

digital

September 25, 1981

Dear Fellow Stockholder:

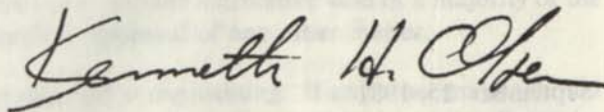
You are cordially invited to attend our Annual Meeting of Stockholders which will be held this year on Thursday, November 5, 1981, at 11:00 A.M., in the Oval Room, The Copley Plaza Hotel, Copley Square, Boston, Massachusetts.

The notice of meeting and proxy statement which follow describe the business to be conducted at the meeting. We will also give a presentation on the current status of our business.

Whether or not you plan to attend the meeting in person, it is important that your shares be represented and voted. After reading the enclosed Notice of Annual Meeting and Proxy Statement, may I urge you to *complete, sign, date and return* your proxy ballot in the envelope provided. If the address on the accompanying material is incorrect, please advise our Investor Services Department in writing at 111 Powdermill Road, Maynard, Massachusetts 01754 or telephone (617) 493-5207.

Your vote is important. We will appreciate a prompt return of your signed proxy ballot and hope to see you at the meeting.

For the Board of Directors,



KENNETH H. OLSEN
President and Chief Executive Officer

DIGITAL EQUIPMENT CORPORATION, 146 MAIN STREET, MAYNARD, MASSACHUSETTS 01754

DIGITAL EQUIPMENT CORPORATION

NOTICE OF 1981 ANNUAL MEETING

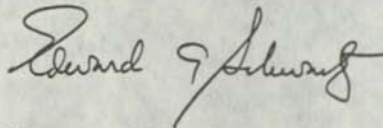
To the Stockholders of DIGITAL EQUIPMENT CORPORATION:

Notice is hereby given that the Annual Meeting of Stockholders of Digital Equipment Corporation, a Massachusetts corporation, will be held on Thursday, November 5, 1981, at 11:00 A.M., in the Oval Room, The Copley Plaza Hotel, Copley Square, Boston, Massachusetts for the following purposes:

1. To fix the number of directors at seven and to elect a Board of Directors for the ensuing year.
2. To approve an amendment to the 1976 Restricted Stock Option Plan to increase the number of shares subject thereto from 3,600,000 to 8,600,000.
3. To approve an amendment to the 1968 Employee Stock Purchase Plan to increase the number of shares subject thereto from 3,250,000 to 5,750,000.
4. To approve the 1981 International Employee Stock Purchase Plan.
5. To ratify the selection of the firm of Coopers & Lybrand as auditors for the fiscal year ending July 3, 1982.
6. To transact such other business as may properly come before the meeting.

Stockholders entitled to notice of and to vote at the meeting shall be determined as of the close of business on September 9, 1981, the record date fixed by the Board of Directors for such purpose.

By Order of the Board of Directors,



EDWARD A. SCHWARTZ, *Clerk*

September 25, 1981

Stockholders are requested to sign the enclosed proxy card and return it promptly in the enclosed stamped envelope to Digital Equipment Corporation, P.O. Box 490, Maynard, Massachusetts 01754, Att'n: Investor Services Department.

PROXY STATEMENT

INTRODUCTION

Proxies in the form enclosed with this proxy statement are solicited by the Board of Directors of Digital Equipment Corporation (the "Corporation") for use at the 1981 Annual Meeting of Stockholders.

An Annual Report to Stockholders, containing financial statements for the fiscal year ended June 27, 1981, has been mailed herewith to all stockholders entitled to vote. This proxy statement and form of proxy were first mailed to stockholders on or about the date stated on the accompanying Notice of 1981 Annual Meeting.

Only stockholders of record as of the close of business on September 9, 1981 will be entitled to vote at the meeting and any adjournments thereof. As of that date, 54,425,381 shares of Common Stock of the Corporation were issued and outstanding. Each share outstanding as of the record date will be entitled to one vote, and stockholders may vote in person or by proxy. Execution of a proxy will not in any way affect a stockholder's right to attend the meeting and vote in person. Any stockholder giving a proxy has the right to revoke it at any time before it is exercised by written notice to the Clerk of the Corporation. In addition, stockholders attending the meeting may revoke their proxies at that time.

The persons named as attorneys in the proxies are directors of the Corporation. All properly executed proxies returned in time to be cast at the meeting, if no contrary instruction is indicated, will be voted as stated below under "Election of Directors", will be voted FOR approval of the amendments to the 1976 Restricted Stock Option Plan and the 1968 Employee Stock Purchase Plan and will be voted FOR approval of the 1981 International Employee Stock Purchase Plan and the ratification of the selection of the auditors. Directors are elected by a plurality of votes cast, and the affirmative vote of a majority of the shares present or represented at the meeting is required for approval of any other matter.

The Corporation knows of no other matter to be presented at the meeting. If any other matter should be presented at the meeting upon which a vote properly may be taken, shares represented by all proxies received by the Corporation will be voted with respect thereto in accordance with the judgment of the persons named as attorneys in the proxies.

ELECTION OF DIRECTORS

Nominees for Directors

The directors of the Corporation are elected annually and hold office until the next annual meeting and until their successors have been elected and have qualified. Pursuant to the Corporation's by-laws, the stockholders fix the number of directors at the annual meeting, subject to the authority of the directors to increase the size of the Board. Any stockholder submitting a proxy has the right to withhold authority to vote for any individual nominee to the Board of Directors by writing that nominee's name in the space provided on the proxy. Shares represented by all proxies received by the Corporation and not so marked as to withhold authority to vote for any individual director or for all directors will be voted FOR fixing the number of directors for the ensuing year at seven and FOR the election of the nominees named below. The Corporation knows of no reason why any such nominee should be unable to serve, but if such should be the case, proxies will be voted for the election of some other person, or for fixing the number of directors at a lesser number.

The nominees for directors and further information with respect to each nominee are set forth below.

KENNETH H. OLSEN

Mr. Olsen, age 55, founded Digital Equipment Corporation in 1957 and has served since that time as its President and Chief Executive Officer. Mr. Olsen is also a director of Ford Motor Company, Shawmut Corporation and Polaroid Corporation. He has been a director of Digital Equipment Corporation since 1957. Mr. Olsen is the brother of Stanley C. Olsen, Vice President—Group Manager of the Corporation.

VERNON R. ALDEN

Mr. Alden, age 58, is Chairman of the Massachusetts Business Development Council, an organization to improve the economic climate and attract industry to the state. He was formerly Chairman of the Board and Executive Committee of The Boston Company, Inc., managers of financial resources. Mr. Alden is also a director of ARA Services, Inc., Augat, Inc., Colgate-Palmolive Company, McGraw-Hill, Inc., The Mead Corporation and Sonesta International Hotels Corporation. He has been a director of Digital Equipment Corporation since 1959 and is a member of its Compensation Committee and Stock Option Committee.

PHILIP CALDWELL

Mr. Caldwell, age 61, is Chairman of the Board and Chief Executive Officer of Ford Motor Company and has been an officer of Ford for more than 10 years. He has been a director of Digital Equipment Corporation since September 1980.

ARNAUD DE VITRY

Mr. de Vitry, age 55, is Chairman of the Board, Dunlop S.A., France, manufacturers, and Chairman of the Board and Chief Executive Officer of Eureka SICAV, France, an investment company. He is also a director of Ionics, Incorporated. He has been a director of Digital Equipment Corporation since 1957.

GEORGES F. DORiot

General Doriot, age 82, is the retired Chairman of the Board of American Research and Development Corporation, a venture capital investment company. He is a director of Sun Life Assurance Company of Canada (U.S.). He has been a director of Digital Equipment Corporation since 1972 and is a member of its Audit Committee, Compensation Committee and Stock Option Committee.

WILLIAM H. McLEAN

Mr. McLean, age 70, is an engineering consultant. He was formerly the Vice President and Dean of Stevens Institute of Technology. He is also a director of Economics Laboratory, Inc. and National Aviation and Technology Corporation. He has been a director of Digital Equipment Corporation since 1967 and is a member of its Audit Committee.

DOROTHY E. ROWE

Miss Rowe, age 64, was formerly Senior Vice President and Treasurer of American Research and Development Corporation, a venture capital investment company. She is a director of Cordis Corporation and a trustee of the Boston Five Cents Savings Bank. Miss Rowe has been a director of Digital Equipment Corporation since 1962 and is a member of its Audit Committee, Compensation Committee and Stock Option Committee.

Stock Ownership of Nominees

Shown below is certain information as of August 1, 1981 with respect to beneficial ownership of shares of the Corporation's Common Stock by all director nominees individually and by all 43 directors and officers of the Corporation as a group. Unless otherwise indicated, the named person possesses sole voting and investment power with respect to the shares.

<u>Beneficial Owner</u>	<u>Shares Beneficially Owned</u>
KENNETH H. OLSEN	2,464,423(1)
VERNON R. ALDEN.....	61,565
PHILIP CALDWELL.....	100
ARNAUD DE VITRY	372,265(2)
GEORGES F. DORIOT.....	15,649
WILLIAM H. MCLEAN.....	1,200
DOROTHY E. ROWE.....	90,177
All 43 directors and officers as a group, including those named above(3).....	4,097,077(4)

(1) Includes 30,000 shares which Mr. Olsen has the right to acquire by exercise of stock options. Such 2,464,423 shares represent 4.5% of the Corporation's issued and outstanding Common Stock. Mr. Olsen may be deemed to be a controlling person of the Corporation.

