Vice President, Customer Services (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. Hoffmann and Mr. Palmer. Prior to joining the Company, Mr. Hoffmann had been Managing Partner of the Washington, DC office of the law firm of Gardner, Carton & Douglas for twelve years, and prior thereto, he held a variety of senior positions in the U.S. government. 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.

As of June 30, 1990, the Company occupied approximately 44.2 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 offered by the Company. Approximately 50% of the space occupied by the Company is owned. Approximately 3.7 million square feet of space for new manufacturing, engineering, sales and administrative facilities are expected to be under construction or completed during fiscal 1991.

## Item 3. Legal Proceedings.

As previously reported, the Company, a director and certain officers were named as defendants in a class action lawsuit, filed in the U.S. District Court for Massachusetts, involving alleged violations of the Federal securities laws. The claim against the Company is based on a number of alleged misrepresentations and omissions in connection with the disclosure of information concerning the financial results of the Company for the third quarter of the 1988 fiscal year. On January 13, 1989, the District Court dismissed all of the claims against the director and officers and dismissed the claim against the Company to the extent it was based on one of the alleged misrepresentations. On April 20, 1989, the District Court certified a class consisting of purchasers of the Company's Common Stock during the period from and including January 13, 1988 through March 18, 1988, a shorter period than plaintiff had originally requested. The Company believes that the remaining claims against it are without merit.



As previously reported, the Company and three of its officers have been named as defendants in a purported class action lawsuit filed in the U.S. District Court for Massachusetts on March 24, 1989. The amended complaint, filed on July 27, 1989, alleged violations of the Federal securities laws and negligent misrepresentation under state law by the Company and certain officers in connection with the disclosure of information concerning the financial results of the Company for its 1989 fiscal year and for the third quarter thereof. It also alleged that two of the individual defendants violated the securities laws in connection with sales of the Company's Common Stock during the third quarter of fiscal 1989. On May 22, 1990, the Court denied plaintiffs' motion for class action certification, dismissed one of their claims against the Company and dismissed, with leave to replead, all of the claims against the individual defendants. A second amended complaint, purporting to reassert the claims against the individual defendants, was filed on June 21, 1990. The second amended complaint seeks unspecified damages and other unspecified relief. The Company believes the claims asserted against it are without merit.

The Company, along with several other parties, has entered into consent agreements with the EPA for the performance of the Remedial Investigation/Feasibility Studies and/or for preliminary clean-up costs for several 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 32 of the Company's 1990 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 1990 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 28 through 33 of the Company's 1990 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 1990 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 "Election of Directors", which is incorporated herein by reference, appearing on pages 2 through 5 of the Company's Proxy Statement for its 1990 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 12 through 19 of the Company's Proxy Statement for its 1990 Annual Meeting of Stockholders.

**Item 12. Security Ownership of Certain Beneficial Owners and Management.**

See the sections entitled "Principal Holders of Voting Securities" and "Stock Ownership of Directors", which are incorporated herein by reference, appearing on page 2 and pages 5 through 7 of the Company's Proxy Statement for its 1990 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 6 of the Company's Proxy Statement for its 1990 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 1990 Annual Report to Stockholders:

Report of Independent Accountants (page 34).

Consolidated Statements of Income for fiscal years 1990, 1989 and 1988 (page 35).

Consolidated Balance Sheets as at June 30, 1990 and July 1, 1989 (page 36).

Consolidated Statements of Cash Flows for fiscal years 1990, 1989 and 1988 (page 37).

Consolidated Statements of Stockholders' Equity for fiscal years 1990, 1989 and 1988 (page 38).

Notes to Consolidated Financial Statements (pages 39 through 48).

Eleven Year Financial Summary (pages 26 and 27).

Supplementary Financial Information (page 48).

The Company's 1990 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 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 as Exhibit 3(a) to the Company's Annual Report on Form 10-K for the fiscal year ended July 2, 1988 and incorporated herein by reference).
- (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) - 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).
- (b) - 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).
- (c) - Rights Agreement dated as of December 11, 1989 between the Company and First Chicago Trust Company of New York, as Rights Agent (filed under cover of Form SE as Exhibit 4.1 to the Company's Current Report on Form 8-K dated December 12, 1989 and incorporated herein by reference).
- 10(a) - 1968 Employee Stock Purchase Plan (contained in the prospectus included in the Company's Registration Statement No. 33-25280 and incorporated herein by reference).
- (b) - 1976 Restricted Stock Option Plan, as amended (filed under cover of Form SE as Exhibit 10(b) to the Company's Annual Report on Form 10-K for the fiscal year ended July 1, 1989 and incorporated herein by reference).
- (c) - 1981 International Employee Stock Purchase Plan (contained in the prospectus included in the Company's Registration Statement No. 33-25279 and incorporated herein by reference).



- (d) - 1985 Restricted Stock Option Plan, as amended (filed under cover of Form SE as Exhibit 10(d) to the Company's Annual Report on Form 10-K for the fiscal year ended July 1, 1989 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 Company and each of its officers and directors (filed as Exhibit 10(g) to the Company's Annual Report on Form 10-K for the fiscal year ended July 2, 1988 and incorporated herein by reference).
- 11 - Computation of net income per share.
- 13 - The Company's 1990 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 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, 1990.



## 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 10, 1990

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 10, 1990
<u>/s/ James M. Osterhoff</u> James M. Osterhoff	Vice President, Finance (Principal Financial Officer)	September 10, 1990
<u>/s/ Bruce J. Ryan</u> Bruce J. Ryan	Vice President and Corporate Controller (Principal Accounting Officer)	September 10, 1990
<u>/s/ Vernon R. Alden</u> Vernon R. Alden	Director	September 10, 1990
<u>/s/ Philip Caldwell</u> Philip Caldwell	Director	September 10, 1990
<u>/s/ Colby H. Chandler</u> Colby H. Chandler	Director	September 10, 1990
<u>/s/ Arnaud de Vitry</u> Arnaud de Vitry	Director	September 10, 1990
<u>/s/ Robert R. Everett</u> Robert R. Everett	Director	September 10, 1990
<u>/s/ William H. McLean</u> William H. McLean	Director	September 10, 1990



## **Report of Independent Accountants**

Our report on the consolidated financial statements of Digital Equipment Corporation has been incorporated by reference in this Form 10-K from page 34 of the 1990 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 25, 1990



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 30, 1990					
Land.....	\$ 300,540	\$ 48,951	\$ (949)	\$ 3,754	\$ 352,296
Buildings.....	1,599,673	166,822	(4,147)	(50,144)	1,712,204
Leasehold					
improvements.....	530,773	75,490	(30,990)	(5,388)	569,885
Machinery and					
equipment .....	3,817,587	736,362	(213,118)	51,778	4,392,609
	<u>\$6,248,573</u>	<u>\$1,027,625</u>	<u>\$ (249,204)</u>	<u>\$ —</u>	<u>\$7,026,994</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
<b>Year Ended</b>					
<b>July 1, 1989</b>					
Land.....	\$ 299,157	\$ 11,669	\$ (317)	\$ (9,969)	\$ 300,540
Buildings.....	1,283,048	301,843	(8,243)	23,025	1,599,673
Leasehold improvements.....	458,449	99,684	(14,939)	(12,421)	530,773
Machinery and equipment.....	3,169,792	809,842	(161,412)	(635)	3,817,587
	<u>\$5,210,446</u>	<u>\$1,223,038</u>	<u>\$ (184,911)</u>	<u>\$ —</u>	<u>\$6,248,573</u>
<b>Column A</b>	<b>Column B</b>	<b>Column C</b>	<b>Column D</b>	<b>Column E</b>	<b>Column F</b>
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</b>					
<b>July 2, 1988</b>					
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 June 30, 1990					
Buildings.....	\$ 232,956	\$ 53,969	\$ (1,455)	\$ 249	\$ 285,719
Leasehold improvements.....	226,380	73,554	(20,554)	(793)	278,587
Machinery and equipment.....	2,143,341	631,431	(180,720)	544	2,594,596
	<u>\$2,602,677</u>	<u>\$ 758,954</u>	<u>\$ (202,729)</u>	<u>\$ —</u>	<u>\$3,158,902</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					
July 1, 1989					
Buildings.....	\$ 188,500	\$ 44,069	\$ 81	\$ 306	\$ 232,956
Leasehold					
Improvements.....	174,100	67,284	(14,783)	(221)	226,380
Machinery and equipment.....	1,752,821	548,026	(157,421)	(85)	2,143,341
	<u>\$2,115,421</u>	<u>\$ 659,379</u>	<u>\$ (172,123)</u>	<u>—</u>	<u>\$2,602,677</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					
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 June 30, 1990					
Allowance for possible losses on accounts receivable..	\$ 74,345	\$ 28,539	\$ (1,756)	\$ 13,496(a)	\$ 87,632

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 1, 1989					
Allowance for possible losses on accounts receivable..	\$ 78,148	\$ 10,774	\$ 2,329	\$ 16,906(a)	\$ 74,345



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 July 2, 1988					
Allowance for possible losses on accounts receivable..	\$ 69,280	\$ 26,227	\$ 3,737	\$ 21,096(a)	\$ 78,148

(a) Uncollectible accounts and adjustments.



SCHEDULE X

DIGITAL EQUIPMENT CORPORATION

Supplemental Income Statement Information  
(In Thousands)

Charged to costs and expenses

	Year Ended	
	June 30, 1990	July 2, 1988
Maintenance and repairs.....	\$ 344,608	\$ 283,846
		\$ 239,194

Amortization of intangible assets, taxes other than payroll and income taxes, advertising costs and royalties are not set inasmuch as each such item does not exceed one percent of total sales as shown in the related Consolidated Statements of



### Computation of Net Income Per Share

1



EXHIBIT 11, Contd.

Common stock equivalents from application of "treasury stock" method to unexercised and outstanding stock options.....

3,477	4,373	5,712	5,105	3,995
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Total number of common and common equivalent shares used in the computation of net income per share.....

125,222	127,008	131,923	133,305	130,792
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Net income per share.....

\$ .59	\$ 8.45	\$ 9.90	\$ 8.53	\$ 4.81
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## 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, unless marked with an asterisk.

<u>Name</u>	<u>State or Jurisdiction of Organization</u>
Computer Insurance Company	Rhode Island
Computer Insurance Company Limited	Bermuda
Digital Computer Taiwan Limited	Taiwan
Digital Equipment Aktiebolag	Sveden
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 Incorporated	Peoples Republic of China
Digital Equipment China Ltd.	Delaware
Digital Equipment do Brazil Ltda.	Brazil
Digital Equipment Co. Limited	United Kingdom
Digital Equipment Computers A.S.	Turkey
Digital Equipment Corporation A/S	Norway
Digital Equipment Corporation 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 Japan	Japan
Digital Equipment Corporation OY	Finland
Digital Equipment Corporation de Puerto Rico	Delaware
Digital Equipment Corporation (New Zealand) Limited	New Zealand
Digital Equipment Corporation A.G./S.A.	Switzerland
Digital Equipment Corporation Services-Europe	Belgium
Digital Equipment (DEC) Limited	Israel
Digital Equipment (DEC) Technical Center (Israel) Limited	Israel



*Digital Equipment Export (India) Ltd.	India
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 S.A.	Greece
Digital Equipment (Holdings) B.V.	Netherlands
Digital Equipment Hong Kong Limited	Hong Kong
*Digital Equipment (India) Ltd.	India
*Digital Equipment (Hungary) Ltd.	Hungary
Digital Equipment International B.V.	Netherlands
Digital Equipment International Betriebliche Altersversorgungsgesellschaft m.b.H.	West Germany
Digital Equipment International G.m.b.H.	West Germany
Digital Equipment International Limited	Switzerland
Digital Equipment Ireland Limited	Republic of Ireland
Digital Equipment Korea, Incorporated	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 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 (Thailand) Ltd.	Thailand
Digital Growth, Inc.	Massachusetts
Digital Incorporated	Delaware
Digital International Sales Corporation	Delaware
Digital Realty Corporation	Delaware
Societe Civile Immobiliere (SCI) Parc du Bois Briard	France
Old Colony Insurance Limited	Bermuda



FORM 10  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

- (X) Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the fiscal year ended **June 27, 1992**  
or  
( ) Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number 1-5296

Digital Equipment Corporation

(Exact name of registrant as specified in its charter)

Massachusetts

04-2226590

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

146 Main Street, Maynard, Massachusetts

01754-2571

(Address of principal executive offices)

(Zip Code)

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

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
	Midwest Stock Exchange

- (a) In addition, shares of Common Stock of the registrant are listed on the Montreal Exchange and certain stock exchanges in Switzerland and 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 ☐

Indicated by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to this Form 10-K. ☒

As of August 24, 1992, 128,198,204 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 August 24, 1992 was approximately \$4.4 billion.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's 1992 Annual Report to Stockholders are incorporated by reference in Part II hereof.

Portions of the registrant's Proxy Statement for its 1992 Annual Meeting of Stockholders, scheduled to be held on November 5, 1992, 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, 1992, the Company employed approximately 113,800 persons and conducted operations in the United States and in more than 90 other countries, deriving more than half of its revenues from outside of the United States.

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 largest suppliers of networked computer systems, software and services and a leader in interactive, distributed computing and multivendor systems integration in open information environments. The Company's objective is to be recognized worldwide as the best provider of quality integrated information systems, networks and services. The Company offers a full range of desktop, client-server and production systems and related peripheral equipment, software and services used in a wide variety of applications and industries. In addition to the range of products and services developed or acquired directly by the Company, the Company has entered into strategic alliances with telecommunications companies, independent software developers and component manufacturers.

For the last five fiscal years, the percentage of total operating revenues contributed by the Company's principal classes of products was as follows:

	<u>1992</u>	<u>1991</u>	<u>1990</u>	<u>1989</u>	<u>1988</u>
Product sales	55.2%	59.7%	62.9%	64.3%	65.7%
Service and other					
revenues	44.8%	40.3%	37.1%	35.7%	34.3%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Service and other revenues are derived principally from Company and multivendor hardware and software product services and systems integration services.

#### Recent Developments

On July 16, 1992, Kenneth H. Olsen, the Company's founder and President, announced his intention to retire from the Company effective



October 1, 1992. Robert B. Palmer, Vice President, Manufacturing, Logistics and Component Engineering, has been elected President and Chief Executive Officer of the Company to succeed Mr. Olsen upon his retirement.

In February 1992, the Company announced a new open computing product architecture, known as "Alpha", which is designed to support multiple operating systems and to be the foundation for a leading high performance computer system family. The Company also announced its intention to sell Alpha at all levels of integration, including chip, board and system, to other computer companies and to original equipment manufacturers ("OEMs"), and to license the Alpha architecture to third parties. Shortly after the close of the fiscal year, the Company announced a new open systems environment, including new "OpenVMS" computer systems. The new systems are designed to upgrade easily to future Alpha systems.

In June 1992, the Company entered into an agreement to acquire shares of common stock of Ing. Olivetti & Co. S.p.A. ("Olivetti"), and an agreement to form a strategic alliance. See Note K to Notes to Consolidated Financial Statements. The investment is intended to further strengthen the business relationship between Olivetti and the Company, and the parties' agreements provide for Alpha to become a strategic architecture for future Olivetti products.

### **Systems and Products**

The Company offers one of the broadest ranges of compatible hardware, software and communications products in the computer industry. Most of the Company's systems are general purpose digital computers, designed for performing, interpreting and recording computations on collected data or acting as servers providing computing resources across a network. Current VAX systems and servers include VAXstations, MicroVAX, VAX 4000, the multiprocessor VAX 6000 family, VAX 7000 family, VAXcluster systems and VAX 10000 mainframes. The Company also has a line of reduced instruction set computing (RISC)/UNIX(TM)-based computers that range from high performance desktop workstations to large, general purpose computer systems and servers. Fully supported VAX systems prices range from \$7,000 for the MicroVAX 3100 to over \$2 million for the largest VAX 10000. VAXstation workstations start at under \$4,000. The Company's RISC/UNIX(TM)-based workstations, systems and servers range from a DECstation 5000 priced at under \$4,000 to the DECsystem 5900 with an average system price of \$125,000.

The Company offers a full range of industry compatible personal computers. The Company's workstation and personal computing products are generally sold into networked environments that are increasingly using client-server applications. In addition, the Company offers clustered systems, fault tolerant computer systems, network hardware, desktop integration products and a full range of peripheral and data storage devices. These products are supported by industry standard software languages and tools, networking software and layered application products.



The Company manufactures and sells a variety of hardware and software products that integrate personal computers into local and wide area networks and interconnect networked personal computers with departmental and mainframe Digital and IBM systems. The Company also sells data storage and associated peripheral devices which are used with and sold as part of the Company's various computer systems, some of which are acquired from other manufacturers. Selected peripherals and components are sold separately for other independent applications to other systems and peripheral equipment manufacturers. The Company also is a major manufacturer and supplier of video terminals.

### **Software**

The Company designs, or acquires from third parties and distributes under license, various software products for its computer systems and for systems from other vendors. These products consist of operating systems, communication and networking software, Network Application Support (NAS) run-time services (such as data/information handling and graphical user interfaces), language processors, productivity tools and other applications software. The Company's software is generally designed to use the open, standard interfaces that are being adopted by an increasing number of computer manufacturers. In addition, the Company's software may be optimized for a particular computer family to maximize the efficiency of the users of those systems. Many customers and systems integrators use the applications development software provided by the Company to design their own specific application software.

### **Services**

The Company provides one of the most comprehensive portfolios of systems integration and support services available in the industry to help customers plan, design, implement and manage their information technology solutions. These services are delivered through a global network of nearly 40,000 employees.

The Company's services organization provides customers with professional services, either directly or in conjunction with other companies. The Company's services offerings include: multivendor maintenance and support services, from the desktop to the data center; management and information systems consulting services; technical and application design services; education and customer training services; systems integration program and project management services; network design and support services; desktop services; business protection services; and outsourcing and facilities management services.

The amount of service revenues, and the percentage of the Company's total operating revenues represented by service revenues, has continued to increase over the years. The Company's service and other revenues as a percentage of its total operating revenues for fiscal years 1988 - 1992 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 June 27, 1992, prices were decreased for a selected number of 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 directly sells, markets and supports its products and services through more than 800 locations throughout the world. In addition to its sales offices, the Company also operates or supports a number of distributor offices, remote service points, customer-service-only service centers and distribution centers. 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.

Arrangements with software developers, including cooperative marketing partners (CMPs) and complementary software houses (CSHs), OEMs and authorized distributors, all meeting defined criteria, are an increasingly important part of the Company's focus on providing complete solutions to its customers. Operating under the umbrella term of Complementary Solutions Organizations (CSOs), these third party relationships are supported by a variety of business policies, practices, support programs and training which foster the relationship between the Company and its CSOs.

During fiscal 1992, the Company acquired most of the Information Systems Division of Philips Electronics N.V. of the Netherlands. The acquisition further enhances the Company's ability and capacity to serve small and medium sized businesses, as well as financial institutions, principally in Europe.

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, 1992, approximately 4% of the Company's total operating revenues were derived directly from sales to various agencies of the U.S. Government, and no other customer of the Company accounted for more than 1% of total revenues.



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 to delivery of the product.

### **International Operations**

Sales by the Company to customers outside the United States amounted to approximately 63% of total sales for the fiscal year ended June 27, 1992, 60% for the fiscal year ended June 29, 1991 and 56% for the fiscal year ended June 30, 1990. These international sales and marketing operations are conducted through subsidiaries, by direct sales from the parent company and through various representative and distributorship arrangements. Fluctuations in exchange rates, trade policies and structural changes such as those taking place in Europe may affect the level of demand for the Company's products and services. In view of the locations and diversification of the Company's international activities, the Company does not believe that there are any special risks beyond the normal business risks attendant to conducting business abroad. The Company enters into forward exchange contracts to delay the short-term impact of foreign currency fluctuations on its operations. See Notes A, C and L 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, international in scope 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 larger firms within the industry may also alter the competitive situation. Though analyses vary as to the Company's relative position in the industry, independent surveys have indicated that, in terms of total revenues, the Company is one of the largest suppliers of networked computer systems and services.

### **Raw Materials, Supplies and Services**

The Company's engineering, manufacturing, sales and services and functional organizations rely heavily on external sources of supply. These suppliers provide a broad base of goods and services including but not limited to raw materials, software, facilities, consulting and subcontract services. The Company continues a program of supplier 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.



## **Environmental Affairs**

The Company's facilities are subject to numerous laws and regulations designed to protect human health and safety and the environment, particularly those applicable to manufacturing and engineering, chemical usage, waste and emissions. In the opinion of the Company, compliance with these laws and regulations has not had and should not have a material effect on the capital expenditures, earnings or competitive position of the Company. Pursuant to the Comprehensive Environmental Response, Compensation, and Liability act of 1980 ("CERCLA"), as amended, the Company has been notified that it is a potentially responsible party for and the Company is sharing the costs of cleaning up certain hazardous waste disposal sites. Under similar state laws, the Company also is incurring costs in connection with the investigation and remediation of certain Company-owned properties. Such costs are not expected to have a material effect on 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 on 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 for research and engineering. In the fiscal years ended June 27, 1992, June 29, 1991 and June 30, 1990, the Company spent \$1.75 billion, \$1.65 billion and \$1.61 billion, respectively, for these purposes.



### Executive Officers of the Company

The following table sets forth the names and ages of the 13 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	66	President and Director (1957)
Robert B. Palmer	51	Vice President (1985) and Director (1992); President and Chief Executive Officer-elect*
Winston R. Hindle, Jr.	62	Senior Vice President (1967)
John F. Smith	57	Senior Vice President, Operations (1976)
Martin R. Hoffmann	60	Vice President, General Counsel, Secretary and Clerk (1989)
Ilene B. Jacobs	45	Vice President and Treasurer (1985)
William R. Johnson, Jr.	50	Vice President, Corporate Marketing (1982)
Richard Poulsen	57	Vice President, President - General International Area (1981)
Bruce J. Ryan	49	Vice President and Corporate Controller (1985)
John L. Sims	58	Vice President, Strategic Resources (1984)
William M. Steul	50	Vice President, Finance (1992)
William D. Strecker	48	Vice President, Chief Technology Officer (1985)
Donald P. Zereski	49	Vice President, U.S. Area (1986)

\*Mr. Palmer will become President and Chief Executive Officer effective October 1, 1992 upon the retirement of Mr. Olsen.

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, except Mr. Hoffmann. Prior to joining the Company, Mr. Hoffmann had been Managing Partner of the Washington, D.C. office of the law firm of Gardner, Carton & Douglas for twelve years, and prior thereto, he held a variety of senior positions in the U.S. government.



## Item 2. Properties.

As of June 27, 1992, the Company occupied approximately 43.3 million square feet of space worldwide. The total space occupied increased by 1.9 million square feet from the prior year, due principally to acquisitions, including the Philips and Kienzle acquisitions referenced in Note O to the Notes to Consolidated Financial Statements. Without these acquisitions total occupied space would have declined year to year. Approximately 54% of the space is located in the United States; approximately 56% of the space occupied by the Company is owned. The Company's facilities are substantially utilized, well maintained and suitable for the advanced technological products and services offered by the Company.

Approximately 1 million square feet of space for new manufacturing, engineering, sales and administrative facilities is expected to be under construction or completed during fiscal 1993. This new space will be used principally for the consolidation of other facilities. Over the last two fiscal years the Company has eliminated 7.2 million square feet of space through restructuring actions while at the same time adding some facilities. Total occupied space has declined over the two-year period. The Company anticipates it will occupy fewer square feet of space worldwide at the end of fiscal 1993 than at the end of fiscal 1992.

## Item 3. Legal Proceedings.

As previously reported, the Company, a director and certain officers were named as defendants in a class action lawsuit, filed in the U.S. District Court for Massachusetts, involving alleged violations of the Federal securities laws in connection with the disclosure of information concerning the financial results of the Company for the third quarter of the 1988 fiscal year. In January 1989 the District Court dismissed all of the claims against the director and officers. In November 1991 the U.S. Court of Appeals for the First Circuit upheld the District Court's ruling granting summary judgment to the Company and awarded the Company its attorneys fees and double the costs it incurred on appeal.

The Company, along with several other parties, has entered into consent agreements with the EPA for the performance of the Remedial Investigation/Feasibility Studies and/or for preliminary clean-up costs for several hazardous waste sites. The Company expects that the costs associated with these matters will not be material. In July 1992 the Company agreed to participate in a cash settlement with the EPA and the Massachusetts Department of Environmental Protection for the clean-up of the Silresim Superfund Site located in Lowell, Massachusetts. The amount of the Company's settlement share is not 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 33 of the Company's 1992 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 1992 Annual Report to Stockholders.

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

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 28 through 32 of the Company's 1992 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 1992 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 "Election of Directors," which is incorporated herein by reference from the Company's Proxy Statement for its 1992 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 from the Company's Proxy Statement for its 1992 Annual Meeting of Stockholders.

#### **Item 12. Security Ownership of Certain Beneficial Owners and Management.**

See the section entitled "Stock Ownership of Directors," which is incorporated herein by reference from the Company's Proxy Statement for its 1992 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 from the Company's Proxy Statement for its 1992 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 1992 Annual Report to Stockholders:

Report of Independent Accountants (page 35).

Consolidated Statements of Operations for fiscal years 1992, 1991 and 1990 (page 36).

Consolidated Balance Sheets as at June 27, 1992 and June 29, 1991 (page 37).

Consolidated Statements of Cash Flows for fiscal years 1992, 1991 and 1990 (page 38).

Consolidated Statements of Stockholders' Equity for fiscal years 1992, 1991, and 1990 (page 39).

Notes to Consolidated Financial Statements (pages 40 through 50).

Eleven Year Financial Summary (pages 26 and 27).

Quarterly Financial Data (page 51).

The Company's 1992 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 Accountants
S-2	V - Property, Plant and Equipment
S-5	VI - Accumulated Depreciation and Amortization of Property, Plant and Equipment
S-8	VIII - Valuation and Qualifying Accounts and Reserves
S-9	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) - Restated Articles of Organization of the Company dated March 11, 1991 (filed under cover of Form SE as Exhibit 3(a) to the Company's Annual Report on Form 10-K for the fiscal year ended June 29, 1991 and incorporated herein by reference).
- (b) - By-laws of the Company, as amended (filed as Exhibit 3(c) to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1990 and incorporated herein by reference).
- 4(a) - Rights Agreement dated as of December 11, 1989 between the Company and First Chicago Trust Company of New York, as Rights Agent (filed under cover of Form SE as Exhibit 4.1 to the Company's Current Report on Form 8-K dated December 12, 1989 and incorporated herein by reference).
- 10(a) - 1968 Employee Stock Purchase Plan (filed under cover of Form SE as Exhibit 28 to the Company's Registration Statement No. 33-43922 and incorporated herein by reference).
- (b) - 1976 Restricted Stock Option Plan, as amended.
- (c) - 1981 International Employee Stock Purchase Plan (filed under cover of Form SE as Exhibit 28 to the Company's Registration Statement No. 33-43923 and incorporated herein by reference).
- (d) - 1985 Restricted Stock Option Plan, as amended (filed under cover of Form SE as Exhibit 10(d) to the Company's Annual Report on Form 10-K for the fiscal year ended July 1, 1989 and incorporated herein by reference).
- (e) - 1990 Equity Plan (contained in the prospectus included in the Company's Registration Statement No. 33-37631 and incorporated herein by reference).
- (f) - 1990 Stock Option Plan for Nonemployee Directors (contained in the prospectus included in the Company's Registration Statement No. 33-37628 and incorporated herein by reference).



- (g) - Deferred Compensation Plan for Non-Employee Directors as Amended and Restated Effective 18 May 1987 and as further amended on 22 April 1991 (filed under cover of Form SE as Exhibit 10(g) to the Company's Annual Report on Form 10-K for the fiscal year ended June 29, 1991 and incorporated herein by reference).
- (h) - 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).
- (i) - Form of Indemnification Agreement in effect between the Company and each of its officers and directors (filed as Exhibit 10(g) to the Company's Annual Report on Form 10-K for the fiscal year ended July 2, 1988 and incorporated herein by reference).
- (j) - Digital Equipment Corporation Restoration Pension Plan effective as of May 1, 1992.
- 11 - Computation of net income/(loss) per share.
- 13 - The Company's 1992 Annual Report to Stockholders, certain portions of which have been incorporated herein by reference.
- 22 - List of Subsidiaries.
- 24 - Consent of independent 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, 1992.



### 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: August 26, 1992

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> <u>Kenneth H. Olsen</u>	President (Principal Executive Officer) and Director	August 26, 1992
<u>/s/William M. Steul</u> <u>William M. Steul</u>	Vice President, Finance (Principal Financial Officer)	August 26, 1992
<u>/s/Bruce J. Ryan</u> <u>Bruce J. Ryan</u>	Vice President and Corporate Controller (Principal Accounting Officer)	August 26, 1992
<u>/s/Vernon R. Alden</u> <u>Vernon R. Alden</u>	Director	August 26, 1992
<u>/s/Philip Caldwell</u> <u>Philip Caldwell</u>	Director	August 26, 1992
<u>/s/Colby H. Chandler</u> <u>Colby H. Chandler</u>	Director	August 26, 1992
<u>/s/Arnaud de Vitry</u> <u>Arnaud de Vitry</u>	Director	August 26, 1992
<u>/s/Robert R. Everett</u> <u>Robert R. Everett</u>	Director	August 26, 1992



<u>/s/Thomas P. Gerrity</u> Thomas P. Gerrity	Director	August 26, 1992
<u>/s/William H. McLean</u> William H. McLean	Director	August 26, 1992
<u>/s/Robert B. Palmer</u> Robert B. Palmer	Director	August 26, 1992
<u>/s/Thomas L. Phillips</u> Thomas L. Phillips	Director	August 26, 1992



### Report of Independent Accountants

Our report on the consolidated financial statements of Digital Equipment Corporation has been incorporated by reference in this Form 10-K from page 35 of the 1992 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 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, in all material respects, the information required to be included therein.

/s/Coopers & Lybrand

Coopers & Lybrand

Boston, Massachusetts  
July 23, 1992



SCHEDULE V

DIGITAL EQUIPMENT CORPORATION

Property, Plant and Equipment  
(In Thousands)

Year Ended June 27, 1992

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
Land.....	\$ 376,071	\$ 701	\$ (3,325)	\$ (458)	\$ 372,989
Buildings.....	\$1,836,323	83,617	(48,809)	579	1,871,710
Leasehold improvements.....	\$ 573,378	77,746	(57,603)	(550)	592,971
Machinery and equipment.....	\$4,642,820	548,372	(356,167)	429	4,835,454
	\$7,428,592	\$ 710,436	\$ (465,904)	\$ --	\$ 7,673,124



SCHEDULE V, cont'd.

DIGITAL EQUIPMENT CORPORATION

Property, Plant and Equipment  
(In Thousands)

Year Ended June 29, 1991

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
Land.....	\$ 352,296	\$ 23,275	\$ (369)	\$ 869	\$ 376,071
Buildings.....	\$1,712,204	157,005	(6,305)	(26,581)	1,836,323
Leasehold improvements.....	\$ 569,885	68,126	(43,966)	(20,667)	573,378
Machinery and equipment.....	\$4,392,609	540,853	(337,021)	46,379	4,642,820
	\$7,026,994	\$ 789,259	\$ (387,661)	\$ --	\$ 7,428,592



SCHEDULE V, cont'd.

DIGITAL EQUIPMENT CORPORATION

Property, Plant and Equipment  
(In Thousands)

Year Ended June 30, 1990

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
Land.....	\$ 300,540	\$ 48,951	\$ (949)	\$ 3,754	\$ 352,296
Buildings.....	\$1,599,673	166,822	(4,147)	(50,144)	1,712,204
Leasehold improvements.....	\$ 530,773	75,490	(30,990)	(5,388)	569,885
Machinery and equipment.....	\$3,817,587	736,362	(213,118)	51,778	4,392,609
	\$6,248,573	\$1,027,625	\$ (249,204)	\$ --	\$ 7,026,994



SCHEDULE VI

DIGITAL EQUIPMENT CORPORATION

Accumulated Depreciation and Amortization of Property, Plant and Equipment  
(In Thousands)

Year Ended June 27, 1992

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
Buildings.....	\$ 344,422	\$ 67,622	\$ (13,844)	\$ (188)	\$ 398,012
Leasehold improvements.....	\$ 315,765	64,667	(39,843)	1,527	342,116
Machinery and equipment.....	\$2,990,575	600,247	(226,189)	(1,339)	3,363,294
	\$3,650,762	\$ 732,536	\$ (279,876)	\$ --	\$ 4,103,422



SCHEDULE VI, cont'd.

DIGITAL EQUIPMENT CORPORATION

Accumulated Depreciation and Amortization of Property, Plant and Equipment  
(In Thousands)

Year Ended June 29, 1991

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
Buildings.....	\$ 285,719	\$ 61,219	\$ (2,156)	\$ (360)	\$ 344,422
Leasehold improvements.....	\$ 278,587	69,479	(32,175)	(126)	315,765
Machinery and equipment.....	\$2,594,596	641,612	(246,119)	486	2,990,575
	\$3,158,902	\$ 772,310	\$ (280,450)	\$ --	\$ 3,650,762



SCHEDULE VI, cont'd.

DIGITAL EQUIPMENT CORPORATION

Accumulated Depreciation and Amortization of Property, Plant and Equipment  
(In Thousands)

Year Ended June 30, 1990

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
Buildings.....	\$ 232,956	\$ 53,969	\$ (1,455)	\$ 249	\$ 285,719
Leasehold improvements.....	\$ 226,380	73,554	(20,554)	(793)	278,587
Machinery and equipment.....	\$2,143,341	631,431	(180,720)	544	2,594,596
	\$2,602,677	\$ 758,954	\$ (202,729)	\$ --	\$ 3,158,902



**SCHEDULE VIII**

**DIGITAL EQUIPMENT CORPORATION**

**Valuation and Qualifying Accounts and Reserves  
(In Thousands)**

<b>Column A</b>	<b>Column B</b>	<b>Column C</b>	<b>Column D</b>	<b>Column E</b>	<b>Column F</b>
<b>Description</b>	<b>Balance at Beginning of Period</b>	<b>Charged to Costs and Expenses</b>	<b>Charged to Other Accounts</b>	<b>Deductions from Reserves</b>	<b>Balance at End of Period</b>

**Allowance for Possible Losses on Accounts Receivable**

**Year ended:**

June 27, 1992	\$ 84,999	\$ 29,535	\$ 31,735 (a)	\$ 16,583 (b)	\$ 129,686
June 29, 1991	\$ 87,632	\$ 15,548	\$ (2,430)	\$ 15,751 (b)	\$ 84,999
June 30, 1990	\$ 74,345	\$ 28,539	\$ (1,756)	\$ 13,496 (b)	\$ 87,632

(a) Acquired in business purchase.

(b) Uncollectible accounts and adjustments.



SCHEDULE X

DIGITAL EQUIPMENT CORPORATION  
Supplemental Income Statement Information  
(In Thousands)

Charged to costs and expenses

Year Ended

	June 27, 1992	June 29, 1991	June 30, 1990
Maintenance and repairs.....	\$ 383,081	\$ 389,017	\$ 344,608
Taxes other than payroll and income taxes.....	\$ 146,266	\$ 143,562	\$ 125,270

Advertising, amortization of intangible assets 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 Operations.



# EXHIBIT 11

## DIGITAL EQUIPMENT CORPORATION

### Computation of Net Income Per Share/(Loss) Per Share

Year Ended

	June 27, 1992	June 29, 1991	June 30, 1990	July 1, 1989	July 2, 1988
	(In Thousands Except Income Per Share Data)				
Net income/(loss).....	\$ (2,795,507)	\$ (617,427)	\$ 74,393	\$ 1,072,610	\$1,305,633
Net income/(loss) applicable to common equivalent and common equivalent shares.....	\$ (2,795,507)	\$ (617,427)	\$ 74,393	\$ 1,072,610	\$1,305,633
Weighted-average number of common shares outstanding during the year.....	124,864	121,558	121,745	122,635	126,211



Exhibit 11, cont'd.

	Year Ended				
	<u>June 27, 1992</u>	<u>June 29, 1991</u>	<u>June 30, 1990</u>	<u>July 1, 1989</u>	<u>July 2, 1988</u>
	(In Thousands Except Income Per Share Data)				
Common stock equivalents from application of "treasury stock" method to unexercised and outstanding stock options.....	---	---	\$ 3,477	\$ 4,373	\$ 5,712
Total number of common and common equivalent shares used in the computation of net income per share.....	\$ 124,864	\$ 121,558	\$ 125,222	\$ 127,008	\$ 131,923
Net income/(loss) per share....	\$ (22.39)	\$ (5.08)	\$ .59	\$ 8.45	\$ 9.90



## 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, unless marked with an asterisk.

<u>Name</u>	<u>State or Jurisdiction of Organization</u>
Basys Automation Systems, Inc.	Delaware
Basys Automation Systems Limited	United Kingdom
Cascade Computing AB	Sweden
CASE & CAD Engineering Produktutveckling i Stockholm AB	Sweden
*Computadores S.A.	Brazil
Computer Insurance Company	Rhode Island
Computer Insurance Company Limited	Bermuda
Data Systems Aktiengesellschaft	Austria
DEC Digital Equipment Corporation A.G./S.A.	Switzerland
DEClearse S.p.a.	Italy
DEE Digital Equipment Enterprises A.G./S.A.	Switzerland
Digital Computer Taiwan Limited	Taiwan
Digital Equipment Aktiebolag	Sweden
Digital Equipment (BCFI) AB	Sweden
Digital Equipment B.V.	Netherlands
Digital Equipment Beteiligungen GmbH	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 Chile Limitada	Chile
Digital Equipment China Incorporated	Peoples Republic of China
Digital Equipment China Ltd.	Delaware
Digital Equipment do Brazil Ltda.	Brazil
Digital Equipment Co. Limited	United Kingdom
Digital-Kienzle Computersysteme A.G.	Switzerland
Digital-Kienzle Computersysteme GmbH & Co. K.G.	Germany
Digital Equipment Corporation A/S	Norway
Digital Equipment Corporation 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 Japan	Japan
Digital Equipment Corporation OY	Finland
Digital Equipment Corporation de Puerto Rico	Delaware
Digital Equipment Corporation (New Zealand) Limited	New Zealand
Digital Equipment Corporation Services-Europe S.A./N.V.	Belgium
Digital Equipment Czechoslovakia, spol. s.r.o.	Czechoslovakia
Digital Equipment (DEC) Limited	Israel
Digital Equipment (DEC) Technical Center (Israel) Limited	Israel
Digital Equipment Distribution (Ireland) Limited	Republic of Ireland
Digital Equipment Enterprises B.V.	Netherlands
Digital Equipment Enterprises N.V./S.A.	Belgium
Digital Equipment Enterprises, S.A.	Spain
Digital Equipment Enterprises S.A.R.L.	France
Digital Equipment Enterprises S.p.a.	Italy
*Digital Equipment Export (India) Ltd.	India
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	Germany
Digital Equipment Hellas S.A.	Greece
Digital Equipment (Holdings) B.V.	Netherlands
Digital Equipment Holdings Italia S.p.a.	Italy
Digital Equipment Hong Kong Limited	Hong Kong
*Digital Equipment (India) Ltd.	India
Digital Equipment (Hungary) Ltd.	Hungary
Digital Equipment International B.V.	Netherlands
Digital Equipment International Betriebliche Altersversorgungsgesellschaft m.b.H.	Germany
Digital Equipment International Finance B.V.	Netherlands
Digital Equipment International G.m.b.H.	Germany
Digital Equipment International Limited	Switzerland
Digital Equipment Ireland Limited	Republic of Ireland
Digital Equipment Korea, Incorporated	Korea
Digital Equipment (Malaysia) Sdn. Bhd.	Malaysia
Digital Equipment Maroc S.A.R.L.	Morocco
Digital Equipment de Mexico, S.A. de C.V.	Mexico
Digital Equipment S.A./N.V.	Belgium
Digital Equipment Panama, Inc.	Panama
Digital Equipment Parts Center B.V.	Netherlands
Digital Equipment Polska Ltd.	Poland
Digital Equipment Portugal, Limitada	Portugal
Digital Equipment PRC Limited	Hong Kong
Digital Equipment Properties Limited	United Kingdom
Digital Equipment Services Industries AB	Sweden
Digital Equipment SME Limited	United Kingdom
Digital Equipment S.p.a.	Italy
Digital Equipment Scotland Limited	United Kingdom



Digital Equipment Service Industries Solutions Company Limited	United Kingdom
Digital Equipment Services, Inc.	Delaware
Digital Equipment Solution Service (Thailand) Ltd.	Thailand
Digital Equipment Singapore (PTE) Limited	Singapore
Digital Equipment (Small Medium Enterprise) B.V.	Netherlands
Digital Equipment Corporation Soviet Union B.V.	Netherlands
Digital Equipment (Thailand) Ltd.	Thailand
Digital Equipment Turkiye A.S.	Turkey
Digital Equipment de Venezuela (D.E.V.) C.A.	Venezuela
Digital Growth, Inc.	Massachusetts
Digital Incorporated	Delaware
Digital International Sales Corporation	Delaware
*Digital Natcom Company	Saudi Arabia
Digital Realty Corporation	Delaware
Digital Sociedade de Previdencia Privada	Brazil
*EA Systems, Inc.	Delaware
GEA - General Equipment Associated S.p.a.	Italy
Kienzle-Miete GmbH	Germany
*Microtec Sistemas Industria E Comercio	Brazil
Old Colony Insurance Limited	Bermuda
PCS Computersysteme GmbH	Germany
Procad GmbH Rechnerunterstutzte Konstruktionssysteme	Germany
*Rocky Mountain Magnetics, Inc.	Delaware
Serrata Consulting Limited	Canada
*Sesam S.p.a.	Italy
SIPAC S.p.a.	Italy
*Sociedad Nacional de Procesamiento de Datos, S.A.	Chile
Societe Civile Immobiliere (SCI) Parc du Bois Briard	France
800-Software, Inc.	California



CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the Registration Statements (Forms S-8) and related prospectuses of the Digital Equipment Corporation 1976 and 1985 Restricted Stock Option Plans (No. 33-970), 1990 Equity Plan (No. 33-37631), 1990 Stock Option Plan for Nonemployee Directors (No. 33-37628), 1968 Employee Stock Purchase Plan (No. 33-43922) and 1981 International Employee Stock Purchase Plan (No. 33-43923), of our reports dated July 23, 1992 on our audits of the consolidated financial statements and financial statement schedules of Digital Equipment Corporation as of June 27, 1992 and June 29, 1991 and for each of the three fiscal years in the period ended June 27, 1992, which reports are incorporated by reference or included in this Annual Report on Form 10-K.

/s/Coopers & Lybrand

Coopers & Lybrand

Boston, Massachusetts  
August 27, 1992



FORM 10-K  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

- (X) Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the fiscal year ended **July 3, 1993**  
or  
( ) Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number 1-5296

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

**Massachusetts** **04-2226590**  
(State or other jurisdiction of (I.R.S. Employer Identification No.)  
incorporation or organization)

**146 Main Street, Maynard, Massachusetts** **01754-2571**  
(Address of principal executive offices) (Zip Code)

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

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
	Midwest Stock Exchange

- (a) In addition, shares of Common Stock of the registrant are listed on the Montreal Exchange and certain stock exchanges in Switzerland and Germany.

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

Indicate by check mark whether the registrant (a) 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 ☐

Indicated by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to this Form 10-K. ☐

As of September 7, 1993, 135,009,330 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, 1993 was approximately \$5.6 billion.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's 1993 Annual Report to Stockholders are incorporated by reference in Part II hereof.

Portions of the registrant's Proxy Statement for its 1993 Annual Meeting of Stockholders, scheduled to be held on November 4, 1993, 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, 1993, the Corporation employed approximately 94,200 persons and conducted operations in the United States and in 99 other countries, deriving more than 60% of its revenue from outside of the United States and developing and manufacturing products in the Americas, Europe and the Pacific Rim.

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

The Corporation is one of the world's largest suppliers of networked computer systems, software and services and a leader in interactive, distributed computing and multivendor systems integration in open computing environments. As an integrated, worldwide provider of information technology and multivendor services, the Corporation is committed to open systems. To this end, the Corporation has built strategic alliances with customers, other computer companies, systems integrators and vendors to address the needs of a rapidly changing marketplace.

For the last five fiscal years, the percentage of total operating revenues contributed by the Corporation's principal classes of products was as follows:

	<u>1993</u>	<u>1992</u>	<u>1991</u>	<u>1990</u>	<u>1989</u>
Product sales	52.8%	55.2%	59.7%	62.9%	64.3%
Service and other revenues	47.2%	44.8%	40.3%	37.1%	35.7%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Service and other revenues are derived principally from Digital and multivendor hardware and software product services and systems integration services.

#### Recent Developments

Robert B. Palmer became the President and Chief Executive Officer of the Corporation on October 1, 1992, succeeding Kenneth H. Olsen upon his retirement. During the year, the Corporation organized into product and industry business units that address specific markets and hired new management for certain of these business units and for key functions within the Corporation.

In fiscal 1992, the Corporation announced a new 64-bit, open computing product architecture known as "Alpha AXP", which is designed to support multiple operating systems and to be the foundation for a leading high



performance computer system family. During fiscal 1993, the Corporation introduced personal computers, workstations and client-server computer systems based on the Alpha AXP architecture. In March 1993, the Corporation introduced DEC OSF/1 V1.2, its 64-bit unified UNIX(TM) operating system for the Alpha AXP family of systems. In May 1993, the Corporation announced that the Microsoft Windows NT(TM) operating system would be available in the fall of 1993 for its Alpha AXP-based systems as well as for the Corporation's Intel-based systems.

### **Systems and Products**

The Corporation offers one of the broadest ranges of compatible hardware, software and communications products in the information technology industry. Most of the Corporation's systems are general purpose digital computers, designed for performing, interpreting and recording computations on collected data or acting as servers providing computing resources across a network. In addition to its recently introduced Alpha AXP family of products, the Corporation continues to offer a full line of VAX systems and servers, from VAXstation workstations to VAXcluster systems and VAX10000 mainframes, and a line of reduced instruction set computing (RISC)/UNIX(TM) - based computers that range from high performance desktop workstations to large, general purpose computer systems and servers.

The Corporation offers a full range of industry compatible personal computers and network hardware and desktop integration products. In addition, the Corporation offers a full range of peripheral and data storage devices, some of which are used with and sold as part of the Corporation's various computer systems. Selected peripherals and components are also sold separately to other systems and peripheral equipment manufacturers. The Corporation also is a major manufacturer and supplier of video terminals, printers and network components, such as hubs, routers and switches.

### **Software**

The Corporation designs, develops or acquires from third parties and distributes under license various software products for its computer systems and for computer systems from other vendors. These products consist of operating systems, communication and networking software, run-time services (such as data/information handling and graphical user interfaces), language compilers, productivity tools, production systems software frameworks (including databases and transaction processing monitors), office and workgroup software frameworks, and other applications software. The Corporation's software is generally designed to use the open standard interfaces that are being adopted by an increasing number of computer manufacturers. Many customers and systems integrators use the applications development software and the various software frameworks provided by the Corporation to design their own specific application software.

### **Services**

The Corporation provides a comprehensive portfolio of consulting, systems integration and support services to help customers plan, design, implement and manage their information technology solutions. These services are delivered through a global network of nearly 35,000 employees.



The Corporation's services organizations provide customers with consulting and professional services, either directly or in conjunction with other companies. The Corporation's services offerings include multivendor maintenance and support services; management and information systems consulting; technical and application design services; education and customer training services; systems integration and project management services; network design and support services; and outsourcing and resource management services.

The amount of service revenues, and the percentage of the Corporation's total operating revenues represented by service revenues, has continued to increase over the years. The Corporation's service and other revenues as a percentage of its total operating revenues for fiscal years 1989 - 1993 are set forth on page 1.

### **Pricing**

Prices for the Corporation'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 fiscal 1993, prices were decreased for a selected number of products.

The Corporation 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 Corporation directly sells, markets and supports its products and services through approximately 800 locations throughout the world. In addition to its sales offices, the Corporation also operates or supports a number of distributor offices, remote service points, telemarketing and catalogue sales efforts, customer-service-only service centers and distribution centers. The Corporation's general policy is to sell and not to rent its products. Customers who prefer leasing arrangements are given assistance in obtaining such financing.

Arrangements with third parties, including software developers, value added resellers (VARs) and authorized distributors, are an increasingly important part of the Corporation's focus on providing complete solutions to its customers and expanding distribution of its products and services through indirect channels. These third party relationships are supported by a variety of business policies, practices, support programs and training which foster the relationship between the Corporation and its partners.

Many of the markets served by the Corporation are affected by cyclical factors beyond the Corporation's control. For example, the Corporation 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 Corporation.



For the fiscal year ended July 3, 1993, approximately 3.5% of the Corporation's total operating revenues were derived directly from sales to various agencies of the U.S. Government, and no other customer of the Corporation accounted for more than 1% of total revenues.

The Corporation is of the opinion that the dollar amount of backlog is not material to an understanding of the Corporation's business and historically has not published such data. It has been and continues to be the Corporation's objective to minimize the time from the receipt of a purchase order to delivery of the product.

### **International Operations**

Sales by the Corporation to customers outside the United States amounted to 64%, 63% and 60% of total operating revenues for the fiscal years ended July 3, 1993, June 27, 1992, and June 29, 1991, respectively. International sales and marketing operations are conducted through subsidiaries, by direct sales from the parent company, by resellers and through various representative and distributorship arrangements.

Exchange rate fluctuations, trade policies and structural changes such as those taking place in Europe may affect the level of demand for the Corporation's products and services. In view of the locations and diversification of the Corporation's international activities, the Corporation does not believe that there are any special risks beyond the normal business risks attendant to conducting business abroad.

The Corporation enters into forward foreign exchange contracts to delay the short-term impact of foreign currency fluctuations on its operations. See Notes A, B and I of Notes to Consolidated Financial Statements incorporated by reference herein for further information on the Corporation's international operations, including financial information concerning the Corporation's operations by major geographical area.

### **Competition**

The information technology industry is highly competitive, international in scope and comprised of many companies. The methods of competition include marketing, product performance, price, service, technology and compliance with various industry standards, among others. Present and potential competition in the various markets served by the Corporation comes from firms of various sizes and types, some of which are larger and have greater total resources than the Corporation. Firms not now in direct competition with the Corporation may introduce competing products in the future. It is possible for companies to be at various times competitors, customers and collaborators in different markets.

### **Raw Materials, Supplies and Services**

The Corporation relies heavily on external sources of supply. These suppliers provide a broad base of goods and services including but not limited to raw materials, software, facilities, consulting and subcontract services. The Corporation has a program of supplier consolidation that is



intended to develop global suppliers to support worldwide operations. The Corporation 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.

### **Environmental Affairs**

The Corporation's facilities are subject to numerous laws and regulations designed to protect human health and safety and the environment, particularly those applicable to manufacturing and engineering, chemical usage, waste and emissions. In the opinion of the Corporation, compliance with these laws and regulations has not had and should not have a material effect on the capital expenditures, earnings or competitive position of the Corporation. Pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 ("CERCLA"), as amended, the Corporation has been notified that it is a potentially responsible party for and the Corporation is sharing the costs of cleaning up certain hazardous waste disposal sites. Under similar state laws, the Corporation also is incurring costs in connection with the investigation and remediation of certain properties owned and/or operated by the Corporation.

### **Intellectual Property**

The Corporation owns a number of patents and patent applications relating to its products. The patents and patent applications, although of significant value to the Corporation, are not considered to be of material importance to the business as a whole. The Corporation also owns or has license rights to copyrights, trademarks, mask works and proprietary information, some of which are also considered to be valuable assets of the Corporation. 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 Corporation 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 or sold by the Corporation are covered by the intellectual property rights of such other companies. It may be necessary or desirable in the future for the Corporation to obtain further patent licenses in addition to those it now holds. The Corporation is presently involved in a small number of intellectual property legal actions. The Corporation is of the opinion that none of such legal actions will have a material effect on the earnings or financial position of the Corporation.

### **Research and Engineering**

The Corporation is in an industry which is characterized by rapid technological change. In the fiscal years ended July 3, 1993, June 27, 1992 and June 29, 1991, the Corporation spent \$1.53 billion, \$1.75 billion and \$1.65 billion, respectively, for research and engineering (R&E). During fiscal 1993, the Corporation eliminated redundant engineering efforts and streamlined product offerings. Although the Corporation expects to continue



its ongoing efficiency initiatives, it also expects to continue to invest heavily in R&E to maintain and strengthen its competitive position.

### **Executive Officers of the Corporation**

The following table sets forth the names and ages of the 21 executive officers of the Corporation and certain information relating to their positions held with the Corporation.

<u>NAME</u>	<u>AGE</u>	<u>PRESENT TITLE (YEAR FIRST BECAME OFFICER)</u>
Robert B. Palmer	53	Director (1992); President and Chief Executive Officer (1985)
Gresham T. Brebach, Jr.	52	Vice President, Digital Consulting (1993)
Lawrence P. Cabrinety	62	Vice President, Components & Peripherals Business Unit (1993)
Charles F. Christ	54	Vice President, Storage Business Unit (1993)
Richard M. Farrahar	49	Vice President, Human Resources (1993)
Winston R. Hindle, Jr.	63	Vice President, Quality, Ethics and Business Practices (1967)
Ilene B. Jacobs	46	Vice President and Treasurer (1985)
John E. Klein	52	Vice President, Consumer, Process and Transportation Business Unit (1993)
Paul G. Kozlowski	55	Vice President, Communications, Education and Media Business Unit (1993)
Edward E. Lucente	53	Vice President, Worldwide Sales and Marketing (1993)
Frank McCabe	57	Vice President, Discrete Manufacturing and Defense Business Unit (1993)
Edward B. McDonough	65	Vice President, Manufacturing and Logistics (1992)
Vincent J. Mullarkey	45	Vice President and Corporate Controller (1992)
Enrico Pesatori	52	Vice President and General Manager, PC Business Unit (1993)
John J. Rando	41	Vice President, Multivendor Customer Services (1993)
Bruce J. Ryan	50	Vice President, Financial, Professional and Public Services Business Unit (1985)
Willow B. Shire	45	Vice President, Health Industries (1993)
Thomas C. Siekman	51	Vice President and General Counsel (1993)
Adriana Stadecker	48	Vice President, Executive Operations (1993)
William M. Steul	51	Vice President, Finance and Chief Financial Officer (1992)
William D. Strecker	49	Vice President of Engineering, Chief Technical Officer (1985)

Executive officers of the Corporation 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 Corporation for at least the last five years,



except Messrs. Brebach, Christ, Klein, Kozlowski, Lucente, and Pesatori. Prior to joining the Corporation, these officers held the following positions:

Mr. Brebach served as a Managing Director of McKinsey & Co. from 1990 to 1993; from 1988 to 1989 he was Founder, Managing Director and Chief Executive Officer of the Information Consulting Group, an organization focused on information technology consulting. Mr. Christ served as a partner in Coopers & Lybrand's Management Consulting Services group from 1989 to July 1990; from 1986 to 1989 he served as President and Chief Executive Officer of Digital Sound Corporation. Mr. Klein served as Vice President - Worldwide Market Selection and Development at the International Business Machines Corporation ("IBM") from January 1991 to January 1992; from 1984 to December 1991, he had been General Manager of Manufacturing Systems - Design of IBM. Mr. Kozlowski had been President of GTE Mobile Communications from March 1991 to December 1992; from July 1988 to March 1991, he had been President and Chief Executive Officer of Contel Cellular Inc. Mr. Lucente was an Executive Vice President of Northern Telecom from 1991 - 1993; from 1988 to 1991 he was a Vice President of IBM and President of IBM Asia Pacific. Mr. Pesatori had been President and Chief Executive Officer of Zenith Data Systems from January 1991 to January 1993; from August 1969 to December 1990 he had been a Senior Vice President at Ing. Olivetti & C. S.p.A.

## **Item 2. Properties**

At the end of fiscal 1993, the Corporation owned or leased approximately 42.1 million square feet of space worldwide. The Corporation occupied approximately 37.5 million square feet, and due to restructuring actions, had additional vacant space of approximately 4.6 million square feet, most of which is available for sale or sub-lease. The total space owned or leased decreased by approximately 1.2 million square feet from the prior year. Approximately 51% of the occupied space is located in the United States; approximately 58% of the occupied space is owned. The Corporation's occupied facilities are substantially utilized, well maintained and suitable for the products and services offered by the Corporation.

Approximately 500,000 square feet of space for new manufacturing facilities is under construction and scheduled for completion during fiscal 1994. Over the last three fiscal years the Corporation has closed or sold facilities or terminated lease obligations on approximately 11.4 million square feet of space through restructuring actions, while at the same time adding some facilities. Total occupied space has declined over the three-year period. The Corporation anticipates it will occupy fewer square feet of space worldwide at the end of fiscal 1994 than at the end of fiscal 1993.

## **Item 3. Legal Proceedings**

The Corporation 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 50 of the Corporation's 1993 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 Corporation's 1993 Annual Report to Stockholders.

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

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 28 through 32 of the Corporation's 1993 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 Corporation's 1993 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 "Election of Directors," which is incorporated herein by reference from the Corporation's Proxy Statement for its 1993 Annual Meeting of Stockholders. See also the section entitled "Executive Officers of the Corporation" appearing in Part I hereof.



**Item 11. Executive Compensation.**

See the section entitled "Executive Compensation," which is incorporated herein by reference from the Corporation's Proxy Statement for its 1993 Annual Meeting of Stockholders.

**Item 12. Security Ownership of Certain Beneficial Owners and Management.**

See the sections entitled "Security Ownership of Directors and Executive Officers" and "Security Ownership of Certain Beneficial Owners" which are incorporated herein by reference from the Corporation's Proxy Statement for its 1993 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 from the Corporation's Proxy Statement for its 1993 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 Corporation's 1993 Annual Report to Stockholders:

Report of Independent Accountants (page 34).

Consolidated Statements of Operations for fiscal years 1993, 1992 and 1991 (page 35).

Consolidated Balance Sheets as at July 3, 1993 and June 27, 1992 (page 36).

Consolidated Statements of Cash Flows for fiscal years 1993, 1992 and 1991 (page 37).

Consolidated Statements of Stockholders' Equity for fiscal years 1993, 1992, and 1991 (page 38).

Notes to Consolidated Financial Statements (pages 39 through 49).

Eleven-Year Financial Summary (pages 26 and 27).

Quarterly Financial Data (page 50).



The Corporation's 1993 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 Accountants
S-2	V - Property, Plant and Equipment
S-5	VI - Accumulated Depreciation and Amortization of Property, Plant and Equipment
S-8	VIII - Valuation and Qualifying Accounts and Reserves
S-9	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 Corporation 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) - Restated Articles of Organization of the Corporation dated March 11, 1991 (filed under cover of Form SE as Exhibit 3(a) to the Corporation's Annual Report on Form 10-K for the fiscal year ended June 29, 1991 and incorporated herein by reference).
- (b) - By-laws of the Corporation, as amended (filed as Exhibit 3(c) to the Corporation's Annual Report on Form 10-K for the fiscal year ended June 30, 1990 and incorporated herein by reference).
- 4(a) - Rights Agreement dated as of December 11, 1989 between the Corporation and First Chicago Trust Company of New York, as Rights Agent (filed under cover of Form SE as Exhibit 4.1 to the Corporation's Current Report on Form 8-K dated December 12, 1989 and incorporated herein by reference).
- (b) - Credit Agreement dated as of May 26, 1993 among the Corporation, a group of banks listed therein and Morgan Guaranty Trust Company of New York, as agent.



- (c) - Indenture dated as of September 15, 1992 between Citibank, N.A. as Trustee, and the Corporation ("Indenture") (filed as Exhibit 4 to the Corporation's Registration Statement on Form S-3, No. 33-51378 and incorporated herein by reference).
- (d) - Form of 7 1/8% Note Due 2002, issued under the Indenture (filed as Exhibit 4.2 to the Corporation's Quarterly Report on Form 10-Q for the quarter ended December 26, 1992 and incorporated herein by reference).
- (e) - Form of 8 5/8% Debenture due November 1, 2012, issued under the Indenture (filed as Exhibit 4.3 to the Corporation's Quarterly Report on Form 10-Q for the quarter ended December 26, 1992 and incorporated herein by reference).
- (f) - Form of 7% Note Due 1997, issued under the Indenture (filed as Exhibit 4.4 to the Corporation's Quarterly Report on Form 10-Q for the quarter ended December 26, 1992 and incorporated herein by reference).
- (g) - Form of 7 3/4% Debenture due April 1, 2023, issued under the Indenture (filed as Exhibit 4.2 to the Corporation's Quarterly Report on Form 10-Q for the quarter ended March 27, 1993 and incorporated herein by reference).
- 10(a) - 1968 Employee Stock Purchase Plan (filed under cover of Form SE as Exhibit 28 to the Corporation's Registration Statement on Form S-8, No. 33-43922 and incorporated herein by reference).
- (b) - 1976 Restricted Stock Option Plan, as amended (filed as Exhibit 10(b) to the Corporation's Annual Report on Form 10-K for the fiscal year ended June 27, 1992 and incorporated herein by reference).
- (c) - 1981 International Employee Stock Purchase Plan (filed under cover of Form SE as Exhibit 28 to the Corporation's Registration Statement on Form S-8, No. 33-43923 and incorporated herein by reference).
- (d) - 1985 Restricted Stock Option Plan, as amended (filed under cover of Form SE as Exhibit 10(d) to the Corporation's Annual Report on Form 10-K for the fiscal year ended July 1, 1989 and incorporated herein by reference).
- (e) - 1990 Equity Plan (contained in the prospectus included in the Corporation's Registration Statement on Form S-8, No. 33-37631 and incorporated herein by reference).
- (f) - 1990 Stock Option Plan for Nonemployee Directors (contained in the prospectus included in the Corporation's



Registration Statement on Form S-8, No. 33-37628 and incorporated herein by reference).

- (g) - Deferred Compensation Plan for Non-Employee Directors as Amended and Restated Effective 18 May 1987 and as further amended on 22 April 1991 (filed under cover of Form SE as Exhibit 10(g) to the Corporation's Annual Report on Form 10-K for the fiscal year ended June 29, 1991 and incorporated herein by reference).
  - (h) - Retirement Arrangement for Non-Employee Directors (filed as Exhibit 10(g) to the Corporation's Annual Report on Form 10-K for the fiscal year ended June 27, 1987 and incorporated herein by reference).
  - (i) - Form of Indemnification Agreement in effect between the Corporation and each of its officers and directors (filed as Exhibit 10(g) to the Corporation's Annual Report on Form 10-K for the fiscal year ended July 2, 1988 and incorporated herein by reference).
  - (j) - Digital Equipment Corporation Restoration Pension Plan effective as of May 1, 1992 (filed as Exhibit 10(j) to the Corporation's Annual Report on Form 10-K for the fiscal year ended June 27, 1992 and incorporated herein by reference).
  - (k) - Digital Equipment Corporation fiscal year 1994 Cash Incentive Plan.
- 11 - Computation of net income/(loss) per share.
  - 13 - The Corporation's 1993 Annual Report to Stockholders, certain portions of which have been incorporated herein by reference.
  - 22 - List of Subsidiaries.
  - 24 - Consent of independent 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, 1993.



## 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 15, 1993

By /s/Robert B. Palmer  
**Robert B. Palmer**  
President and Chief Executive  
Officer

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/ Robert B. Palmer</u> <b>Robert B. Palmer</b>	President and Chief Executive Officer (Principal Executive Officer) and Director	September 15, 1993
<u>/s/ William M. Steul</u> <b>William M. Steul</b>	Vice President, Finance and Chief Financial Officer (Principal Financial Officer)	September 15, 1993
<u>/s/ Vincent J. Mullarkey</u> <b>Vincent J. Mullarkey</b>	Vice President and Corporate Controller (Principal Accounting Officer)	September 15, 1993
<u>/s/ Vernon R. Alden</u> <b>Vernon R. Alden</b>	Director	September 15, 1993
<u>/s/ Philip Caldwell</u> <b>Philip Caldwell</b>	Director	September 15, 1993
<u>/s/ Colby H. Chandler</u> <b>Colby H. Chandler</b>	Director	September 15, 1993



<u>/s/ Arnaud de Vitry</u> Arnaud de Vitry	Director	September 15, 1993
<u>/s/ Robert R. Everett</u> Robert R. Everett	Director	September 15, 1993
<u>/s/ Kathleen F. Feldstein</u> Kathleen F. Feldstein	Director	September 15, 1993
<u>/s/ Thomas P. Gerrity</u> Thomas P. Gerrity	Director	September 15, 1993
<u>/s/ William H. McLean</u> William H. McLean	Director	September 15, 1993
<u>/s/ Thomas L. Phillips</u> Thomas L. Phillips	Director	September 15, 1993



## **Report of Independent Accountants**

Our report on the consolidated financial statements of Digital Equipment Corporation has been incorporated by reference in this Form 10-K from page 34 of the 1993 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 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, in all material respects, the information required to be included therein.

/s/Coopers & Lybrand

**Coopers & Lybrand**

Boston, Massachusetts  
July 28, 1993



SCHEDULE V

DIGITAL EQUIPMENT CORPORATION

Property, Plant and Equipment  
(In Thousands)

Year Ended July 3, 1993

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
Land.....	\$ 372,989	\$ 464	\$ (10,159)	\$ (30)	\$ 363,264
Buildings.....	\$ 1,871,710	146,065	(129,390)	(1,174)	1,887,211
Leasehold improvements.....	\$ 592,971	53,188	(116,300)	2,510	532,369
Machinery and equipment.....	\$ 4,835,454	328,974	(752,536)	(1,306)	4,410,586
	\$ 7,673,124	\$ 528,691	\$ (1,008,385)	\$ 0	\$ 7,193,430



SCHEDULE V, cont'd.

DIGITAL EQUIPMENT CORPORATION

Property, Plant and Equipment  
(In Thousands)

Year Ended June 27, 1992

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
Land.....	\$ 376,071	\$ 701	\$ (3,325)	\$ (458)	\$ 372,989
Buildings.....	\$1,836,323	83,617	(48,809)	579	1,871,710
Leasehold improvements.....	\$ 573,378	77,746	(57,603)	(550)	592,971
Machinery and equipment.....	\$4,642,820	548,372	(356,167)	429	4,835,454
	\$7,428,592	\$ 710,436	\$ (465,904)	\$ 0	\$ 7,673,124



SCHEDULE V, cont'd.

DIGITAL EQUIPMENT CORPORATION

Property, Plant and Equipment  
(In Thousands)

Year Ended June 29, 1991

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
Land.....	\$ 352,296	\$ 23,275	\$ (369)	\$ 869	\$ 376,071
Buildings.....	\$1,712,204	157,005	(6,305)	(26,581)	1,836,323
Leasehold improvements.....	\$ 569,885	68,126	(43,966)	(20,667)	573,378
Machinery and equipment.....	\$4,392,609	540,853	(337,021)	46,379	4,642,820
	\$7,026,994	\$ 789,259	\$ (387,661)	\$ 0	\$ 7,428,592



SCHEDULE VI

DIGITAL EQUIPMENT CORPORATION

Accumulated Depreciation and Amortization of Property, Plant and Equipment  
(In Thousands)

Year Ended July 3, 1993

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
Buildings.....	\$ 398,012	\$ 66,113	\$ (44,535)	\$ 1,086	\$ 420,676
Leasehold improvements.....	\$ 342,116	56,789	(70,963)	8	327,950
Machinery and equipment.....	\$ 3,363,294	575,729	(671,416)	(1,094)	3,266,513
	\$ 4,103,422	\$ 698,631	\$ (786,914)	\$ 0	\$ 4,015,139



SCHEDULE VI, cont'd.

DIGITAL EQUIPMENT CORPORATION

Accumulated Depreciation and Amortization of Property, Plant and Equipment  
(In Thousands)

Year Ended June 27, 1992

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
Buildings.....	\$ 344,422	\$ 67,622	\$ (13,844)	\$ (188)	\$ 398,012
Leasehold improvements.....	\$ 315,765	64,667	(39,843)	1,527	342,116
Machinery and equipment.....	\$2,990,575	600,247	(226,189)	(1,339)	3,363,294
	\$3,650,762	\$ 732,536	\$ (279,876)	\$ 0	\$ 4,103,422



SCHEDULE VI, cont'd.

DIGITAL EQUIPMENT CORPORATION

Accumulated Depreciation and Amortization of Property, Plant and Equipment  
(In Thousands)

Year Ended June 29, 1991

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
Buildings.....	\$ 285,719	\$ 61,219	\$ (2,156)	\$ (360)	\$ 344,422
Leasehold improvements.....	\$ 278,587	69,479	(32,175)	(126)	315,765
Machinery and equipment.....	\$2,594,596	641,612	(246,119)	486	2,990,575
	\$3,158,902	\$ 772,310	\$ (280,450)	\$ 0	\$ 3,650,762



**SCHEDULE VIII**

**DIGITAL EQUIPMENT CORPORATION**

**Valuation and Qualifying Accounts and Reserves  
(In Thousands)**

<b>Column A</b>	<b>Column B</b>	<b>Column C</b>	<b>Column D</b>	<b>Column E</b>	<b>Column F</b>
	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions from Reserves (c)	Balance at End of Period
<b>Description</b>					
<b>Allowance for Possible Losses on Accounts Receivable</b>					
<b>Year ended:</b>					
July 03, 1993	\$ 129,686	\$ 22,596	\$ 10,801 (a)	\$ 52,319 (d)	\$ 110,764
June 27, 1992	\$ 84,999	\$ 29,535	\$ 31,735 (b)	\$ 16,583 (d)	\$ 129,686
June 29, 1991	\$ 87,632	\$ 15,548	\$ (2,430)	\$ 15,751 (d)	\$ 84,999

(a) Reclassification of reserve from other current liabilities related to fiscal year 1991 acquisition.

(b) Acquired in business purchase.

(c) Uncollectible accounts and adjustments.

(d) Includes write-offs in the current year of amounts reserved at time of acquisition of businesses in prior periods.



SCHEDULE X

DIGITAL EQUIPMENT CORPORATION

Supplemental Income Statement Information  
(In Thousands)

Charged to costs and expenses

Year Ended

	July 03, 1993	June 27, 1992	June 29, 1991
Maintenance and repairs.....	\$ 326,441	\$ 383,081	\$ 389,017

Advertising, amortization of intangible assets, royalties and taxes other than payroll and income taxes are not set forth inasmuch as each such item does not exceed one percent of total operating revenues as shown in the related Consolidated Statements of Operations.



EXHIBIT 11

DIGITAL EQUIPMENT CORPORATION

Computation of Net Income Per Share/(Loss) Per Share

Year Ended

	July 3, 1993	June 27, 1992	June 29, 1991	June 30, 1990	July 1, 1989
	(In Thousands Except Income Per Share Data)				
Net income/(loss).....	\$ (251,330)	\$ (2,795,507) (a)	\$ (617,427)	\$ 74,393	\$ 1,072,610
Net income/(loss) applicable to common equivalent and common equivalent shares...	\$ (251,330)	\$ (2,795,507) (a)	\$ (617,427)	\$ 74,393	\$ 1,072,610
Weighted-average number of common shares outstanding during the year.....	130,409	124,864	121,558	121,745	122,635



Exhibit 11, cont'd.

Year Ended

	July 3, 1993	June 27, 1992	June 29, 1991	June 30, 1990	July 1, 1989
	(In Thousands Except Income Per Share Data)				
Common stock equivalents from application of "treasury stock" method to unexercised and outstanding stock options.....	0	0	0	3,477	4,373
Total number of common and common equivalent shares used in the computation of net income per share.....	130,409	124,864	121,558	125,222	127,008
Net income/(loss) per share....	\$ (1.93)	\$ (22.39) (a)	\$ (5.08)	\$ .59	\$ 8.45

(a) Net loss and net loss per share include the cumulative effect of change in accounting principle of \$485,495,000 and \$3.89, respectively.



Exhibit 22

SUBSIDIARIES

The following is a list of the Corporation's consolidated subsidiaries as of July 3, 1993. The Corporation owns, directly or indirectly, 100% of the voting securities of each subsidiary, unless marked with an asterisk.