(2) Includes 205,265 shares held by either a financial institution or a nominee in a fiduciary capacity for the benefit of members of Mr. de Vitry's family. Mr. de Vitry disclaims beneficial ownership of such shares.

(3) This group includes 14 persons elected officers of the Corporation after the close of the Corporation's fiscal year.

(4) Includes 427,026 shares which the officers as a group have the right to acquire by exercise of stock options granted under the Corporation's various stock option plans. These 4,097,077 shares represent 7.5% of the Corporation's issued and outstanding Common Stock, assuming exercise of the stock options.

The Corporation knows of no person who owns beneficially more than 5% of the Common Stock. Each director other than Mr. Olsen owns beneficially less than 1% of the Common Stock.

Committees of the Board

The Board of Directors has an Audit Committee, Compensation Committee and Stock Option Committee. It does not have a Nominating Committee.

The Audit Committee recommends to the Board of Directors the selection of the independent auditors to be employed by the Corporation, reviews generally the internal and external audit plans and the results thereof, reviews generally the Corporation's internal accounting controls with the internal and external auditors and reviews compliance with the Corporation's policy on non-audit services provided by the independent auditors.

The Compensation Committee reviews and recommends to the Board the compensation of directors and of those officers who are members of management's operations committee and reviews and recommends to the Board the adoption of any compensation plans in which directors and officers are eligible to participate.

The Stock Option Committee administers and interprets the Corporation's stock option plans and, subject to the provisions of the plans, selects the employees who are to participate in such plans and determines the terms of their participation, subject to Board approval.

The Board of Directors held eight meetings during the fiscal year ended June 27, 1981, the Audit Committee met four times, the Compensation Committee met once and the Stock Option Committee met four times. All directors attended at least 75% of the total number of meetings of the Board and the committees to which they belong.

REMUNERATION AND OTHER INFORMATION

The table below shows the remuneration paid or accrued by the Corporation and its subsidiaries during the fiscal year ended June 27, 1981, to the five most highly compensated executive officers of the Corporation, and to all officers and directors as a group, for services in all capacities.

Name and Capacities in Which Served	Salaries, Fees, Directors' Fees (1), Commissions and Bonuses (2)
Kenneth H. Olsen	\$ 485,009
President and Director	
John F. Smith.....	\$ 205,416
Vice President	
Alfred M. Bertocchi	\$ 204,697
Vice President	
Winston R. Hindle, Jr.	\$ 204,531
Vice President	
Theodore G. Johnson	\$ 204,531
Vice President	
All 29 officers and directors as a group, including those named above (3).....	\$3,924,728

(1) Each director who is not also an officer of the Corporation receives an annual retainer of \$12,000 for Board service, plus \$500 for each Board meeting attended and for committee meetings attended which are not held on the same day as a Board meeting. Directors are also reimbursed for out-of-pocket expenses incurred in attending Board and committee meetings.

(2) Other than as set forth below under "Retirement Plans" and "Stock Options", during the fiscal year the officers and directors of the Corporation received no securities or property, insurance benefits or reimbursement (other than benefits under the Corporation's group insurance plans for its employees), personal benefits or contingent forms of remuneration from the Corporation or its subsidiaries.

(3) This group does not include 14 persons elected officers of the Corporation after the end of the fiscal year.

Retirement Plans

All of the Corporation's officers, other than three officers based in Europe, are participants in the Corporation's defined benefit pension plan for its United States employees.

Benefits under the pension plan, as amended July 1, 1979, are based upon the employee's earnings during service with the Corporation and its subsidiaries and are payable after retirement in the form of annuities. The annual amount payable upon retirement at age 65 under the present provisions of the plan, without regard to any survivor options, is 1½% of the aggregate cumulative amount of the employee's base salary and wages earned on and after July 1, 1979 plus, for those persons who were plan participants on July 1, 1979, 1½% of the annual average of the participant's compensation between July 1, 1974 and June 30, 1979 multiplied by the number of years of such participant's accredited service prior to July 1, 1979. Under the present provisions of the plan, a participant's annual pension may not exceed the lesser of \$98,100 or 100% of the participant's average compensation for the participant's three highest consecutive years of service with the Corporation.

Employees outside the United States are covered by different retirement plans varying from country to country.

Estimated annual retirement benefits at age 65 for the following individuals would be: Mr. Olsen, \$98,100; Mr. Smith, \$80,953; Mr. Bertocchi, \$53,893; Mr. Hindle, \$73,447; and Mr. Johnson, \$82,867.

Stock Options

The following table shows as to certain named officers and as to all officers as a group, including the named officers: (i) the number of shares of the Corporation's Common Stock subject to options granted between July 4, 1976 and August 1, 1981; (ii) the average per share option exercise price thereof and the average per share market price of the Corporation's Common Stock on the dates of grant thereof; (iii) the net value of shares acquired from July 4, 1976 to August 1, 1981 upon the exercise of options granted during the period or prior thereto; (iv) the number of shares sold from July 4, 1976 to August 1, 1981; (v) the number of shares subject to all options outstanding on August 1, 1981; and (vi) the unrealized net value of such outstanding options at August 1, 1981. The Corporation does not grant stock appreciation rights.

<u>Shares of Common Stock</u>	<u>K. H. Olsen</u>	<u>J. F. Smith</u>	<u>A. M. Bertocchi</u>	<u>W. R. Hindle, Jr.</u>	<u>T. G. Johnson</u>	<u>All Officers as a Group(1)</u>
Options Granted 7/4/76 to 8/1/81:						
Number of shares	30,000	11,413	10,969	14,122	16,423	247,000
Average per share exercise price	\$22.39	\$23.24	\$23.29	\$21.59	\$20.76	\$24.00
Average per share market price on dates of grant	\$53.58	\$53.21	\$53.98	\$54.11	\$54.06	\$56.00
Options Exercised 7/4/76 to 8/1/81:						
Number of shares	-0-	-0-	16,287	20,035	-0-	153,400
Net value realized upon exercise(2)	-0-	-0-	\$989,070	\$710,546	-0-	\$7,409,700
Sales 7/4/76 to 8/1/81:						
Number of shares	36,000	3,010	10,150	40,402	32,155	305,700
Options Outstanding at 8/1/81:						
Number of shares(3)	30,000	19,213	13,825	13,587	26,623	334,600
Unrealized net value(4)	\$2,249,590	\$1,445,624	\$1,016,094	\$956,261	\$2,096,113	\$25,385,100

(1) Directors who are not also officers of the Corporation do not participate in the Corporation's stock option plans. This group does not include 14 persons elected officers of the Corporation after the end of the fiscal year. Such 14 persons did not receive or exercise any stock options from the end of the fiscal year to August 1, 1981.

(2) The net value realized upon exercise of options is the difference between the market value of the shares received upon exercise and the exercise price thereof.

(3) Options granted under the Corporation's restricted stock option plans are exercisable in full on the date of grant, but shares purchased thereunder are subject to repurchase at the option of the Corporation at the exercise price, which repurchase option lapses over the life of the grant. See "Description of the 1976 Restricted Stock Option Plan" below. Of the number of shares subject to option held by all officers as a group which were outstanding at August 1, 1981, approximately 71% were subject to such repurchase options.

(4) Unrealized net value represents the difference between \$97 $\frac{1}{2}$ %, which was the closing price of the Corporation's Common Stock on the New York Stock Exchange on Friday, July 31, 1981, and the applicable exercise price per share.

During the period July 4, 1976 to August 1, 1981, all employees of the Corporation as a group (including officers) were granted options for 2,746,920 shares at a weighted average option price per share of \$25.65.

On September 24, 1981, the closing price of the Corporation's Common Stock on the New York Stock Exchange was \$87.

PROPOSAL TO APPROVE AMENDMENT TO 1976 RESTRICTED STOCK OPTION PLAN

Description of the 1976 Restricted Stock Option Plan

In 1976 the Board of Directors and stockholders adopted the 1976 Restricted Stock Option Plan (the "Restricted Plan"). A total of 3,600,000 shares of Common Stock (subject to adjustment for stock splits and the like) in the aggregate may be sold under the Restricted Plan. Not more than 3% of the aggregate number of shares issuable under the Restricted Plan may be sold to any one employee. At August 1, 1981, approximately 4,200 employees were participating in the Restricted Plan.

The Restricted Plan authorizes the grant of options to purchase the Corporation's Common Stock to key employees of the Corporation and its subsidiaries coupled with a prohibition against disposition of such shares and a requirement to offer such shares for resale to the Corporation at their purchase price upon termination of employment, which restrictions and obligation of resale lapse from time to time as to portions of the grant (whether or not the option has been exercised), as determined by the Board of Directors or the Stock Option Committee of the Board of Directors (the "Committee") which administers and interprets the Restricted Plan. The exercise price of options granted under the Restricted Plan is specified by the Board of Directors, but in no event may this price be less than the lower of (i) 50% of the fair market value per share at the date of grant or (ii) book value per share as of the end of the Corporation's fiscal year immediately preceding the grant date. Options may be granted under the Restricted Plan from time to time through December 31, 1988, the termination date of the Restricted Plan.

Employees of the Corporation or any of its subsidiaries, including officers and consultants, are eligible to receive options under the Restricted Plan. Directors who are also employees are eligible to receive options if they are not members of the Committee. Subject to the terms of the Restricted Plan, the Committee has exclusive jurisdiction to select the employees to whom options are granted, to determine the number of shares subject to such options, the time or times when options are to be granted and the rate and time of lapse of restrictions. Options may be granted to the same employee on more than one occasion. The Corporation reserves the right under the Restricted Plan to terminate an employee's option with the employee's consent and to substitute one or more options with different terms and conditions, including, to the extent permitted by the Restricted Plan, a lower option price.

At the time the options are exercised, the Common Stock account is increased by the par value (\$1 per share) of the shares sold and the remaining portion of the proceeds is credited to additional paid-in capital. The excess, if any, of the fair market value of the shares on the grant date over the exercise price is charged to income each year as the restrictions lapse. The amount actually deductible for Federal income tax purposes may exceed the amount charged to income for financial reporting purposes; any Federal income tax benefit relating to this difference is credited to additional paid-in capital.

The Board of Directors may terminate, modify or suspend the Restricted Plan provided that no modification shall, without stockholder approval, increase the maximum number of shares which may be sold under the Restricted Plan in the aggregate (other than adjustments for stock splits and the like) or the percentage of such number which may be sold to any one person, decrease the minimum exercise price at which options may be granted under the Restricted Plan or extend the period during which options may be granted.

As of August 1, 1981, options for 222,108 shares had been exercised under the Restricted Plan at an average purchase price per share of \$18.66, options for 2,348,192 shares at an average purchase price per share of \$26.70 were subject to outstanding options with expiration dates ranging from February 10, 1987 to September 21, 1991, and 1,029,700 shares remained available for additional option grants.

Federal Income Tax Consequences

An option granted under the Restricted Plan is a non-statutory stock option and is taxed in accordance with Section 83 of the Internal Revenue Code (the "Code") and the regulations issued thereunder. Options granted under the Restricted Plan do not qualify as "incentive stock options" under the Economic Recovery Tax Act of 1981.

The following tax consequences under existing law are applicable to options received and to shares purchased under the Restricted Plan:

1. No taxable income will be realized by the employee at the time the option is granted.
2. If shares are acquired *before* the date on which the restrictions on the shares lapse, the employee will recognize taxable compensation income at such time as the restrictions on the shares lapse, in an amount equal to the difference between the purchase price and the fair market value of the shares on the date of lapse of the restrictions. The holding period for determining long-term capital gains on shares the employee has purchased will begin at such time as all restrictions on the shares lapse.
3. If shares are acquired *before* the date on which the restrictions on the shares lapse, the employee may elect under the Code, within a period not later than 30 days after the date of purchase, to include in gross income for the taxable year in which the employee purchases the shares, an amount equal to the difference between the purchase price and the fair market value of the purchased shares as of the date of such acquisition (determined without regard to any restrictions).
4. If shares are acquired *after* the date on which the restrictions on the shares lapse, the employee will recognize taxable compensation income on the date of exercise in an amount equal to the difference between the purchase price and the fair market value of the shares on the date of exercise.

5. In addition, a sale of shares by the employee will result in recognition of a capital gain or loss in an amount equal to the difference between the amount realized upon the sale of shares and the basis of the shares. This basis is equal to the purchase price for the shares plus the amount recognized by the employee as taxable compensation income. If the employee holds the shares for more than one year, this gain or loss will be a long-term capital gain or loss.

6. In general, the Corporation is entitled to a tax deduction in the same amount as the taxable compensation income recognized by the employee.

The Proposed Amendment to the 1976 Restricted Stock Option Plan

On August 10, 1981, the Board of Directors amended the Restricted Plan to increase the number of shares subject thereto from 3,600,000 to 8,600,000. This increase in shares is needed to enable the Corporation to continue operating the Restricted Plan for the benefit of an expanding number of participating employees. This amendment will become effective only upon approval by the stockholders.

The Board of Directors recommends a vote FOR approving the amendment to the 1976 Restricted Stock Option Plan.

PROPOSAL TO APPROVE AMENDMENT TO 1968 EMPLOYEE STOCK PURCHASE PLAN

Description of the 1968 Employee Stock Purchase Plan

In 1968 the Board of Directors and the stockholders adopted an Employee Stock Purchase Plan (the "Employee Plan") for substantially all employees of the Corporation and its participating subsidiaries, other than directors, officers and highly compensated employees. At August 1, 1981, approximately 55,000 employees were eligible to participate in the Employee Plan, and approximately 22,000 employees were participating.

The Employee Plan authorizes the issuance of a maximum of 3,250,000 shares of Common Stock (subject to adjustment for stock splits and the like) pursuant to the exercise of non-transferable options granted to participating employees.

Under the terms of the Employee Plan, the option price is an amount equal to 85% of the fair market value of the stock on the first or last business day of the six-month payment period (the "Payment Period"), whichever is lower (subject to adjustment for stock splits and the like). Options are granted twice yearly on December 1 and June 1, the first days of each Payment Period. The options are exercisable through accumulation of payroll deductions (up to a maximum of 10% of regular base pay) during the

Payment Period. At August 1, 1981, 2,267,415 shares had been purchased by employees under the Employee Plan and 982,585 shares remained available for additional option grants.

There have been no charges to income in connection with these options other than incidental expenses related to the issuance of the shares.

Federal Income Tax Consequences

The following tax consequences under existing law are applicable to options received and shares purchased under the Employee Plan:

1. No taxable income will be realized by the employee either at the time options are granted pursuant to the Employee Plan or at the time of the purchase of the shares pursuant to the Employee Plan.

2. If the employee disposes of the shares two years or more after the date of the beginning of the Payment Period when the employee acquired the shares, then the employee at that time will recognize as taxable compensation income an amount equal to the lesser of:

- (a) the excess of the fair market value of the shares on the date of such disposition over the option price, or

- (b) 15% of the fair market value of the shares at the beginning of the Payment Period.

In addition, the employee may recognize a long-term gain or loss in an amount equal to the difference between the amount recognized upon the sale of the shares and the basis of the shares (i.e., the purchase price plus the amount, if any, taxed as compensation income).

3. If the employee disposes of the shares within two years after the date of the beginning of the Payment Period when the employee acquired the shares, the employee at that time will recognize taxable compensation income equal to the fair market value of the shares on the date of purchase (the last business day of the applicable Payment Period) less the amount paid for the shares. In addition, the employee will recognize a capital gain or loss in an amount equal to the difference between the amount recognized upon the sale of the shares and the basis of the shares (i.e., in this case, the purchase price plus the amount taxed as compensation income). If the employee holds the shares for more than one year, this gain or loss will be a long-term capital gain or loss.

4. If the two-year holding period is satisfied, the Corporation will not receive any deduction for Federal income tax purposes with respect to the options or the shares issued pursuant thereto. If the two-year holding period is not satisfied, the Corporation may be entitled to a deduction in an amount equal to the amount which is considered compensation income.

The Proposed Amendment to the 1968 Employee Stock Purchase Plan

On August 10, 1981, the Board of Directors amended the Employee Plan to increase the number of shares subject thereto from 3,250,000 to 5,750,000. The amendment will become effective only upon approval by the stockholders. This increase in shares is needed to enable the Corporation to continue operating the Employee Plan for the benefit of an expanding number of eligible employees.

The Board of Directors recommends a vote FOR approving the amendment to the Employee Plan.

PROPOSAL TO APPROVE THE 1981 INTERNATIONAL EMPLOYEE STOCK PURCHASE PLAN

On August 10, 1981, the Board of Directors adopted the 1981 International Employee Stock Purchase Plan (the "International Plan"), subject to stockholder approval. A total of 700,000 shares of Common Stock (subject to adjustment for stock splits and the like) in the aggregate may be sold under the International Plan. The complete text of the International Plan is attached hereto as Exhibit A.

Except as noted herein, the provisions of the International Plan are substantially the same as the 1968 Employee Stock Purchase Plan described above. The International Plan is intended to extend the benefits of the Employee Plan to employees of selected foreign subsidiaries of the Corporation or branches thereof. Employees of several foreign subsidiaries presently participate in the Employee Plan, but under present provisions of the United States tax laws it is impractical to extend the benefits of the U.S. tax-qualified Employee Plan to selected branches of foreign subsidiaries. The International Plan is not intended to be a tax-qualified plan under the Internal Revenue Code.

It is expected that there will be no charges to income in connection with options granted under the International Plan, other than incidental expenses related to the issuance of the shares.

In general, foreign tax laws will require participants in the International Plan to recognize taxable compensation income on the date of purchase of shares under the International Plan in an amount equal to the difference between the purchase price and the fair market value of the shares on the date of purchase. The foreign subsidiaries of the Corporation which participate in the International Plan generally will be entitled to a tax deduction in the same amount as the taxable compensation income recognized by the employee. Because the International Plan is not a U.S. tax-qualified plan, employees of participating foreign subsidiaries who are U.S. citizens or resident aliens will also recognize taxable compensation income under the Internal Revenue Code, but will be entitled to a tax credit equal to the taxes paid to foreign countries in respect of the options.

The Board of Directors recommends a vote FOR approval of the 1981 International Employee Stock Purchase Plan.

Description of Other Stock Option Plans

1968 Restricted Stock Purchase Plan. In 1968 the Corporation adopted the 1968 Restricted Stock Purchase Plan (the "1968 Plan"). The authority to grant additional options under the 1968 Plan expired upon the adoption by the stockholders of the 1976 Restricted Stock Option Plan. The terms and conditions of the 1968 Plan are substantially the same as the 1976 Restricted Stock Option Plan, except that directors were ineligible to receive options under the 1968 Plan whereas under the Restricted Plan directors who are also employees are eligible to receive options.