<u>Name</u>	<u>State or Jurisdiction of Organization</u>
Basys Automation Systems, Inc.	Delaware
Basys Automation Systems Limited	United Kingdom
Computer Insurance Company	Rhode Island
DEC Digital Equipment Corporation A.G./S.A.	Switzerland
DECsys Ag	Switzerland
DECsys - Digital Systems (1993) Ltd.	Israel
Digital Computer Taiwan Limited	Taiwan
Digital Equipment AB	Sweden
Digital Equipment Asia Pte. Ltd.	Singapore
Digital Equipment (BCFI) AB	Sweden
Digital Equipment B.V.	Netherlands
Digital Equipment Beteiligungen GmbH	Germany
Digital Equipment Betriebliche Altersversorgungsgesellschaft m.b.H.	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 Chile Limitada	Chile
Digital Equipment China Incorporated	Peoples Republic of China
Digital Equipment China Ltd.	Delaware
Digital Equipment do Brazil Ltda.	Brazil
Digital Equipment Co. Limited	United Kingdom
Digital-Kienzle Computersysteme GmbH & Co. K.G.	Germany
Digital Equipment Corporation A/S	Norway
Digital Equipment Corporation 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 Japan	Japan
Digital Equipment Corporation OY	Finland
Digital Equipment Corporation de Puerto Rico	Delaware
Digital Equipment Corporation (New Zealand) Limited	New Zealand
Digital Equipment Corporation, Russia	Russia
Digital Equipment Corporation Services-Europe S.A./N.V.	Belgium
Digital Equipment (Cyprus) Ltd.	Cyprus
Digital Equipment Czechoslovakia, spol. s.r.o.	Czechoslovakia
Digital Equipment Data Systems Aktiengesellschaft	Austria
Digital Equipment (DEC) Limited	Israel
Digital Equipment (DEC) Technical Center (Israel) Limited	Israel
Digital Equipment Distribution (Ireland) Limited	Republic of Ireland
Digital Equipment Enterprises Espana, S.A.	Spain
*Digital Equipment Export (India) Ltd.	India
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	Germany
Digital Equipment Gulf W.L.L.	Bahrain
Digital Equipment Hellas S.A.	Greece
Digital Equipment (Holdings) B.V.	Netherlands
Digital Equipment Holdings Italia S.p.a.	Italy
Digital Equipment Hong Kong Limited	Hong Kong
*Digital Equipment (India) Ltd.	India
Digital Equipment (Hungary) Ltd.	Hungary
Digital Equipment International B.V.	Netherlands
Digital Equipment International Betriebliche Altersversorgungsgesellschaft m.b.H.	Germany
Digital Equipment International Finance B.V.	Netherlands
Digital Equipment International G.m.b.H.	Germany
Digital Equipment International Limited	Switzerland
Digital Equipment Ireland Limited	Republic of Ireland
Digital Equipment Korea, Incorporated	Korea
Digital Equipment (Malaysia) Sdn. Bhd.	Malaysia
Digital Equipment Maroc S.A.R.L.	Morocco
Digital Equipment de Mexico, S.A. de C.V.	Mexico
Digital Equipment Middle East Limited	States of Jersey
Digital Equipment Panama, Inc.	Panama
Digital Equipment Parts Center B.V.	Netherlands
Digital Equipment Polska SP.Zo.o.	Poland
Digital Equipment Portugal, Limitada	Portugal
Digital Equipment PRC Limited	Hong Kong
Digital Equipment Properties Limited	United Kingdom



Digital Equipment Romania s.r.l.	Romania
Digital Equipment S.A./N.V.	Belgium
Digital Equipment Services Industries AB	Sweden
Digital Equipment Slovakia s.r.	Slovakia
Digital Equipment SME Limited	United Kingdom
Digital Equipment S.p.a.	Italy
Digital Equipment Scotland Limited	United Kingdom
Digital Equipment Service Industries Solutions Company Limited	United Kingdom
Digital Equipment Services, Inc.	Delaware
Digital Equipment Solution Service (Thailand) Ltd.	Thailand
Digital Equipment Singapore (PTE) Limited	Singapore
Digital Equipment (Small Medium Enterprise) B.V.	Netherlands
Digital Equipment Corporation C.I.S. B.V.	Netherlands
Digital Equipment (Thailand) Ltd.	Thailand
Digital Equipment Turkiye A.S.	Turkey
Digital Equipment de Venezuela (D.E.V.) C.A.	Venezuela
Digital Growth, Inc.	Massachusetts
Digital Incorporated	Delaware
Digital International Sales Corporation	Delaware
Digital Realty Corporation	Delaware
Digital Sales and Services South Africa (Pty.) Limited	Republic of South Africa
Digital Sociedade de Previdencia Privada	Brazil
*EA Systems, Inc.	Delaware
Elebra Computadores S.A.	Brazil
Kienzle-Miete GmbH	Germany
Old Colony Insurance Limited	Bermuda
PCS Computersysteme GmbH	Germany
Procad GmbH Rechnerunterstutzte Konstruktionssysteme	Germany
*Rocky Mountain Magnetics, Inc.	Delaware
Serrata Consulting Limited	Canada
SIPAC S.p.a.	Italy
Societe Civile Immobiliere (SCI) Parc du Bois Briard	France
800-Software, Inc.	California



CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the Registration Statements (Forms S-8) and related prospectuses of the Digital Equipment Corporation 1976 and 1985 Restricted Stock Option Plans (No. 33-970), 1990 Equity Plan (No. 33-37631), 1990 Stock Option Plan for Nonemployee Directors (No. 33-37628), 1968 Employee Stock Purchase Plan (No. 33-43922) and 1981 International Employee Stock Purchase Plan (No. 33-43923), of our reports dated July 28, 1993 on our audits of the consolidated financial statements and financial statement schedules of Digital Equipment Corporation as of July 3, 1993 and June 27, 1992 and for each of the three fiscal years in the period ended July 3, 1993, which reports are incorporated by reference or included in this Annual Report on Form 10-K.

/s/Coopers & Lybrand

Coopers & Lybrand

Boston, Massachusetts  
September 15, 1993



**FORM 10-K**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

- (x) Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the fiscal year ended July 2, 1994  
or  
( ) Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number 1-5296.

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

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

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

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

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

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

Depository shares each representing  
one-fourth of a share of 8 7/8%  
Series A Cumulative Preferred Stock,  
par value \$1 per share

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

**01754-2571**  
(zip code)

**Name of each exchange on which registered**  
New York Stock Exchange  
Pacific Stock Exchange  
Chicago Stock Exchange

New York Stock Exchange

(a) In addition, shares of Common Stock of the registrant are listed on the Montreal Exchange and certain stock exchanges in Switzerland and Germany.

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

Indicate by check mark whether registrant (a) 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 (b) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to this Form 10-K. [ ]

As of September 12, 1994, 142,777,178 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 12, 1994 was approximately \$3.4 billion.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's 1994 Annual Report to Stockholders are incorporated by reference in Part II hereof.

Portions of the registrant's Proxy Statement for its 1994 Annual Meeting of Stockholders, scheduled to be held on November 10, 1994, are incorporated by reference in Part III hereof.



## PART I

### Item 1. Business.

#### General

Digital Equipment Corporation, a Massachusetts corporation founded in 1957, is one of the world's largest suppliers of networked computer systems and components, software and services and a world leader in the development and implementation, directly and through partners, of client/server solutions for open computing environments. The Corporation offers a full range of desktop, client/server and production systems and related components, peripheral equipment, software and services used in a wide variety of applications, industries and computing environments. The Corporation does business in more than 100 countries, deriving more than 60% of its revenue from outside of the United States and developing and manufacturing products in the Americas, Europe and the Pacific Rim.

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

For the last five fiscal years, the percentage of total operating revenues contributed by the Corporation's principal classes of products was as follows:

	<u>1994</u>	<u>1993</u>	<u>1992</u>	<u>1991</u>	<u>1990</u>
Product sales	53.5%	52.8%	55.2%	59.7%	62.9%
Service and other revenues	46.5%	47.2%	44.8%	40.3%	37.1%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Service and other revenues are derived principally from Digital and multivendor hardware and software product services and systems integration services.

#### Products

**Systems and Products:** Most of the Corporation's systems are general purpose digital computers, designed to perform, interpret and record computations on collected data or act as servers providing computing resources across a network. The Corporation offers a broad range of computer systems and servers based on Digital's Alpha AXP(TM) and VAX(R) architectures, and the Intel(R) X86 architecture.

The Corporation's offerings include a line of VAX systems and servers, from VAXstation(TM) workstations to high performance servers. The Corporation also offers a full range of Intel-based and industry compatible personal computers and network hardware and desktop integration products. In addition, the Corporation is a major manufacturer and supplier of video terminals, printers and network components, such as hubs, routers and switches.



**Alpha AXP:** The Corporation's 64-bit, reduced instruction set computing ("RISC") architecture known as "Alpha AXP(TM)" is designed to support multiple operating systems and to be the foundation for a leading high performance computer system family. The Corporation offers a complete line of Alpha AXP-based products, ranging from chips and boards to personal computers and high performance workstations to larger general purpose computer systems. Alpha AXP supports three major operating systems: the Open Software Foundation's 64-bit unified UNIX(R) operating system (DEC OSF/1) (R), the Corporation's OpenVMS(TM) operating system and Microsoft Corporation's Windows NT(R) operating system. In April 1994, the Corporation introduced a new line of competitively priced, high performance Alpha AXP-based servers, the Digital 2100 series, which support symmetrical multiprocessing.

**Storage Business:** Shortly after the close of the fiscal year, the Corporation announced it had reached agreement with Quantum Corporation for the sale of portions of its storage business, including its magnetic disk drive, tape drive, solid state disk and thin-film heads businesses. The Corporation expects to continue to offer peripheral and data storage products for use with its computer systems after the transaction is complete.

**Software:** The Corporation designs, develops or acquires from third parties and distributes under license various software products for use on its computer systems and computer systems from other vendors. These products consist of operating systems, communication and networking software, run-time services (such as data/information handling and graphical user interfaces), language compilers, productivity tools, production systems (including databases and transaction processing monitors), office and workgroup software frameworks, and other application software.

The Corporation's software offerings are intended to promote open client/server computing and, to this end, are designed to industry-standard interfaces that enable applications to work across different platforms and operating systems. During the fiscal year, the Corporation announced the development of several software products that support this strategy, including its LinkWorks(TM) offerings. In addition, in November 1993 the Corporation announced a joint effort with Microsoft Corporation to develop the Common Object Model, a set of software standards that are designed to enable software objects in different operating systems, data formats and geographical locations to work together across a network.

## **Services**

The Corporation provides a comprehensive portfolio of technical consulting, systems integration and support services to help customers plan, implement and manage their information technology solutions through a global network of employees and partners.

The Corporation's services offerings include maintenance and support services for the Corporation's products, as well as for products manufactured by other companies; information systems consulting; technical



and application design services; education and customer training services; systems integration and project management services; network design and support services; and outsourcing and resource management services.

### **Sales and Distribution**

The Corporation directly sells, markets and supports its products and services through approximately 725 locations throughout the world. Arrangements with third parties, including software developers, value added resellers (VARs) and authorized distributors, are an increasingly important part of the Corporation's focus on providing complete solutions to its customers and expanding distribution of its products and services through indirect channels.

For the fiscal year ended July 2, 1994, approximately 3.3% of the Corporation's total operating revenues were derived directly from sales to various agencies of the U.S. Government, and no other customer of the Corporation accounted for more than 2% of total revenues.

The Corporation believes that the dollar amount of backlog is not a meaningful indication of future revenues and historically has not published such data. It has been and continues to be the Corporation's objective to minimize the time from the receipt of a purchase order to delivery of the product.

### **International Operations**

Sales by the Corporation to customers outside the United States amounted to 62%, 64% and 63% of total operating revenues for the fiscal years ended July 2, 1994, July 3, 1993 and June 27, 1992, respectively. International sales and marketing operations are conducted through subsidiaries, by direct sales from the parent company, by resellers and through various representative and distributorship arrangements.

The Corporation's international business is subject to risks customarily encountered in foreign operations, including fluctuations in monetary exchange rates, import and export controls and the economic, political and regulatory policies of foreign governments. In view of the diversification of the Corporation's international activities, the Corporation does not believe that there are any special risks beyond the normal business risks attendant to conducting business abroad.

See Notes A, B and I of Notes to Consolidated Financial Statements, incorporated by reference herein, for further information on the Corporation's international operations, including financial information concerning the Corporation's operations by major geographical area.

### **Competition**

The information technology industry is highly competitive, international in scope and comprised of many companies. The methods of competition include marketing, product performance, price, service, technology and compliance with various industry standards, among others.



Present and potential competition in the various markets served by the Corporation comes from firms of various sizes and types, some of which are larger and have greater resources than the Corporation. Firms not now in direct competition with the Corporation may introduce competing products in the future. It is possible for companies to be at various times competitors, customers and collaborators in different markets.

### **Materials**

The Corporation obtains a wide variety of components, assemblies and raw materials from a substantial number of suppliers. The Corporation has established or has available alternate sources of supply for many of these materials. The Corporation believes that the materials required for its manufacturing operations are presently available in quantities sufficient to meet demand; however, a portion of the Corporation's manufacturing operations is dependent on the timely delivery of certain sub-assemblies and components from significant suppliers. The failure of such suppliers to deliver such items on a timely basis could adversely affect the Corporation's operating results until alternative sources of supply could be arranged.

### **Environmental Affairs**

The Corporation's facilities are subject to numerous laws and regulations designed to protect human health and safety and the environment, particularly those relating to manufacturing and engineering, chemical usage, waste and emissions. Pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 ("CERCLA"), as amended, the Corporation has been notified that it is a potentially responsible party ("PRP") for and is sharing the costs of investigating and cleaning up certain sites listed on the federal National Priorities List of Superfund Sites. Under similar state laws, the Corporation also is incurring costs in connection with the investigation and remediation of certain properties owned and/or operated by the Corporation. In the opinion of the Corporation, compliance with these laws and regulations has not had and should not have a material effect on the capital expenditures, earnings or competitive position of the Corporation.

### **Patents**

The Corporation owns or is licensed under a number of patents and patent applications relating to its products. While the Corporation's portfolio of patents and patent applications is of significant value to the Corporation, the Corporation does not believe that any particular patent or group of patents is of material importance to the Corporation's business as a whole.

### **Research and Engineering**

The Corporation is in an industry which is characterized by rapid technological change. In the fiscal years ended July 2, 1994, July 3, 1993 and June 27, 1992, the Corporation spent \$1.30 billion, \$1.53 billion and \$1.75 billion, respectively, for research and engineering (R&E). Although



the Corporation expects to continue its ongoing R&E efficiency initiatives, it also expects to continue to invest heavily in R&E to maintain and strengthen its competitive position.

## **Employees**

The Corporation had approximately 77,800 regular employees, and an additional 5,000 temporary and contract workers worldwide at July 2, 1994.

## **Executive Officers of the Corporation**

The following table sets forth the names and ages of the 11 executive officers of the Corporation and certain information relating to their positions held with the Corporation.

<u>NAME</u>	<u>AGE</u>	<u>PRESENT TITLE</u>	<u>YEAR FIRST BECAME OFFICER</u>
Robert B. Palmer	54	Director; President and Chief Executive Officer	1985
R. E. Caldwell	57	Vice President, Digital Semiconductor	1994
Charles F. Christ	55	Vice President and General Manager, Components Division	1993
Richard M. Farrahar	50	Vice President, Human Resources	1993
Ilene B. Jacobs	47	Vice President and Treasurer	1985
Vincent J. Mullarkey	46	Vice President, Finance and Chief Financial Officer	1992
Enrico Pesatori	53	Vice President and General Manager, Computer Systems Division	1993
E.C. Mick Prokopis	52	Vice President and Corporate Controller	1994
John J. Rando	42	Vice President, Multivendor Customer Services	1993
Thomas C. Siekman	52	Vice President and General Counsel	1993
William D. Strecker	50	Vice President, Advanced Technology Group and Chief Technical Officer	1985

Executive officers of the Corporation 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 Corporation for at least the last five years, except Messrs. Christ, Pesatori and Prokopis. Prior to joining the Corporation, these officers held the following positions: Mr. Christ, who joined the Corporation as Vice President, Mass Storage Group, in 1990, served as a partner in Coopers & Lybrand's Management Consulting Services



group from 1989 to July 1990; from 1986 to 1989 he served as President and Chief Executive Officer of Digital Sound Corporation. Mr. Pesatori had been President and Chief Executive Officer of Zenith Data Systems from January 1991 to January 1993; from October 1986 to 1989 he served as President and Chief Executive Officer of North American operations for Ing. Olivetti & C. S.p.A. ("Olivetti") and from 1989 to December 1990 he was Senior Vice President, Corporate Marketing of Olivetti. Mr. Prokopis was self employed from November 1993 to July 1994; from July 1992 to November 1993 he served as Executive Vice President of Ziff Communications Corp.; from March 1992 to July 1992 he was Executive Vice President and Chief Financial Officer of MAST Industries; from 1989 to 1992 he was the Corporation's Finance Manager, Manufacturing, Engineering and Marketing and from 1987 to 1989 he served as the Corporation's Manufacturing Controller.

## **Item 2. Properties**

At the end of fiscal 1994, the Corporation owned or leased approximately 39.1 million square feet of space worldwide. The Corporation occupied approximately 32.3 million square feet, leased or sub-leased to others approximately 1.3 million square feet, and due to restructuring actions, had vacant space of approximately 5.5 million square feet, most of which is available for sale or sub-lease. The total space owned or leased decreased by approximately 3.0 million square feet from the prior year. Approximately 54% of the occupied space is located in the United States; approximately 59% of the occupied space is owned. The Corporation's occupied facilities are substantially utilized, well maintained and suitable for the products and services offered by the Corporation.

Approximately 500,000 square feet of space for new manufacturing facilities is under construction and scheduled for completion during fiscal 1995. The Corporation anticipates it will occupy fewer square feet of space worldwide at the end of fiscal 1995 than at the end of fiscal 1994.

## **Item 3. Legal Proceedings**

The Corporation has been named as a defendant in several purported class action lawsuits filed in the U.S. District Court for the Southern District of New York and the U.S. District Court for the District of Massachusetts alleging violations of the Federal securities laws in connection with the Corporation's issuance and sale of Series A 8-7/8% Cumulative Preferred Stock and the Corporation's financial results for the fiscal quarter ended April 2, 1994. (See Note H of Notes to Consolidated Financial Statements.)

## **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 "Stock Information," which is incorporated herein by reference, appearing on page 54 of the Corporation's 1994 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 Corporation's 1994 Annual Report to Stockholders.

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

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 28 through 33 of the Corporation's 1994 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 Corporation's 1994 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 "Election of Directors," which is incorporated herein by reference from the Corporation's Proxy Statement for its 1994 Annual Meeting of Stockholders. See also the section entitled "Executive Officers of the Corporation" appearing in Part I hereof.

### **Item 11. Executive Compensation.**

See the section entitled "Executive Compensation," which is incorporated herein by reference from the Corporation's Proxy Statement for its 1994 Annual Meeting of Stockholders.



**Item 12. Security Ownership of Certain Beneficial Owners and Management.**

See the section entitled "Security Ownership of Directors and Executive Officers" which is incorporated herein by reference from the Corporation's Proxy Statement for its 1994 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 from the Corporation's Proxy Statement for its 1994 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 Corporation's 1994 Annual Report to Stockholders:

Report of Independent Accountants (page 35).

Consolidated Statements of Operations for fiscal years 1994, 1993 and 1992 (page 36).

Consolidated Balance Sheets as at July 2, 1994 and July 3, 1993 (page 37).

Consolidated Statements of Cash Flows for fiscal years 1994, 1993 and 1992 (page 38).

Consolidated Statements of Stockholders' Equity for fiscal years 1994, 1993, and 1992 (page 39).

Notes to Consolidated Financial Statements (pages 40 through 53).

Eleven-Year Financial Summary (pages 26 and 27).

Quarterly Financial Data (page 54).

The Corporation's 1994 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 Accountants
S-2	V - Property, Plant and Equipment
S-5	VI - Accumulated Depreciation and Amortization of Property, Plant and Equipment
S-8	VIII - Valuation and Qualifying Accounts and Reserves
S-9	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 Corporation 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) - Restated Articles of Organization of the Corporation dated March 11, 1991 (filed under cover of Form SE as Exhibit 3(a) to the Corporation's Annual Report on Form 10-K for the fiscal year ended June 29, 1991 and incorporated herein by reference).
- (b) Articles of Amendment filed with the Secretary of State of the Commonwealth of Massachusetts on November 4, 1993 (filed as Exhibit 4.3 to the Corporation's Registration Statement on Form S-3, No. 33-51987 and incorporated herein by reference).
- (c) Certificate of Designation filed with the Secretary of State of the Commonwealth of Massachusetts on March 21, 1994 (filed as Exhibit 4.1 to the Corporation's Report on Form 8-K filed on March 23, 1994 and incorporated herein by reference).
- (d) - By-laws of the Corporation, as amended (filed as Exhibit 3(c) to the Corporation's Annual Report on Form 10-K for the fiscal year ended June 30, 1990 and incorporated herein by reference).
- 4(a) - Rights Agreement dated as of December 11, 1989 between the Corporation and First Chicago Trust Company of New York, as Rights Agent (filed under cover of Form SE as



Exhibit 4.1 to the Corporation's Current Report on Form 8-K dated December 12, 1989 and incorporated herein by reference).

- (b) - Indenture dated as of September 15, 1992 between Citibank, N.A. as Trustee, and the Corporation ("Indenture") (filed as Exhibit 4 to the Corporation's Registration Statement on Form S-3, No. 33-51378 and incorporated herein by reference).
- (c) - Form of 7 1/8% Note Due 2002, issued under the Indenture (filed as Exhibit 4.2 to the Corporation's Quarterly Report on Form 10-Q for the quarter ended December 26, 1992 and incorporated herein by reference).
- (d) - Form of 8 5/8% Debenture due November 1, 2012, issued under the Indenture (filed as Exhibit 4.3 to the Corporation's Quarterly Report on Form 10-Q for the quarter ended December 26, 1992 and incorporated herein by reference).
- (e) - Form of 7% Note Due 1997, issued under the Indenture (filed as Exhibit 4.4 to the Corporation's Quarterly Report on Form 10-Q for the quarter ended December 26, 1992 and incorporated herein by reference).
- (f) - Form of 7 3/4% Debenture due April 1, 2023, issued under the Indenture (filed as Exhibit 4.2 to the Corporation's Quarterly Report on Form 10-Q for the quarter ended March 27, 1993 and incorporated herein by reference).
- 10(a) - 1968 Employee Stock Purchase Plan (filed as Exhibit 99 to the Corporation's Registration Statement on Form S-8, No. 33-50963 and incorporated herein by reference).\*
- (b) - 1976 Restricted Stock Option Plan, as amended (filed as Exhibit 10(b) to the Corporation's Annual Report on Form 10-K for the fiscal year ended June 27, 1992 and incorporated herein by reference).\*
- (c) - 1981 International Employee Stock Purchase Plan (filed as Exhibit 99 to the Corporation's Registration Statement on Form S-8, No. 33-50945 and incorporated herein by reference).\*
- (d) - 1985 Restricted Stock Option Plan, as amended (filed under cover of Form SE as Exhibit 10(d) to the Corporation's Annual Report on Form 10-K for the fiscal year ended July 1, 1989 and incorporated herein by reference).\*
- (e) - 1990 Equity Plan (contained in the prospectus included in the Corporation's Registration Statement on Form S-8, No. 33-37631 and incorporated herein by reference).\*



- (f) - 1990 Stock Option Plan for Nonemployee Directors (contained in the prospectus included in the Corporation's Registration Statement on Form S-8, No. 33-37628 and incorporated herein by reference).\*
  - (g) - Deferred Compensation Plan for Non-Employee Directors as Amended and Restated Effective 18 May 1987 and as further amended on 22 April 1991 (filed under cover of Form SE as Exhibit 10(g) to the Corporation's Annual Report on Form 10-K for the fiscal year ended June 29, 1991 and incorporated herein by reference).\*
  - (h) - Retirement Arrangement for Non-Employee Directors (filed as Exhibit 10(g) to the Corporation's Annual Report on Form 10-K for the fiscal year ended June 27, 1987 and incorporated herein by reference).\*
  - (i) - Form of Indemnification Agreement in effect between the Corporation and each of its officers and directors (filed as Exhibit 10(g) to the Corporation's Annual Report on Form 10-K for the fiscal year ended July 2, 1988 and incorporated herein by reference).\*
  - (j) - Digital Equipment Corporation Restoration Pension Plan effective as of May 1, 1992 (filed as Exhibit 10(j) to the Corporation's Annual Report on Form 10-K for the fiscal year ended June 27, 1992 and incorporated herein by reference).\*
  - (k) - Digital Equipment Corporation fiscal year 1995 Cash Incentive Plan.\*
  - (l) - Letter Agreement from the Corporation to Enrico Pesatori dated as of February 2, 1993; Agreement between the Corporation and Edward E. Lucente, dated as of April 29, 1994; and Agreement between the Corporation and Gresham T. Brebach, Jr., dated as of August 8, 1994.\*
- 11 - Computation of net income/(loss) per share.
  - 13 - The Corporation's 1994 Annual Report to Stockholders, certain portions of which have been incorporated herein by reference.
  - 22 - List of Subsidiaries.
  - 24 - Consent of independent accountants.

\*Indicates management contract or compensatory plan or arrangement.



(b) Reports on Form 8-K:

The Corporation filed with the Securities and Exchange Commission a Report on Form 8-K on April 21, 1994.



# 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 16, 1994

By /s/Robert B. Palmer  
Robert B. Palmer  
President and Chief Executive

Officer

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/ Robert B. Palmer</u> Robert B. Palmer	President and Chief Executive Officer (Principal Executive Officer) and Director	September 16, 1994
<u>/s/ Vincent J. Mullarkey</u> Vincent J. Mullarkey	Vice President, Finance and Chief Financial Officer (Principal Financial Officer)	September 16, 1994
<u>/s/ E.C. Prokopis</u> E.C. Prokopis	Vice President and Corporate Controller (Principal Accounting Officer)	September 16, 1994
<u>/s/ Vernon R. Alden</u> Vernon R. Alden	Director	September 16, 1994
<u>/s/ Philip Caldwell</u> Philip Caldwell	Director	September 16, 1994
<u>/s/ Colby H. Chandler</u> Colby H. Chandler	Director	September 16, 1994



/s/ Arnaud de Vitry  
Arnaud de Vitry

Director

September 16, 1994

/s/ Robert R. Everett  
Robert R. Everett

Director

September 16, 1994

/s/ Kathleen F. Feldstein  
Kathleen F. Feldstein

Director

September 16, 1994

/s/ Thomas P. Gerrity  
Thomas P. Gerrity

Director

September 16, 1994

/s/ Thomas L. Phillips  
Thomas L. Phillips

Director

September 16, 1994

/s/ Delbert C. Staley  
Delbert C. Staley

Director

September 16, 1994



## **Report of Independent Accountants**

Our report on the consolidated financial statements of Digital Equipment Corporation has been incorporated by reference in this Form 10-K from page 35 of the 1994 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 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, in all material respects, the information required to be included therein.

/s/Coopers & Lybrand

**Coopers & Lybrand**

Boston, Massachusetts  
July 26, 1994



**SCHEDULE V**

**DIGITAL EQUIPMENT CORPORATION**

**Property, Plant and Equipment  
(In Thousands)**

**Year Ended July 2, 1994**

<b>Column A</b>	<b>Column B</b>	<b>Column C</b>	<b>Column D</b>	<b>Column E</b>	<b>Column F</b>
<b>Classification</b>	<b>Balance at Beginning of Period</b>	<b>Additions at Cost</b>	<b>Retirements and Sales</b>	<b>Other Changes add (deduct) Transfers</b>	<b>Balance at End of Period</b>
Land.....	\$ 363,264	\$ 2,203	\$ (9,280)	\$ 399	\$ 356,586
Buildings.....	1,887,211	135,244	(56,264)	1,624	1,967,815
Leasehold improvements.....	532,369	34,305	(101,413)	(50,639) (a)	414,622
Machinery and equipment.....	4,410,586	510,348	(687,684)	48,616 (a)	4,281,866
	\$ 7,193,430	\$ 682,100	\$ (854,641)	\$ 0	\$ 7,020,889

(a) Reclassification between accounts.



**SCHEDULE V, cont'd.**  
**DIGITAL EQUIPMENT CORPORATION**  
**Property, Plant and Equipment**  
**(In Thousands)**

Year Ended July 3, 1993

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
Land.....	\$ 372,989	\$ 464	\$ (10,159)	\$ (30)	\$ 363,264
Buildings.....	1,871,710	146,065	(129,390)	(1,174)	1,887,211
Leasehold improvements.....	592,971	53,188	(116,300)	2,510	532,369
Machinery and equipment.....	4,835,454	328,974	(752,536)	(1,306)	4,410,586
	\$ 7,673,124	\$ 528,691	\$ (1,008,385)	\$ 0	\$ 7,193,430



SCHEDULE V, cont'd.

DIGITAL EQUIPMENT CORPORATION

Property, Plant and Equipment  
(In Thousands)

Year Ended June 27, 1992

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
Land.....	\$ 376,071	\$ 701	\$ (3,325)	\$ (458)	\$ 372,989
Buildings.....	1,836,323	83,617	(48,809)	579	1,871,710
Leasehold improvements.....	573,378	77,746	(57,603)	(550)	592,971
Machinery and equipment.....	4,642,820	548,372	(356,167)	429	4,835,454
	\$7,428,592	\$ 710,436	\$ (465,904)	\$ 0	\$ 7,673,124



**SCHEDULE VI**

**DIGITAL EQUIPMENT CORPORATION**

**Accumulated Depreciation and Amortization of Property, Plant and Equipment  
(In Thousands)**

**Year Ended July 2, 1994**

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
Buildings.....	\$ 420,676	\$ 64,347	\$ (22,270)	\$ 1,919	\$ 464,672
Leasehold improvements.....	327,950	41,905	(70,113)	(69,911) (a)	229,831
Machinery and equipment.....	3,266,513	467,718	(605,326)	67,992 (a)	3,196,897
	\$ 4,015,139	\$ 573,970	\$ (697,709)	\$ 0	\$ 3,891,400

(a) Reclassification between accounts.



SCHEDULE VI, cont'd.

DIGITAL EQUIPMENT CORPORATION

Accumulated Depreciation and Amortization of Property, Plant and Equipment  
(In Thousands)

Year Ended July 3, 1993

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
Buildings.....	\$ 398,012	\$ 66,113	\$ (44,535)	\$ 1,086	\$ 420,676
Leasehold improvements.....	342,116	56,789	(70,963)	8	327,950
Machinery and equipment.....	3,363,294	575,729	(671,416)	(1,094)	3,266,513
	\$ 4,103,422	\$ 698,631	\$ (786,914)	\$ 0	\$ 4,015,139



**SCHEDULE VI, cont'd.**

**DIGITAL EQUIPMENT CORPORATION**

**Accumulated Depreciation and Amortization of Property, Plant and Equipment  
(In Thousands)**

**Year Ended June 27, 1992**

<b>Column A</b>	<b>Column B</b>	<b>Column C</b>	<b>Column D</b>	<b>Column E</b>	<b>Column F</b>
<b>Classification</b>	<b>Balance at Beginning of Period</b>	<b>Additions Charged to Costs and Expenses</b>	<b>Retirements and Sales</b>	<b>Other Changes add (deduct) Transfers</b>	<b>Balance at End of Period</b>
Buildings.....	\$ 344,422	\$ 67,622	\$ (13,844)	\$ (188)	\$ 398,012
Leasehold improvements.....	315,765	64,667	(39,843)	1,527	342,116
Machinery and equipment.....	2,990,575	600,247	(226,189)	(1,339)	3,363,294
	\$3,650,762	\$ 732,536	\$ (279,876)	\$ 0	\$ 4,103,422



**SCHEDULE VIII**

**DIGITAL EQUIPMENT CORPORATION**

**Valuation and Qualifying Accounts and Reserves  
(In Thousands)**

<b>Column A</b>	<b>Column B</b>	<b>Column C</b>	<b>Column D</b>	<b>Column E</b>	<b>Column F</b>
<b>Description</b>	<b>Balance at Beginning of Period</b>	<b>Charged to Operations</b>	<b>Charged to Other Accounts</b>	<b>Deductions from Reserves (a)</b>	<b>Balance at End of Period</b>
<b>Allowance for Possible Losses on Accounts Receivable</b>					
<b>Year ended:</b>					
July 02, 1994	\$ 110,764	\$ 50,247 (c)	\$ 1,286	\$ 50,372 (c)	\$ 111,925
July 03, 1993	\$ 129,686	\$ 22,596 (b)	\$ 10,801 (d)	\$ 52,319 (e)	\$ 110,764
June 27, 1992	\$ 84,999	\$ 29,535	\$ 31,735 (f)	\$ 16,583 (e)	\$ 129,686

(a) Uncollectible accounts and adjustments.

(b) Includes recovery of accounts previously written off.

(c) Increased customer credits.

(d) Reclassification of reserve from other current liabilities related to fiscal year 1991 acquisition.

(e) Includes write-offs in the current year of amounts reserved at time of acquisition of businesses in prior periods.

(f) Acquired in business purchase.



**SCHEDULE X**

**DIGITAL EQUIPMENT CORPORATION**

**Supplemental Income Statement Information  
(In Thousands)**

Charged to costs and expenses

Year Ended

	<b>July 02, 1994</b>	<b>July 03, 1993</b>	<b>June 27, 1992</b>
Maintenance and repairs.....	\$ 247,494 (a)	\$ 326,441	\$ 383,081

Advertising, amortization of intangible assets, royalties and taxes other than payroll and income taxes are not set forth inasmuch as each such item does not exceed one percent of total operating revenues as shown in the related Consolidated Statements of Operations.

(a) Decrease principally due to facility closures and reduced number of fleet vehicles.



# EXHIBIT 11

## DIGITAL EQUIPMENT CORPORATION

### Computation of Net Income Per Share/(Loss) Per Share

Year Ended

	July 2, 1994	July 3, 1993	June 27, 1992	June 29, 1991	June 30, 1990
	(In Thousands Except Income Per Share Data)				
Net income/(loss).....	\$ (2,156,063) (b)	\$ (251,330)	\$ (2,795,507) (c)	\$ (617,427)	\$ 74,393
Net income/(loss) applicable to common and common equivalent shares.....	\$ (2,166,713) (a) (b)	\$ (251,330)	\$ (2,795,507) (c)	\$ (617,427)	\$ 74,393
Weighted-average number of common shares outstanding during the year.....	137,090	130,409	124,864	121,558	121,745

See page S-11 for notes to Exhibit 11.



Exhibit 11, cont'd.

Year Ended

	July 2, 1994	July 3, 1993	June 27, 1992	June 29, 1991	June 30, 1990
	(In Thousands Except Income Per Share Data)				

Common stock equivalents from application of "treasury stock" method to unexercised and outstanding stock options.....

3,477

Total number of common and common equivalent shares used in the computation of net income per share.....

125,222

Net income/(loss) per share.....

.59

(a) Includes dividends paid and declared on Series A 8 7/8% cumulative preferred stock totaling \$10,650,000.

(b) Net loss and net loss per share include the cumulative effect of change in accounting principles of \$51,026,000 and \$0.37, respectively.

(c) Net loss and net loss per share include the cumulative effect of change in accounting principle of \$485,495,000 and \$3.89, respectively.



## SUBSIDIARIES

The following is a list of the Corporation's consolidated subsidiaries as of July 2, 1994. The Corporation owns, directly or indirectly, 100% of the voting securities of each subsidiary, unless marked with an asterisk.