As of August 1, 1981, options for 2,165,187 shares had been exercised under the 1968 Plan at an average purchase price per share of \$7.39 and options for 951,544 shares at an average purchase price per share of \$19.76 were subject to outstanding options with expiration dates ranging from February 9, 1982 to January 25, 1987.

Qualified Stock Option Plan. In 1965 the Corporation adopted a qualified stock option plan for its employees. The authority to grant additional options under this plan expired in 1975, and all outstanding options expired in February 1980. Options for an aggregate of 1,615,384 shares were exercised under this plan.

RATIFICATION OF SELECTION OF AUDITORS

The Board of Directors has selected the firm of Coopers & Lybrand, independent public accountants, to serve as auditors for the fiscal year ending July 3, 1982, subject to ratification by the stockholders. Coopers & Lybrand has served as the Corporation's auditors since the organization of the Corporation.

The Board of Directors recommends a vote FOR ratification of this selection.

It is expected that a member of the firm of Coopers & Lybrand will be present at the Annual Meeting, will have an opportunity to make a statement if so desired and will be available to respond to appropriate questions.

The Corporation's financial statements for its last fiscal year were examined by Coopers & Lybrand. In connection with the audit function, Coopers & Lybrand also performed limited reviews of the Corporation's quarterly financial statements, provided assistance and consultations in connection with the Corporation's annual report and its filings with the Securities and Exchange Commission and performed examinations of various of the Corporation's employee benefit plans.

In addition, Coopers & Lybrand provided other non-audit professional services to the Corporation, the aggregate fees for which were 39% of the fees for audit function services. Such other nonaudit services, and the percentage relationship of the related fees to the audit fees, included tax services for employees on international assignments including return preparation and consultation (29%), consultations regarding Federal and foreign income tax matters and review of various foreign income tax returns (6%) and other financial and accounting services aggregating 4% of audit fees. All professional services rendered by Coopers & Lybrand during the last fiscal year were furnished at customary rates and terms.

The Audit Committee's policy regarding services to be provided by the principal accountant states that: they may be engaged to perform those services normally provided by accounting firms for Securities and Exchange Commission registered audit clients provided that the independence requirements of the American Institute of Certified Public Accountants and the Securities and Exchange Commission have been met. The Audit Committee reviewed and approved the non-audit services which had been performed during the last fiscal year, after giving consideration to the independence requirements referred to above.

EXPENSES AND SOLICITATION

The cost of solicitation of proxies will be borne by the Corporation. In addition to soliciting stockholders by mail through its regular employees, the Corporation may request banks and brokers to solicit customers of theirs who have shares of Common Stock of the Corporation registered in the name of a nominee. The Corporation will reimburse such banks and brokers for their reasonable out-of-pocket costs, at the rates suggested by the New York Stock Exchange. Solicitation by officers and employees of the Corporation may also be made of some stockholders in person, or by mail, telephone or telegraph, following the original solicitation.

NOTICE OF BY-LAW AMENDMENT

The Board of Directors, at its meeting held on April 27, 1981, voted to amend the Corporation's by-laws to change the date of the annual meeting of stockholders to the first Thursday in November from the last Tuesday in October. This notice is being provided pursuant to the provisions of the Massachusetts business corporation law and does not require action by the stockholders.

STOCKHOLDER PROPOSALS FOR NEXT ANNUAL MEETING

Proposals of stockholders intended for inclusion in the proxy statement to be mailed to all stockholders entitled to vote at the next annual meeting of the Corporation must be received at the Corporation's principal executive offices not later than June 29, 1982. In order to curtail controversy as to the date on which a proposal was received by the Corporation, proponents should submit their proposals by Certified Mail—Return Receipt Requested.

September 25, 1981

EXPENSES AND SOLICITATION

The cost of solicitation of proxies will be borne by the Corporation. In addition to soliciting stockholders by mail through its regular employees, the Corporation may request banks and brokers to solicit customers of theirs who are listed as owners of Common Stock of the Corporation registered in the name of a nominee. The Corporation will reimburse such banks and brokers for their reasonable out-of-pocket expenses, as the term is used in the New York Stock Exchange Solicitation of Proxies and Regulations, at the time requested by the New York Stock Exchange. Solicitation efforts and expenses of the Corporation may also include the use of some stockholders as persons who will solicit other stockholders. The Corporation may also incur expenses in connection with its efforts to follow the original solicitation.

NOTICE OF BY-LAW AMENDMENT

The Board of Directors at its meeting held on April 27, 1981, voted to amend the Corporation's By-Laws to change the date of the annual meeting of stockholders to the date Thursday in November from the date Tuesday in October. This notice is being given pursuant to the provisions of the Minnesota Corporation Law and does not require action by the stockholders. The Corporation is now in compliance with the new corporation law and does not require action by the stockholders. The Corporation is now in compliance with the new corporation law and does not require action by the stockholders.

EXHIBIT A

1981 INTERNATIONAL EMPLOYEE STOCK PURCHASE PLAN

Article 1—Purpose

This 1981 International Employee Stock Purchase Plan (the "Plan") is intended as an incentive and to encourage stock ownership by all eligible employees of the Participating Subsidiaries of Digital Equipment Corporation (the "Company") so that they may share in the fortunes of the Company by acquiring or increasing their proprietary interest in the Company. The Plan is designed to encourage eligible employees to remain in the employ of the Company or its subsidiaries.

Article 2—Eligible Employees

In general, all employees of any of the Participating Subsidiaries of the Company who have completed six months employment with the Company or any of its subsidiaries shall be eligible to receive options under this Plan to purchase the Company's Common Stock. In certain instances, a Participating Subsidiary which has branches in more than one country may desire to implement the Plan in fewer than all countries in which its branches are located. In such an instance, upon approval by the Company's Board of Directors or the Committee (as defined in Article 18), only participating eligible employees of the branches located within the country or countries where implementation is desired will be granted options under this Plan.

Participating eligible employees who have been so employed for six months or more on the first day of the Payment Period shall receive their options as of such day. Persons who attain the status of employment for six months or more after the date on which the initial options are granted under this Plan shall be granted options, if they elect to participate in the Plan, on the next date on which options are granted to all participating eligible employees. In no event may an employee be granted an option if such employee is a director or officer of the Company.

Article 3—Stock Subject To The Plan

The stock subject to the options shall be shares of the Company's authorized but unissued Common Stock or shares of Common Stock reacquired by the Company including shares purchased in the open market. The aggregate number of shares which may be issued pursuant to the Plan is 700,000, subject to increase or decrease by reason of stock split-ups, reclassifications, stock dividends, changes in par value and the like.

Article 4—Payment Periods And Stock Options

The six-month periods, June 1 to November 30 and December 1 to May 31, are Payment Periods during which payroll deductions will be accumulated under the Plan. Each Payment Period includes only regular pay days falling within it.

Twice each year, on the first business day of each Payment Period, each Participating Subsidiary will grant to each eligible employee who is then a participant in the Plan an option to purchase on the last day of such Payment Period, at the Option Price hereinafter provided for, such number of shares of the Common Stock of the Company reserved for the purpose of the Plan as does not exceed the greater of the number of shares equal in value to 10% of the employee's regular annual base pay divided by the price determined in accordance with (i) below, or 300 shares, on condition that such employee remains eligible to participate in the Plan throughout such Payment Period. The foregoing limitation on the number of shares which may be granted in any Payment Period is subject to increases or decreases by reason of stock split-ups, reclassifications, stock dividends, changes in par value and the like. The participant shall be entitled to exercise such options so granted only to the extent of his accumulated payroll deductions on the last day of such Payment Period. The Option Price for each Payment Period shall be the lesser of (i) 85% of the average market price of the Company's Common Stock on the first business day of the Payment Period, rounded up to avoid fractions other than $\frac{1}{4}$, $\frac{1}{2}$ and $\frac{3}{4}$, or (ii) 85% of the average market price of the Company's Common Stock on the last business day of the Payment Period, rounded up to avoid fractions other than $\frac{1}{4}$, $\frac{1}{2}$ and $\frac{3}{4}$. In the event of an increase or decrease in the number of outstanding shares of Common Stock of the Company through stock split-ups, reclassifications, stock dividends, changes in par value and the like, an appropriate adjustment shall be made in the number of shares and the Option Price per share provided for under the Plan, either by a proportionate increase in the number of shares and a proportionate decrease in the Option Price per share, or by a proportionate decrease in the number of shares and a proportionate increase in the Option Price per share, as may be required to enable an eligible employee who is then a participant in the Plan as to whom an option is exercised on the last day of any then current Payment Period to acquire such number of full shares as his accumulated payroll deductions on such date will pay for at the adjusted Option Price.

For purposes of this Plan the term "average market price" means the average of the high and low prices of the Common Stock of the Company on the New York Stock Exchange or such other national securities exchange as shall be designated by the Board of Directors.

For purposes of this Plan the term "business day" as used herein means a day on which there is trading on the New York Stock Exchange or such other national securities exchange as shall be designated by the Board of Directors pursuant to the preceding paragraph.

No employee shall be granted an option which permits his rights to purchase Common Stock under the Plan and any similar plans of the Company or any parent or subsidiary corporations to accrue at a rate which exceeds \$25,000 of fair market value of such stock (determined at the time such option is granted) for each calendar year in which such option is outstanding at any time.