<u>Name</u>	<u>State or Jurisdiction of Organization</u>
Basys Automation Systems, Inc.	Delaware
Basys Automation Systems Limited	United Kingdom
CASE & CAD Engineering Produktveckling i Stockholm	Sweden
Computer Insurance Company	Rhode Island
DEC Digital Equipment Corporation A.G./S.A.	Switzerland
DECsys - Digital Systems (1993) Ltd.	Israel
Digital DV - Leasing und CAD-Vertriebs GmbH	Germany
Digital Computer Taiwan Limited	Taiwan
Digital Equipment AB	Sweden
Digital Equipment Asia Pacific Pte. Ltd.	Singapore
Digital Equipment (BCFI) AB	Sweden
Digital Equipment B.V.	Netherlands
Digital Equipment Betriebliche Altersversorgung G.m.b.H.	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 Chile Limitada	Chile
Digital Equipment China Incorporated	Peoples Republic of China
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 Corporation A/S	Denmark
Digital Equipment Corporation (Australia) Pty. Ltd.	Australia
Digital Equipment Corporation (Consultancy) Limited	States of Jersey
Digital Equipment Corporation (Thailand) Ltd.	Thailand
Digital Equipment Deutschland (Holding) GmbH	Germany
Digital Equipment Corporation Espana, S.A.	Spain
Digital Equipment Corporation Finance B.V.	Netherlands
Digital Equipment Osterreich Aktiengesellschaft	Austria



Digital Equipment Corporation International	Massachusetts
Digital Equipment Corporation International (Europe)	Switzerland
Digital Equipment Corporation Japan	Japan
Digital Equipment Corporation OY	Finland
Digital Equipment Corporation de Puerto Rico	Delaware
Digital Equipment Corporation (New Zealand) Limited	New Zealand
A/O Digital Equipment Corporation, Russia	Russia
Digital Equipment Corporation Services-Europe S.A./N.V.	Belgium
Digital Equipment (Cyprus) Ltd.	Cyprus
Digital Equipment s.r.o.	Czech Republic
Digital Equipment Data Systems Aktiengesellschaft	Austria
Digital Equipment (DEC) Limited	Israel
Digital Equipment (DEC) Technical Center (Israel) Limited	Israel
Digital Equipment Dienstleistungen GmbH	Germany
Digital Equipment Distribution (Ireland) Limited	Republic of Ireland
Digital Equipment Enterprises Espana, S.A.	Spain
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	Germany
Digital Equipment Gulf W.L.L.	Bahrain
Digital Equipment Hellas S.A.	Greece
Digital Equipment (Holdings) B.V.	Netherlands
Digital Equipment Holdings Italia S.p.a.	Italy
Digital Equipment Hong Kong Limited	Hong Kong
Digital Equipment (Hungary) Computing Technology Ltd.	Hungary
Digital Equipment (India) Ltd.	India
Digital Equipment International B.V.	Netherlands
Digital Equipment International Betriebliche Altersversorgungsgesellschaft G.m.b.H.	Germany
Digital Equipment International Finance B.V.	Netherlands
Digital Equipment International G.m.b.H.	Germany
Digital Equipment International Limited	Switzerland
Digital Equipment Ireland Limited	Republic of Ireland
Digital Equipment Korea, Incorporated	Korea
Digital Equipment (Malaysia) Sdn. Bhd.	Malaysia
Digital Equipment Maroc S.A.R.L.	Morocco
Digital Equipment de Mexico, S.A. de C.V.	Mexico
Digital Equipment Middle East Limited	States of Jersey
Digital Equipment PCdirect GmbH (Germany)	Germany
Digital Equipment Panama, Inc.	Panama
Digital Equipment Parts Center B.V.	Netherlands
Digital Equipment Polska SP.Zo.o.	Poland



Digital Equipment Portugal, Limitada	Portugal
Digital Equipment PRC Limited	Hong Kong
Digital Equipment Properties Limited	United Kingdom
Digital Equipment Romania s.r.l.	Romania
Digital Equipment S.A./N.V.	Belgium
Digital System Services AB	Sweden
Digital Equipment Slovakia s.r.o.	Slovakia
Digital Equipment SME Limited	United Kingdom
Digital Equipment S.p.a.	Italy
Digital Equipment Scotland Limited	United Kingdom
Digital Equipment Service Industries Solutions Company Limited	United Kingdom
Digital Equipment Services, Inc.	Delaware
Digital Equipment Singapore (PTE) Limited	Singapore
Digital Equipment (Small Medium Enterprise) B.V.	Netherlands
Digital Equipment Storage Products (Malaysia) Sdn BHD	Malaysia
Digital Equipment System-Integration GmbH	Germany
Digital Equipment Corporation C.I.S. B.V.	Netherlands
Digital Equipment (Thailand) Ltd.	Thailand
Digital Equipment Turkiye A.S.	Turkey
Digital Equipment de Venezuela (D.E.V.) C.A.	Venezuela
Digital Growth, Inc.	Massachusetts
Digital Incorporated	Delaware
Digital International Sales Corporation	Delaware
Digital-Kienzle Computersysteme GmbH & Co. K.G.	Germany
Digital-Kienzle Computersysteme Verwaltungsgesellschaft mbH	Germany
Digital-PCS Systemtechnik GmbH	Germany
Digital Realty Corporation	Delaware
Digital Receivables Financing Corporation	Delaware
Digital Sales and Services South Africa (Pty.) Limited	Republic of South Africa
Digital Sociedade de Previdencia Privada	Brazil
*EA Systems, Inc.	Delaware
Elebra Computadores S.A.	Brazil
Old Colony Insurance Limited	Bermuda
*Rocky Mountain Magnetics, Inc.	Delaware
Rostvold System A/S	Norway
Serrata Consulting Limited	Canada
SIPAC S.p.a.	Italy
Societe Civile Immobiliere (SCI) Parc du Bois Briard	France
800-Software, Inc.	California



CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the Registration Statements (Forms S-8) and related prospectuses of the Digital Equipment Corporation 1976 and 1985 Restricted Stock Option Plans (No. 33-970), 1990 Equity Plan (No. 33-37631), 1990 Stock Option Plan for Nonemployee Directors (No. 33-37628), 1968 Employee Stock Purchase Plan (No. 33-50945) and 1981 International Employee Stock Purchase Plan (No. 33-50963) and the Registration Statement and related prospectuses on Form S-3 (No. 33-51987), of our reports dated July 26, 1994 on our audits of the consolidated financial statements and financial statement schedules of Digital Equipment Corporation as of July 2, 1994 and July 3, 1993 and for each of the three fiscal years in the period ended July 2, 1994, which reports are incorporated by reference or included in this Annual Report on Form 10-K.

/s/Coopers & Lybrand L.L.P.

Coopers & Lybrand L.L.P.

Boston, Massachusetts  
September 15, 1994



**FOR REFERENCE**

**Do Not Take From This Room**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**Form 10-Q**

**Quarterly Report Under Section 13 or 15(d)  
of the Securities Exchange Act of 1934**

**For Quarter Ended March 29, 1980**

**Commission 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) 493-5523**

*(Registrant's telephone number, including area code)*

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ 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 March 29, 1980: 45,319,163.



# PART I. FINANCIAL INFORMATION

## DIGITAL EQUIPMENT CORPORATION

### CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands except per share data)

	Three Months Ended	
	March 29, 1980	March 31, 1979
REVENUES		
Equipment sales .....	\$473,191	\$355,953
Service and other revenues .....	154,057	109,985
TOTAL OPERATING REVENUES .....	627,248	465,938
COSTS AND EXPENSES		
Cost of equipment sales, service and other revenues .....	348,274	262,307
Research and engineering expenses .....	47,231	34,312
Selling, general and administrative expenses .....	127,612	94,211
Interest expense .....	2,764	6,410
Interest income .....	(9,228)	(10,271)
TOTAL COSTS AND EXPENSES .....	516,653	386,969
INCOME BEFORE INCOME TAXES .....	110,595	78,969
PROVISION FOR INCOME TAXES .....	43,685	32,332
NET INCOME .....	\$ 66,910	\$ 46,637
NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE(1) ....	\$1.45	\$1.07

(1) Net income per common and common equivalent share is based on a fully diluted calculation of the weighted average number of such shares outstanding during each period; 46,077,147 shares for the three months ended March 29, 1980 and 44,922,059 shares for the three months ended March 31, 1979. (See page 5 of this report.)

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



# DIGITAL EQUIPMENT CORPORATION

## CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands except per share data)

	Nine Months Ended	
	March 29, 1980	March 31, 1979
REVENUES		
Equipment sales .....	\$1,248,948	\$ 978,777
Service and other revenues .....	419,734	301,104
TOTAL OPERATING REVENUES .....	<u>1,668,682</u>	<u>1,279,881</u>
COSTS AND EXPENSES		
Cost of equipment sales, service and other revenues .....	931,799	727,083
Research and engineering expenses .....	129,753	99,817
Selling, general and administrative expenses .....	348,844	267,158
Interest expense .....	14,744	18,465
Interest income .....	(30,972)	(25,548)
TOTAL COSTS AND EXPENSES .....	<u>1,394,168</u>	<u>1,086,975</u>
INCOME BEFORE INCOME TAXES .....	274,514	192,906
PROVISION FOR INCOME TAXES .....	108,433	76,198
NET INCOME .....	<u>\$ 166,081</u>	<u>\$ 116,708</u>
NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE(1) ....	<u>\$3.68</u>	<u>\$2.70</u>

(1) Net income per common and common equivalent share is based on a fully diluted calculation of the weighted average number of such shares outstanding during each period; 45,847,582 shares for the nine months ended March 29, 1980 and 44,798,883 shares for the nine months ended March 31, 1979. (See page 6 of this report.)

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



# DIGITAL EQUIPMENT CORPORATION

## CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

	March 29, 1980(1)	March 31, 1979
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and temporary cash investments	\$ 647,792	\$ 391,867
Accounts receivable, net of allowances of \$21,762 and \$19,311	566,686	448,359
Inventories, at lower of cost or market:		
Raw materials	187,367	89,944
Work-in-process	258,843	189,571
Finished goods	310,316	200,682
	<u>756,526</u>	<u>480,197</u>
Prepaid expenses	30,562	18,742
Net deferred Federal and foreign income tax charges	32,631	18,720
<b>TOTAL CURRENT ASSETS</b>	<b>2,034,197</b>	<b>1,357,885</b>
<b>PROPERTY, PLANT AND EQUIPMENT, at cost</b>	<b>693,455</b>	<b>558,148</b>
Less accumulated depreciation	<u>(223,726)</u>	<u>(169,888)</u>
	<u>469,729</u>	<u>388,260</u>
<b>TOTAL ASSETS</b>	<b>\$2,503,926</b>	<b>\$1,746,145</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Loans payable to banks	\$ 9,837	\$ 9,131
Accounts payable	109,491	79,054
Accrued liabilities	220,734	136,973
Other current liabilities	97,701	118,576
<b>TOTAL CURRENT LIABILITIES</b>	<b>437,763</b>	<b>343,734</b>
Net deferred Federal and foreign income tax credits	23,927	21,373
Long-term debt	489,655	340,746
<b>TOTAL LIABILITIES</b>	<b>951,345</b>	<b>705,853</b>
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, \$1 par value; authorized 120,000,000 shares; issued and outstanding 45,319,163 and 40,239,154 shares	45,319	40,239
Additional paid-in capital	659,972	380,570
Retained earnings	847,290	619,483
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>1,552,581</b>	<b>1,040,292</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$2,503,926</b>	<b>\$1,746,145</b>

(1) The consolidated balance sheet as at March 29, 1980 reflects the April 1, 1980 issuance of \$400,000,000 principal amount of 8 $\frac{7}{8}$ % Convertible Subordinated Debentures. See Item 5 on page 9 of this report for information on the issuance of these Debentures.



# DIGITAL EQUIPMENT CORPORATION

## CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

(Dollars in thousands)

	Nine Months Ended	
	March 29, 1980(1)	March 31, 1979
<b>FUNDS FROM OPERATIONS</b>		
Net income	\$166,081	\$116,708
Add — expenses not requiring funds in current period:		
Depreciation	47,656	42,817
Deferred income tax provision	2,323	(1,941)
Disposal of property, plant and equipment	5,422	9,231
Restricted stock plans — charge to operations	6,959	5,402
Total funds from operations	<u>228,441</u>	<u>172,217</u>
<b>FUNDS USED TO SUPPORT OPERATIONS</b>		
Increase (decrease) in working capital:		
Accounts receivable	91,619	73,154
Inventories	242,996	52,095
Prepaid expenses	11,691	5,690
Accounts payable	(22,652)	(28,547)
Accrued liabilities	(25,150)	(47,077)
Other current liabilities	(4,996)	(29,370)
	<u>293,508</u>	<u>25,945</u>
Additions to property, plant and equipment	123,598	64,373
Total funds used to support operations	<u>417,106</u>	<u>90,318</u>
Net increase (decrease) in funds from operations	<u>(188,665)</u>	<u>81,899</u>
<b>FUNDS PROVIDED BY FINANCING SOURCES</b>		
Increase (decrease) in:		
Loans payable to banks	(2,155)	309
Long-term debt:		
4½% Convertible Subordinated Debentures(2)	(249,995)	—
8½% Convertible Subordinated Debentures	400,000	—
Other	(1,064)	(877)
	<u>148,941</u>	<u>(877)</u>
Stock issued under employee option and purchase plans	10,758	11,174
Net increase in stockholders' equity upon conversion of 4½% Convertible Subordinated Debentures(2)	245,890	—
Total funds from financing sources	<u>403,434</u>	<u>10,606</u>
Net increase (decrease) in cash and temporary cash investments	<u>214,769</u>	<u>92,505</u>
Cash and temporary cash investments at beginning of period	433,023	299,362
Cash and temporary cash investments at end of period	<u>\$647,792</u>	<u>\$391,867</u>

(1) The consolidated statement of changes in financial position for the nine months ended March 29, 1980 reflects the April 1, 1980 issuance of \$400,000,000 principal amount of 8½% Convertible Subordinated Debentures. See Item 5 on page 9 of this report for information on the issuance of these Debentures.

(2) 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. At the election of the Debentureholders, substantially all of these Debentures were converted into shares of Common Stock. The resulting increase in stockholders' equity of \$245,890,000 reflects the conversion of these Debentures into 4,384,278 shares of Common Stock at a conversion price of \$57.00 per share, less conversion and deferred issuance expenses of approximately \$4,000,000.



# DIGITAL EQUIPMENT CORPORATION

## COMPUTATION OF NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE

(Dollars in thousands except per share data)

	Three Months Ended	
	March 29, 1980	March 31, 1979
Net income .....	\$66,910	\$46,637
Add back 4½% convertible debenture interest, net of related tax effect .....	(270)	1,491
Net income applicable to common and common equivalent shares .....	<u>\$66,640</u>	<u>\$48,128</u>
Weighted-average number of common shares outstanding during the period .....	43,758,587	40,040,772
Common stock equivalents from application of "if converted" method to 4½% convertible debentures .....	1,590,616	4,385,877
Common stock equivalents from application of "treasury stock" method to exercised and outstanding stock options .....	<u>727,944</u>	<u>495,410</u>
Total weighted-average number of common and common equivalent shares outstanding during the period .....	<u>46,077,147</u>	<u>44,922,059</u>
Net income per common and common equivalent share .....	<u>\$1.45</u>	<u>\$1.07</u>



# DIGITAL EQUIPMENT CORPORATION

## COMPUTATION OF NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE

(Dollars in thousands except per share data)

	Nine Months Ended	
	March 29, 1980	March 31, 1979
Net income .....	\$166,081	\$116,708
Add back 4½% convertible debenture interest, net of related tax effect .....	2,767	4,472
Net income applicable to common and common equivalent shares .....	<u>\$168,848</u>	<u>\$121,180</u>
Weighted-average number of common shares outstanding during the period .....	41,710,490	39,988,841
Common stock equivalents from application of "if converted" method to 4½% convertible debentures .....	3,454,123	4,385,877
Common stock equivalents from application of "treasury stock" method to exercised and outstanding stock options .....	682,969	424,165
Total weighted-average number of common and common equivalent shares outstanding during the period .....	<u>45,847,582</u>	<u>44,798,883</u>
Net income per common and common equivalent share .....	<u>\$3.68</u>	<u>\$2.70</u>



## 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 income statements for the most recent quarter and nine months ended March 29, 1980, the immediately preceding quarter ended December 29, 1979, and the corresponding quarter and nine months ended March 31, 1979 of the preceding fiscal year and the percentage changes in those items for such periods.

Income and Expense Items as a Percentage of Total Operating Revenues					Income and Expense Items	Percentage Increases (Decreases)		
						Three Months Ended	Nine Months Ended	
Three Months Ended			Nine Months Ended			March 29, 1980 vs. Dec. 29, 1979	March 29, 1980 vs. March 31, 1979	March 29, 1980 vs. March 31, 1979
Dec. 29, 1979	March 31, 1979	March 29, 1980	March 31, 1979	March 29, 1980				
74.7%	76.4%	75.4%	76.5%	74.8%	Equipment sales	14%	33%	28%
25.3%	23.6%	24.6%	23.5%	25.2%	Service and other revenues	10%	40%	39%
100.0%	100.0%	100.0%	100.0%	100.0%	Total operating revenues	13%	35%	30%
56.1%	56.3%	55.5%	56.8%	55.8%	Cost of equipment sales, service and other revenues	12%	33%	28%
7.7%	7.4%	7.5%	7.8%	7.8%	Research and engineering expenses	11%	38%	30%
20.8%	20.2%	20.4%	20.9%	20.9%	Selling, general and administrative expenses	11%	35%	31%
1.1%	1.4%	0.4%	1.4%	0.9%	Interest expense	(54%)	(57%)	(20%)
(1.8%)	(2.2%)	(1.5%)	(2.0%)	(1.9%)	Interest income	(8%)	(10%)	21%
83.9%	83.1%	82.3%	84.9%	83.5%	Total costs and expenses	11%	34%	28%
16.1%	16.9%	17.7%	15.1%	16.5%	Income before income taxes	24%	40%	42%
6.4%	6.9%	7.0%	6.0%	6.5%	Income taxes	24%	35%	42%
9.7%	10.0%	10.7%	9.1%	10.0%	Net income	24%	43%	42%

### Revenues

Total operating revenues for the first nine months of fiscal 1980 were \$1.669 billion, up 30 percent over the comparable period a year ago and included equipment sales of \$1.249 billion, an increase of 28 percent, and service and other revenues of \$419.7 million, up 39 percent from the corresponding period a year ago. For the third quarter ended March 29, 1980, total operating revenues were \$627.2 million, up 35 percent over the third quarter of fiscal 1979, reflecting a 33 percent rise in equipment sales and a 40 percent increase in service and other revenues.

The increase in sales of equipment during both the third quarter and the first nine months of fiscal 1980 reflects the continuation of the upward trend in orders that the Company began to experience in the latter half of fiscal 1979. The percentage gains in service and other revenues resulted from the continued growth in the base of installed computer systems and the increased number of customers purchasing services.

The 13 percent gain in total operating revenues in the third quarter compared to the second quarter of fiscal 1980 is consistent with the traditional business pattern of higher unit shipments in the successive quarters of the fiscal year.

Operating revenues from customers outside the United States were \$651.1 million for the first nine months of fiscal 1980 or 39 percent of total operating revenues. This represents a 38 percent increase over the \$470.2 million in international revenues reported for the comparable period of fiscal 1979, during which international revenues accounted for 37 percent of total operating revenues.



## Expenses

The cost of equipment sales, service and other revenues rose 33 percent and 28 percent, respectively, during the third quarter and first nine months of fiscal 1980 over the comparable periods a year ago. The percentage increases for the third quarter and first nine months of fiscal 1980 were slightly less than the corresponding percentage increases in total operating revenues due to lower manufacturing costs, offset somewhat by higher customer service costs.

Research and engineering expenses represented 7.5 percent and 7.8 percent of total operating revenues for the third quarter and first nine months of fiscal 1980, which is consistent with the comparable periods of a year ago. The increases in these expenditures over the comparable periods of fiscal 1979 represent investment in hardware and software development projects as well as additions to the professional engineering staff.

Interest income decreased 10 percent in the third quarter compared to the same period of a year ago due to lower temporary cash investment balances during the quarter. Interest income for the nine-month period was up 21 percent from the same period a year ago due to higher temporary cash investment balances in the early months of this fiscal year. Interest expense decreased 57 percent and 20 percent in the third quarter and first nine months of fiscal 1980, respectively, from the comparable periods a year ago, due to the Company's call for redemption of its 4½% Convertible Subordinated Debentures and conversion of substantially all of such Debentures into common stock during the third quarter of fiscal 1980.

The accompanying consolidated balance sheets, statements of income and statements of changes in financial position reflect all adjustments which are, in the opinion of management, necessary to a fair statement of the consolidated financial position at March 29, 1980, and March 31, 1979 and the consolidated results of operations and the consolidated changes in financial position for the interim periods then ended.



## PART II. OTHER INFORMATION

### Item 5. Increase in Amount Outstanding of Securities or Indebtedness.

Registrant sold \$400,000,000 aggregate principal amount of its 8 $\frac{7}{8}$ % Convertible Subordinated Debentures, due June 15, 2005 in a registered public offering on April 1, 1980. Such securities, which are convertible into common stock at \$72 per share, were registered under the Securities Act of 1933 (File No. 2-66944). The aggregate net cash proceeds to the Registrant (after underwriting discounts and commissions and estimated expenses) were approximately \$395,500,000. The representative of the underwriters was Lehman Brothers Kuhn Loeb Incorporated.

The net proceeds from the public offering were added to working capital. Registrant anticipates use of a part of such proceeds, together with internally generated funds, to finance capital expenditures which are presently expected to exceed \$350,000,000 for the eighteen months ending June 27, 1981. The balance of the proceeds will be used to finance additions to accounts receivable and inventories, and for other general corporate purposes, as may be required to support Registrant's anticipated increase in business volume.

During the first nine months of the current fiscal year, Registrant had additions to property, plant and equipment in the amount of \$123,598,000, net additions to accounts receivable in the amount of \$91,619,000 and net additions to inventories in the amount of \$242,996,000. Registrant anticipates further increases in these items during the remainder of the current fiscal year.

Pending use in the business, the proceeds will be invested in high quality debt securities. Registrant has in the past borrowed for its business purposes and expects that it may from time to time in the future borrow either domestically or abroad on either a short-term or long-term basis as the needs of its business may require.

### Item 9. Exhibits and Reports on Form 8-K.

#### (a) Exhibits.

- 1) — Indenture for 8 $\frac{7}{8}$ % Convertible Subordinated Debentures, due June 15, 2005, dated as of April 1, 1980.

#### (b) Reports on Form 8-K.

A current report on Form 8-K for the month of September 1979 was filed by Registrant on September 25, 1979. The report contained information under Item 5, Other Materially Important Events, relating to the termination with prejudice of a lawsuit previously reported in Registrant's proxy statement dated September 28, 1978.



# SIGNATURES

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

DIGITAL EQUIPMENT CORPORATION  
(Registrant)

ALFRED M. BERTOCCHI

By .....  
Alfred M. Bertocchi, Vice President — Finance  
(Duly Authorized Officer and Principal Financial Officer)

Date: May 8, 1980



# FOR REFERENCE

Do Not Take From This Room

## SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

### Form 10-Q

Quarterly Report Under Section 13 or 15(d)  
of the Securities Exchange Act of 1934

For Quarter Ended December 27, 1980

Commission 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) 493-5523  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ 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 December 27, 1980: 45,931,496.



## PART I. FINANCIAL INFORMATION

### DIGITAL EQUIPMENT CORPORATION

#### CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands except per share data)

	Three Months Ended	
	December 27, 1980	December 29, 1979
REVENUES		
Equipment sales .....	\$564,952	\$413,720
Service and other revenues .....	197,360	140,176
TOTAL OPERATING REVENUES .....	<u>762,312</u>	<u>553,896</u>
COSTS AND EXPENSES		
Cost of equipment sales, service and other revenues .....	431,967	311,064
Research and engineering expenses .....	58,452	42,573
Selling, general and administrative expenses .....	156,889	115,107
Interest expense .....	11,724	6,001
Interest income .....	(12,387)	(9,993)
TOTAL COSTS AND EXPENSES .....	<u>646,645</u>	<u>464,752</u>
INCOME BEFORE INCOME TAXES .....	115,667	89,144
PROVISION FOR INCOME TAXES .....	45,689	35,212
NET INCOME .....	<u>\$ 69,978</u>	<u>\$ 53,932</u>
NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE(1) ....	<u>\$1.43</u>	<u>\$1.21</u>

(1) Net income per common and common equivalent share is based on a fully diluted calculation of the weighted average number of such shares outstanding during each period; 52,317,739 shares for the three months ended December 27, 1980 and 45,818,154 shares for the three months ended December 29, 1979. (See page 5 of this report.)

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



# DIGITAL EQUIPMENT CORPORATION

## CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands except per share data)

	Six Months Ended	
	December 27, 1980	December 29, 1979
REVENUES		
Equipment sales .....	\$1,044,170	\$ 775,757
Service and other revenues .....	372,512	265,677
TOTAL OPERATING REVENUES .....	<u>1,416,682</u>	<u>1,041,434</u>
COSTS AND EXPENSES		
Cost of equipment sales, service and other revenues .....	802,641	583,525
Research and engineering expenses .....	113,241	82,522
Selling, general and administrative expenses .....	295,752	221,232
Interest expense .....	24,015	11,980
Interest income .....	(27,533)	(21,744)
TOTAL COSTS AND EXPENSES .....	<u>1,208,116</u>	<u>877,515</u>
INCOME BEFORE INCOME TAXES .....	208,566	163,919
PROVISION FOR INCOME TAXES .....	82,384	64,748
NET INCOME .....	<u>\$ 126,182</u>	<u>\$ 99,171</u>
NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE(1) ....	<u>\$2.60</u>	<u>\$2.23</u>

(1) Net income per share and common equivalent share is based on a fully diluted calculation of the weighted average number of shares outstanding during each period; 52,230,164 shares for the six months ended December 27, 1980 and 45,732,800 shares for the six months ended December 29, 1979. (See page 6 of this report.)

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



# DIGITAL EQUIPMENT CORPORATION

## CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

	December 27, 1980	December 29, 1979
ASSETS		
CURRENT ASSETS		
Cash and temporary cash investments .....	\$ 379,140	\$ 305,628
Accounts receivable, net of allowances of \$24,549 and \$21,147 .....	709,605	538,081
Inventories, at lower of cost or market:		
Raw materials .....	257,973	148,558
Work-in-process .....	350,253	220,466
Finished goods .....	443,437	285,598
	1,051,663	654,622
Prepaid expenses .....	33,912	24,972
Net deferred Federal and foreign income tax charges .....	56,593	29,012
TOTAL CURRENT ASSETS .....	2,230,913	1,552,315
PROPERTY, PLANT AND EQUIPMENT, at cost .....	939,420	647,472
Less accumulated depreciation .....	(276,248)	(207,988)
	663,172	439,484
TOTAL ASSETS .....	<u>\$2,894,085</u>	<u>\$1,991,799</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Loans payable to banks .....	\$ 6,621	\$ 10,375
Accounts payable .....	122,027	99,359
Accrued liabilities .....	277,077	175,118
Other current liabilities .....	146,096	108,332
TOTAL CURRENT LIABILITIES .....	551,821	393,184
Net deferred Federal and foreign income tax credits .....	55,301	22,477
Long-term debt (1) .....	486,470	340,278
TOTAL LIABILITIES .....	1,093,592	755,939
STOCKHOLDERS' EQUITY		
Common stock, \$1 par value; authorized 225,000,000 shares; issued and outstanding 45,931,496 and 40,894,384 shares .....	45,931	40,894
Additional paid-in capital .....	697,310	414,586
Retained earnings .....	1,057,252	780,380
TOTAL STOCKHOLDERS' EQUITY .....	<u>1,800,493</u>	<u>1,235,860</u>
	<u>\$2,894,085</u>	<u>\$1,991,799</u>

(1) See Items 5 and 6 on page 8 of this report for information on the call for redemption of the 8 $\frac{7}{8}$ % Convertible Subordinated Debentures and conversion of the Debentures into shares of Common Stock.



# DIGITAL EQUIPMENT CORPORATION

## CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

(Dollars in thousands)

	Six Months Ended	
	December 27, 1980	December 29, 1979
<b>FUNDS FROM OPERATIONS</b>		
Net income .....	\$126,182	\$ 99,171
Add — expenses not requiring funds in current period:		
Depreciation .....	39,232	30,115
Deferred income tax provision .....	(4,997)	3,592
Disposal of property, plant and equipment .....	12,862	4,313
Other .....	4,416	4,554
Total funds from operations .....	177,695	141,745
<b>FUNDS USED TO SUPPORT OPERATIONS</b>		
Increase (decrease) in working capital:		
Accounts receivable .....	80,542	63,014
Inventories .....	231,739	141,092
Prepaid expenses .....	3,266	6,101
Accounts payable .....	(18,923)	(12,520)
Accrued liabilities .....	(37,634)	20,466
Other current liabilities .....	(17,802)	(15,627)
	241,188	202,526
Additions to property, plant and equipment .....	185,810	74,703
Total funds used to support operations .....	426,998	277,229
Net increase (decrease) in funds from operations .....	(249,303)	(135,484)
<b>FUNDS PROVIDED BY FINANCING SOURCES</b>		
Increase (decrease) in:		
Loans payable to banks .....	(934)	(1,617)
Long-term debt .....	(3,252)	(436)
Stock issued under employee option and purchase plans .....	14,216	10,142
Stock issued upon early conversion of 8%% convertible subordinated debentures .....	2,127	—
Total funds from financing sources .....	12,157	8,089
Net increase (decrease) in cash and temporary cash investments .....	(237,146)	(127,395)
Cash and temporary cash investments at beginning of period .....	616,286	433,023
Cash and temporary cash investments at end of period .....	\$379,140	\$305,628



# DIGITAL EQUIPMENT CORPORATION

## COMPUTATION OF NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE

(Dollars in thousands except per share data)

	Three Months Ended	
	December 27, 1980	December 29, 1979
Net income .....	\$69,978	\$53,932
Add back convertible debenture interest, net of related tax effect .....	<u>4,792</u>	<u>1,519</u>
Net income applicable to common and common equivalent shares .....	<u>\$74,770</u>	<u>\$55,451</u>
Weighted-average number of common shares outstanding during the period .....	45,734,522	40,739,961
Common stock equivalents from application of "if converted" method to convertible debentures .....	5,552,106	4,385,877
Common stock equivalents from application of "treasury stock" method to exercised and outstanding stock options .....	<u>1,031,111</u>	<u>692,316</u>
Total weighted-average number of common and common equivalent shares outstanding during the period .....	<u>52,317,739</u>	<u>45,818,154</u>
Net income per common and common equivalent share .....	<u>\$1.43</u>	<u>\$1.21</u>



# DIGITAL EQUIPMENT CORPORATION

## COMPUTATION OF NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE

(Dollars in thousands except per share data)

	Six Months Ended	
	December 27, 1980	December 29, 1979
Net income .....	\$126,182	\$ 99,171
Add back convertible debenture interest, net of related tax effect .....	9,585	3,037
Net income applicable to common and common equivalent shares .....	<u>\$135,767</u>	<u>\$102,208</u>
Weighted-average number of common shares outstanding during the period .....	45,673,823	40,686,442
Common stock equivalents from application of "if converted" method to convertible debentures .....	5,553,831	4,385,877
Common stock equivalents from application of "treasury stock" method to exercised and outstanding stock options .....	<u>1,002,510</u>	<u>660,481</u>
Total weighted-average number of common and common equivalent shares outstanding during the period .....	<u>52,230,164</u>	<u>45,732,800</u>
Net income per common and common equivalent share .....	<u>\$2.60</u>	<u>\$2.23</u>



## 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 income statements for the most recent quarter and six months ended December 27, 1980, the immediately preceding quarter ended September 27, 1980, and the corresponding quarter and six months ended December 29, 1979 of the preceding fiscal year and the percentage changes in those items for such periods.

Income and Expense Items as a Percentage of Total Operating Revenues					Income and Expense Items	Percentage Increases (Decreases)		
						Three Months Ended	Dec. 27, 1980	Six Months Ended
Three Months Ended			Six Months Ended			Dec. 27, 1980	Dec. 27, 1980	Dec. 27, 1980
Dec. 29, 1979	Sept. 27, 1980	Dec. 27, 1980	Dec. 29, 1979	Dec. 27, 1980		vs. Sept. 27, 1980	vs. Dec. 29, 1979	vs. Dec. 29, 1979
74.7%	73.2%	74.1%	74.5%	73.7%	Equipment sales	18%	37%	35%
25.3%	26.8%	25.9%	25.5%	26.3%	Service and other revenues	13%	41%	40%
100.0%	100.0%	100.0%	100.0%	100.0%	Total operating revenues	16%	38%	36%
56.1%	56.6%	56.6%	56.1%	56.6%	Cost of equipment sales, service and other revenues	17%	39%	38%
7.7%	8.4%	7.7%	7.9%	8.0%	Research and engineering expenses	7%	37%	37%
20.8%	21.2%	20.6%	21.2%	20.9%	Selling, general and administrative expenses	13%	36%	34%
1.1%	1.9%	1.5%	1.2%	1.7%	Interest expense	(5%)	95%	100%
(1.8%)	(2.3%)	(1.6%)	(2.1%)	(1.9%)	Interest income	(18%)	24%	27%
83.9%	85.8%	84.8%	84.3%	85.3%	Total costs and expenses	15%	39%	38%
16.1%	14.2%	15.2%	15.7%	14.7%	Income before income taxes	25%	30%	27%
6.4%	5.6%	6.0%	6.2%	5.8%	Provision for income taxes	25%	30%	27%
9.7%	8.6%	9.2%	9.5%	8.9%	Net income	25%	30%	27%

### Revenues

Total operating revenues for the first six months of fiscal 1981 were \$1.417 billion, up 36 percent over the comparable period a year ago and included equipment sales of \$1.044 billion, an increase of 35 percent, and service and other revenues of \$372.5 million, up 40 percent from the corresponding period a year ago. For the second quarter ended December 27, 1980, total operating revenues were \$762.3 million, up 38 percent over the second quarter of fiscal 1980, reflecting a 37 percent rise in equipment sales and a 41 percent increase in service and other revenues.

The increase in sales of equipment during both the second quarter and the first six months of fiscal 1981 reflects the continuation of the upward trend in orders the Company has experienced since fiscal 1980. The percentage gains in service and other revenues resulted from the continued growth in the base of installed computer systems and in the increased number of customers purchasing services.

The 16 percent gain in total operating revenues in the second quarter compared to the first quarter of fiscal 1981 is consistent with the traditional business pattern of higher unit shipments in the successive quarters of the fiscal year.

Operating revenues from customers outside the United States were \$568.2 million for the first six months of fiscal 1981 or 40 percent of total operating revenues. This represents a 43 percent increase over the \$398.7 million in international revenues reported for the comparable period of fiscal 1980 during which international revenues accounted for 38 percent of total operating revenues.



## Expenses

The cost of equipment sales, service and other revenues rose 39 percent and 38 percent, respectively, during the second quarter and first half of fiscal 1981 over the comparable periods a year ago. The percentage increases for the second quarter and first six months of fiscal 1981 were slightly higher than the corresponding percentage increases in total operating revenues due to higher manufacturing costs, primarily those related to the start-up of new plants.

Research and engineering expenses represented 7.7 percent and 8.0 percent, respectively, of total operating revenues for the second quarter and first six months of fiscal 1981, which is consistent with the comparable periods of a year ago. The increases in these expenditures over the comparable periods of fiscal 1980 represent the Company's continued investment in new product development.

Both interest income and interest expense increased substantially over the corresponding six month and three month periods a year ago. On April 1, 1980, the Company issued \$400 million of 8 $\frac{7}{8}$ % Convertible Subordinated Debentures. This resulted in a substantial increase in cash and temporary cash investments which, coupled with higher prevailing interest rates, caused the increase in interest income and a substantial increase in long term debt which caused the increase in interest expense. The 18% decrease in interest income in the second quarter compared to the first quarter of fiscal 1981, reflects the decrease in cash and temporary cash investments resulting from working capital requirements, and additions to property, plant and equipment.

• • • •

The accompanying consolidated balance sheets, statements of income and statements of changes in financial position reflect all adjustments which are, in the opinion of management, necessary to a fair statement of the consolidated financial position at December 27, 1980, and December 29, 1979 and the consolidated results of operations and the consolidated changes in financial position for the interim periods then ended.

## PART II. OTHER INFORMATION

**Item 5. Increase in Amount Outstanding of Securities or Indebtedness.**

**Item 6. Decrease in Amount Outstanding of Securities or Indebtedness.**

On January 6, 1981, Registrant called for redemption on February 5, 1981 all \$397,873,000 of its then outstanding 8 $\frac{7}{8}$ % Convertible Subordinated Debentures, due June 15, 2005 (the "Debentures"). Under the terms of the Indenture dated as of April 1, 1980 with Citibank, N.A., as Trustee, holders of the Debentures are entitled to receive the redemption price of \$1,088.75, plus accrued interest of \$12.33, or \$1,101.08, for each \$1,000 principal amount of Debentures held.

Debentureholders also had the opportunity to convert their Debentures into shares of Registrant's Common Stock, \$1.00 par value, at a price equal to \$72.00 per share until 5:00 p.m., Eastern time, on January 21, 1981.

Registrant also made arrangements with Lehman Brothers Kuhn Loeb Incorporated, as representative (the "Representative") of a group of investment banking firms (the "Purchasers"), pursuant to which the Purchasers agreed to purchase Debentures tendered to them on or before 5:00 p.m., Eastern time, on January 21, 1981 for a flat price of \$1,104.50 for each \$1,000 principal amount of Debentures so tendered. The Purchasers agreed to convert Debentures tendered to them into Registrant's Common Stock which would then be offered to the public at a price set from time to time by the Representative. With respect to such shares, the Purchasers may be deemed to be underwriters



under the Securities Act of 1933. Accordingly, a registration statement on Form S-16 covering such shares was filed with the Securities and Exchange Commission. This registration statement became effective on January 6, 1981 (Registration No. 2-70473).

Between January 6, 1981 and January 21, 1981, inclusive, substantially all of the Debentures were converted into shares of Common Stock.

**Item 9. Exhibits and Reports on Form 8-K.**

(b) Reports on Form 8-K.

No reports on Form 8-K were filed by Registrant during the period covered by this report.



### SIGNATURES

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

DIGITAL EQUIPMENT CORPORATION  
(Registrant)

By .....  
ALFRED M. BERTOCCHI  
Alfred M. Bertocchi,  
Vice President — Finance and Administration  
(Duly Authorized Officer and Principal Financial Officer)

Date: February 6, 1981



**FOR REFERENCE**

*Do Not Take From This Room*

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**Form 10-Q**

**Quarterly Report Under Section 13 or 15(d)  
of the Securities Exchange Act of 1934**

**For Quarter Ended March 28, 1981**

**Commission 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) 493-5523**

*(Registrant's telephone number, including area code)*

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ 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 March 28, 1981: 51,523,382

**MAYNARD AREA INFORMATION  
SERVICES MLO4-3/A20**



# PART I. FINANCIAL INFORMATION

## DIGITAL EQUIPMENT CORPORATION

### CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands except per share data)

	Three Months Ended	
	March 28, 1981	March 29, 1980
REVENUES		
Equipment sales .....	\$632,359	\$473,191
Service and other revenues .....	211,026	154,057
TOTAL OPERATING REVENUES .....	843,385	627,248
COSTS AND EXPENSES		
Cost of equipment sales, service and other revenues .....	458,871	348,274
Research and engineering expenses .....	63,893	47,231
Selling, general and administrative expenses .....	166,923	127,612
Interest expense .....	2,197	2,764
Interest income .....	(14,171)	(9,228)
TOTAL COSTS AND EXPENSES .....	677,713	516,653
INCOME BEFORE INCOME TAXES .....	165,672	110,595
PROVISION FOR INCOME TAXES .....	65,440	43,685
NET INCOME .....	\$100,232	\$ 66,910
NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE(1) ....	\$1.89	\$1.45

(1) Net income per common and common equivalent share is based on a fully diluted calculation of the weighted average number of such shares outstanding during each period; 52,507,757 shares for the three months ended March 28, 1981 and 46,077,147 shares for the three months ended March 29, 1980. (See page 5 of this report.)

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



# DIGITAL EQUIPMENT CORPORATION

## CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands except per share data)

	Nine Months Ended	
	March 28, 1981	March 29, 1980
REVENUES		
Equipment sales	\$1,676,529	\$1,248,948
Service and other revenues	583,538	419,734
TOTAL OPERATING REVENUES	<u>2,260,067</u>	<u>1,668,682</u>
COSTS AND EXPENSES		
Cost of equipment sales, service and other revenues	1,261,512	931,799
Research and engineering expenses	177,134	129,753
Selling, general and administrative expenses	462,675	348,844
Interest expense	26,212	14,744
Interest income	(41,704)	(30,972)
TOTAL COSTS AND EXPENSES	<u>1,885,829</u>	<u>1,394,168</u>
INCOME BEFORE INCOME TAXES	374,238	274,514
PROVISION FOR INCOME TAXES	147,824	108,433
NET INCOME	<u>\$ 226,414</u>	<u>\$ 166,081</u>
NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE(1)	<u>\$4.50</u>	<u>\$3.68</u>

(1) Net income per share and common equivalent share is based on a fully diluted calculation of the weighted average number of such shares outstanding during each period; 52,322,695 shares for the nine months ended March 28, 1981 and 45,847,582 shares for the nine months ended March 29, 1980. (See page 6 of this report.)

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



# DIGITAL EQUIPMENT CORPORATION

## CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

	March 28, 1981	March 29, 1980
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and temporary cash investments .....	\$ 362,231	\$ 647,792
Accounts receivable, net of allowances of \$27,056 and \$21,762 .....	735,792	566,686
Inventories, at lower of cost or market:		
Raw materials .....	250,485	187,367
Work-in-process .....	377,893	258,843
Finished goods .....	487,647	310,316
	1,116,025	756,526
Prepaid expenses .....	32,016	30,562
Net deferred Federal and foreign income tax charges .....	68,393	32,631
<b>TOTAL CURRENT ASSETS</b> .....	2,314,457	2,034,197
<b>PROPERTY, PLANT AND EQUIPMENT, at cost</b> .....	1,023,685	693,455
Less accumulated depreciation .....	(300,680)	(223,726)
	723,005	469,729
<b>TOTAL ASSETS</b> .....	<u>\$3,037,462</u>	<u>\$2,503,926</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Loans payable to banks .....	\$ 9,230	\$ 9,837
Accounts payable .....	114,486	109,491
Accrued liabilities .....	326,423	220,734
Other current liabilities .....	140,586	97,701
<b>TOTAL CURRENT LIABILITIES</b> .....	590,725	437,763
Net deferred Federal and foreign income tax credits .....	62,001	23,927
Long-term debt .....	88,447	489,655
<b>TOTAL LIABILITIES</b> .....	741,173	951,345
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, \$1 par value; authorized 225,000,000 shares; issued and outstanding 51,523,382 and 45,319,163 shares .....	51,523	45,319
Additional paid-in capital .....	1,087,282	659,972
Retained earnings .....	1,157,484	847,290
<b>TOTAL STOCKHOLDERS' EQUITY</b> .....	2,296,289	1,552,581
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b> .....	<u>\$3,037,462</u>	<u>\$2,503,926</u>



# DIGITAL EQUIPMENT CORPORATION

## CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

(Dollars in thousands)

	Nine Months Ended	
	March 28, 1981	March 29, 1980
<b>FUNDS FROM OPERATIONS</b>		
Net income .....	\$226,414	\$166,081
Add — expenses not requiring funds in current period:		
Depreciation .....	68,267	47,656
Deferred income tax provision .....	(9,197)	2,323
Disposal of property, plant and equipment .....	21,974	5,422
Other .....	7,123	6,959
Total funds from operations .....	<u>314,581</u>	<u>228,441</u>
<b>FUNDS USED TO SUPPORT OPERATIONS</b>		
Increase (decrease) in working capital:		
Accounts receivable .....	106,729	91,619
Inventories .....	296,101	242,996
Prepaid expenses .....	1,370	11,691
Accounts payable .....	(11,382)	(22,652)
Accrued liabilities .....	(86,980)	(25,150)
Other current liabilities .....	<u>(12,292)</u>	<u>(4,996)</u>
	293,546	293,508
Additions to property, plant and equipment .....	<u>283,790</u>	<u>123,598</u>
Total funds used to support operations .....	<u>577,336</u>	<u>417,106</u>
Net increase (decrease) in funds from operations .....	<u>(262,755)</u>	<u>(188,665)</u>
<b>FUNDS PROVIDED BY FINANCING SOURCES</b>		
Increase (decrease) in:		
Loans payable to banks .....	1,675	(2,155)
Long-term debt		
4½% Convertible Subordinated Debentures .....	—	(249,995)
8½% Convertible Subordinated Debentures(1) .....	(400,000)	400,000
Other .....	<u>(1,275)</u>	<u>(1,064)</u>
	(401,275)	148,941
Stock issued under employee option and purchase plans .....	15,462	10,758
Net increase in stockholders' equity upon conversion of:		
4½% Convertible Subordinated Debentures .....	—	245,890
8½% Convertible Subordinated Debentures(1) .....	<u>392,838</u>	<u>—</u>
Total funds from financing sources .....	<u>8,700</u>	<u>403,434</u>
Net increase (decrease) in cash and temporary cash investments .....	<u>(254,055)</u>	<u>214,769</u>
Cash and temporary cash investments at beginning of period .....	<u>616,286</u>	<u>433,023</u>
Cash and temporary cash investments at end of period .....	<u>\$362,231</u>	<u>\$647,792</u>

(1) On January 6, 1981, the Company called for redemption on February 5, 1981, all of its then outstanding 8½% Convertible Subordinated Debentures. At the election of the Debentureholders, substantially all of these Debentures were converted into shares of Common Stock. The resulting increase in stockholders' equity of \$392,838,000 reflects the conversion of these Debentures into 5,550,645 shares of Common Stock at a conversion price of \$72.00 per share, less conversion and deferred issuance expenses of approximately \$6,800,000.



# DIGITAL EQUIPMENT CORPORATION

## COMPUTATION OF NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE

(Dollars in thousands except per share data)

	Three Months Ended	
	March 28, 1981	March 29, 1980
Net income .....	\$100,232	\$66,910
Add back convertible debenture interest, net of related tax effect .....	(745)	(270)
Net income applicable to common and common equivalent shares .....	<u>\$ 99,487</u>	<u>\$66,640</u>
Weighted-average number of common shares outstanding during the period .....	50,048,314	43,758,587
Common stock equivalents from application of "if converted" method to convertible debentures .....	1,434,519	1,590,616
Common stock equivalents from application of "treasury stock" method to exercised and outstanding stock options .....	<u>1,024,924</u>	<u>727,944</u>
Total weighted-average number of common and common equivalent shares outstanding during the period .....	<u>52,507,757</u>	<u>46,077,147</u>
Net income per common and common equivalent share .....	<u>\$1.89</u>	<u>\$1.45</u>



# DIGITAL EQUIPMENT CORPORATION

## COMPUTATION OF NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE

(Dollars in thousands except per share data)

	Nine Months Ended	
	March 28, 1981	March 29, 1980
Net income .....	\$226,414	\$166,081
Add back convertible debenture interest, net of related tax effect .....	8,840	2,767
Net income applicable to common and common equivalent shares .....	<u>\$235,254</u>	<u>\$168,848</u>
Weighted-average number of common shares outstanding during the period .....	47,131,986	41,710,490
Common stock equivalents from application of "if converted" method to convertible debentures .....	4,180,727	3,454,123
Common stock equivalents from application of "treasury stock" method to exercised and outstanding stock options .....	<u>1,009,982</u>	<u>682,969</u>
Total weighted-average number of common and common equivalent shares outstanding during the period .....	<u>52,322,695</u>	<u>45,847,582</u>
Net income per common and common equivalent share .....	<u>\$4.50</u>	<u>\$3.68</u>



## 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 income statements for the most recent quarter and nine months ended March 28, 1981, the immediately preceding quarter ended December 27, 1980, and the corresponding quarter and nine months ended March 29, 1980 of the preceding fiscal year and the percentage changes in those items for such periods.

Income and Expense Items as a Percentage of Total Operating Revenues					Income and Expense Items	Percentage Increases (Decreases)		
						Three Months Ended	Nine Months Ended	
Three Months Ended		Nine Months Ended				March 28, 1981 vs. Dec. 27, 1980	March 28, 1981 vs. March 29, 1980	March 28, 1981 vs. March 29, 1980
Dec. 27, 1980	March 29, 1980	March 28, 1981	March 29, 1980	March 28, 1981				
74.1%	75.4%	75.0%	74.8%	74.2%	Equipment sales	12%	34%	34%
25.9%	24.6%	25.0%	25.2%	25.8%	Service and other revenues	7%	37%	39%
100.0%	100.0%	100.0%	100.0%	100.0%	Total operating revenues	11%	34%	35%
56.6%	55.5%	54.4%	55.8%	55.8%	Cost of equipment sales, service and other revenues	6%	32%	35%
7.7%	7.5%	7.6%	7.8%	7.8%	Research and engineering expenses	9%	35%	37%
20.6%	20.4%	19.8%	20.9%	20.5%	Selling, general and administrative expenses	6%	31%	33%
1.5%	.4%	.3%	.9%	1.2%	Interest expense	(81%)	(21%)	78%
(1.6%)	(1.5%)	(1.7%)	(1.9%)	(1.8%)	Interest income	14%	54%	35%
84.8%	82.3%	80.4%	83.5%	83.5%	Total costs and expenses	5%	31%	35%
15.2%	17.7%	19.6%	16.5%	16.5%	Income before income taxes	43%	50%	36%
6.0%	7.0%	7.7%	6.5%	6.5%	Provision for income taxes	43%	50%	36%
9.2%	10.7%	11.9%	10.0%	10.0%	Net income	43%	50%	36%

### Revenues

Total operating revenues for the first nine months of fiscal 1981 were \$2.260 billion, up 35 percent over the comparable period a year ago and included equipment sales of \$1.677 billion, an increase of 34 percent, and service and other revenues of \$583.5 million, up 39 percent from the corresponding period a year ago. For the third quarter ended March 28, 1981, total operating revenues were \$843.4 million, up 34 percent over the third quarter of fiscal 1980, reflecting a 34 percent rise in equipment sales and a 37 percent increase in service and other revenues.

The increase in sales of equipment during both the third quarter and the first nine months of fiscal 1981 reflects the continuation of the upward trend in orders that the Company has experienced since fiscal 1980. The percentage gains in service and other revenues resulted from the continued growth in the base of installed computer systems and in the increased number of customers purchasing services.

The 11 percent gain in total operating revenues in the third quarter compared to the second quarter of fiscal 1981 is consistent with the traditional business pattern of higher unit shipments in the successive quarters of the fiscal year and reflects price increases initiated last year.

Operating revenues from customers outside the United States were \$909.2 million for the first nine months of fiscal 1981 or 40 percent of total operating revenues. This represents a 40 percent increase over the \$651.1 million in international revenues reported for the comparable period of fiscal 1980, during which international revenues accounted for 39 percent of total operating revenues.



## Expenses

The cost of equipment sales, service and other revenues rose 32% and 35%, respectively, during the third quarter and first nine months of fiscal 1981 over the comparable periods a year ago. The percentage increase in total costs and expenses for the third quarter of fiscal 1981 was lower than the corresponding increase in total operating revenues due, in part, to planned reductions in costs of equipment sales, service and other revenues and selling, general and administrative expenses. The percentage increase in total costs and expenses for the first nine months of fiscal 1981 over the corresponding fiscal 1980 period was comparable with the corresponding increase in total operating revenues.

Research and engineering expenses represented 7.6 percent and 7.8 percent of total operating revenues for the third quarter and first nine months of fiscal 1981, which is consistent with the comparable periods of a year ago. The increases in these expenditures over the comparable periods of fiscal 1980 represent the Company's continued investment in new product development.

The increases in interest income for the third quarter and first nine months of fiscal 1981 compared with the same periods a year ago resulted from an increase in average temporary cash investments and higher prevailing interest rates.

The 78 percent increase in interest expense in the first nine months of fiscal 1981 compared with the same period a year ago reflects interest on the \$400 million of 8 $\frac{7}{8}$ % Convertible Subordinated Debentures which were issued on April 1, 1980. Interest expense decreased 21 percent in the third quarter of fiscal 1981, from the comparable period a year ago, and decreased 81 percent from the second quarter of fiscal 1981 due to the Company's call for redemption on January 6, 1981 of its 8 $\frac{7}{8}$ % Convertible Subordinated Debentures and the subsequent conversion of substantially all of such Debentures into common stock during the third quarter of fiscal 1981.

• • • •

The accompanying consolidated balance sheets, statements of income and statements of changes in financial position reflect all adjustments which are, in the opinion of management, necessary to a fair statement of the consolidated financial position at March 28, 1981 and March 29, 1980 and the consolidated results of operations and the consolidated changes in financial position for the interim periods then ended.

## PART II. OTHER INFORMATION

### Item 9. Exhibits and Reports on Form 8-K.

#### (a) Exhibits.

—By-laws of Registrant, as amended.

#### (b) Reports on Form 8-K.

No reports on Form 8-K were filed by Registrant during the period covered by this report.



## SIGNATURES

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

DIGITAL EQUIPMENT CORPORATION  
(Registrant)

ALFRED M. BERTOCCHI  
By .....  
Alfred M. Bertocchi,  
Vice President — Finance and Administration  
(Duly Authorized Officer and Principal Financial Officer)

Date: May 5, 1981



**FOR REFERENCE**

Do Not Take From This Room

**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**Form 10-Q**

Quarterly Report Under Section 13 or 15(d)  
of the Securities Exchange Act of 1934

For Quarter Ended January 1, 1983

Commission 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)*

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 January 1, 1983: 55,819,199.

MAYNARD AREA INFORMATION  
SERVICES MUC4-3/A20



# PART I. FINANCIAL INFORMATION

## DIGITAL EQUIPMENT CORPORATION

### CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands except per share data)

	Three Months Ended	
	January 1, 1983	December 26, 1981
REVENUES		
Equipment sales .....	\$ 676,629	\$702,725
Service and other revenues .....	339,085	263,101
TOTAL OPERATING REVENUES .....	<u>1,015,714</u>	<u>965,826</u>
COSTS AND EXPENSES		
Cost of equipment sales, service and other revenues .....	614,195	543,859
Research and engineering expenses .....	111,685	80,322
Selling, general and administrative expenses .....	203,528	197,848
Operating income .....	86,306	143,797
Interest expense .....	3,458	3,737
Interest income .....	(15,508)	(25,076)
INCOME BEFORE INCOME TAXES .....	98,356	165,136
PROVISION FOR INCOME TAXES .....	37,375	66,054
NET INCOME .....	<u>\$ 60,981</u>	<u>\$ 99,082</u>
NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE(1) ....	<u>\$1.08</u>	<u>\$1.79</u>

(1) Net income per common and common equivalent share is based on a fully diluted calculation of the weighted average number of shares outstanding during each period; 56,519,818 shares for the three months ended January 1, 1983 and 55,449,727 shares for the three months ended December 26, 1981. See page 5 of this report.

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



# DIGITAL EQUIPMENT CORPORATION

## CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands except per share data)

	Six Months Ended	
	January 1, 1983	December 26, 1981
REVENUES		
Equipment sales .....	\$1,301,249	\$1,308,919
Service and other revenues .....	641,955	496,296
TOTAL OPERATING REVENUES .....	<u>1,943,204</u>	<u>1,805,215</u>
COSTS AND EXPENSES		
Cost of equipment sales, service and other revenues .....	1,188,349	1,023,372
Research and engineering expenses .....	213,141	154,099
Selling, general and administrative expenses .....	381,406	362,445
Operating income .....	160,308	265,299
Interest expense .....	6,620	6,607
Interest income .....	(36,318)	(54,438)
INCOME BEFORE INCOME TAXES .....	190,006	313,130
PROVISION FOR INCOME TAXES .....	72,202	125,252
NET INCOME .....	<u>\$ 117,804</u>	<u>\$ 187,878</u>
NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE(1) ....	<u>\$2.09</u>	<u>\$3.39</u>

(1) Net income per share and common equivalent share is based on a fully diluted calculation of the weighted average number of shares outstanding during each period; 56,248,375 shares for the six months ended January 1, 1983 and 55,399,621 shares for the six months ended December 26, 1981. See page 6 of this report.

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



# DIGITAL EQUIPMENT CORPORATION

## CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

	January 1, 1983	July 3, 1982
ASSETS		
CURRENT ASSETS		
Cash and temporary cash investments .....	\$ 659,721	\$ 764,647
Accounts receivable, net of allowance of \$29,563 and \$26,651 .....	890,212	807,559
Inventories, at lower of cost or market:		
Raw materials .....	270,286	232,794
Work-in-process .....	458,339	381,806
Finished goods .....	466,667	522,838
	1,195,292	1,137,438
Prepaid expenses .....	39,597	38,392
Net deferred Federal and foreign income tax charges .....	141,403	131,503
TOTAL CURRENT ASSETS .....	2,926,225	2,879,539
PROPERTY, PLANT AND EQUIPMENT, at cost .....	1,790,715	1,605,394
Less accumulated depreciation .....	530,352	460,920
	1,260,363	1,144,474
TOTAL ASSETS .....	<u>\$4,186,588</u>	<u>\$4,024,013</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Loans payable to banks .....	\$ 4,459	\$ 12,341
Accounts payable .....	145,124	142,049
Accrued liabilities .....	499,769	481,255
Other current liabilities .....	51,063	62,706
TOTAL CURRENT LIABILITIES .....	700,415	698,351
Net deferred Federal and foreign income tax credits .....	72,498	68,798
Long-term debt .....	91,550	92,400
TOTAL LIABILITIES .....	<u>864,463</u>	<u>859,549</u>
STOCKHOLDERS' EQUITY		
Common stock, \$1 par value; authorized 225,000,000 shares; issued and outstanding 55,819,199 and 55,227,370 shares .....	55,819	55,227
Additional paid-in capital .....	1,456,980	1,417,715
Retained earnings .....	1,809,326	1,691,522
TOTAL STOCKHOLDERS' EQUITY .....	3,322,125	3,164,464
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY .....	<u>\$4,186,588</u>	<u>\$4,024,013</u>



# DIGITAL EQUIPMENT CORPORATION

## CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

(Dollars in thousands)

	Six Months Ended	
	January 1, 1983	December 26, 1981
<b>FUNDS FROM OPERATIONS</b>		
Net income .....	\$117,804	\$187,878
Add — expenses not requiring funds in current period:		
Depreciation .....	87,014	63,407
Deferred income tax provision .....	(2,189)	(13,541)
Disposal of property, plant and equipment .....	7,438	5,910
Restricted Stock Plans — Charge to Operations .....	6,798	7,155
Total funds from operations .....	<u>216,865</u>	<u>250,809</u>
<b>FUNDS USED TO SUPPORT OPERATIONS</b>		
Increase (decrease) in working capital:		
Accounts receivable .....	82,653	78,467
Inventories .....	57,854	38,799
Prepaid expenses .....	1,205	(7,538)
Accounts payable .....	(3,075)	(14,891)
Accrued liabilities .....	(6,587)	3,950
Other current liabilities .....	(284)	(38,355)
	<u>131,766</u>	<u>60,432</u>
Additions to property, plant and equipment .....	<u>210,341</u>	<u>226,298</u>
Total funds used to support operations .....	<u>342,107</u>	<u>286,730</u>
Net increase (decrease) in funds from operations .....	<u>(125,242)</u>	<u>(35,921)</u>
<b>FUNDS PROVIDED BY FINANCING SOURCES</b>		
Increase (decrease) in:		
Loans payable to banks .....	(7,882)	871
Long-term debt .....	(850)	(548)
Common Stock issued under option plans .....	29,048	21,985
Total funds from financing sources .....	<u>20,316</u>	<u>22,308</u>
Net increase (decrease) in cash and temporary cash investments .....	<u>(104,926)</u>	<u>(13,613)</u>
Cash and temporary cash investments at beginning of period .....	<u>764,647</u>	<u>665,582</u>
Cash and temporary cash investments at end of period .....	<u>\$659,721</u>	<u>\$651,969</u>



# DIGITAL EQUIPMENT CORPORATION

## COMPUTATION OF NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE

(Dollars in thousands except per share data)

	Three Months Ended	
	January 1, 1983	December 26, 1981
Net income .....	<u>\$ 60,981</u>	<u>\$ 99,082</u>
Weighted-average number of common shares outstanding during the period .....	55,542,122	54,519,047
Common stock equivalents from application of "treasury stock" method to exercised and outstanding stock options .....	<u>977,696</u>	<u>930,680</u>
Total weighted-average number of common and common equivalent shares outstanding during the period .....	<u>56,519,818</u>	<u>55,449,727</u>
Net income per common and common equivalent share .....	<u>\$1.08</u>	<u>\$1.79</u>



# DIGITAL EQUIPMENT CORPORATION

## COMPUTATION OF NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE

(Dollars in thousands except per share data)

	Six Months Ended	
	January 1, 1983	December 26, 1981
Net income .....	<u>\$117,804</u>	<u>\$187,878</u>
Weighted-average number of common shares outstanding during the period .....	55,410,621	54,457,092
Common stock equivalents from application of "treasury stock" method to exercised and outstanding stock options .....	<u>837,754</u>	<u>942,529</u>
Total weighted-average number of common and common equivalent shares outstanding during the period .....	<u>56,248,375</u>	<u>55,399,621</u>
Net income per common and common equivalent share .....	<u>\$2.09</u>	<u>\$3.39</u>



## 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 income statements for the most recent quarter and six months ended January 1, 1983 and the corresponding quarter and six months ended December 26, 1981 of the preceding fiscal year and the percentage changes in those items for such periods.

Income and Expense Items as a Percentage of Total Operating Revenues				Income and Expense Items	Percentage Increases (Decreases)	
					Three Months Ended Jan. 1, 1983 vs. Dec. 26, 1981	Six Months Ended Jan. 1, 1983 vs. Dec. 26, 1981
Three Months Ended		Six Months Ended				
Dec. 26, 1981	Jan. 1, 1983	Dec. 26, 1981	Jan. 1, 1983			
72.8%	66.6%	72.5%	67.0%	Equipment sales	(4%)	(1%)
27.2%	33.4%	27.5%	33.0%	Service and other revenues	29%	29%
100.0%	100.0%	100.0%	100.0%	Total operating revenues	5%	8%
56.3%	60.5%	56.7%	61.2%	Cost of equipment sales, service and other revenues	13%	16%
8.3%	11.0%	8.5%	11.0%	Research and engineering expenses	39%	38%
20.5%	20.0%	20.1%	19.6%	Selling, general and administrative expenses	3%	5%
14.9%	8.5%	14.7%	8.2%	Operating income	(40%)	(40%)
.4%	.3%	.4%	.3%	Interest expense	(7%)	—
(2.6%)	(1.5%)	(3.0%)	(1.9%)	Interest income	(38%)	(33%)
17.1%	9.7%	17.3%	9.8%	Income before income taxes	(40%)	(39%)
6.8%	3.7%	6.9%	3.7%	Provision for income taxes	(43%)	(42%)
10.3%	6.0%	10.4%	6.1%	Net income	(38%)	(37%)

### Revenues

Total operating revenues for the first six months of fiscal 1983 were \$1.943 billion, up 8 percent over the comparable period of a year ago and included equipment sales of \$1.301 billion, a decrease of 1 percent, and service and other revenues of \$642 million, up 29 percent from the corresponding period a year ago. For the second quarter ended January 1, 1983, total operating revenues were \$1.016 billion, up 5 percent over the second quarter of fiscal 1982 reflecting a 4 percent decrease in equipment sales and a 29 percent increase in service and other revenues.

The decrease in sales of equipment during both the second quarter and the first six months of fiscal 1983 was principally a result of the extended business downturn both in the United States and overseas economies, and in particular, depressed capital equipment markets. The Company is a major supplier of capital equipment to industrial corporations in these markets. The percentage gains in service and other revenues resulted from the continued growth in the base of installed computer systems and in the increased number of customers purchasing services.

Operating revenues from customers outside the United States were \$705 million for the first six months of fiscal 1983 or 36 percent of total operating revenues. This represents a 3 percent increase over the \$686 million in international revenues reported for the comparable period of fiscal 1982 during which international revenues accounted for 38 percent of total operating revenues.



### Expenses and Profit Margins

Operating income decreased 40 percent for both the second quarter and first half of fiscal 1983 over the comparable periods a year ago, due to lower equipment sales, price reductions and planned higher research and engineering expenses. This was partially offset by a decrease in selling, general and administrative expenses as a percent of operating revenues.

Interest income decreased 38 percent and 33 percent, respectively, during the second quarter and first half of fiscal 1983 over the comparable periods a year ago due to lower prevailing interest rates and a reduced level of temporary cash investments during the second quarter of fiscal 1983.

### Availability of Funds to Support Current and Future Operations

The Company believes it has adequate funds to support its current operations and that its financial performance over the years, its low debt to debt plus equity ratio and its high credit rating, leave it positioned to obtain the financing required to support its future growth. Cash investments at the end of the second fiscal quarter totalled \$659.7 million, while short-and-long-term debt totalled \$96 million.

During the first six months of fiscal 1983, the major increases in working capital requirements over the fiscal year end were for accounts receivable, which increased 10% to \$890 million, and for inventories which increased 5% to \$1.2 billion. Capital spending for the first six months was \$210 million, of which \$154 million was spent on equipment, \$32 million on buildings, and \$25 million on land and leasehold improvements. The Company presently anticipates capital expenditures of approximately \$350-\$450 million in fiscal 1983.

. . . . .

The accompanying consolidated balance sheets, statements of income and statements of changes in financial position reflect all adjustments which are, in the opinion of management, necessary to a fair statement of the consolidated financial position at January 1, 1983 and the consolidated results of operations and the consolidated changes in financial position for the interim periods ended January 1, 1983 and December 26, 1981.

## PART II. OTHER INFORMATION

### Item 6. Exhibits and Reports on Form 8-K.

- (a) Exhibits — None.
- (b) Reports on Form 8-K.

No reports on Form 8-K were filed by the Company during the period covered by this report.



## SIGNATURES

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

DIGITAL EQUIPMENT CORPORATION  
(Registrant)

By ..... ALFRED M. BERTOCCHI  
Alfred M. Bertocchi,  
Vice President — Finance and Administration  
(Duly Authorized Officer and Principal Financial Officer)

February 14, 1983



FOR REFERENCE

Do Not Take From This Room

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-Q

Quarterly Report Under Section 13 or 15(d)  
of the Securities Exchange Act of 1934

For Quarter Ended December 29, 1984

Commission 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)*

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 latest practicable date. Number of shares of Common Stock, par value \$1, outstanding as of December 29, 1984: 58,589,319.



# PART I. FINANCIAL INFORMATION

## DIGITAL EQUIPMENT CORPORATION

### CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands except per share data)

	Three Months Ended	
	December 29, 1984	December 31, 1983
REVENUES		
Equipment sales .....	\$1,109,562	\$ 993,523
Service and other revenues .....	518,504	430,323
TOTAL OPERATING REVENUES .....	<u>1,628,066</u>	<u>1,423,846</u>
COSTS AND EXPENSES		
Cost of equipment sales, service and other revenues .....	974,280	854,239
Research and engineering expenses .....	169,648	143,687
Selling, general and administrative expenses .....	344,700	308,271
Operating income .....	139,438	117,649
Interest expense .....	21,232	6,347
Interest income .....	(16,737)	(8,821)
INCOME BEFORE INCOME TAXES .....	134,943	120,123
PROVISION FOR INCOME TAXES .....	24,612	39,640
NET INCOME .....	<u>\$ 110,331</u>	<u>\$ 80,483</u>
NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE(1) .....	<u>\$1.81</u>	<u>\$1.41</u>

(1) Net income per common and common equivalent share is based on a fully diluted calculation of the weighted average number of shares outstanding during each period; 63,346,728 shares for the three months ended December 29, 1984 and 57,208,034 shares for the three months ended December 31, 1983. See page 5 of this report.

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



# DIGITAL EQUIPMENT CORPORATION

## CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands except per share data)

	Six Months Ended	
	December 29, 1984	December 31, 1983
REVENUES		
Equipment sales .....	\$2,145,146	\$1,689,584
Service and other revenues .....	998,183	808,589
TOTAL OPERATING REVENUES .....	<u>3,143,329</u>	<u>2,498,173</u>
COSTS AND EXPENSES		
Cost of equipment sales, service and other revenues .....	1,891,312	1,534,587
Research and engineering expenses .....	334,672	285,464
Selling, general and administrative expenses .....	668,048	542,197
Operating income .....	249,297	135,925
Interest expense .....	39,106	11,640
Interest income .....	(28,555)	(19,501)
INCOME BEFORE INCOME TAXES .....	238,746	143,786
INCOME TAXES		
Provision for income taxes .....	47,449	47,449
Reversal for prior year DISC provisions(1) .....	(63,250)	—
TOTAL INCOME TAXES .....	<u>(15,801)</u>	<u>47,449</u>
NET INCOME .....	<u>\$ 254,547</u>	<u>\$ 96,337</u>
NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE(2) .....	<u>\$4.24</u>	<u>\$1.68</u>

(1) As a result of the Deficit Reduction Act of 1984, the Company's income tax expense for the six months ended December 29, 1984 was reduced by \$63 million (all of which was recorded in the first quarter of fiscal 1985), reflecting elimination of the taxes provided for DISC earnings in years prior to 1984.

(2) Net income per common and common equivalent share is based on a fully diluted calculation of the weighted average number of shares outstanding during each period; 61,255,463 shares for the six months ended December 29, 1984 and 57,284,228 shares for the six months ended December 31, 1983. See page 6 of this report.

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



# DIGITAL EQUIPMENT CORPORATION

## CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

	December 29, 1984	June 30, 1984
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and temporary cash investments .....	\$ 840,935	\$ 476,150
Accounts receivable, net of allowances of \$38,193 and \$38,512 .....	1,423,001	1,527,257
Inventories, at lower of cost or market:		
Raw materials .....	570,336	456,490
Work-in-process .....	662,530	614,766
Finished goods .....	836,139	780,912
	<u>2,069,005</u>	<u>1,852,168</u>
Prepaid expenses .....	70,117	57,030
Net deferred Federal and foreign income tax charges .....	178,300	169,308
<b>TOTAL CURRENT ASSETS</b> .....	<u>4,581,358</u>	<u>4,081,913</u>
<b>PROPERTY, PLANT AND EQUIPMENT, at cost</b> .....	2,586,353	2,351,786
Less accumulated depreciation .....	967,830	840,446
	<u>1,618,523</u>	<u>1,511,340</u>
<b>TOTAL ASSETS</b> .....	<u><u>\$6,199,881</u></u>	<u><u>\$5,593,253</u></u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Loans payable to banks .....	\$ 15,923	\$ 13,181
Accounts payable .....	194,174	278,111
Accrued liabilities .....	708,821	664,735
Other current liabilities .....	111,382	124,517
<b>TOTAL CURRENT LIABILITIES</b> .....	<u>1,030,300</u>	<u>1,080,544</u>
Net deferred Federal and foreign income tax credits .....	34,400	92,180
Long-term debt .....	841,853	441,313
<b>TOTAL LIABILITIES</b> .....	<u><u>\$1,906,553</u></u>	<u><u>\$1,614,037</u></u>
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, \$1 par value; authorized 225,000,000 shares; issued and outstanding 58,589,319 and 57,811,416 shares .....	\$ 58,589	\$ 57,811
Additional paid-in capital .....	1,669,362	1,610,575
Retained earnings .....	2,565,377	2,310,830
<b>TOTAL STOCKHOLDERS' EQUITY</b> .....	<u>4,293,328</u>	<u>3,979,216</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b> .....	<u><u>\$6,199,881</u></u>	<u><u>\$5,593,253</u></u>



# DIGITAL EQUIPMENT CORPORATION

## CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

(Dollars in thousands)

	Six Months Ended	
	December 29, 1984	December 31, 1983
<b>FUNDS FROM OPERATIONS</b>		
Net income .....	\$254,547	\$ 96,337
Add — expenses not requiring funds in current period:		
Depreciation .....	140,294	111,955
Deferred income tax provision .....	(61,772)	19,311
Disposal of property, plant and equipment .....	10,380	18,308
Restricted Stock Plans — charge to operations .....	9,581	10,666
Total funds from operations .....	<u>353,030</u>	<u>256,577</u>
<b>FUNDS USED TO SUPPORT OPERATIONS</b>		
Increase (decrease) in working capital:		
Accounts receivable .....	(104,256)	231,756
Inventories .....	216,837	211,466
Prepaid expenses .....	13,087	(4,205)
Accounts payable .....	83,937	139
Accrued liabilities .....	(38,088)	(33,527)
Other current liabilities .....	7,137	(21,048)
	<u>178,654</u>	<u>384,581</u>
Additions to property, plant and equipment .....	257,857	184,123
Total funds used to support operations .....	<u>436,511</u>	<u>568,704</u>
Net increase (decrease) in funds from operations .....	<u>(83,481)</u>	<u>(312,127)</u>
<b>FUNDS PROVIDED BY</b>		
Increase (decrease) in:		
Loans payable to banks .....	2,742	195,783
Long-term debt .....	540	(2,835)
8% Debentures due 2009 .....	400,000	—
Common Stock issued under option plans .....	44,984	35,867
Effect of exchange rate changes on working capital .....	—	6,907
Total funds from financing sources .....	<u>448,266</u>	<u>235,722</u>
Net increase (decrease) in cash and temporary cash investments .....	364,785	(76,405)
Cash and temporary cash investments at beginning of period .....	476,150	556,209
Cash and temporary cash investments at end of period .....	<u>\$840,935</u>	<u>\$479,804</u>



# DIGITAL EQUIPMENT CORPORATION

## COMPUTATION OF NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE

(Dollars in thousands except per share data)

	Three Months Ended	
	December 29, 1984	December 31, 1983
Net income .....	\$ 110,331	\$ 80,483
Add back convertible debenture interest, net of related tax effect .....	4,323	—
Net income applicable to common and common equivalent shares .....	<u>\$ 114,654</u>	<u>\$ 80,483</u>
Weighted-average number of common shares outstanding during the period .....	58,892,357	56,729,948
Common stock equivalents from application of "if converted" method to convertible debentures .....	3,508,772	—
Common stock equivalents from application of "treasury stock" method to exercised and outstanding stock options .....	<u>945,599</u>	<u>478,086</u>
Total weighted-average number of common and common equivalent shares outstanding during the period .....	<u>63,346,728</u>	<u>57,208,034</u>
Net income per common and common equivalent share .....	<u>\$1.81</u>	<u>\$1.41</u>



# DIGITAL EQUIPMENT CORPORATION

## COMPUTATION OF NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE

(Dollars in thousands except per share data)

	Six Months Ended	
	December 29, 1984	December 31, 1983
Net income .....	\$ 254,547	\$ 96,337
Add back convertible debenture interest, net of related tax effect .....	5,128	—
Net income applicable to common and common equivalent shares .....	<u>\$ 259,675</u>	<u>\$ 96,337</u>
Weighted-average number of common shares outstanding during the period .....	58,423,190	56,588,665
Common stock equivalents from application of "if converted" method to convertible debentures .....	2,082,128	—
Common stock equivalents from application of "treasury stock" method to exercised and outstanding stock options .....	<u>750,145</u>	<u>695,563</u>
Total weighted-average number of common and common equivalent shares outstanding during the period .....	<u>61,255,463</u>	<u>57,284,228</u>
Net income per common and common equivalent share .....	<u>\$4.24</u>	<u>\$1.68</u>



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

As an aid to understanding the Company's operating results, the following tables indicate the percentage relationships of income and expense items included in the income statements for the most recent quarter and six months ended December 29, 1984 and the corresponding quarter and six months ended December 31, 1983 of the preceding fiscal year and the percentage changes in those items for such periods.