Article 5—Exercise of Option

Each eligible employee who continues to be a participant in the Plan on the last business day of a Payment Period shall be deemed to have exercised his option on such date and shall be deemed to have acquired the number of full shares of Common Stock reserved for the purpose of the Plan as his accumulated payroll deductions on such date will pay for at such Option Price. If a participant is not an employee on the last business day of a Payment Period, he shall not be entitled to exercise his option.

Article 6—Supplementary Contributions and Unused Payroll Deductions

(a) Only full shares of Common Stock may be purchased under the Plan. Subject to the limitation set forth below, unused payroll deductions remaining in an employee's account at the end of a Payment Period will be carried forward to the succeeding Payment Period. However, in no event will the amount of unused payroll deductions carried forward from a Payment Period exceed the Option Price per share for that Payment Period. If for any Payment Period the amount of unused payroll deductions should exceed the Option Price per share of stock, the amount of the excess for any participant shall be refunded to such participant.

(b) An employee who has completed a Payment Period shall have the right to make a supplementary contribution in an amount equal to the Option Price for the most recently completed Payment Period less the unused payroll deductions being carried forward. The election to make a supplementary contribution shall be made by written notice received by the Participating Subsidiary's personnel office (the "Personnel Office") no later than 10 days after the beginning of the Payment Period in which the supplementary contribution is to be made and shall remain in effect through all succeeding Payment Periods until revoked by written notice received by the Personnel Office no later than 10 days after the beginning of the Payment Period to which such notice applies.

(c) An employee initially entering the Plan will be permitted to make a supplementary contribution in an amount equal to the Option Price for the most recently completed Payment Period. An election to make such supplementary contribution shall be made by written notice received by the Personnel Office no later than 10 days after the beginning of the Payment Period in which the employee's supplementary

contribution is to be made. An election under this paragraph by an employee initially entering the Plan shall constitute an election to make supplementary contributions for succeeding Payment Periods, subject to the terms and conditions of paragraph (b) above.

Article 7—Authorization For Entering Plan

In addition to any procedures adopted by the Participating Subsidiary, each eligible employee entering the Plan must fill out, sign and deliver to the Personnel Office an Authorization:

- (a) stating the percentage to be deducted regularly from his pay;
- (b) authorizing the purchase of stock for him in each Payment Period in accordance with the terms of the Plan; and
- (c) specifying the exact name in which stock purchased for him is to be issued as provided under Article 11 hereof.

Such Authorization must be received by the Personnel Office at least 10 days before the beginning date of such next succeeding Payment Period.

Unless an employee files a new Authorization or withdraws from the Plan, his deductions and purchases under the Authorization he has on file under the Plan will continue as long as the Plan remains in effect.

The Participating Subsidiary will accumulate and hold for the employee's account the amounts deducted from his pay. No interest will be paid on it.

Article 8—Maximum Amount Of Payroll Deductions

An employee may authorize payroll deductions in an amount not less than 2% but not more than 10% of his regular base pay. In addition, an employee shall be entitled to make supplementary contributions pursuant to Article 6 hereof.

Article 9—Changes In Payroll Deductions

Deductions may be increased or decreased only once in a Payment Period. A new Authorization will be required and must be received by the Personnel Office.

Article 10—Withdrawal From The Plan

An employee may withdraw from the Plan, in whole but not in part, at any time prior to the last business day of each Payment Period by delivering a Withdrawal Notice to the Personnel Office, in which event the Participating Subsidiary will promptly refund the entire balance of his deductions not theretofore used to purchase stock under the Plan.

An employee who withdraws from the Plan is like an employee who has never entered the Plan. To re-enter, he must file a new Authorization at least 10 days before the beginning date of the next Payment Period which cannot, however, become effective before the beginning of the next Payment Period following his withdrawal.

Article 11—Issuance of Stock

A participant will receive Statements of Ownership for stock purchased under the Plan, or may elect to receive stock certificates instead of Statements of Ownership.

Stock purchased under the Plan will be issued only in the name of the employee, or if his Authorization so specifies, in the name of the employee and another person of legal age as joint tenants with rights of survivorship.

Article 12—No Transfer Or Assignment Of Employee's Rights

An employee's rights under the Plan are his alone and may not be transferred or assigned to, or availed of by, any other person. Any option granted to an employee may be exercised only by him.

Article 13—Termination Of Employee's Rights

An employee's rights under the Plan will terminate when he ceases to be an employee because of retirement, resignation, layoff, discharge, death, change of status, or for any other reason. A Withdrawal Notice will be considered as having been received from the employee on the day his employment ceases, and all payroll deductions not used to purchase stock will be refunded.

If an employee's payroll deductions are interrupted by any legal process, a Withdrawal Notice will be considered as having been received from him on the day the interruption occurs.

Article 14—Termination And Amendments To Plan

The Plan may be terminated at any time by the Company's Board of Directors. It will terminate in any case when all or substantially all of the unissued shares of stock reserved for the purposes of the Plan have been purchased. If at any time shares of stock reserved for the purpose of the Plan remain available for purchase but not in sufficient number to satisfy all then unfilled purchase requirements, the available shares shall be apportioned among participants in proportion to their options and the Plan shall terminate. Upon such termination or any other termination of the Plan, all payroll deductions not used to purchase stock will be refunded.

The Board of Directors also reserves the right to amend the Plan from time to time in any respect provided, however, that no amendment shall be effective without prior approval of the stockholders, which would (a) except as provided in Articles 3 and 4, increase the number of shares of Common Stock to be offered above or (b) change the class of employees eligible to receive options under the Plan.

Article 15—Limitations On Sale Of Stock Purchased Under The Plan

The Plan is intended to provide common stock for investment and not for resale. The Company does not, however, intend to restrict or influence any employee in the conduct of his own affairs. An employee may, therefore, sell stock purchased under the Plan at any time he chooses. *The employee assumes the risk of any market fluctuations in the price of such stock.*

Article 16—Payment Of Expenses Related To Plan

The Company and the Participating Subsidiaries will bear all costs of administering and carrying out the Plan.

Article 17—Participating Subsidiaries

The term "Participating Subsidiaries" shall mean subsidiaries of the Company which are designated by the Board of Directors to participate in the Plan. The Board of Directors shall have the power to make such designations before or after the Plan is approved by the stockholders.

Article 18—Administration Of The Plan

The Plan shall be administered by a committee appointed by the Board of Directors of the Company (the "Committee"). The Committee shall consist of not less than three members of the Company's Board of Directors. The Board of Directors may from time to time remove members from, or add members to, the Committee. Vacancies on the Committee, howsoever caused, shall be filled by the Board of Directors.

The Committee shall select one of its members as Chairman, and shall hold meetings at such times and places as it may determine. Acts by a majority of the Committee, or acts reduced to or approved in writing by a majority of the members of the Committee, shall be the valid acts of the Committee.

The interpretation and construction by the Committee of any provisions of the Plan or of any option granted under it shall be final unless otherwise determined by the Board of Directors. The Committee may from time to time adopt such rules and regulations for carrying out the Plan as it may deem best. No member of the Board of Directors or the Committee shall be liable for any action or determination made in good faith with respect to the Plan or any option granted under it.

Article 19—Optionees Not Stockholders

Neither the granting of an option to an employee nor the deductions from his pay shall constitute such employee a stockholder of the shares covered by an option until such shares have been purchased by and issued to him.

Article 20—Application Of Funds

The proceeds received by the Company from the sale of Common Stock pursuant to options granted under the Plan will be used for general corporate purposes.

Article 21—Governmental Regulations

The Company's obligation to sell and deliver shares of the Company's Common Stock under this Plan is subject to the approval of any governmental authority required in connection with the authorization, issuance or sale of such stock.

Article 22—Approval Of Stockholders

The Plan was adopted by the Company's Board of Directors on August 10, 1981, subject to approval by the stockholders of the Company.

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NOTICE OF 1982 ANNUAL MEETING

September 24, 1982

Dear Fellow Stockholder:

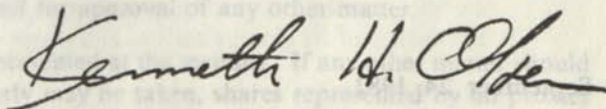
You are cordially invited to attend our Annual Meeting of Stockholders which will be held this year on Thursday, November 4, 1982, at 11:00 A.M., in the Ballroom, The Copley Plaza Hotel, Copley Square, Boston, Massachusetts.

The notice of meeting and proxy statement which follow describe the business to be conducted at the meeting. We will also give a presentation on the current status of our business.

Whether or not you plan to attend the meeting in person, it is important that your shares be represented and voted. After reading the enclosed Notice of Annual Meeting and Proxy Statement, may I urge you to *complete, sign, date and return* your proxy ballot in the envelope provided. If the address on the accompanying material is incorrect, please advise our Investor Services Department in writing at 111 Powdermill Road, Maynard, Massachusetts 01754 or telephone (617) 493-5207.

Your vote is important. We will appreciate a prompt return of your signed proxy ballot and hope to see you at the meeting.