Income and Expense Items as a Percentage of Total Operating Revenues				Income and Expense Items	Percentage Increases (Decreases)	
					Three Months Ended Dec. 29, 1984 vs. Dec. 31, 1983	Six Months Ended Dec. 29, 1984 vs. Dec. 31, 1983
Three Months Ended		Six Months Ended				
Dec. 29, 1984	Dec. 31, 1983	Dec. 29, 1984	Dec. 31, 1983			
68.2%	69.8%	68.2%	67.6%	Equipment sales	12%	27%
31.8%	30.2%	31.8%	32.4%	Service and other revenues	20%	23%
100.0%	100.0%	100.0%	100.0%	Total operating revenues	14%	26%
				Cost of equipment sales, service and other revenues	14%	23%
59.8%	60.0%	60.2%	61.4%	Research and engineering expenses	18%	17%
10.4%	10.1%	10.6%	11.4%	Selling, general and administrative expenses	12%	23%
21.2%	21.6%	21.3%	21.7%	Operating income	19%	83%
8.6%	8.3%	7.9%	5.5%	Interest expense	235%	236%
1.3%	0.4%	1.2%	0.5%	Interest income	90%	46%
(1.0%)	(0.6%)	(0.9%)	(0.8%)	Income before income taxes	12%	66%
8.3%	8.5%	7.6%	5.8%	Provision for income taxes	(38%)	(133%)
1.5%	2.8%	(0.5%)	1.9%	Net income	37%	164%
6.8%	5.7%	8.1%	3.9%			

### Revenues

Total operating revenues for the first six months of fiscal 1985 were \$3,143 million, up 26% over the comparable period a year ago. Equipment sales were \$2,145 million, up 27% and service and other revenues were \$998 million, up 23% from the corresponding period a year ago. For the quarter ended December 29, 1984, total operating revenues were \$1,628 million, up 14% over the second quarter of fiscal 1984, reflecting a 12% increase in equipment sales and a 20% increase in service and other revenues.

The increase in revenues in both the second quarter and the first six months of fiscal 1985 reflects a continuation of demand for capital equipment and, in particular, for the Company's products.

Demand from the office and information systems market and the computer aided engineering and manufacturing (CAEM) market was strong in the quarter. Also, interest in the Company's VAXclusters and larger 32-bit VAX computers, including the recently announced VAX 8600, was strong. Demand from overseas markets, particularly in Western Europe, continued to strengthen in the quarter.

Operating revenues from customers outside the United States were \$1,190 million for the first six months of fiscal 1985 or 38% of total operating revenues. This represents a 32% increase over the \$902 million in international revenues reported for the comparable period of fiscal 1984, during which international revenues accounted for 36% of total operating revenues.

### Expenses and Profit Margins

Operating income increased 83% in the first half of fiscal 1985 over the comparable period a year ago, due primarily to a decrease in the cost of goods sold as a percentage of operating revenues and, to a lesser extent, a decrease in research and engineering and selling, general and administrative expenses as a percentage of operating revenues. The Company has initiated an expense reduction program which also contributed to the improvement in operating income. In the second quarter operating income increased 19%



over the comparable period a year ago due primarily to a decrease in selling, general and administrative expenses as a percentage of operating revenues.

Interest income for the second quarter and first six months of fiscal 1985 increased over the comparable periods a year ago due to a higher level of cash balances. In the second quarter and first half of fiscal 1985, interest expense increased over the comparable periods of fiscal 1984 due to a higher level of long-term debt. From March 1984 to September 1984, the Company issued a total of \$750 million of debt and convertible debt securities.

The 164% increase in net income for the first six months of fiscal 1985 reflects a one-time benefit of \$63 million from the elimination of the taxes provided for DISC earnings in the years prior to 1984.

#### **Availability of Funds to Support Current and Future Operations**

The Company believes it has adequate funds to support its current operations and that its financial performance over the years, its low debt to debt plus equity ratio and its high credit rating, leave it positioned to obtain the financing required to support future growth. Cash investments at the end of the second quarter totalled \$841 million, while short-term and long-term debt totalled \$858 million. Of the \$750 million of debt securities issued by the Company from March 1984 to September 1984, \$400 million of 8% Convertible Subordinated Debentures due 2009 were issued in the first quarter of fiscal 1985.

During the first six months of fiscal 1985, the major increases in working capital requirements over the fiscal year end were for inventories which increased 12% to \$2,069 million. Capital spending for the first six months was \$258 million, of which \$213 million was spent on equipment, \$27 million on buildings, and \$18 million on land and leasehold improvements. The Company presently anticipates capital expenditures of approximately \$550-650 million in fiscal 1985.

. . . . .

The accompanying consolidated balance sheets, statements of income and statements of changes in financial position reflect all adjustments which are, in the opinion of management, necessary to a fair statement of the consolidated financial position at December 29, 1984 and the consolidated results of operations and the consolidated changes in financial position for the interim periods ended December 29, 1984 and December 31, 1983.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

As previously reported in the Company's quarterly reports on Form 10-Q and annual report on Form 10-K for fiscal 1984, 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 ended 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 has been 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.

### **Item 6. Exhibits and Reports on Form 8-K.**

#### **(a) Exhibits.**

None.

#### **(b) Reports on Form 8-K.**

No reports on Form 8-K were filed by the Company during the period covered by this report.



## SIGNATURES

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

DIGITAL EQUIPMENT CORPORATION  
(Registrant)

JAMES M. OSTERHOFF  
By .....  
James M. Osterhoff  
Vice President — Finance  
(Duly Authorized Officer and Principal Financial Officer)

February 8, 1985



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FOR REFERENCE

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Do Not Take From This Room

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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Form 10-Q

Quarterly Report Under Section 13 or 15(d)  
of the Securities Exchange Act of 1934

For Quarter Ended March 30, 1985

File Number 1-5296

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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)*

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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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Number of shares of Common Stock, par value \$1, outstanding as of March 30, 1985: 58,711,087.

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MAYNARD AREA INFORMATION  
SERVICES MLO4-9/ASO



# PART I. FINANCIAL INFORMATION

## DIGITAL EQUIPMENT CORPORATION

### CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands except per share data)

	Three Months Ended	
	March 30, 1985	March 31, 1984
<b>REVENUES</b>		
Equipment sales .....	\$1,142,823	\$ 978,938
Service and other revenues .....	548,304	451,827
<b>TOTAL OPERATING REVENUES</b> .....	<u>1,691,127</u>	<u>1,430,765</u>
<b>COSTS AND EXPENSES</b>		
Cost of equipment sales, service and other revenues .....	1,032,224	854,965
Research and engineering expenses .....	173,067	155,288
Selling, general and administrative expenses .....	382,304	291,398
Operating income .....	103,532	129,114
Interest expense .....	20,964	8,185
Interest income .....	(15,974)	(10,547)
<b>INCOME BEFORE INCOME TAXES</b> .....	98,542	131,476
<b>PROVISION FOR INCOME TAXES</b> .....	6,854	29,624
<b>NET INCOME</b> .....	<u>\$ 91,688</u>	<u>\$ 101,852</u>
<b>NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE(1)</b> .....	<u>\$1.52</u>	<u>\$1.77</u>

(1) Net income per common and common equivalent share is based on a fully diluted calculation of the weighted average number of shares outstanding during each period; 63,160,924 shares for the three months ended March 30, 1985 and 57,493,609 shares for the three months ended March 31, 1984. See page 5 of this report.

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



# DIGITAL EQUIPMENT CORPORATION

## CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands except per share data)

	Nine Months Ended	
	March 30, 1985	March 31, 1984
REVENUES		
Equipment sales .....	\$3,287,969	\$2,668,522
Service and other revenues .....	1,546,487	1,260,416
TOTAL OPERATING REVENUES .....	<u>4,834,456</u>	<u>3,928,938</u>
COSTS AND EXPENSES		
Cost of equipment sales, service and other revenues .....	2,923,536	2,389,552
Research and engineering expenses .....	507,739	440,752
Selling, general and administrative expenses .....	1,050,352	833,595
Operating income .....	352,829	265,039
Interest expense .....	60,070	19,825
Interest income .....	(44,529)	(30,048)
INCOME BEFORE INCOME TAXES .....	<u>337,288</u>	<u>275,262</u>
INCOME TAXES		
Provision for income taxes .....	54,303	77,073
Reversal for prior year DISC provisions(1) .....	(63,250)	—
TOTAL INCOME TAXES .....	<u>(8,947)</u>	<u>77,073</u>
NET INCOME .....	<u>\$ 346,235</u>	<u>\$ 198,189</u>
NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE(2) .....	<u>\$5.77</u>	<u>\$3.46</u>

(1) As a result of the Deficit Reduction Act of 1984, the Company's income tax expense for the nine months ended March 30, 1985 was reduced by \$63 million, or \$1.03 per share (all of which was recorded in the first quarter of fiscal 1985), reflecting elimination of the taxes provided for DISC earnings in years prior to 1984.

(2) Net income per common and common equivalent share is based on a fully diluted calculation of the weighted average number of shares outstanding during each period; 61,677,882 shares for the nine months ended March 30, 1985 and 57,354,021 shares for the nine months ended March 31, 1984. See page 6 of this report.

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



# DIGITAL EQUIPMENT CORPORATION

## CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

	March 30, 1985	June 30, 1984
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and temporary cash investments .....	\$ 898,851	\$ 476,150
Accounts receivable, net of allowances of \$36,010 and \$38,512 .....	1,484,694	1,527,257
Inventories, at lower of cost or market:		
Raw materials .....	595,616	456,490
Work-in-process .....	636,154	614,766
Finished goods .....	785,984	780,912
	<u>2,017,754</u>	<u>1,852,168</u>
Prepaid expenses .....	71,062	57,030
Net deferred Federal and foreign income tax charges .....	182,300	169,308
<b>TOTAL CURRENT ASSETS</b> .....	<u>4,654,661</u>	<u>4,081,913</u>
<b>PROPERTY, PLANT AND EQUIPMENT, at cost</b> .....	<u>2,707,722</u>	<u>2,351,786</u>
Less accumulated depreciation .....	1,029,254	840,446
	<u>1,678,468</u>	<u>1,511,340</u>
<b>TOTAL ASSETS</b> .....	<u><u>\$6,333,129</u></u>	<u><u>\$5,593,253</u></u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Loans payable to banks .....	\$ 15,872	\$ 13,181
Accounts payable .....	175,505	278,111
Accrued liabilities .....	735,569	664,735
Other current liabilities .....	133,910	124,517
<b>TOTAL CURRENT LIABILITIES</b> .....	<u>1,060,856</u>	<u>1,080,544</u>
Net deferred Federal and foreign income tax credits .....	36,400	92,180
Long-term debt .....	837,341	441,313
<b>TOTAL LIABILITIES</b> .....	<u>1,934,597</u>	<u>1,614,037</u>
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, \$1 par value; authorized 225,000,000 shares; issued and outstanding 58,711,087 and 57,811,416 shares .....	58,711	57,811
Additional paid-in capital .....	1,682,756	1,610,575
Retained earnings .....	2,657,065	2,310,830
<b>TOTAL STOCKHOLDERS' EQUITY</b> .....	<u>4,398,532</u>	<u>3,979,216</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b> .....	<u><u>\$6,333,129</u></u>	<u><u>\$5,593,253</u></u>



# DIGITAL EQUIPMENT CORPORATION

## CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

(Dollars in thousands)

	Nine Months Ended	
	March 30, 1985	March 31, 1984
<b>FUNDS FROM OPERATIONS</b>		
Net income .....	\$346,235	\$198,189
Add — expenses not requiring funds in current period:		
Depreciation .....	219,053	178,072
Deferred income tax provision .....	(68,772)	35,596
Disposal of property, plant and equipment .....	20,262	23,426
Restricted Stock Plans — charge to operations .....	13,884	14,159
Total funds from operations .....	<u>530,662</u>	<u>449,442</u>
<b>FUNDS USED TO SUPPORT OPERATIONS</b>		
Increase (decrease) in working capital:		
Accounts receivable .....	(42,563)	221,336
Inventories .....	165,586	383,964
Prepaid expenses .....	14,032	18,632
Accounts payable .....	102,606	(1,355)
Accrued liabilities .....	(46,300)	(45,768)
Other current liabilities .....	(33,927)	(61,519)
	<u>159,434</u>	<u>515,290</u>
Additions to property, plant and equipment .....	406,443	293,586
Total funds used to support operations .....	<u>565,877</u>	<u>808,876</u>
Net increase (decrease) in funds from operations .....	<u>(35,215)</u>	<u>(359,434)</u>
<b>FUNDS PROVIDED BY</b>		
Increase (decrease) in:		
Loans payable to banks .....	2,691	159,693
Long-term debt .....	(3,972)	144,718
8% Debentures due 2009 .....	400,000	—
Common Stock issued under option plans .....	59,197	40,244
Effect of exchange rate changes on working capital .....	—	6,907
Total funds from financing sources .....	<u>457,916</u>	<u>351,562</u>
Net increase (decrease) in cash and temporary cash investments .....	<u>422,701</u>	<u>(7,872)</u>
Cash and temporary cash investments at beginning of period .....	<u>476,150</u>	<u>556,209</u>
Cash and temporary cash investments at end of period .....	<u>\$898,851</u>	<u>\$548,337</u>



# DIGITAL EQUIPMENT CORPORATION

## COMPUTATION OF NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE

(Dollars in thousands except per share data)

	Three Months Ended	
	March 30, 1985	March 31, 1984
Net income .....	\$ 91,688	\$ 101,852
Add back convertible debenture interest, net of related tax effect .....	4,420	—
Net income applicable to common and common equivalent shares .....	<u>\$ 96,108</u>	<u>\$ 101,852</u>
Weighted-average number of common shares outstanding during the period .....	58,664,389	57,121,182
Common stock equivalents from application of "if converted" method to convertible debentures .....	3,508,772	—
Common stock equivalents from application of "treasury stock" method to exercised and outstanding stock options .....	<u>987,763</u>	<u>372,427</u>
Total weighted-average number of common and common equivalent shares outstanding during the period .....	<u>63,160,924</u>	<u>57,493,609</u>
Net income per common and common equivalent share .....	<u>\$1.52</u>	<u>\$1.77</u>



# DIGITAL EQUIPMENT CORPORATION

## COMPUTATION OF NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE

(Dollars in thousands except per share data)

	Nine Months Ended	
	March 30, 1985	March 31, 1984
Net income .....	\$ 346,235	\$ 198,189
Add back convertible debenture interest, net of related tax effect .....	9,548	—
Net income applicable to common and common equivalent shares .....	<u>\$ 355,783</u>	<u>\$ 198,189</u>
Weighted-average number of common shares outstanding during the period .....	58,290,855	56,766,170
Common stock equivalents from application of "if converted" method to convertible debentures .....	2,557,676	—
Common stock equivalents from application of "treasury stock" method to exercised and outstanding stock options .....	<u>829,351</u>	<u>587,851</u>
Total weighted-average number of common and common equivalent shares outstanding during the period .....	<u>61,677,882</u>	<u>57,354,021</u>
Net income per common and common equivalent share .....	<u>\$5.77</u>	<u>\$3.46</u>



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

As an aid to understanding the Company's operating results, the following tables indicate the percentage relationships of income and expense items included in the income statements for the most recent quarter and nine months ended March 30, 1985 and the corresponding quarter and nine months ended March 31, 1984 of the preceding fiscal year and the percentage changes in those items for such periods.

Income and Expense Items as a Percentage of Total Operating Revenues				Percentage Increases (Decreases)		
				Three Months Ended March 30, 1985 vs. March 31, 1984	Nine Months Ended March 30, 1985 vs. March 31, 1984	
Three Months Ended		Nine Months Ended		Income and Expense Items		
March 30, 1985	March 31, 1984	March 30, 1985	March 31, 1984			
67.6%	68.4%	68.0%	67.9%	Equipment sales	17%	23%
32.4%	31.6%	32.0%	32.1%	Service and other revenues	21%	23%
100.0%	100.0%	100.0%	100.0%	Total operating revenues	18%	23%
61.0%	59.8%	60.5%	60.8%	Cost of equipment sales, service and other revenues	21%	22%
10.3%	10.8%	10.5%	11.2%	Research and engineering expenses	11%	15%
22.6%	20.4%	21.7%	21.3%	Selling, general and administrative expenses	31%	26%
6.1%	9.0%	7.3%	6.7%	Operating income	(20%)	33%
1.2%	.5%	1.2%	.5%	Interest expense	156%	203%
(0.9%)	(0.7%)	(0.9%)	(0.8%)	Interest income	51%	48%
5.8%	9.2%	7.0%	7.0%	Income before income taxes	(25%)	23%
0.4%	2.1%	(0.2%)	2.0%	Provision for income taxes	(77%)	(112%)
5.4%	7.1%	7.2%	5.0%	Net income	(10%)	75%

### Revenues

Total operating revenues for the first nine months of fiscal 1985 were \$4,834 million, up 23% over the comparable period a year ago. Equipment sales were \$3,288 million, up 23% and service and other revenues were \$1,546 million, up 23% from the corresponding period a year ago. For the quarter ended March 30, 1985, total operating revenues were \$1,691 million, up 18% over the third quarter of fiscal 1984, reflecting a 17% increase in equipment sales and a 21% increase in service and other revenues.

Sales to the computer aided engineering and manufacturing (CAEM) market and to customers in the government sector were strong in the quarter. Also, interest in the Company's VAXclusters and high-end VAX 8600 computer remained strong. However, sales of existing products were impacted by customer response to both announced and unannounced new products. In addition, operating revenues for the quarter reflected changes in the U.S. economy, manifested by a slowing in order rates in the United States which much of the industry has been experiencing.

Demand from overseas markets, particularly in Western Europe, continued to strengthen in the quarter. Operating revenues from customers outside the United States were \$1,892 million for the first nine months of fiscal 1985 or 39% of total operating revenues. This represents a 38% increase over the \$1,374 million in international revenues for the comparable period of fiscal 1984, during which international revenues accounted for 35% of total operating revenues.

### Expenses and Profit Margins

Operating income increased 33% in the first nine months of fiscal 1985 over the comparable period a year ago, due primarily to a decrease in the cost of goods sold and research and engineering expenses as a percentage of operating revenues. The Company has initiated an expense reduction program



which also contributed to the improvement in operating income for the first nine months of fiscal 1985. However, in the third quarter operating income decreased 20% over the comparable period a year ago due to an increase in cost of sales and selling, general and administrative expenses as a percentage of operating revenues. The increase in selling, general and administrative expenses in the quarter was due in part to the hiring of additional sales, sales support and field service personnel.

Interest income for the third quarter and first nine months of fiscal 1985 increased over the comparable periods a year ago due to a higher level of cash balances. In the third quarter and first nine months of fiscal 1985, interest expense increased over the comparable periods of fiscal 1984 due to a higher level of long-term debt. From March 1984 to September 1984, the Company issued a total of \$750 million of debt and convertible debt securities.

The annual effective tax rate for the first nine months of fiscal 1985 was lower than the comparable period a year ago due generally to a reduced level of taxation, both in the U.S. and in a number of the Company's foreign subsidiaries.

The 75% increase (\$148 million) in net income for the first nine months of fiscal 1985 reflects a one-time benefit of \$63 million from the elimination of the taxes provided for DISC earnings in the years prior to 1984.

#### **Availability of Funds to Support Current and Future Operations**

The Company believes it has adequate funds to support its current operations and that its financial performance over the years, its low debt to debt plus equity ratio and its high credit rating, leave it positioned to obtain the financing required to support future growth. Cash investments at the end of the third quarter totalled \$899 million, while short-term and long-term debt totalled \$853 million. Of the \$750 million of debt securities issued by the Company from March 1984 to September 1984, \$400 million of 8% Convertible Subordinated Debentures due 2009 were issued in the first quarter of fiscal 1985.

During the first nine months of fiscal 1985, the major increases in working capital requirements over the fiscal year end were for inventories which increased 9% to \$2,018 million. Capital spending for the first nine months was \$406 million, of which \$337 million was spent on equipment, \$44 million on buildings, and \$25 million on land and leasehold improvements. The Company presently anticipates capital expenditures of approximately \$550-650 million in fiscal 1985.

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The accompanying consolidated balance sheets, statements of income and statements of changes in financial position reflect all adjustments which are, in the opinion of management, necessary to a fair statement of the consolidated financial position at March 30, 1985 and the consolidated results of operations and the consolidated changes in financial position for the interim periods ended March 30, 1985 and March 31, 1984.



## PART II. OTHER INFORMATION

### Item 1. 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 ended October 1, 1983, and seeking unspecified amounts of damages and other unspecified relief. The Company believes that all the lawsuits are without merit. See the Company's Annual Report on Form 10-K for fiscal 1984 and Quarterly Report on Form 10-Q for the quarter ended December 29, 1984.

### Item 6. Exhibits and Reports on Form 8-K.

#### (a) Exhibits.

- 19 — 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, with respect to the Company's 9% Sinking Fund Debentures due March 15, 2000.

#### (b) Reports on Form 8-K.

No reports on Form 8-K were filed by the Company during the period covered by this report.



## SIGNATURES

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

DIGITAL EQUIPMENT CORPORATION  
(Registrant)

JAMES M. OSTERHOFF  
By .....  
James M. Osterhoff  
Vice President — Finance  
(Duly Authorized Officer and Principal Financial Officer)

May 9, 1985



# FOR REFERENCE

Do Not Take From This Room

## SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

### Form 10-Q

Quarterly Report Under Section 13 or 15(d)  
of the Securities Exchange Act of 1934

For Quarter Ended September 28, 1985

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)

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 latest practicable date. Number of shares of Common Stock, par value \$1, outstanding as of September 28, 1985: 59,478,190.



# DIGITAL EQUIPMENT CORPORATION

## CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands except per share data)

	Three Months Ended	
	September 28, 1985	September 29, 1984
REVENUES		
Equipment sales .....	\$1,055,621	\$1,035,584
Service and other revenues .....	568,306	479,679
TOTAL OPERATING REVENUES .....	<u>1,623,927</u>	<u>1,515,263</u>
COSTS AND EXPENSES		
Cost of equipment sales, service and other revenues .....	964,401	917,032
Research and engineering expenses .....	187,837	165,024
Selling, general and administrative expenses .....	373,189	323,348
Operating income .....	98,500	109,859
Interest expense .....	21,134	17,874
Interest income .....	(20,370)	(11,818)
INCOME BEFORE INCOME TAXES .....	97,736	103,803
INCOME TAXES		
Provision for income taxes .....	25,411	22,837
Reversal for prior years' DISC provisions(1) .....	0	(63,250)
TOTAL INCOME TAXES .....	<u>25,411</u>	<u>(40,413)</u>
NET INCOME .....	<u>\$ 72,325</u>	<u>\$ 144,216</u>
NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE(2) .....	<u>\$1.20</u>	<u>\$2.45</u>

(1) As a result of the Deficit Reduction Act of 1984, the Company's income tax expense for the three months ended September 29, 1984 was reduced by \$63 million, or \$1.07 per share (all of which was recorded in the first quarter of fiscal 1985), reflecting elimination of the taxes provided for DISC earnings in years prior to 1984.

(2) Net income per common and common equivalent share is based on a fully diluted calculation of the weighted average number of shares outstanding during each period; 63,874,102 shares for the three months ended September 28, 1985 and 59,164,197 shares for the three months ended September 29, 1984. See page 4 of this report.

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



# DIGITAL EQUIPMENT CORPORATION

## CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

	September 28, 1985	June 29, 1985
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and temporary cash investments .....	\$1,360,778	\$1,080,180
Accounts receivable, net of allowances of \$42,270 and \$40,930 .....	1,510,130	1,538,955
Inventories, at lower of cost or market:		
Raw materials .....	410,758	512,670
Work-in-process .....	586,935	545,765
Finished goods .....	655,674	697,732
	1,653,367	1,756,167
Prepaid expenses .....	90,950	64,569
Net deferred Federal and foreign income tax charges .....	201,902	197,957
<b>TOTAL CURRENT ASSETS</b> .....	4,817,127	4,637,828
<b>PROPERTY, PLANT AND EQUIPMENT, at cost</b> .....	2,919,373	2,827,632
Less accumulated depreciation .....	1,165,261	1,096,603
	1,754,112	1,731,029
<b>TOTAL ASSETS</b> .....	<u>\$6,571,239</u>	<u>\$6,368,857</u>
 <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Loans payable to banks .....	\$ 20,948	\$ 12,251
Accounts payable .....	156,526	185,202
Federal, foreign and state income taxes .....	232,969	267,900
Salaries, wages and related items .....	218,800	165,933
Deferred revenues and customer advances .....	174,852	160,105
Current portion of long-term debt .....	2,146	1,411
Other current liabilities .....	248,499	150,807
<b>TOTAL CURRENT LIABILITIES</b> .....	1,054,740	943,609
Net deferred Federal and foreign income tax credits .....	38,204	33,704
Long-term debt .....	837,189	836,945
<b>TOTAL LIABILITIES</b> .....	<u>\$1,930,133</u>	<u>\$1,814,258</u>
 <b>STOCKHOLDERS' EQUITY</b>		
Common stock, \$1 par value; authorized 225,000,000 shares; issued and outstanding 59,478,190 and 59,252,782 shares .....	59,478	59,253
Additional paid-in capital .....	1,751,791	1,737,834
Retained earnings .....	2,829,837	2,757,512
<b>TOTAL STOCKHOLDERS' EQUITY</b> .....	4,641,106	4,554,599
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b> .....	<u>\$6,571,239</u>	<u>\$6,368,857</u>



# DIGITAL EQUIPMENT CORPORATION

## CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

(Dollars in thousands)

	Three Months Ended	
	September 28, 1985	September 29, 1984
<b>FUNDS FROM OPERATIONS</b>		
Net income .....	\$ 72,325	\$144,216
Add — expenses not requiring funds in current period:		
Depreciation .....	83,407	69,080
Deferred income tax provision .....	555	(62,250)
Disposal of property, plant and equipment .....	8,033	1,142
Restricted Stock Plans — charge to operations .....	3,178	4,565
Total funds from operations .....	<u>167,498</u>	<u>156,753</u>
<b>FUNDS USED TO SUPPORT OPERATIONS</b>		
Increase (decrease) in working capital:		
Accounts receivable .....	(28,825)	(29,541)
Inventories .....	(102,800)	165,665
Prepaid expenses .....	26,381	(3,745)
Accounts payable .....	28,676	44,594
Accrued liabilities .....	(17,936)	(67,825)
Other liabilities .....	(113,174)	(748)
Additions to property, plant and equipment .....	<u>(207,678)</u>	<u>108,400</u>
Total funds used to support operations .....	<u>114,523</u>	<u>125,095</u>
Total funds used to support operations .....	<u>(93,155)</u>	<u>233,495</u>
Net increase (decrease) in funds from operations .....	<u>260,653</u>	<u>(76,742)</u>
<b>FUNDS PROVIDED BY</b>		
Increase (decrease) in:		
Loans payable to banks .....	8,697	2,389
Long-term debt .....	244	142
8% Convertible Subordinated Debentures due 2009 .....	0	400,000
Common Stock issued under option plans .....	11,004	6,831
Total funds from financing sources .....	<u>19,945</u>	<u>409,362</u>
Net increase (decrease) in cash and temporary cash investments .....	<u>280,598</u>	<u>332,620</u>
Cash and temporary cash investments at beginning of period .....	<u>1,080,180</u>	<u>476,150</u>
Cash and temporary cash investments at end of period .....	<u>\$1,360,778</u>	<u>\$808,770</u>



# DIGITAL EQUIPMENT CORPORATION

## COMPUTATION OF NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE

(Dollars in thousands except per share data)

	Three Months Ended	
	September 28, 1985	September 29, 1984
Net income .....	\$ 72,325	\$ 144,216
Add back convertible debenture interest, net of related tax effect .....	4,342	805
Net income applicable to common and common equivalent shares .....	<u>\$ 76,667</u>	<u>\$ 145,021</u>
Weighted-average number of common shares outstanding during the period .....	59,378,249	57,954,022
Common stock equivalents from application of "if converted" method to convertible debentures .....	3,508,772	655,485
Common stock equivalents from application of "treasury stock" method to exercised and outstanding stock options .....	<u>987,081</u>	<u>554,690</u>
Total weighted-average number of common and common equivalent shares outstanding during the period .....	<u>63,874,102</u>	<u>59,164,197</u>
Net income per common and common equivalent share .....	<u>\$1.20</u>	<u>\$2.45</u>

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

As an aid to understanding the Company's operating results, the following tables indicate the percentage relationships of income and expense items included in the income statements for the most recent quarter ended September 28, 1985 and the corresponding quarter ended September 29, 1984 of the preceding fiscal year and the percentage changes in those items for such periods.

Income and Expense Items as a Percentage of Total Operating Revenues Three Months Ended			Percentage Increases (Decreases) Three Months Ended
September 28, 1985	September 29, 1984		September 28, 1985 vs. September 29, 1984
		<u>Income and Expense Items</u>	
65.0%	68.3%	Equipment sales	2%
35.0%	31.7%	Service and other revenues	18%
100.0%	100.0%	Total operating revenues	7%
59.4%	60.5%	Cost of equipment sales, service and other revenues	5%
11.6%	10.9%	Research and engineering expenses	14%
23.0%	21.3%	Selling, general and administrative expenses	15%
6.0%	7.3%	Operating income	(10%)
1.3%	1.2%	Interest expense	18%
(1.3%)	(0.7%)	Interest income	72%
6.0%	6.8%	Income before income taxes	(6%)
1.5%	(2.7%)	Provision for income taxes	163%
4.5%	9.5%	Net income	(50%)

### Revenues

Total operating revenues for the first three months of fiscal 1986 were \$1,624 million, up 7% over the comparable quarter of a year ago. Total operating revenues included equipment sales of \$1,056 million, an increase of 2%, and service and other revenues of \$568 million, up 18% from the corresponding period a year ago.

Revenues in the first quarter of fiscal 1986 reflected continued weakness in the manufacturing sector of the U.S. economy. This has resulted in cautious spending by some of the Company's major customers and a postponement of some computer purchases. Demand for the Company's networking products and MicroVAX II systems, however, was strong.

Business outside the United States, particularly in Europe, remained strong in the quarter. Sales to customers outside the United States were \$639 million for the first quarter of fiscal 1986, a 20% increase over the \$533 million reported a year ago. Revenues from international operations accounted for 39% of total operating revenues for the first quarter of fiscal 1986, compared with 35% for the first quarter of a year ago.

### Expenses and Profit Margins

Operating income decreased 10% from the first quarter of fiscal 1985. Cost of goods sold as a percentage of total operating revenues was lower than for the comparable period a year ago, but selling, general and administrative expenses and research and engineering expenses were greater, reflecting higher staffing levels and cost increases related to inflation.

The effective tax rate for the first three months of fiscal 1986 was 26%. The Company's tax rate for the first three months of fiscal 1985 was 22% excluding a non-recurring benefit of \$63 million from the reversal of Domestic International Sales Corporation (DISC) taxes previously provided. The increase was due to a higher level of profits in the United States and the annualized effect of the scheduled expiration of the research and engineering tax credit.



Interest income was 72% above the first quarter of fiscal 1985, reflecting a higher level of cash balances. Interest expense was up 18% from the first quarter of fiscal 1985 as a result of additional long-term debt issued during the March to September 1984 period.

The \$72 million decrease in net income for the first three months of fiscal 1986 is largely the result of a one-time adjustment of \$63 million last year for the elimination of the taxes provided for DISC earnings in the years prior to 1984. Net income from operations for the first quarter this year was \$72 million, down 11% from the \$81 million recorded a year ago, excluding the DISC benefit.

#### **Availability of Funds to Support Current and Future Operations**

The Company believes it has adequate funds to support its current operations and that its financial performance over the years, its low debt to debt plus equity ratio and its high credit rating, leave it positioned to obtain the financing required to support future growth. Cash investments at the end of the first quarter totalled \$1,361 million, while total short-term and long-term debt totalled \$860 million.

During the first quarter of fiscal 1986, inventories decreased \$103 million and accounts receivable decreased \$29 million from the end of fiscal 1985. The net increase in funds from operations was \$261 million. Capital spending in the quarter was \$115 million. The Company presently anticipates capital expenditures in fiscal 1986 to be equal to or greater than that of fiscal 1985.

• • • •

The accompanying consolidated balance sheets, statements of income and statements of changes in financial position reflect all adjustments which are, in the opinion of management, necessary to a fair statement of the consolidated financial position at September 28, 1985 and the consolidated results of operations and the consolidated changes in financial position for the interim periods ended September 28, 1985 and September 29, 1984.

## PART II. OTHER INFORMATION

### Item 4. Submission of Matters to a Vote of Security Holders.

On November 8, 1985 the Company held its Annual Meeting of Stockholders. At the meeting the stockholders elected a Board of Directors for the ensuing year and ratified the selection of Coopers & Lybrand as the Company's auditors. At the meeting the stockholders also approved an amendment to the 1968 Employee Stock Purchase Plan to increase the number of shares subject thereto by 2,500,000 shares, and the stockholders approved the Company's 1985 Restricted Stock Option Plan. 40,300,690 votes were cast for the proposal to amend the 1968 Employee Stock Purchase Plan and 381,060 against; 38,110,462 votes were cast for the proposal to approve the 1985 Restricted Stock Option Plan and 2,558,131 against.

### Item 6. Exhibits and Reports on Form 8-K.

#### (a) Exhibits.

None.

#### (b) Reports on Form 8-K.

No reports on Form 8-K were filed by the Company during the period covered by this report.



## SIGNATURES

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

DIGITAL EQUIPMENT CORPORATION  
(Registrant)

JAMES M. OSTERHOFF  
By .....  
James M. Osterhoff  
Vice President — Finance  
(Duly Authorized Officer and Principal Financial Officer)

November 11, 1985

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

X

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
for the quarterly period ended **October 2, 1993**

OR

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

Commission file number 1-5296

**Digital Equipment Corporation**

(Exact name of Registrant as Specified in Its Charter)

Massachusetts  
(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)

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Number of shares of Common Stock, par value \$1.00, outstanding as of October 2, 1993: 135,092,468.