For the Board of Directors,



KENNETH H. OLSEN
President and Chief Executive Officer

DIGITAL EQUIPMENT CORPORATION, 146 MAIN STREET, MAYNARD, MASSACHUSETTS 01754

DIGITAL EQUIPMENT CORPORATION

NOTICE OF 1982 ANNUAL MEETING

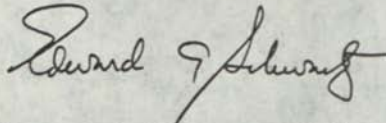
To the Stockholders of DIGITAL EQUIPMENT CORPORATION:

Notice is hereby given that the Annual Meeting of Stockholders of Digital Equipment Corporation, a Massachusetts corporation, will be held on Thursday, November 4, 1982, at 11:00 A.M., in the Ballroom, The Copley Plaza Hotel, Copley Square, Boston, Massachusetts, for the following purposes:

1. To fix the number of directors at seven and to elect a Board of Directors for the ensuing year.
2. To ratify the selection of the firm of Coopers & Lybrand as auditors for the fiscal year ending July 2, 1983.
3. To transact such other business as may properly come before the meeting.

Stockholders entitled to notice of and to vote at the meeting shall be determined as of the close of business on September 10, 1982, the record date fixed by the Board of Directors for such purpose.

By Order of the Board of Directors,



EDWARD A. SCHWARTZ, *Clerk*

September 24, 1982

Stockholders are requested to sign the enclosed proxy card and return it promptly in the enclosed stamped envelope to Digital Equipment Corporation, P.O. Box 490, Maynard, Massachusetts 01754, Att'n: Investor Services Department.

PROXY STATEMENT

INTRODUCTION

Proxies in the form enclosed with this proxy statement are solicited by the Board of Directors of Digital Equipment Corporation (the "Corporation") for use at the 1982 Annual Meeting of Stockholders.

An Annual Report to Stockholders, containing financial statements for the fiscal year ended July 3, 1982, has been sent herewith to all stockholders entitled to vote. This proxy statement and form of proxy were first sent to stockholders on or about the date stated on the accompanying Notice of 1982 Annual Meeting.

Only stockholders of record as of the close of business on September 10, 1982 will be entitled to vote at the meeting and any adjournments thereof. As of that date, 55,319,793 shares of Common Stock of the Corporation were issued and outstanding. Each share outstanding as of the record date will be entitled to one vote, and stockholders may vote in person or by proxy. Execution of a proxy will not in any way affect a stockholder's right to attend the meeting and vote in person. Any stockholder giving a proxy has the right to revoke it at any time before it is exercised by written notice to the Clerk of the Corporation. In addition, stockholders attending the meeting may revoke their proxies at that time.

The persons named as attorneys in the proxies are directors of the Corporation. All properly executed proxies returned in time to be cast at the meeting, if no contrary instruction is indicated, will be voted as stated below under "Election of Directors", and will be voted FOR the ratification of the selection of the auditors. Directors are elected by a plurality of votes cast, and the affirmative vote of a majority of the shares present or represented at the meeting is required for approval of any other matter.

The Corporation knows of no other matter to be presented at the meeting. If any other matter should be presented at the meeting upon which a vote properly may be taken, shares represented by all proxies received by the Corporation will be voted with respect thereto in accordance with the judgment of the persons named as attorneys in the proxies.

ELECTION OF DIRECTORS

Nominees for Directors

The directors of the Corporation are elected annually and hold office until the next annual meeting and until their successors have been elected and have qualified. Pursuant to the Corporation's by-laws, the stockholders fix the number of directors at the annual meeting, subject to the authority of the directors to increase the size of the Board. Any stockholder submitting a proxy has the right to withhold authority to vote for any individual nominee to the Board of Directors by writing that nominee's name in the space provided on the proxy. Shares represented by all proxies received by the Corporation and not so marked as to withhold authority to vote for any individual director or for all directors will be voted FOR fixing the number of directors for the ensuing year at seven and FOR the election of the nominees named below. The Corporation knows of no reason why any such nominee should be unable to serve, but if such should be the case, proxies will be voted for the election of some other person, or for fixing the number of directors at a lesser number.

The nominees for directors and further information with respect to each nominee are set forth below.

KENNETH H. OLSEN

Mr. Olsen, age 56, founded Digital Equipment Corporation in 1957 and has served since that time as its President and Chief Executive Officer. Mr. Olsen is also a director of Ford Motor Company, Shawmut Corporation and Polaroid Corporation. He has been a director of Digital Equipment Corporation since 1957.

VERNON R. ALDEN

Mr. Alden, age 59, is Chairman of the Massachusetts Business Development Council, an organization to improve the economic climate and attract industry to the state. He was formerly Chairman of the Board and Executive Committee of The Boston Company, Inc., managers of financial resources. Mr. Alden is also a director of ARA Services, Inc., Augat, Inc., Colgate Palmolive Company, McGraw-Hill, Inc., The Mead Corporation and Sonesta International Hotels Corporation. He has been a director of Digital Equipment Corporation since 1959 and a member of its Compensation and Stock Option Committee.

PHILIP CALDWELL

Mr. Caldwell, age 62, is Chairman of the Board and Chief Executive Officer of Ford Motor Company and has been an officer of Ford for 14 years. Mr. Caldwell is also a director of Chase Manhattan Corporation and Chase Manhattan Bank. He has been a director of Digital Equipment Corporation since 1980.

ARNAUD DE VITRY

Mr. de Vitry, age 56, is Chairman of the Board, Dunlop S.A., France, manufacturers, and Chairman of the Board and Chief Executive Officer of Eureka SICAV, France, an investment company. He is also a director of Ionics, Incorporated. He has been a director of Digital Equipment Corporation since 1957.

GEORGES F. DORIOT

General Doriot, age 83, is the retired Chairman of the Board of American Research and Development Corporation, a venture capital investment company. He is a director of Sun Life Assurance Company of Canada (U.S.). He has been a director of Digital Equipment Corporation since 1972 and is a member of its Audit Committee and its Compensation and Stock Option Committee.

WILLIAM H. McLEAN

Mr. McLean, age 71, is an engineering consultant. He was formerly the Vice President and Dean of Stevens Institute of Technology. He is also a director of Economics Laboratory, Inc. and National Aviation and Technology Corporation. He has been a director of Digital Equipment Corporation since 1967 and is a member of its Audit Committee.

DOROTHY E. ROWE

Miss Rowe, age 65, was formerly Senior Vice President and Treasurer of American Research and Development Corporation, a venture capital investment company. She is a trustee of the Boston Five Cents Savings Bank and a trustee of the School Street Mutual Fund (an open-end management investment company). Miss Rowe has been a director of Digital Equipment Corporation since 1962 and is a member of its Audit Committee and its Compensation and Stock Option Committee.

Stock Ownership of Nominees

Shown below is certain information as of August 1, 1982 with respect to beneficial ownership of shares of the Corporation's Common Stock by all director nominees individually and by all 42 directors and officers of the Corporation as a group. Unless otherwise indicated, the named person possesses sole voting and investment power with respect to the shares.

<u>Beneficial Owner</u>	<u>Shares Beneficially Owned</u>
KENNETH H. OLSEN	2,456,938(1)
VERNON R. ALDEN	60,360
PHILIP CALDWELL	100
ARNAUD DE VITRY	362,265(2)
GEORGES F. DORIOT	15,649
WILLIAM H. MCLEAN	1,200
DOROTHY E. ROWE	90,177
All 42 directors and officers as a group, including those named above(3)	3,689,067

(1) Includes 40,000 shares which Mr. Olsen has the right to acquire by exercise of stock options. Such 2,456,938 shares represent 4.4% of the Corporation's issued and outstanding Common Stock. Mr. Olsen may be deemed to be a controlling person of the Corporation.

(2) Includes 205,265 shares held by either a financial institution or a nominee in a fiduciary capacity for the benefit of members of Mr. de Vitry's family. Mr. de Vitry disclaims beneficial ownership of such shares.

(3) Includes 448,961 shares which the officers as a group have the right to acquire by exercise of stock options granted under the Corporation's various stock option plans. These 3,689,067 shares represent approximately 7% of the Corporation's issued and outstanding Common Stock, assuming exercise of the stock options.

The Corporation knows of no person who owns beneficially more than 5% of the Common Stock. Each director other than Mr. Olsen owns beneficially less than 1% of the Common Stock.

Committees of the Board

The Board of Directors has an Audit Committee and a Compensation and Stock Option Committee.

The Audit Committee recommends to the Board of Directors the selection of the independent auditors to be employed by the Corporation, reviews generally the internal and external audit plans and the results thereof, reviews generally the Corporation's internal accounting controls with the internal and external auditors and reviews compliance with the Corporation's policy on non-audit services provided by the independent auditors.

The Compensation and Stock Option Committee reviews and recommends to the Board the compensation of directors and of those officers who are members of management's operations committee, and reviews and recommends to the Board the adoption of any compensation plans in which directors and officers are eligible to participate. The Committee also administers and interprets the Corporation's stock option plans and, subject to the provisions of the plans, selects the employees who are to participate in such plans and determines the terms of their participation, subject to Board approval.

The Board of Directors as a whole acts as the Nominating Committee and, consequently, is responsible for nominations to the Board of Directors. The Board of Directors will consider highly qualified candidates proposed in writing by stockholders. Stockholders who wish to propose a nomination should submit the person's name and background information to the Secretary of the Corporation.

The Board of Directors held nine meetings during the fiscal year ended July 3, 1982, the Audit Committee met four times, and the Compensation and Stock Option Committee met four times. All directors attended at least 75% of the total number of meetings of the Board and the committees to which they belong.

REMUNERATION AND OTHER INFORMATION

The table below shows the remuneration paid or accrued by the Corporation and its subsidiaries during the fiscal year ended July 3, 1982, to the six most highly compensated executive officers of the Corporation, and to all officers and directors as a group, for services in all capacities.

Name and Capacities in Which Served	Salaries, Fees, Directors' Fees (1), Commissions and Bonuses (2)
Kenneth H. Olsen President and Director	\$ 509,175
Winston R. Hindle, Jr. Vice President	\$ 223,413
John J. Shields Vice President	\$ 223,413
John F. Smith Vice President	\$ 223,413
C. Gordon Bell Vice President	\$ 220,080
Alfred M. Bertocchi Vice President	\$ 220,080
All 44 officers and directors as a group, including those named above (3)	\$5,614,555

(1) Each director who is not also an officer of the Corporation receives an annual retainer of \$12,000 for Board service, plus \$500 for each Board meeting and each committee meeting attended. Directors are also reimbursed for out-of-pocket expenses incurred in attending Board and committee meetings.

(2) Other than as set forth below under "Retirement Plans", "Stock Options", and the stock purchase plans, during the fiscal year the officers and directors of the Corporation received no securities, property, insurance benefits or reimbursement (other than benefits under the Corporation's group-term life insurance plans for its employees), significant personal benefits, or contingent forms of remuneration from the Corporation or its subsidiaries.

(3) Persons who served for any part of the year, and their remuneration for the part of the year they served, are included.

Retirement Plans

All of the Corporation's officers, other than three officers based in Europe, are participants in the Corporation's defined benefit pension plan for its United States employees.

Benefits under the pension plan, as amended, are based upon the employee's earnings during service with the Corporation and its subsidiaries and are payable after retirement in the form of annuities or lump sum benefits. The annual amount payable upon retirement at age 65 under the present provisions of the plan, without regard to any survivor options, is 1½% of the aggregate cumulative amount of the participant's base salary and wages earned on and after July 1, 1979 plus, for those persons who were plan participants on July 1, 1979, 1½% of the annual average of the participant's compensation between July 1, 1974 and June 30, 1979 multiplied by the number of years of such participant's accredited service prior to July 1, 1979. Under the present provisions of the plan, a participant's annual pension may not exceed the lesser of the maximum allowable dollar limit as adjusted annually (\$136,425 for calendar 1982), or 100% of the participant's average compensation for the participant's three highest consecutive years of service with the Corporation.

Employees outside the United States are covered by different retirement plans varying from country to country.

Estimated annual retirement benefits at age 65 for the following individuals would be: Mr. Olsen, \$136,425; Mr. Hindle, \$81,833; Mr. Shields, \$107,748; Mr. Smith, \$92,163; Mr. Bell, \$91,541; and Mr. Bertocchi, \$61,258.

Stock Options

The following table shows as to certain named officers, and as to all officers as a group including the named officers: (i) the number of shares of the Corporation's Common Stock subject to options granted between July 2, 1977 and August 1, 1982; (ii) the average per share option exercise price thereof and the average per share market price of the Corporation's Common Stock on the dates of grant thereof; (iii) the net value of shares acquired from July 2, 1977 to August 1, 1982 upon the exercise of options granted during the period or prior thereto; (iv) the number of shares subject to all options outstanding on August 1, 1982; and (v) the unrealized net value of such outstanding options at August 1, 1982. The Corporation does not grant stock appreciation rights.

<u>Shares of Common Stock</u>	<u>K.H. Olsen</u>	<u>W. R. Hindle</u>	<u>J. J. Shields</u>	<u>J. F. Smith</u>	<u>C. G. Bell</u>	<u>A. M. Bertocchi</u>	<u>All Officers as a Group(1)</u>
<u>Options Granted 7/2/77 to 8/1/82:</u>							
Number of shares	30,000	11,000	14,500	15,500	13,500	11,000	304,278
Average per share exercise price	\$33.62	\$38.58	\$37.41	\$36.46	\$34.90	\$38.58	\$33.56
Average per share market price on dates of grant	\$63.83	\$67.06	\$65.08	\$62.33	\$64.30	\$67.06	\$67.89
<u>Options Exercised 7/2/77 to 8/1/82:</u>							
Number of shares	-0-	7,943	10,300	-0-	17,400	16,287	215,663
Net value realized upon ex- ercise(2)	-0-	\$324,530	\$482,198	-0-	\$536,238	\$973,367	\$11,821,440
<u>Options Outstanding at 8/1/82:</u>							
Number of shares(3)	40,000	18,587	14,890	26,213	16,600	18,825	448,961
Unrealized net value(4)	\$1,474,840	\$613,219	\$449,281	\$959,366	\$541,200	\$665,585	\$16,795,547

(1) Directors who are not also officers of the Corporation do not participate in the Corporation's stock option plans.

(2) The net value realized upon exercise of options is the difference between the market value of the shares received upon exercise and the exercise price thereof.

(3) Options granted under the Corporation's restricted stock option plans are exercisable in full on the date of grant, but shares purchased thereunder are subject to repurchase at the option of the Corporation at the exercise price, unless such repurchase option has lapsed. Such repurchase option lapses over the life of the grant whether or not the option has been exercised. See "Description of the 1976 Restricted Stock Option Plan" and "Description of the 1968 Restricted Stock Purchase Plan" below. Of the number of shares subject to options held by all officers as a group which were outstanding at August 1, 1982, approximately 77% were subject to such repurchase options.

(4) Unrealized net value represents the difference between \$66, which was the closing price of the Corporation's Common Stock on the New York Stock Exchange on Friday, July 30, 1982, and the applicable exercise price per share.

Description of the 1976 Restricted Stock Option Plan

In 1976 the Board of Directors and stockholders adopted the 1976 Restricted Stock Option Plan (the "Restricted Plan"). A total of 8,600,000 shares of Common Stock (subject to adjustment for stock splits and the like) in the aggregate may be sold under the Restricted Plan. Not more than 3% of the aggregate number of shares issuable under the Restricted Plan may be sold to any one employee. At August 1, 1982, approximately 6,095 employees were participating in the Restricted Plan.

The Restricted Plan authorizes the grant of options to purchase the Corporation's Common Stock to key employees of the Corporation and its subsidiaries coupled with a prohibition against disposition of such shares and a requirement to offer such shares for resale to the Corporation at their purchase price upon termination of employment, which restrictions and obligation of resale lapse from time to time as to portions of the grant (whether or not the option has been exercised), as determined by the Board of Directors or the Compensation and Stock Option Committee of the Board of Directors (the "Committee") which administers and interprets the Restricted Plan. The exercise price of options granted under the Restricted Plan is specified by the Board of Directors, but in no event may this price be less than the lower of (i) 50% of the fair market value per share at the date of grant or (ii) book value per share as of the end of the Corporation's fiscal year immediately preceding the grant date. Options may be granted under the Restricted Plan from time to time through December 31, 1988, the termination date of the Restricted Plan.

Employees, including officers, of the Corporation or any of its subsidiaries, and consultants, are eligible to receive options under the Restricted Plan. Directors who are also employees are eligible to receive options if they are not members of the Committee. Subject to the terms of the Restricted Plan, the Committee has exclusive jurisdiction to select the employees to whom options are granted, to determine the number of shares subject to such options, the time or times when options are to be granted and the rate and time of lapse of restrictions.

As of August 1, 1982, options for 347,809 shares had been exercised under the Restricted Plan at an average purchase price per share of \$20; options for 3,030,690 shares at an average purchase price per share of \$33.76 were outstanding with expiration dates ranging from February 10, 1987 to September 26, 1992; and 5,221,501 shares remained available for additional option grants.

Description of the 1968 Employee Stock Purchase Plan

In 1968 the Board of Directors and the stockholders adopted an Employee Stock Purchase Plan (the "Employee Plan") for substantially all employees of the Corporation and its participating subsidiaries, other than directors, officers and highly compensated employees. At August 1, 1982, approximately 55,000 employees were eligible to participate in the Employee Plan, and approximately 23,200 employees were participating.

The Employee Plan authorizes the issuance of a maximum of 5,750,000 shares of Common Stock (subject to adjustment for stock splits and the like) pursuant to the exercise of non-transferable options granted to participating employees.

Under the terms of the Employee Plan, the option price is an amount equal to 85% of the fair market value of the stock on the first or last business day of the six-month payment period (the "Payment Period"), whichever is lower (subject to adjustment for stock splits and the like). Options are granted twice yearly on December 1 and June 1, the first days of each Payment Period. The options are exercisable through accumulation of payroll deductions (up to a maximum of 10% of regular base pay) during the Payment Period. At August 1, 1982, 2,851,345 shares had been purchased by employees under the Employee Plan and 2,898,655 shares remained available for additional option grants.

Description of the 1981 International Employee Stock Purchase Plan

In 1981, the Board of Directors and the stockholders adopted the 1981 International Employee Stock Purchase Plan (the "International Plan"). A total of 700,000 shares of Common Stock (subject to adjustment for stock splits and the like) in the aggregate may be sold under the International Plan.

The provisions of the International Plan are substantially the same as the 1968 Employee Stock Purchase Plan described above. The International Plan is intended to extend the benefits of the Employee Plan to employees of selected foreign subsidiaries of the Corporation or branches thereof; directors and officers of the Corporation are excluded. Employees of several foreign subsidiaries presently participate in the Employee Plan, but under present provisions of the United States tax laws it is impractical to extend the benefits of the U.S. tax-qualified Employee Plan to selected branches of foreign subsidiaries. The International Plan is not intended to be a tax-qualified plan under the Internal Revenue Code.