## DIGITAL EQUIPMENT CORPORATION

## CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands except per share data)

	Three-Month Period Ended	
	October 2, 1993	September 26, 1992
<b>REVENUES</b>		
Product sales.....	\$ 1,557,004	\$ 1,767,821
Service and other revenues.....	1,457,944	1,546,478
<b>TOTAL OPERATING REVENUES.....</b>	<b>3,014,948</b>	<b>3,314,299</b>
<b>COSTS AND EXPENSES</b>		
Cost of product sales.....	981,415	1,019,957
Service expense and cost of other revenues...	943,877	1,017,650
Research and engineering expenses.....	314,717	405,477
Selling, general and administrative expenses.	872,207	1,131,187
Operating loss.....	(97,268)	(259,972)
Interest income.....	17,213	13,216
Interest expense.....	19,636	3,790
<b>LOSS BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE...</b>	<b>(99,691)</b>	<b>(250,546)</b>
<b>PROVISION FOR INCOME TAXES.....</b>	<b>3,536</b>	<b>10,000</b>
<b>LOSS BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE.....</b>	<b>(103,227)</b>	<b>(260,546)</b>
<b>CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE.....</b>	<b>20,042</b>	<b>0</b>
<b>NET LOSS.....</b>	<b>\$ ( 83,185)</b>	<b>\$ (260,546)</b>
<b>LOSS BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE PER COMMON SHARE.....</b>	<b>\$ (0.76)</b>	<b>\$ (2.04)</b>
<b>CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE PER COMMON SHARE.....</b>	<b>0.14</b>	<b>0.00</b>
<b>NET LOSS PER COMMON SHARE (1).....</b>	<b>\$ (0.62)</b>	<b>\$ (2.04)</b>

(1) Net loss per share is based on the weighted average number of common shares outstanding during each period: 135,010,377 shares for the three months ended October 2, 1993 and 128,001,937 for the three months ended September 26, 1992. See page 7 of this report.

Cash dividends have never been paid by the Corporation.

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

# DIGITAL EQUIPMENT CORPORATION

## CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

	October 2, 1993	July 3, 1993
	-----	-----
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents.....	\$ 1,273,830	\$ 1,643,195
Accounts receivable, net of allowances of \$111,342 and \$110,764.....	2,858,832	3,020,252
Inventories		
Raw materials.....	416,384	331,506
Work-in-process.....	593,833	502,200
Finished goods.....	910,606	921,434
	-----	-----
Total inventories.....	1,920,823	1,755,140
Prepaid expenses and deferred income taxes....	465,822	463,928
	-----	-----
TOTAL CURRENT ASSETS.....	6,519,307	6,882,515
Property, plant and equipment, at cost.....	7,218,992	7,193,430
Less accumulated depreciation.....	4,044,502	4,015,139
	-----	-----
Net property, plant and equipment.....	3,174,490	3,178,291
Other assets.....	931,806	889,537
	-----	-----
TOTAL ASSETS.....	<u>\$10,625,603</u>	<u>\$10,950,343</u>

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



# LIABILITIES AND STOCKHOLDERS' EQUITY

## CURRENT LIABILITIES

Bank loans and current portion of long-term debt.....	\$ 19,782	\$ 21,335
Accounts payable.....	732,409	822,434
Income taxes payable.....	40,910	57,614
Salaries, wages and related items.....	608,280	556,151
Deferred revenue and customer advances.....	1,052,263	1,138,323
Restructuring reserve.....	603,990	738,989
Other current liabilities.....	549,525	583,868
	<hr/>	<hr/>
TOTAL CURRENT LIABILITIES.....	3,607,159	3,918,714
Noncurrent deferred income taxes.....	26,369	0
Long-term debt.....	1,018,354	1,017,577
Postretirement benefits.....	1,153,854	1,128,653
	<hr/>	<hr/>
TOTAL LIABILITIES.....	5,805,736	6,064,944
	<hr/>	<hr/>

## STOCKHOLDERS' EQUITY

Common stock, \$1 par value; authorized 450,000,000 shares; issued 135,559,489 and 135,489,805.....	135,559	135,490
Additional paid-in capital.....	2,869,391	2,851,960
Retained earnings.....	1,852,173	1,937,627
Treasury stock at cost, 467,021 and 497,551 shares.....	(37,256)	(39,678)
	<hr/>	<hr/>
TOTAL STOCKHOLDERS' EQUITY.....	4,819,867	4,885,399
	<hr/>	<hr/>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY.....	<u>\$10,625,603</u>	<u>\$10,950,343</u>

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

DIGITAL EQUIPMENT CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Dollars in thousands)

	Three-Month Period Ended	
	October 2, 1993	September 26, 1992
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss.....	\$ (83,185)	\$ (260,546)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation.....	144,386	160,461
Amortization.....	30,174	29,158
Other adjustments to net loss.....	29,365	110,037
Decrease in accounts receivable.....	161,420	278,138
Increase in inventories.....	(165,683)	(163,289)
(Increase)/decrease in prepaid expenses....	22,012	(5,231)
Decrease in accounts payable.....	(90,025)	(142,737)
Increase/(decrease) in taxes.....	(36,898)	66,720
Increase in salaries, wages, benefits and related items.....	77,330	98,242
Decrease in deferred revenues and customer advances.....	(86,060)	(98,054)
Decrease in restructuring reserves.....	(180,299)	(249,395)
Increase/(decrease) in other current liabilities.....	(69,571)	13,239
Total adjustments.....	(163,849)	97,289
Net cash flows from operating activities.....	(247,034)	(163,257)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in property, plant and equipment...	(167,001)	(131,919)
Proceeds from the disposition of property, plant, and equipment.....	47,964	24,446
Investment in other assets.....	(14,130)	(202,220)
Net cash flows from investing activities.....	(133,167)	(309,693)
Net cash flows from operating and investing activities.....	(380,201)	(472,950)

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



# CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from the issuance of debt	12,950	9,149
Payments to retire debt	(14,154)	(1,987)
Issuance of common and treasury shares, including tax benefits	12,040	9,867
	-----	-----
Net cash flows from financing activities	10,836	17,029
	-----	-----
Decrease in cash and cash equivalents	(369,365)	(455,921)
Cash and cash equivalents at the beginning of the year	1,643,195	1,337,172
	-----	-----
Cash and cash equivalents at end of period	\$ 1,273,830	\$ 881,251
	=====	=====

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

# DIGITAL EQUIPMENT CORPORATION

## COMPUTATION OF NET LOSS PER COMMON AND COMMON EQUIVALENT SHARE

(Dollars in thousands except per share data)

	Three-Month Period Ended	
	October 2, 1993	September 26, 1992
Net loss applicable to common and common equivalent shares.....	\$ ( 83,185)	\$ (260,546)
Weighted-average number of common shares outstanding during period.....	135,010,377	128,001,937
Common stock equivalents from application of "treasury stock" method to exercised and outstanding stock options.....	0	0
Total weighted-average number of common and common equivalent shares outstanding during the period.....	135,010,377	128,001,937
Net loss per common and common equivalent share.....	\$ (0.62)	\$ (2.04)

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



# DIGITAL EQUIPMENT CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note A - Significant Accounting Policies

Certain prior years' amounts have been reclassified to conform with current year presentation.

### Note B - Income Taxes

The Corporation adopted Statement of Financial Accounting Standards (SFAS) No. 109 - Accounting for Income Taxes, effective July 4, 1993. The Corporation had previously accounted for income taxes under Accounting Principles Board Opinion No. 11.

The Corporation recorded a one-time benefit of \$20 million, or \$0.14 per share, for the recognition of previously unrecognized tax benefits. There is no cash flow impact from the adoption of SFAS No. 109. The standard was adopted on a prospective basis and amounts presented for prior years were not restated.

At July 4, 1993, the significant components of deferred tax assets and liabilities upon the adoption of SFAS No. 109, were:

	(in millions)	
	Deferred Tax Assets	Deferred Tax Liabilities
Inventory-related transactions	138	7
Depreciation	66	41
Postretirement benefits	358	-
Restructuring	235	-
Tax loss carryforwards (a)	1,025	-
Tax credit carryforwards	149	-
Other	283	234
	-----	---
Gross deferred tax balances	2,254	282
Valuation allowance	1,805	-
	-----	---
Net deferred tax balances	<u>449</u>	<u>282</u>

The deferred tax assets (a) of \$1.0 billion represent \$2.8 billion of net operating loss carryforwards on a tax return basis which will generally expire as follows: \$150 million in 1998, \$1.2 billion in 2007, \$800 million in 2008, and the remainder thereafter. Tax credit carryforwards will generally expire as follows: \$40 million in 2001, \$50 million in 2002, \$40 million in 2003, and the remainder thereafter.

On August 10, 1993, the Omnibus Budget Reconciliation Act of 1993 was signed into law. This act, among other things, raises the U.S. corporate statutory tax rate from 34% to 35%. Due to the net operating loss carryforwards, the Corporation does not expect the change in the statutory tax rate to have a material impact on the Corporation's consolidated financial position or results of operations for the foreseeable future.



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

As an aid to understanding the Corporation's operating results, the following tables indicate the percentage relationships of income and expense items included in the statements of operations for the most recent quarter ended October 2, 1993 and the corresponding quarter ended September 26, 1992 of the preceding fiscal year and the percentage changes in those items for such periods. Components of total costs of operating revenues are shown as percentages of their related revenues.

Income and Expense Items	Income and Expense Items as a Percentage of Total Operating Revenues (a)		Percentage Increases (Decreases)
	Three Months Ended		Three Months Ended
	Oct. 2, 1993	Sept 26, 1992	October 2, 1993 vs. September 26, 1992
Product sales	51.6 %	53.3 %	( 11.9) %
Service and other revenues	48.4 %	46.7 %	(5.7) %
Total operating revenues	100.0 %	100.0 %	(9.0) %
Cost of product sales	63.0 %	57.7 %	(3.8) %
Service expense and cost other revenues	64.7 %	65.8 %	(7.2) %
Total cost of operating revenues	63.9 %	61.5 %	(5.5) %
Research and engineering expenses	10.4 %	12.2 %	(22.4) %
Selling, general and administrative expenses	28.9 %	34.1 %	(22.9) %
Operating loss	(3.2) %	( 7.8) %	62.6 %
Interest income	.5 %	0.3 %	30.2 %
Interest expense	.6 %	0.1 %	100.0+ %
Loss before income taxes and cumulative effect of change in accounting principle	(3.3) %	(7.6) %	60.2 %
Provision for income taxes	.1 %	0.3 %	(64.6) %
Loss before cumulative effect of change in accounting principle	(3.4) %	(7.9) %	60.4 %
Cumulative effect of change in accounting principle, net of tax	0.7 %	0.0 %	NM
Net loss	(2.8) %	(7.9) %	68.1 %

(a) Percentage of operating revenues may not be additive due to rounding.



## REVENUES

Total operating revenues for the first three months of fiscal 1994 were \$3.01 billion, down 9% from the comparable period a year ago. Total operating revenues included product sales of \$1.56 billion, down 12% from the first quarter of fiscal 1993, and service and other revenues of \$1.46 billion, down 6% over the comparable period a year ago. Operating revenues from customers outside the United States were \$1.81 billion or 60.0% of the Corporation total; this compares with \$2.07 billion or 62.4% of the Corporation total for the first quarter of fiscal 1993. The decrease in non-U.S. revenues was attributable to a significant decrease in European revenues, partially offset by revenue growth in other non-U.S. territories. Total operating revenues for the quarter were negatively affected by foreign currency fluctuations.

Although the Corporation shipped more computer systems during the quarter than in the comparable period a year ago, product sales declined due to a continuation of changes in industry demand favoring lower-priced personal computers and workstations and persistent intense price competition. The Corporation is responding to these trends by continuing to offer and introduce more competitively priced products. In addition, shortly after the close of the quarter, the Corporation announced several new Alpha AXP and VAX systems, software products and services offerings. Revenues from the sale of the Corporation's new Alpha AXP systems represented approximately 5% of total operating revenues for the quarter.

The decline in service revenues over the comparable quarter of fiscal 1993 reflects continued competitive pressure on the Corporation's traditional hardware and software product service business. In response to this trend, the Corporation is increasing its focus on multivendor customer service opportunities. Revenues from newer consulting and systems integration services continued to grow during the quarter.

## EXPENSES AND PROFIT MARGINS

The Corporation recorded an operating loss of \$97 million for the first quarter of fiscal 1994, compared with an operating loss of \$260 million in the first quarter a year ago.

Gross margin on product sales declined \$172 million or 23%, from the comparable quarter a year ago and represented 37% of product sales for the quarter, down five percentage points from the comparable period. The decline in product gross margin resulted from the decrease in product sales, a continued shift in the mix of product sales toward low-end systems which typically carry lower margins, competitive pricing pressures and unfavorable currency fluctuations, partially offset by manufacturing cost efficiencies.

The Corporation has adopted an aggressive, competitive price structure for its Alpha AXP systems. Given this pricing, as well as



the factors described in the preceding paragraph, the Corporation expects to experience continued downward pressure on product gross margins.

Gross margin on service revenues improved slightly as a percentage of service revenues, while gross profit expressed in dollars declined slightly from the comparable quarter a year ago. The decline in service gross profit was due principally to the lower level of service revenues. The improvement in service gross margin as a percentage of service revenues was due to increased efficiency in service delivery.

Spending on research and engineering (R&E) totaled \$315 million, a decrease of 22% from the \$405 million of the first quarter of the previous year. Selling, general and administrative (SG&A) expenses totaled \$872 million in the quarter, down 23% from the \$1.13 billion of the comparable period a year ago. The improvements in R&E and SG&A expenses over the comparable quarter last year were due principally to restructuring activities, primarily headcount reductions, which have taken place over the past year.

Interest income was \$17 million for the quarter, an increase of 30% over the \$13 million of the comparable quarter a year ago, principally due to higher cash balances in the quarter. Interest expense was \$20 million, up \$16 million from the \$4 million of the comparable quarter a year ago, due to the issuance of \$1 billion in long-term debt during fiscal 1993. In the first quarter of fiscal 1994, the Corporation entered into interest rate swap agreements relating to \$750 million of long-term debt. These agreements effectively convert a portion of the Corporation's interest expense on long-term debt from fixed to floating rates for periods of two to ten years. The differential paid or received on interest rate swap agreements is recognized as an adjustment to interest expense.

Tax expense was \$4 million for the quarter. The tax expense reflects several factors, including taxes provided for profitable non-U.S. operations and an inability to recognize U.S. tax benefits from operating losses.

The Corporation adopted Statement of Financial Accounting Standards (SFAS) No. 109 - Accounting for Income Taxes, effective July 4, 1993. The Corporation had previously accounted for income taxes under Accounting Principles Board Opinion No. 11. The Corporation recorded a one-time benefit of \$20 million, or \$.14 per share, for the recognition of previously unrecognized tax benefits. There is no cash flow impact from the adoption of SFAS No. 109. The standard was adopted on a prospective basis and amounts presented for prior years were not restated (see Note B).

#### AVAILABILITY OF FUNDS TO SUPPORT CURRENT AND FUTURE OPERATIONS

Cash and cash equivalents totaled \$1.27 billion at the end of the quarter, down from \$1.64 billion at the end of fiscal 1993.



Net cash used for operating activities in the quarter was \$247 million, due principally to restructuring activities, higher inventory levels and the operating loss, partially offset by a decrease in accounts receivable. While accounts receivable decreased in the quarter, days sales outstanding increased, due in part to a typical seasonal pattern.

Net cash used for investing activities in the quarter was \$133 million. Capital spending was \$167 million, consisting primarily of investments in semiconductor technology facilities and equipment. During the first quarter, the Corporation disposed of property, plant and equipment as part of ongoing restructuring activities generating approximately \$48 million in cash proceeds.

On November 4, 1993, the stockholders of the Corporation approved an amendment to the Corporation's Restated Articles of Organization to authorize the issuance of up to 25,000,000 shares of preferred stock.

The Corporation historically has maintained a conservative capital structure, and believes that its current cash position and debt capacity are adequate to support current and future operations.

\* \* \* \*

The accompanying consolidated balance sheets, statements of operations and statements of cash flows reflect all adjustments of a normal recurring nature which are, in the opinion of management, necessary to a fair statement of the consolidated financial position at October 2, 1993 and the consolidated results of operations and the consolidated statements of cash flows for the interim periods ended October 2, 1993 and September 26, 1992.



## PART II. OTHER INFORMATION

### Item 4. Submission of Matters to a Vote of Security Holders.

On November 1993, the Corporation held its Annual Meeting of Stockholders. At the meeting the stockholders elected three Class I Directors for three-year terms. 114,781,652 votes were cast for the nominees for Class I Directors, 1,164,328 votes were withheld and there were no broker non-votes. 114,425,314 votes were cast for Philip Caldwell, a nominee for Class I Director and 1,520,666 votes were withheld. 114,477,627 votes were cast for Kathleen F. Feldstein, a nominee for Class I Director and 1,468,353 votes were withheld. 114,494,438 votes were cast for Robert B. Palmer, a nominee for Class I Director and 1,451,542 votes were withheld. At the meeting the stockholders also approved amendments to the Corporation's 1968 Employee Stock Purchase Plan ("1968 Plan") and 1981 International Employee Stock Purchase Plan ("1981 Plan") to increase the number of shares subject to such plans by 5,300,000 and 4,200,000 shares, respectively. 96,417,166 votes were cast for the proposal to amend the 1968 Plan and 5,477,433 were cast against, with 1,140,731 abstentions and 12,910,650 broker non-votes; 94,190,102 votes were cast for the 1981 Plan and 5,530,091 were cast against, with 3,314,747 abstentions and 12,190,850 broker non-votes. In addition, the stockholders approved an amendment to the Corporation's Restated Articles of Organization to authorize the issuance of up to 25,000,000 shares of preferred stock. 93,509,891 votes were cast for such amendment and 8,250,601 were cast against, with 1,274,618 abstentions and 12,910,850 broker non-votes. The stockholders also ratified the selection of Coopers & Lybrand as the Corporation's auditors. 112,343,007 votes were cast for the ratification and 2,761,792 were cast against, with 840,781 abstentions and 400 broker non-votes.

### Item 6. Exhibits and Reports on Form 8-K.

#### (a) Exhibits

None.

#### (b) Reports on Form 8-K.

No reports on Form 8-K were filed by the Corporation during the period covered by this report.

SIGNATURES

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

DIGITAL EQUIPMENT CORPORATION  
(Registrant)

By /s/ William M. Steul  
William M. Steul  
Vice President, Finance and  
Chief Financial Officer  
(Duly Authorized Officer and  
Principal Financial Officer)

November 12, 1993



FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
for the quarterly period ended January 1, 1994

OR

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

Commission file number 1-5296

Digital Equipment Corporation

(Exact name of registrant as specified in its charter)

Massachusetts

(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)

(508) 493-5111

(Registrant's telephone number, including area code)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Number of shares of Common Stock, par value \$1, outstanding as of January 1, 1994: 137,889,665.

DIGITAL EQUIPMENT CORPORATION  
CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands except per share data)

	Three-Month Period Ended	
	January 1, 1994	December 26, 1992
<b>REVENUES</b>		
Product sales.....	\$ 1,659,924	\$ 1,967,234
Service and other revenues.....	1,594,155	1,722,209
<b>TOTAL OPERATING REVENUES.....</b>	<b>3,254,079</b>	<b>3,689,443</b>
<b>COSTS AND EXPENSES</b>		
Cost of product sales.....	1,112,292	1,116,538
Service expense and cost of other revenues....	968,473	1,058,270
Research and engineering expenses.....	330,948	404,843
Selling, general and administrative expenses..	908,688	1,177,306
<b>Operating loss.....</b>	<b>( 66,322)</b>	<b>(67,514)</b>
Interest income.....	12,071	14,209
Interest expense.....	15,398	12,554
<b>LOSS BEFORE INCOME TAXES .....</b>	<b>( 69,649)</b>	<b>(65,859)</b>
<b>PROVISION FOR INCOME TAXES.....</b>	<b>2,495</b>	<b>8,000</b>
<b>NET LOSS.....</b>	<b>\$ ( 72,144)</b>	<b>( 73,859)</b>
<b>NET LOSS PER COMMON SHARE (1).....</b>	<b>\$ ( .53)</b>	<b>\$ (.57)</b>

(1) Net loss per share is based on the weighted average number of common shares outstanding during each period: 136,028,383 shares for the three months ended January 1, 1994 and 129,154,484 for the three months ended December 26, 1992. See page 8 of this report.

Cash dividends have never been paid by the Corporation.

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



DIGITAL EQUIPMENT CORPORATION  
CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands except per share data)

	Six-Month Period Ended	
	January 1, 1994	December 26, 1992
<b>REVENUES</b>		
Product sales.....	\$ 3,216,928	\$ 3,735,055
Service and other revenues.....	3,052,099	3,268,687
<b>TOTAL OPERATING REVENUES.....</b>	<b>6,269,027</b>	<b>7,003,742</b>
<b>COSTS AND EXPENSES</b>		
Cost of product sales.....	2,093,707	2,136,495
Service expense and cost of other revenues....	1,912,350	2,075,920
Research and engineering expenses.....	645,665	810,320
Selling, general and administrative expenses..	1,780,895	2,308,493
Operating loss.....	( 163,590)	( 327,486)
Interest income.....	29,284	27,425
Interest expense.....	35,034	16,344
<b>LOSS BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE....</b>	<b>( 169,340)</b>	<b>( 316,405)</b>
<b>PROVISION FOR INCOME TAXES.....</b>	<b>6,031</b>	<b>18,000</b>
<b>LOSS BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE.....</b>	<b>( 175,371)</b>	<b>( 334,405)</b>
<b>CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE.....</b>	<b>20,042</b>	<b>0</b>
<b>NET LOSS.....</b>	<b>\$ ( 155,329)</b>	<b>\$ ( 334,405)</b>
<b>LOSS BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE PER COMMON SHARE.....</b>	<b>\$ (1.29)</b>	<b>\$ (2.60)</b>
<b>CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE PER COMMON SHARE.....</b>	<b>.14</b>	<b>-</b>
<b>NET LOSS PER COMMON SHARE (1).....</b>	<b>\$ (1.15)</b>	<b>\$ (2.60)</b>



(1) Net loss per share is based on the weighted average number of common shares outstanding during each period: 135,519,380 shares for the six months ended January 1, 1994 and 128,578,210 for the six months ended December 26, 1992. See page 9 of this report.

Cash dividends have never been paid by the Corporation.

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

# DIGITAL EQUIPMENT CORPORATION

## CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

	January 1, 1994	July 3, 1993
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents.....	\$ 1,147,257	\$ 1,643,195
Accounts receivables, net of allowances of \$100,548 and \$110,764.....	2,795,969	3,020,252
Inventories		
Raw materials.....	403,800	331,506
Work-in-process.....	606,630	502,200
Finished goods.....	939,926	921,434
Total inventories.....	1,950,356	1,755,140
Prepaid expenses and deferred income taxes...	405,669	463,928
TOTAL CURRENT ASSETS.....	6,299,251	6,882,515
Property, plant and equipment, at cost.....	7,145,929	7,193,430
Less accumulated depreciation.....	4,000,269	4,015,139
Net property, plant and equipment.....	3,145,660	3,178,291
Other assets.....	923,846	889,537
TOTAL ASSETS.....	\$ 10,368,757	\$ 10,950,343

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



	January 1, 1994	July 3, 1993
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Bank loans and current portion of long-term debt.....	\$ 11,574	\$ 21,335
Accounts payable.....	767,055	822,434
Income taxes payable.....	11,026	57,614
Salaries, wages and related items.....	552,626	556,151
Deferred revenue and customer advances.....	960,493	1,138,323
Restructuring reserve.....	442,705	738,989
Other current liabilities.....	553,793	583,868
<b>TOTAL CURRENT LIABILITIES.....</b>	<b>3,299,272</b>	<b>3,918,714</b>
Noncurrent deferred income taxes.....	26,369	-
Long-term debt.....	1,017,360	1,017,577
Postretirement benefits.....	1,195,805	1,128,653
<b>TOTAL LIABILITIES.....</b>	<b>5,538,806</b>	<b>6,064,944</b>
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, \$1.00 par value; authorized 450,000,000 shares; issued 137,889,665 and 135,489,805 shares.....	137,890	135,490
Additional paid-in capital.....	2,937,205	2,851,960
Retained earnings.....	1,754,856	1,937,627
Treasury stock at cost, 0 and 497,551 shares.....	-	(39,678)
<b>TOTAL STOCKHOLDERS' EQUITY.....</b>	<b>4,829,951</b>	<b>4,885,399</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY.....</b>	<b>\$10,368,757</b>	<b>\$10,950,343</b>

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



DIGITAL EQUIPMENT CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

	Six-Month Period Ended	
	January 1, 1994	December 26, 1992
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss.....	\$ ( 155,329)	\$ (334,405)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation.....	301,722	346,923
Amortization.....	60,996	67,240
Other adjustments to net loss.....	84,002	141,000
Decrease in accounts receivable.....	224,283	462,248
Increase in inventories.....	(195,216)	(218,196)
(Increase)/decrease in prepaid expenses..	82,145	(33,375)
Decrease in accounts payable.....	(55,379)	(212,856)
Increase/(decrease) in taxes.....	(66,782)	89,666
Increase in salaries, wages, benefits & related items.....	63,627	75,238
Decrease in deferred revenues and customer advances.....	(177,830)	(230,152)
Decrease in restructuring reserves.....	(341,584)	(451,215)
Decrease in other current liabilities....	(65,303)	(61,333)
Total adjustments.....	(85,319)	(24,812)
Net cash flows from operating activities.....	(240,648)	(359,217)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investment in property, plant and equipment..	(348,070)	(256,463)
Proceeds from the disposition of net property, plant, and equipment.....	53,620	25,279
Investment in other assets.....	(39,993)	(218,633)
Proceeds from disposition of other assets....	3,238	-
Net cash flows from investing activities.....	(331,205)	(449,817)
Net cash flows from operating and investing activities.....	(571,853)	(809,034)

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



# CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from the issuance of debt.....	12,950	741,320
Payments to retire debt.....	(23,573)	(8,051)
Issuance of common and treasury shares.....	86,538	103,933
	-----	-----
Net cash flows from financing activities.....	75,915	837,202
	-----	-----
Net increase (decrease) in cash and cash equivalents.....	(495,938)	28,168
Cash and cash equivalents at the beginning of the year.....	1,643,195	1,337,172
	-----	-----
Cash and cash equivalents at end of period...	\$ 1,147,257	\$ 1,365,340
	=====	=====

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

# DIGITAL EQUIPMENT CORPORATION

## COMPUTATION OF NET LOSS PER COMMON AND COMMON EQUIVALENT SHARE

(Dollars in thousands except per share data)

	Three-Month Period Ended	
	January 1, 1994	December 26, 1992
Net loss applicable to common and common equivalent shares.....	\$ (72,144)	\$ (73,859)
Weighted-average number of common shares outstanding during the period.....	136,028,383	129,154,484
Common stock equivalents from application of "treasury stock" method to exercised and outstanding stock options.....	0	0
Total weighted-average number of common and common equivalent shares outstanding during the period.....	136,028,383	129,154,484
Net loss per common and common equivalent share.....	\$ (0.53)	\$ (0.57)

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



# DIGITAL EQUIPMENT CORPORATION

## COMPUTATION OF NET LOSS PER COMMON AND COMMON EQUIVALENT SHARE

(Dollars in thousands except per share data)

	Six-Month Period Ended	
	January 1, 1994	December 26, 1992
Net loss applicable to common and common equivalent shares.....	\$ (155,329)	\$ (334,405)
Weighted-average number of common shares outstanding during period.....	135,519,380	128,578,210
Common stock equivalents from application of "treasury stock" method to exercised and outstanding stock options.....	0	0
Total weighted-average number of common and common equivalent shares outstanding during the period.....	135,519,380	128,578,210
Net loss per common and common equivalent share.....	\$ ( 1.15)	\$ ( 2.60)

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

# DIGITAL EQUIPMENT CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note A - Significant Accounting Policies

Certain prior years' amounts have been reclassified to conform with current year presentation.

### Note B - Income Taxes

The Corporation adopted Statement of Financial Accounting Standards (SFAS) No. 109 - Accounting for Income Taxes, effective July 4, 1993. The Corporation had previously accounted for income taxes under Accounting Principles Board Opinion No. 11.

In the first quarter, the Corporation recorded a one-time benefit of \$20 million, or \$0.14 per share, for the recognition of previously unrecognized tax benefits. There is no cash flow impact from the adoption of SFAS No. 109. The standard was adopted on a prospective basis and amounts presented for prior years were not restated.

At July 4, 1993, the significant components of deferred tax assets and liabilities upon the adoption of SFAS No. 109, were:

	(dollars in millions)	
	Deferred Tax Assets	Deferred Tax Liabilities
Inventory-related transactions	\$ 138	\$ 7
Depreciation	66	41
Postretirement benefits	358	-
Restructuring	235	-
Tax loss carryforwards (a)	1,025	-
Tax credit carryforwards	149	-
Other	283	234
	-----	-----
Gross deferred tax balances	2,254	282
Valuation allowance	1,805	-
	-----	-----
Net deferred tax balances	\$ 449	\$ 282
	=====	=====



The deferred tax assets (a) of \$1.0 billion represent \$2.8 billion of net operating loss carryforwards on a tax return basis which will generally expire as follows: \$150 million in 1998, \$1.2 billion in 2007, \$800 million in 2008, and the remainder thereafter. Tax credit carryforwards will generally expire as follows: \$40 million in 2001, \$50 million in 2002, \$40 million in 2003, and the remainder thereafter.

On August 10, 1993, the Omnibus Budget Reconciliation Act of 1993 was signed into law. This act, among other things, raises the U.S. corporate statutory tax rate from 34% to 35%. Due to the net operating loss carryforwards, the Corporation does not expect the change in the statutory tax rate to have a material impact on the Corporation's consolidated financial position or results of operations for the foreseeable future.

#### Note C - Preferred Stock

On November 4, 1993, the stockholders of the Corporation approved an amendment to the Corporation's Restated Articles of Organization to authorize the issuance of up to 25,000,000 shares of preferred stock.

#### Note D - Subsequent Event

On January 21, 1994, the Corporation filed with the Securities and Exchange Commission a shelf registration statement on Form S-3 under the Securities Act of 1933, as amended, covering the registration of securities, including senior and subordinated debt securities, preferred stock, depository shares and warrants to purchase equity and debt securities (the "Securities"), in an aggregate amount of \$1 billion. The Securities may be offered from time to time in amounts, at prices and on terms to be determined at the time of sale. The Corporation believes the shelf registration provides additional financing flexibility to meet potential future funding requirements and to take advantage of potentially attractive capital market conditions.

Subsequent to the end of the second quarter of fiscal 1994, the Corporation's annual facility fee on its three-year \$750 million committed credit facility was increased from 0.175% to 0.250%.



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

As an aid to understanding the Corporation's operating results, the following tables indicate the percentage relationships of income and expense items included in the statements of operations for the most recent quarter and six-month period ended January 1, 1994 and the corresponding quarter and six-month period ended December 26, 1992 of the preceding fiscal year and the percentage changes in those items for such periods. Components of total costs of operating revenues are shown as percentages of their related revenues.

Income and Expense Items	Income and Expense Items as a Percentage of Total Operating Revenues (a)			
	Three-Month Period Ended		Six-Month Period Ended	
	Jan. 1, 1994	Dec. 26, 1992	Jan. 1, 1994	Dec. 26, 1992
Product sales	51.0%	53.3%	51.3%	53.3%
Service and other revenues	49.0%	46.7%	48.7%	46.7%
Total operating revenues	100.0%	100.0%	100.0%	100.0%
Cost of product sales	67.0%	56.8%	65.1%	57.2%
Service expense and cost of other revenues	60.8%	61.4%	62.7%	63.5%
Total cost of operating revenues	63.9%	58.9%	63.9%	60.1%
Research and engineering expenses	10.2%	11.0%	10.3%	11.6%
Selling, general and administrative expenses	27.9%	31.9%	28.4%	33.0%
Operating loss	(2.0%)	(1.8%)	(2.6%)	(4.7%)
Interest income	.4%	.4%	.5%	.4%
Interest expense	.5%	.3%	.6%	.2%
Loss before income taxes and cumulative effect of change in accounting principle	(2.1%)	(1.8%)	(2.7%)	(4.5%)
Provision for income taxes	.1%	.2%	.1%	.3%
Loss before cumulative effect of change in accounting principle	(2.2%)	(2.0%)	(2.8%)	(4.8%)
Cumulative effect of change in accounting principle	0.0%	0.0%	.3%	0.0%
Net loss	(2.2%)	(2.0%)	(2.5%)	(4.8%)

Note (a) Percentage of operating revenues may not be additive due to rounding.



Income and Expense Items	Percentage Increases (Decreases)	
	Three-Month Period Ended Jan. 1, 1994 vs. Dec. 26, 1992	Six-Month Period Ended Jan. 1, 1994 vs. Dec. 26, 1992
Product sales	( 16 %)	( 14 %)
Service and other revenues	( 7 %)	( 7 %)
Total operating revenues	( 12 %)	( 10 %)
Cost of product sales	( 0 %)	( 2 %)
Service expense and cost of other revenues	( 9 %)	( 8 %)
Total cost of operating revenues	( 4 %)	( 5 %)
Research and engineering expenses	( 18 %)	( 20 %)
Selling, general and administrative expenses	( 23 %)	( 23 %)
Operating loss	( 2 %)	( 50 %)
Interest income	( 15 %)	7 %
Interest expense	23 %	100+%
Loss before income taxes and cumulative effect of change in accounting principle	6 %	( 46 %)
Provision for income taxes	( 69 %)	( 66 %)
Loss before cumulative effect of change in accounting principle	( 2 %)	( 48 %)
Cumulative effect of change in accounting principle	-	NM
Net loss	( 2 %)	( 54 %)

NM=Not meaningful



## REVENUES

Total operating revenues for the first six months of fiscal 1994 were \$6.27 billion, down 10% from the comparable period a year ago. Total operating revenues included product sales of \$3.22 billion, down 14% from a year ago and service and other revenues of \$3.05 billion, down 7%. Operating revenues from customers outside the United States were \$3.86 billion or 61% of total operating revenues, compared with \$4.47 billion or 64% of total operating revenues for the comparable six-month period last year. The Corporation continued to experience a significant decrease in European revenues, as well as a decline in U.S. revenues, partially offset by revenue growth in the Asia Pacific region and Latin America. Total operating revenues for the quarter and first six months were negatively affected by foreign currency exchange rate fluctuations.

For the quarter ended January 1, 1994, total operating revenues were \$3.25 billion, down 12% from the comparable period a year ago. Product sales were \$1.66 billion, down 16% and service and other revenues were \$1.59 billion, down 7%. Operating revenues from customers outside the United States were \$2.04 billion or 63% of total operating revenues; this compared with \$2.41 billion or 65% of total operating revenues for the second quarter of fiscal 1993.

Although revenues from the sale of Alpha AXP systems continue to grow, and represented approximately 10% of product sales for both the quarter and first six months, the Corporation continues to experience a significant decline in demand for its VAX systems. Product sales for the quarter and first six months were positively affected by a growth in demand for personal computers and Alpha AXP workstations, as well as storage devices and networking products.

The decline in service revenues over the comparable periods of fiscal 1993 was due principally to lower levels of revenue from the Corporation's VAX/VMS systems maintenance business, as well as the greater reliability of, and lower maintenance revenues associated with newer products. This was partially offset by an increase in revenues from maintenance of products manufactured by other companies. In addition, the Corporation is becoming more selective in pursuing consulting and systems integration opportunities, increasing its focus on the profitability of projects; as a result, revenues from consulting and systems integration services were down slightly for the quarter and essentially flat for the first six months compared with the comparable periods a year ago.

The Corporation continues to take actions to respond to changes in industry demand, economic conditions and other factors affecting the Corporation's business. In October, the Corporation announced new open client-server products and related software and service products. The Corporation continues to seek alliances with other companies and to focus its resources in order to offer products and services which meet customer needs for open systems. Just after the close of the second quarter, the



Corporation announced that it had hired a new general manager to lead its European operations. The Corporation also is focusing on increasing market penetration by improving its direct sales efforts, targeting the growing small and medium enterprise information technology market and expanding its use of resellers and other indirect channels of distribution.

#### EXPENSES AND PROFIT MARGINS

The Corporation recorded an operating loss of \$66 million for the second quarter of fiscal 1994, compared with an operating loss of \$68 million in the second quarter a year ago. For the first six months, the Corporation recorded an operating loss of \$164 million, compared with an operating loss of \$327 million for the comparable period a year ago.

Gross profit on product sales for the quarter and first six months declined from the comparable periods a year ago. Product gross margin (gross profit as a percentage of product sales) represented 33% and 35% of product sales, respectively, down 10 and 8 percentage points, respectively, from the comparable periods last year. The decline in product gross profit resulted from the decrease in product sales, a continued shift in the mix of product sales toward personal computers and Alpha AXP-based systems which typically carry lower margins than the Corporation's VAX systems, competitive pricing pressures and unfavorable currency exchange rate fluctuations, partially offset by manufacturing cost efficiencies.

Gross profit on service revenues for the quarter and first six months declined slightly from the comparable periods a year ago. Service gross margin (gross profit as a percentage of service revenues) represented 39% and 37% of service revenues, respectively, slightly higher than the comparable periods of fiscal 1993. The modest decline in service gross profit resulted principally from lower service revenues, partially offset by increased efficiency in service delivery and an increased focus on the profitability of consulting projects.

Spending on research and engineering (R&E) in the quarter totaled \$331 million, a decrease of 18% from the \$405 million of the comparable quarter a year ago. For the first six months, R&E spending totaled \$646 million, down 20% from the \$810 million of the comparable period last year. The Corporation is focusing its current R&E investments on maintaining a strong, market-driven product set and on attaining and sustaining technology leadership in selected areas.

Selling, general and administrative (SG&A) expenses totaled \$909 million in the quarter, down 23% from the \$1.18 billion of the comparable quarter a year ago. For the first six months, SG&A spending totaled \$1.78 billion, down 23% from the \$2.31 billion of the comparable period in fiscal 1993.

While spending for R&E and SG&A is declining, the Corporation believes its cost and expense levels are still too high for the level and mix of



total operating revenues. The Corporation is reducing expenses by streamlining its product offerings and selling and administrative practices, resulting in reductions in employee population, closing and consolidation of facilities and reductions in discretionary spending. The Corporation believes that the remaining restructuring reserve of \$443 million is adequate to cover presently planned restructuring actions. The Corporation will continue to take actions necessary to achieve a level of costs appropriate for its revenues and competitive for its business.

Interest income for the quarter and first six months was \$12 million and \$29 million, respectively. Interest expense for the quarter and first six months was \$15 million and \$35 million, respectively, up from the comparable periods a year ago due to the issuance of \$1 billion aggregate principal amount of long-term debt in fiscal 1993. Interest expense for the second quarter includes the differential received on interest rate swap agreements entered into in the first quarter of fiscal 1994 relating to \$750 million of long-term debt.

Tax expense for the quarter and first six months was \$2 million and \$6 million, respectively. The tax expense reflects taxes provided for profitable non-U.S. operations and an inability to recognize U.S. tax benefits from operating losses.

The Corporation adopted Statement of Financial Accounting Standards (SFAS) No. 109 - Accounting for Income Taxes, effective July 4, 1993. The Corporation had previously accounted for income taxes under Accounting Principles Board Opinion No. 11. In the first quarter of fiscal 1994, the Corporation recorded a one-time benefit of \$20 million, or \$0.14 per share, for the recognition of previously unrecognized tax benefits. There is no cash flow impact from the adoption of SFAS No. 109. The standard was adopted on a prospective basis and amounts presented for prior years were not restated (see Note B).

#### AVAILABILITY OF FUNDS TO SUPPORT CURRENT AND FUTURE OPERATIONS

Cash and cash equivalents totaled \$1.15 billion at the end of the quarter, down from \$1.64 billion at the end of fiscal 1993. The net decrease in cash and cash equivalents for the quarter was \$127 million.

Operating activities generated \$6 million of cash for the quarter, and used \$241 million of cash for the first six months of fiscal 1994. Cash used for the first six months was due principally to restructuring activities, higher inventory levels and the operating loss, partially offset by a decrease in accounts receivable.

Net cash used for investing activities was \$198 million for the quarter and \$331 million for the first six months. Capital spending was \$181



million for the quarter and \$348 million for the first six months, consisting principally of investments in semiconductor and storage technology facilities and equipment. During the first six months, the Corporation generated \$57 million in cash proceeds from the disposal of property, plant and equipment and other assets, principally as the result of restructuring activities.

Net cash from financing activities was \$65 million for the quarter, due principally to the issuance of common stock under the Corporation's employee stock plans.

On January 21, 1994 the Corporation filed with the Securities and Exchange Commission a shelf registration statement on Form S-3 under the Securities Act of 1933, as amended, covering the registration of securities, including senior and subordinated debt securities, preferred stock, depositary shares and warrants to purchase equity and debt securities (the "Securities"), in an aggregate amount of \$1 billion. The Securities may be offered from time to time in amounts, at prices and on terms to be determined at the time of sale. The Corporation believes the shelf registration provides additional financing flexibility to meet potential future funding requirements and to take advantage of potentially attractive capital market conditions (see Note D).

The Corporation historically has maintained a conservative capital structure, and believes that its current cash position and access to capital markets are adequate to support current and future operations.

\* \* \* \*

The accompanying consolidated balance sheets, statements of operations and statements of cash flows reflect all adjustments of a normal recurring nature which are, in the opinion of management, necessary to a fair statement of the consolidated financial position at January 1, 1994 and the consolidated results of operations and the consolidated statements of cash flows for the interim periods ended January 1, 1994 and December 26, 1992.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

- 4.1 Articles of Amendment filed with the Secretary of State of the Commonwealth of Massachusetts on November 4, 1993 (filed as Exhibit 4.3 to the Corporation's Registration Statement on Form S-3, No. 33-51987 and incorporated herein by reference).

(b) Reports on Form 8-K.

No reports on Form 8-K were filed by the Corporation during the period covered by this report.



## SIGNATURES

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

DIGITAL EQUIPMENT CORPORATION  
(Registrant)

By /s/ William M. Steul  
William M. Steul  
Vice President, Finance and  
Chief Financial Officer  
(Duly Authorized Officer and  
Principal Financial Officer)

February 4, 1994

1702758  
FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
for the quarterly period ended April 2, 1994

OR

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

Commission file number 1-5296

Digital Equipment Corporation

(Exact name of registrant as specified in its charter)

Massachusetts

(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)

(508) 493-5111

(Registrant's telephone number, including area code)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Number of shares of Common Stock, par value \$1, outstanding as of April 2, 1994: 137,882,661.



DIGITAL EQUIPMENT CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands except per share data)

	Three-Month Period Ended	
	April 2, 1994	March 27, 1993
REVENUES		
Product sales.....	\$ 1,749,621	\$ 1,767,372
Service and other revenues.....	1,509,168	1,686,304
TOTAL OPERATING REVENUES.....	3,258,789	3,453,676
COSTS AND EXPENSES		
Cost of product sales.....	1,210,478	1,049,969
Service expense and cost of other revenues....	946,800	1,030,728
Research and engineering expenses.....	316,767	350,423
Selling, general and administrative expenses..	954,903	1,050,600
Operating loss.....	( 170,159)	( 28,044)
Interest income.....	8,697	16,325
Interest expense.....	16,543	16,402
LOSS BEFORE INCOME TAXES .....	( 178,005)	( 28,121)
PROVISION FOR INCOME TAXES.....	5,301	2,000
NET LOSS .....	( 183,306)	( 30,121)
Dividends on preferred stock .....	1,775	-
Net loss applicable to common stock .....	\$ ( 185,081)	\$ ( 30,121)
NET LOSS PER COMMON SHARE (1).....	\$ ( 1.34)	\$ ( .23)

(1) Net loss per share is based on the weighted average number of common shares outstanding during each period: 137,897,533 shares for the three months ended April 2, 1994 and 131,553,881 for the three months ended March 27, 1993. See page 8 of this report.

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

DIGITAL EQUIPMENT CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands except per share data)

	Nine-Month Period Ended	
	April 2, 1994	March 27, 1993
REVENUES		
Product sales.....	\$ 4,966,549	\$ 5,502,427
Service and other revenues.....	4,561,267	4,954,991
TOTAL OPERATING REVENUES.....	9,527,816	10,457,418
COSTS AND EXPENSES		
Cost of product sales.....	3,304,185	3,186,464
Service expense and cost of other revenues....	2,859,150	3,106,648
Research and engineering expenses.....	962,432	1,160,743
Selling, general and administrative expenses..	2,735,798	3,359,093
Operating loss.....	( 333,749)	( 355,530)
Interest income.....	37,981	43,750
Interest expense.....	51,577	32,746
LOSS BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE....	( 347,345)	( 344,526)
PROVISION FOR INCOME TAXES.....	11,332	20,000
LOSS BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE.....	( 358,677)	( 364,526)
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE.....	20,042	-
NET LOSS.....	( 338,635)	( 364,526)
Dividends on preferred stock.....	1,775	-
Net loss applicable to common stock.....	\$( 340,410)	\$( 364,526)
LOSS BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE PER COMMON SHARE.....	\$( 2.64)	\$( 2.81)
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE PER COMMON SHARE.....	.14	-
NET LOSS PER COMMON SHARE (1).....	\$( 2.50)	\$( 2.81)



(1) Net loss per share is based on the weighted average number of common shares outstanding during each period: 136,312,098 shares for the nine months ended April 2, 1994 and 129,570,101 for the nine months ended March 27, 1993. See page 9 of this report.

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

# DIGITAL EQUIPMENT CORPORATION

## CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

	April 2, 1994	July 3, 1993
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents.....	\$ 1,263,551	\$ 1,643,195
Accounts receivables, net of allowances of \$101,509 and \$110,764.....	2,925,188	3,020,252
Inventories		
Raw materials.....	497,340	331,506
Work-in-process.....	640,798	502,200
Finished goods.....	1,026,695	921,434
Total inventories.....	2,164,833	1,755,140
Prepaid expenses and deferred income taxes...	402,218	463,928
TOTAL CURRENT ASSETS.....	6,755,790	6,882,515
Property, plant and equipment, at cost.....	7,116,943	7,193,430
Less accumulated depreciation.....	3,980,454	4,015,139
Net property, plant and equipment.....	3,136,489	3,178,291
Other assets.....	902,822	889,537
TOTAL ASSETS.....	\$ 10,795,101	\$ 10,950,343

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

	April 2, 1994	July 3, 1993
<hr/>		
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Bank loans and current portion of long-term debt.....	\$ 10,620	\$ 21,335
Accounts payable.....	877,058	822,434
Income taxes payable.....	10,154	57,614
Salaries, wages and related items.....	597,999	556,151
Deferred revenues and customer advances.....	1,156,952	1,138,323
Restructuring reserve.....	276,341	738,989
Current deferred income taxes.....	35,228	-
Other current liabilities.....	509,157	583,868
	<hr/>	<hr/>
TOTAL CURRENT LIABILITIES.....	3,473,509	3,918,714
Noncurrent deferred income taxes.....	26,369	-
Long-term debt.....	1,017,427	1,017,577
Postretirement benefits.....	1,239,573	1,128,653
	<hr/>	<hr/>
TOTAL LIABILITIES.....	5,756,878	6,064,944
	<hr/>	<hr/>
Contingencies (Note D)		
STOCKHOLDERS' EQUITY		
Preferred stock, \$1.00 par value; authorized 25,000,000 shares; 4,000,000 shares of Series A 8-7/8% Cumulative Preferred Stock issued and outstanding.....	4,000	-
Common stock, \$1.00 par value; authorized 450,000,000 shares; 137,882,661 and 135,489,805 shares issued.....	137,883	135,490
Additional paid-in capital.....	3,326,565	2,851,960
Retained earnings.....	1,569,775	1,937,627
Treasury stock at cost, 0 and 497,551 shares.....	-	(39,678)
	<hr/>	<hr/>
TOTAL STOCKHOLDERS' EQUITY.....	5,038,223	4,885,399
	<hr/>	<hr/>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY.....	<u>\$10,795,101</u>	<u>\$10,950,343</u>

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



DIGITAL EQUIPMENT CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

	Nine-Month Period Ended	
	April 2, 1994	March 27, 1993
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss.....	\$ ( 338,635)	\$ (364,526)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation.....	439,989	528,407
Amortization.....	82,952	100,826
Other adjustments to net loss.....	104,577	157,037
Decrease in accounts receivable.....	95,064	584,954
Increase in inventories.....	(409,693)	(200,842)
(Increase)/decrease in prepaid expenses..	85,759	(15,944)
Increase/(decrease) in accounts payable..	54,624	(244,428)
Increase/(decrease) in taxes.....	(67,654)	93,165
Increase in salaries, wages, benefits & related items.....	152,768	106,399
Increase/(decrease) in deferred revenues & customer advances.....	18,629	(67,859)
Decrease in restructuring reserves.....	(507,948)	(672,853)
Decrease in other current liabilities....	(76,486)	(55,673)
Total adjustments.....	( 27,419)	313,189
Net cash flows from operating activities.....	(366,054)	( 51,337)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in property, plant and equipment..	(514,382)	(358,419)
Proceeds from the disposition of property, plant and equipment.....	76,250	36,079
Investment in other assets.....	(61,144)	(244,432)
Proceeds from disposition of other assets....	23,516	-
Net cash flows from investing activities.....	(475,760)	(566,772)
Net cash flows from operating and investing activities.....	(841,814)	(618,109)

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

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from the issuance of debt.....	11,017	741,673
Payments to retire debt.....	(22,749)	(14,880)
Proceeds from the sale of preferred stock....	387,258	-
Issuance of common and treasury shares, including tax benefits.....	86,644	106,231
	-----	-----
Net cash flows from financing activities.....	462,170	833,024
	-----	-----
Net increase/(decrease) in cash and cash equivalents.....	(379,644)	214,915
Cash and cash equivalents at the beginning of the year.....	1,643,195	1,337,172
	-----	-----
Cash and cash equivalents at end of period...	\$ 1,263,551	\$ 1,552,087
	=====	=====

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



DIGITAL EQUIPMENT CORPORATION

COMPUTATION OF NET LOSS PER COMMON AND COMMON EQUIVALENT SHARE

(Dollars in thousands except per share data)

	Three-Month Period Ended	
	April 2, 1994	March 27, 1993
Net loss applicable to common and common equivalent shares.....	\$ (185,081)	\$ ( 30,121)
Weighted-average number of common shares outstanding during the period.....	137,897,533	131,553,881
Common stock equivalents from application of "treasury stock" method to exercised and outstanding stock options.....	0	0
Total weighted-average number of common and common equivalent shares outstanding during the period.....	137,897,533	131,553,881
Net loss per common and common equivalent share.....	\$ ( 1.34)	\$ ( .23)

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

DIGITAL EQUIPMENT CORPORATION

COMPUTATION OF NET LOSS PER COMMON AND COMMON EQUIVALENT SHARE

(Dollars in thousands except per share data)

	Nine-Month Period Ended	
	April 2, 1994	March 27, 1993
Net loss applicable to common and common equivalent shares.....	\$ ( 340,410)	\$ (364,526)
Weighted-average number of common shares outstanding during period.....	136,312,098	129,570,101
Common stock equivalents from application of "treasury stock" method to exercised and outstanding stock options.....	0	0
Total weighted-average number of common and common equivalent shares outstanding during the period.....	136,312,098	129,570,101
Net loss per common and common equivalent shares.....	\$ ( 2.50)	\$ ( 2.81)

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



# DIGITAL EQUIPMENT CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note A - Significant Accounting Policies

Certain prior years' amounts have been reclassified to conform with current year presentation.

### Note B - Income Taxes

The Corporation adopted Statement of Financial Accounting Standards (SFAS) No. 109 - Accounting for Income Taxes, effective July 4, 1993. The Corporation had previously accounted for income taxes under Accounting Principles Board Opinion No. 11.

In the first quarter, the Corporation recorded a one-time benefit of \$20 million, or \$0.14 per share, for the recognition of previously unrecognized tax benefits. There is no cash flow impact from the adoption of SFAS No. 109. The standard was adopted on a prospective basis and amounts presented for prior years were not restated.

At July 4, 1993, the significant components of deferred tax assets and liabilities upon the adoption of SFAS No. 109, were:

	(dollars in millions)	
	Deferred Tax Assets	Deferred Tax Liabilities
Inventory-related transactions	138	7
Depreciation	66	41
Postretirement benefits	358	-
Restructuring	235	-
Tax loss carryforwards (a)	1,025	-
Tax credit carryforwards	149	-
Other	283	234
	-----	----
Gross deferred tax balances	2,254	282
Valuation allowance	1,805	-
	-----	----
Net deferred tax balances	449	282
	=====	=====

(a) The deferred tax assets of \$1.0 billion represent \$2.8 billion of net operating loss carryforwards on a tax return basis.



Tax loss carryforwards will generally expire as follows: \$150 million in 1998, \$1.2 billion in 2007, \$800 million in 2008, and the remainder thereafter. Tax credit carryforwards will generally expire as follows: \$40 million in 2001, \$50 million in 2002, \$40 million in 2003, and the remainder thereafter.

On August 10, 1993, the Omnibus Budget Reconciliation Act of 1993 was signed into law. This act, among other things, raises the U.S. corporate statutory tax rate from 34% to 35%. Due to the net operating loss carryforwards, the Corporation does not expect the change in the statutory tax rate to have a material impact on the Corporation's consolidated financial position or results of operations for the foreseeable future.

#### Note C - Preferred Stock

On January 21, 1994, the Corporation filed with the Securities and Exchange Commission a shelf registration statement on Form S-3 under the Securities Act of 1933, as amended, covering the registration of securities, including senior and subordinated debt securities, preferred stock, depository shares, and warrants to purchase equity and debt securities, in an aggregate amount of \$1 billion. In March 1994 the Corporation issued and sold 16,000,000 Depositary Shares under the shelf registration, each representing a one-fourth interest in a share of Series A 8-7/8% Cumulative Preferred Stock (the "Series A Preferred Stock"), par value \$1.00 per share, of the Corporation. Dividends on the Series A Preferred Stock accrue at the annual rate of 8-7/8% (\$36 million in the aggregate).

The Series A Preferred Stock was offered to the public at \$100 per share (\$25 per Depositary Share) for a total of \$400 million, leaving a balance of \$600 million of securities available for future issuance under the shelf registration. The net proceeds of \$387 million from the Series A Preferred Stock offering will be used for working capital and other general corporate purposes. The Series A Preferred Stock is not convertible into, or exchangeable for, shares of any other class or classes of stock of the Corporation. The Series A Preferred Stock is not redeemable prior to April 1, 1999. On or after April 1, 1999, the Corporation, at its option, may redeem shares of the Series A Preferred Stock, as a whole or in part, for cash at the redemption price per share of \$100 (\$25 per Depositary Share), plus accrued and unpaid dividends to the redemption date. Upon dissolution, liquidation or the winding up of the affairs of the Corporation, the holders of the Series A Preferred Stock will be entitled to receive \$100 per share (\$25 per Depositary Share), plus accrued and unpaid dividends, before any distribution to holders of the Corporation's common stock.



Note D - Subsequent Event

Subsequent to the end of the third quarter, the Corporation was named as a defendant in several purported class action lawsuits filed in the U.S. District Court for the Southern District of New York and the U.S. District Court for the District of Massachusetts alleging violations of the Federal securities laws arising from alleged misrepresentations and omissions in connection with the Corporation's issuance and sale of Series A 8-7/8% Cumulative Preferred Stock (the "Series A Preferred Stock") and the Corporation's financial results for the quarter ended April 2, 1994. The Corporation's directors, certain of its officers and the managing underwriters of the Corporation's Series A Preferred Stock offering were also named as defendants in certain of the actions. Plaintiffs alternatively seek unspecified monetary damages or rescission of their purchase of the Series A Preferred Stock. The Corporation believes that the claims asserted are without merit and intends to vigorously defend itself against the claims.

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

As an aid to understanding the Corporation's operating results, the following tables indicate the percentage relationships of income and expense items included in the statements of operations for the most recent quarter and nine-month period ended April 2, 1994 and the corresponding quarter and nine-month period ended March 27, 1993 of the preceding fiscal year and the percentage changes in those items for such periods. Components of total costs of operating revenues are shown as percentages of their related revenues.

Income and Expense Items	Income and Expense Items as a Percentage of Total Operating Revenues (a)			
	Three-Month Period Ended		Nine-Month Period Ended	
	April 2, 1994	March 27, 1993	April 2, 1994	March 27, 1993
Product sales	53.7%	51.2%	52.1%	52.6%
Service and other revenues	46.3%	48.8%	47.9%	47.4%
Total operating revenues	100.0%	100.0%	100.0%	100.0%
Cost of product sales	69.2%	59.4%	66.5%	57.9%
Service expense and cost of other revenues	62.7%	61.1%	62.7%	62.7%
Total cost of operating revenues	66.2%	60.2%	64.7%	60.2%
Research and engineering expenses	9.7%	10.1%	10.1%	11.1%
Selling, general and administrative expenses	29.3%	30.4%	28.7%	32.1%
Operating loss	(5.2%)	(.8%)	(3.5%)	(3.4%)
Interest income	.3%	.4%	.4%	.4%
Interest expense	.5%	.4%	.5%	.3%
Loss before income taxes and cumulative effect of change in accounting principle	(5.5%)	(.8%)	(3.6%)	(3.3%)
Provision for income taxes	.2%	.1%	.1%	.2%



Loss before cumulative effect of change in accounting principle	(5.6%)	( .9%)	( 3.8%)	(3.5%)
Cumulative effect of change in accounting principle	-	-	.2%	-
Net loss	(5.6%)	( .9%)	( 3.6%)	(3.5%)
Dividends on preferred stock	0.0%	-	0.0%	-
Net loss applicable to common stock	(5.6%)	( .9%)	( 3.6%)	(3.5%)

Note (a) Percentage of operating revenues may not be additive due to rounding.

Income and Expense Items	Percentage Increases (Decreases)	
	Three-Month Period Ended Apr. 2, 1994 vs. Mar. 27, 1993	Nine-Month Period Ended Apr. 2, 1994 vs. Mar. 27, 1993
Product sales	( 1 %)	(10 %)
Service and other revenues	( 11 %)	( 8 %)
Total operating revenues	( 6 %)	( 9 %)
Cost of product sales	15 %	4 %
Service expense and cost of other revenues	( 8 %)	( 8 %)
Total cost of operating revenues	4 %	( 2 %)
Research and engineering expenses	( 10 %)	(17 %)
Selling, general and administrative expenses	( 9 %)	(19 %)
Operating loss	507 %	( 6 %)
Interest income	( 47 %)	(13 %)
Interest expense	1 %	58 %
Loss before income taxes and cumulative effect of change in accounting principle	533 %	1 %
Provision for income taxes	165 %	(43 %)
Loss before cumulative effect of change in accounting principle	509 %	( 2 %)
Cumulative effect of change in accounting principle	-	NM
Net loss	509 %	( 7 %)
Dividends on preferred stock	NM	NM
Net loss applicable to common stock	514 %	( 7 %)

NM=Not Meaningful



## REVENUES

Total operating revenues for the first nine months of fiscal year 1994 were \$9.53 billion, down 9% from the comparable period a year ago. Total operating revenues included product sales of \$4.97 billion, down 10% from a year ago and service and other revenues of \$4.56 billion, down 8%. Operating revenues from customers outside the United States were \$5.90 billion or 62% of total operating revenues for the first nine months, compared with \$6.71 billion or 64% of total operating revenues for the comparable nine-month period last year. The Corporation continued to experience a significant decrease in European revenues, as well as a decline in U.S. revenues, partially offset by revenue growth in the Asia Pacific region and Latin America.

For the quarter ended April 2, 1994, total operating revenues were \$3.26 billion, down 6% from the comparable period a year ago. Product sales were \$1.75 billion, down 1% and service and other revenues were \$1.51 billion, down 11%. Operating revenues from customers outside the United States were \$2.04 billion or 63% of total operating revenues; this compared with \$2.24 billion or 65% of total operating revenues for the third quarter of fiscal year 1993.

For the third quarter, revenues from the sale of Alpha AXP systems grew more than 50% from the second quarter of fiscal year 1994, and represented approximately 15% and 11% of product sales for the quarter and first nine months, respectively. The growth in revenues from the sale of Alpha AXP systems has been predominantly at the low-end. An increasing share of the Corporation's product sales are represented by low-end systems which are lower priced than the Corporation's traditional proprietary mid-range systems. The Corporation continues to experience a significant decline in demand for its VAX systems.

Product sales for the quarter and first nine months were positively affected by a growth in demand for Alpha AXP workstations, storage devices and networking products, as well as personal computers. However, the Corporation was unable to satisfy fully the better than expected customer demand for certain of these products. The Corporation expects these shifts in product demand to continue, and in response is adapting its logistical systems to better satisfy demand.

The decline in service revenues over the comparable periods of fiscal year 1993 was due principally to lower levels of revenue from the Corporation's VAX/VMS systems maintenance business and customers' movement away from maintenance contracts to maintenance on a "per call" or "as needed" basis. In addition, the greater reliability of, and lower maintenance revenue associated with, newer, lower-priced products contributed to the decline in service revenues over the quarter. Increased



competition in the maintenance business also has resulted in pricing pressures. Additionally, over the last year, the Corporation has been more selective in pursuing consulting and systems integration opportunities, increasing its focus on the profitability of projects. The decline in service revenues, including both the Corporation's traditional maintenance business and its newer consulting and systems integration services, was most pronounced in Europe and was exacerbated by currency fluctuations as described below.

Movements in currency exchange rates are one of many competitive, industry and economic factors which affect the Corporation's operating results. The Corporation operates in approximately 100 countries in major and emerging markets. Revenues and costs in non-U.S. operations, including certain product costs, are denominated in applicable local currencies. While the effects of foreign currency translation for a fiscal period are included in applicable revenue and expense categories, they are difficult to quantify precisely because the Corporation responds to movements in currency exchange rates through pricing, expense, sourcing or other management actions, as market conditions permit. The Corporation enters into foreign exchange contracts, which generally have maturities which do not exceed six months, covering most of its net monetary assets, liabilities and firm commitments, to increase the predictability of the rate at which non-U.S. revenues will be translated into U.S. dollars. During the third quarter and first nine months of fiscal year 1994, the net effect of foreign currency translation and gains and losses on foreign exchange contracts was negative compared with the comparable periods a year ago.

#### EXPENSES AND PROFIT MARGINS

The Corporation recorded an operating loss of \$170 million for the third quarter of fiscal year 1994, compared with an operating loss of \$28 million in the third quarter a year ago. For the first nine months, the Corporation recorded an operating loss of \$334 million, compared with an operating loss of \$356 million for the comparable period a year ago.

Gross profit on product sales for the quarter and the first nine months declined from the comparable periods of a year ago. Product gross margin (gross profit as a percentage of product sales) represented 31% and 34% of product sales, respectively, down 10 and 9 percentage points, respectively, from the comparable periods last year. The decline in product gross profit resulted from the Corporation taking aggressive pricing actions and a continued shift in the mix of product sales towards lower-priced, lower-margin systems (including Alpha AXP-based systems, which have lower margins than comparable VAX systems), partially offset by manufacturing cost efficiencies.



Gross profit on service revenues for the quarter and first nine months declined from the comparable periods a year ago. Service gross margin (gross profit as a percentage of service revenues) represented 37% of services revenues for both the quarter and the first nine months, down from 39% for the same quarter one year ago, but essentially unchanged compared with the first nine months of fiscal year 1993. The decline in service gross profit resulted principally from lower service revenues, pricing pressures, changes in customer maintenance purchasing patterns away from long-term service contracts, the effects of extended product warranties, and the increasing reliability of hardware and software products, partially offset by increased efficiency in service delivery and an increased focus on the profitability of consulting projects.

Spending on research and engineering (R&E) in the quarter totaled \$317 million, a decrease of 10% from the \$350 million of the comparable quarter a year ago. For the first nine months, R&E spending totaled \$962 million, down 17% from the \$1.16 billion of the comparable period a year ago.

Selling, general and administrative (SG&A) expense in the quarter totaled \$955 million, down 9% from the \$1.05 billion of the comparable quarter a year ago. For the first nine months, SG&A spending totaled \$2.74 billion, down 19% from the \$3.36 billion of the comparable period in fiscal year 1993. While spending for SG&A has declined from the comparable periods last year, the Corporation believes its costs and expense levels are not competitive for the products and services it offers and expects to implement further cost reductions.

The Corporation is accelerating its ongoing restructuring efforts and is currently evaluating and expects to undertake a wide range of additional restructuring and cost-cutting actions during fiscal years 1995 and 1996, including the reduction of its employee population by at least 20,000 persons, further spending reductions, the disposition of seven to ten million square feet of owned and leased facilities, and the disposition or divestiture of other assets and operations. As the Corporation continues its examination of its business and cost structure, it may undertake restructuring actions and cost-cutting activities in addition to those currently being contemplated.

Interest income for the quarter and the first nine months was \$9 million and \$38 million, respectively. Interest income was down from the comparable periods a year ago due to lower cash balances. Interest expense for the quarter and the first nine months was \$17 million and \$52 million, respectively. Interest expense for the first nine months was up from the comparable period a year ago due to the issuance of \$1 billion aggregate principal amount of long-term debt in the second and third quarters of fiscal year 1993. Interest expense for the quarter and the first nine



months includes the differential received on interest rate swap agreements entered into in the first quarter of fiscal year 1994 relating to \$750 million of long-term debt.

Tax expense for the quarter and first nine months was \$5 million and \$11 million, respectively. The tax expense reflects taxes provided for profitable non-U.S. operations and an inability to recognize U.S. and certain non-U.S. tax benefits from operating losses.

#### NEW ACCOUNTING STANDARDS

The Corporation adopted Statement of Financial Accounting Standards (SFAS) No. 109 - Accounting for Income Taxes, effective July 4, 1993. The Corporation had previously accounted for income taxes under Accounting Principles Board Opinion No. 11. In the first quarter of fiscal year 1994, the Corporation recorded a one-time benefit of \$20 million, or \$0.14 per share, for the recognition of previously unrecognized tax benefits. There is no cash flow impact from the adoption of SFAS No. 109. The standard was adopted on a prospective basis and amounts presented for prior years were not restated. (See Note B.)

In November 1992, the Financial Accounting Standards Board issued SFAS No. 112 - Employers' Accounting for Postemployment Benefits. SFAS No. 112 requires employers to recognize an obligation for benefits provided to former or inactive employees after employment but before retirement. These benefits include, but are not limited to, salary continuation, supplemental unemployment benefits, severance benefits, disability-related benefits, job training and counseling, and continuation of benefits such as health care benefits and life insurance coverage. SFAS No. 112 requires employers to recognize the cost of such benefits as an expense over the employee's working career, in those instances where the employee's rights to such benefits vest or vary based on an employee's years of service, or as an expense at the date of the event giving rise to the payment of the benefit. The Corporation must adopt SFAS No. 112 effective at the beginning of fiscal year 1995. Upon adoption, SFAS No. 112 requires the recognition of a one-time charge to income for the costs of providing such postemployment benefits (the "transition obligation") as of the beginning of the fiscal year in which SFAS No. 112 is adopted.

The Corporation expects to adopt SFAS No. 112 in the fourth quarter of fiscal year 1994. Based on current estimates, the Corporation's transition obligation will be \$50 to \$65 million. This transition obligation represents principally the cost of providing medical, dental and life insurance benefits coverage to individuals currently on long-term disability during the estimated remaining period during which they will receive disability benefits. The additional expense under the new standard,



exclusive of the transition obligation, compared to the expense determined under the Corporation's existing practice is expected to be insignificant. There will be no cash flow impact from the adoption of SFAS No. 112.

In November 1992, the Financial Accounting Standards Board issued SFAS No. 115 - Accounting for Certain Investments in Debt and Equity Securities. SFAS No. 115 expands the use of fair value accounting for certain debt and equity securities. The Corporation must adopt SFAS no. 115 by the first quarter of fiscal year 1995. The Corporation has not yet determined when it will adopt SFAS No. 115. However, at the end of the third quarter, the Corporation had unrecognized gains on long-term investments of approximately \$80 million that would be subject to SFAS No. 115 treatment.

#### AVAILABILITY OF FUNDS TO SUPPORT CURRENT AND FUTURE OPERATIONS

Cash and cash equivalents totaled \$1.26 billion at the end of the quarter, down from \$1.64 billion at the end of fiscal year 1993 and up from \$1.15 billion in the prior quarter. The net increase of \$116 million in the quarter was due principally to the receipt of \$387 million of net proceeds from the sale of preferred stock, as discussed below.

Net cash used by operating activities was \$125 million for the quarter and \$366 million for the first nine months. Cash used for the quarter and for the first nine months was due principally to operating losses, restructuring activities and growth in inventory levels from year end. Inventory levels increased principally as a result of the Corporation acquiring materials to satisfy increased demand for Alpha AXP workstations and personal computer products.

The restructuring reserve for current restructuring activities decreased \$167 million during the quarter. Restructuring actions utilized cash of approximately \$109 million for employee-related activities and \$40 million for facilities-related and other actions. The remaining amount represents non-cash charges. Cash used for restructuring actions was provided by operating activities and the Corporation's existing cash balance. The Corporation estimates that approximately two-thirds of the remaining reserve of \$276 million will be used for restructuring activities which will utilize cash in fiscal year 1994.

Net cash used for investing activities was \$145 million for the quarter and \$476 million for the first nine months. Capital spending was \$166 million for the quarter and \$514 million for the first nine months, principally consisting of investments in semiconductor and storage technology facilities and equipment. During the quarter and first nine months, the Corporation generated \$43 million and \$100 million, respectively, in cash proceeds from the disposal of property, plant and



equipment and other assets, principally as the result of restructuring activities and sale of equity investments.

Net cash from financing activities was \$386 million for the quarter and \$462 million for the first nine months. Net cash generated from financing activities for the first nine months was due principally to the sale of preferred stock in the third quarter, as discussed below, generating net proceeds of \$387 million, and the issuance of Common Stock under the Corporation's employee stock plans.

On January 21, 1994, the Corporation filed with the Securities and Exchange Commission a shelf registration statement on Form S-3 under the Securities Act of 1933, as amended, covering the registration of securities, including senior and subordinated debt securities, preferred stock, depositary shares, and warrants to purchase equity and debt securities, in an aggregate amount of \$1 billion. In March 1994, the Corporation issued and sold 16,000,000 Depositary Shares under the shelf registration, each representing a one-fourth interest in a share of Series A 8-7/8%, Cumulative Preferred Stock (the "Series A Preferred Stock"), par value \$1.00 per share, of the Corporation. Dividends on the Series A Preferred Stock accrue at the annual rate of 8-7/8% (\$36 million in the aggregate). (See Note C.)

The Corporation historically has maintained a conservative capital structure, and believes that its current cash position and access to capital are adequate to support current and anticipated restructuring activities and operations. However, the Corporation's need for, cost of and access to funds are in part dependent on future operating results.

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The accompanying consolidated balance sheets, statements of operations and statements of cash flows reflect all adjustments of a normal recurring nature which are, in the opinion of management, necessary to a fair statement of the consolidated financial position at April 2, 1994 and the consolidated results of operations and the consolidated statements of cash flows for the interim periods ended April 2, 1994 and March 27, 1993.



## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

The Corporation has been named as a defendant in several purported class action lawsuits filed in the U.S. District Court for the Southern District of New York and the U.S. District Court for the District of Massachusetts alleging violations of the Federal securities laws in connection with the Corporation's issuance and sale of Series A 8-7/8% Cumulative Preferred Stock and the Corporation's financial results for the quarter ended April 2, 1994. (See Note D.)

### Item 5. Other Information

Shortly after the close of the quarter, Edward E. Lucente, Vice President for worldwide sales and marketing, resigned from the Corporation. The Corporation announced that Enrico Pesatori, a Vice President of the Corporation and general manager of its Personal Computer Business Unit, had assumed the additional responsibilities of managing the Corporation's Systems Business Unit, including its worldwide sales and marketing organization.

### Item 6. Exhibits and Reports on Form 8-K

#### (a) Exhibits

- 4.1 Certificate of Designation filed with the Secretary of State of the Commonwealth of Massachusetts on March 28, 1994 (filed as Exhibit 4.1 to the Corporation's Report on Form 8-K filed on March 23, 1994 and incorporated herein by reference).

#### (b) Reports on Form 8-K

The Corporation filed with the Securities and Exchange Commission (the "Commission") a Report on Form 8-K on March 23, 1994. On April 21, 1994, subsequent to the end of the period covered by this report, the Corporation filed with the Commission a Report on Form 8-K.

SIGNATURES

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

DIGITAL EQUIPMENT CORPORATION  
(Registrant)

By /s/William M. Steul  
William M. Steul  
Vice President, Finance and  
Chief Financial Officer  
(Duly Authorized Officer and  
Principal Financial Officer)

May 16, 1994