The first six month enrollment period commenced in June, 1982; at August 1, 1982, no shares had been purchased under the International Plan and 700,000 shares remained available for option grants.

Description of the 1968 Restricted Stock Purchase Plan

In 1968 the Corporation adopted the 1968 Restricted Stock Purchase Plan (the "1968 Plan"). The authority to grant additional options under the 1968 Plan expired upon the adoption by the stockholders of the 1976 Restricted Stock Option Plan. The terms and conditions of the 1968 Plan are substantially the same as the 1976 Restricted Stock Option Plan, except that directors were ineligible to receive options under the 1968 Plan whereas under the Restricted Plan directors who are also employees are eligible to receive options.

As of August 1, 1982, options for 2,333,552 shares had been exercised under the 1968 Plan at an average purchase price per share of \$7.92 and options for 756,717 shares at an average purchase price per share of \$20.92 were subject to outstanding options with expiration dates ranging from February 9, 1982 to January 25, 1987.

Description of Employee Stock Ownership Plan

In 1982, the Corporation may adopt the Digital Equipment Corporation Employee Stock Ownership Plan (the "ESOP") and establish a related trust. Substantially all United States employees will participate in the ESOP. The Corporation intends to make contributions of stock or cash to the trust equivalent to not more than 1/2% of the base salaries (not in excess of \$100,000 salary for any employee) of all participating employees for calendar years 1983 and 1984 and not more than 3/4% of such base salaries for calendar years 1985, 1986 and 1987. Federal tax law generally allows a tax credit for the Corporation equal to the full value of the contribution.

Stock will be allocated to individual accounts for participating employees in proportion to their included salaries and all allocations will be fully vested. Employees are entitled to vote all shares allocated to their respective accounts. Distributions will be made at death, retirement, termination of employment, or as the ESOP may otherwise provide.

RATIFICATION OF SELECTION OF AUDITORS

The Board of Directors has selected the firm of Coopers & Lybrand, independent public accountants, to serve as auditors for the fiscal year ending July 2, 1983, subject to ratification by the stockholders. Coopers & Lybrand has served as the Corporation's auditors since the organization of the Corporation.

The Board of Directors recommends a vote FOR ratification of this selection.

It is expected that a member of the firm of Coopers & Lybrand will be present at the Annual Meeting, will have an opportunity to make a statement if so desired and will be available to respond to appropriate questions.

EXPENSES AND SOLICITATION

The cost of solicitation of proxies will be borne by the Corporation. In addition to soliciting stockholders through its regular employees, the Corporation may request banks and brokers to solicit customers of theirs who have shares of Common Stock of the Corporation registered in the name of a nominee. The Corporation will reimburse such banks and brokers for their reasonable out-of-pocket costs, at the rates suggested by the New York Stock Exchange. Solicitation by officers and employees of the Corporation may also be made of some stockholders in person, or by mail, telephone or telegraph, following the original solicitation.

STOCKHOLDER PROPOSALS FOR NEXT ANNUAL MEETING

Proposals of stockholders intended for inclusion in the proxy statement to be mailed to all stockholders entitled to vote at the next annual meeting of the Corporation must be received at the Corporation's principal executive offices not later than June 28, 1983. In order to curtail controversy as to the date on which a proposal was received by the Corporation, proponents should submit their proposals by Certified Mail—Return Receipt Requested.

September 24, 1982

ELECTION OF DIRECTORS

Nominees for Directors

The directors of the Corporation are elected annually and hold office until the next annual meeting and until their successors have been elected and have qualified. Pursuant to the Corporation's by-laws, the stockholders fix the number of directors at the annual meeting, subject to the authority of the directors to increase the size of the Board. Any stockholder submitting a proxy has the right to withhold authority to vote for any individual nominee to the Board of Directors by writing that nominee's name in the space provided on the proxy. Shares represented by all proxies received by the Corporation and not so marked as to withhold authority to vote for any individual director or for all directors will be voted FOR fixing the number of directors for the ensuing year at seven and FOR the election of the nominees named below. The Corporation knows of no reason why any such nominee should be unable to serve, but if such should be the case, proxies will be voted for the election of some other person, or for fixing the number of directors at a lesser number.

The nominees for directors and further information with respect to each nominee are set forth below.

KENNETH H. OLSEN

Mr. Olsen, age 57, founded Digital Equipment Corporation in 1957 and has served since that time as its President and Chief Executive Officer. Mr. Olsen is also a director of Ford Motor Company, Shawmut Corporation and Polaroid Corporation. He has been a director of Digital Equipment Corporation since 1957.

VERNON R. ALDEN

Mr. Alden, age 60, is Chairman of the Massachusetts Business Development Council, an organization to improve the economic climate and attract industry to the state. He was formerly Chairman of the Board and Executive Committee of The Boston Company, Inc., managers of financial resources. Mr. Alden is also a director of ARA Services, Inc., Augat, Inc., Colgate-Palmolive Company, McGraw-Hill, Inc., The Mead Corporation and Sonesta International Hotels Corporation. He has been a director of Digital Equipment Corporation since 1959 and is a member of its Compensation and Stock Option Committee.

PHILIP CALDWELL

Mr. Caldwell, age 63, is Chairman of the Board and Chief Executive Officer of Ford Motor Company and has been an officer of Ford for 15 years. Mr. Caldwell is also a

director of Chase Manhattan Corporation and Chase Manhattan Bank. He has been a director of Digital Equipment Corporation since 1980.

ARNAUD DE VITRY

Mr. de Vitry, age 57, is Chairman of the Board and Chief Executive Officer of Eureka SICAV, France, an investment company. He is also a director of Ionics, Incorporated. He has been a director of Digital Equipment Corporation since 1957.

GEORGES F. DORIOT

General Doriot, age 84, is the retired Chairman of the Board of American Research and Development Corporation, a venture capital investment company. He has been a director of Digital Equipment Corporation since 1972 and is a member of its Audit Committee and its Compensation and Stock Option Committee.

WILLIAM H. McLEAN

Mr. McLean, age 72, is an engineering consultant. He was formerly the Vice President and Dean of Stevens Institute of Technology. He is also a director of Economics Laboratory, Inc., National Aviation and Technology Corporation, and National Telecommunications & Technology Fund, Inc. He has been a director of Digital Equipment Corporation since 1967 and is a member of its Audit Committee.

DOROTHY E. ROWE

Miss Rowe, age 66, was formerly Senior Vice President and Treasurer of American Research and Development Corporation, a venture capital investment company. She is a trustee of the Boston Five Cents Savings Bank and a trustee of the School Street Mutual Fund (an open-end management investment company). Miss Rowe has been a director of Digital Equipment Corporation since 1962 and is a member of its Audit Committee and its Compensation and Stock Option Committee.

Stock Ownership of Nominees

Shown below is certain information as of August 1, 1983 with respect to beneficial ownership of shares of the Corporation's Common Stock by all director nominees individually and by all officers and directors of the Corporation as a group. Unless otherwise indicated, the named person possesses sole voting and investment power with respect to the shares.

<u>Beneficial Owner</u>	<u>Shares Beneficially Owned</u>
KENNETH H. OLSEN	2,424,235(1)
VERNON R. ALDEN	59,550
PHILIP CALDWELL	100
ARNAUD DE VITRY	360,000(2)
GEORGES F. DORJOT	15,649
WILLIAM H. MCLEAN	1,200
DOROTHY E. ROWE	88,177
All 35 officers and directors as a group, including those named above..	3,417,060(3)

(1) Includes 50,000 shares which Mr. Olsen has the right to acquire by exercise of stock options. Such 2,424,235 shares represent 4.3% of the Corporation's issued and outstanding Common Stock.

(2) Includes 203,000 shares held by either a financial institution or a nominee in a fiduciary capacity for the benefit of members of Mr. de Vitry's family. Mr. de Vitry disclaims beneficial ownership of such shares.

(3) Includes 410,750 shares which the officers as a group have the right to acquire by exercise of stock options granted under the Corporation's various stock option plans. These 3,417,060 shares represent approximately 6% of the Corporation's issued and outstanding Common Stock, assuming exercise of the stock options.

The Corporation knows of no person who owns beneficially more than 5% of the Common Stock. Each director other than Mr. Olsen owns beneficially less than 1% of the Common Stock.

Certain Relationships and Related Transactions

Kenneth H. Olsen's son, Glen Olsen, is a director, president, and controlling shareholder of Business Systems Applications, Inc., an authorized dealer of Digital Equipment Corporation which does business with Digital Equipment Corporation on the usual terms and conditions for other

authorized dealers. During the fiscal year ended July 2, 1983, Digital Equipment Corporation's total sales to Business Systems Applications, Inc. were approximately \$1,000,000.

Philip Caldwell's son-in-law is a middle management employee of the Corporation and receives the usual and customary compensation for the position he serves.

Committees of the Board

The Board of Directors has an Audit Committee and a Compensation and Stock Option Committee.

The Audit Committee recommends to the Board of Directors the selection of the independent auditors to be employed by the Corporation, reviews generally the internal and external audit plans and the results thereof, reviews generally the Corporation's internal accounting controls with the internal and external auditors and reviews compliance with the Corporation's policy on non-audit services provided by the independent auditors.

The Compensation and Stock Option Committee reviews and recommends to the Board the compensation of directors and of those officers who are members of the senior management committees, and reviews and recommends to the Board the adoption of any compensation plans in which directors and officers are eligible to participate. The Committee also administers and interprets the Corporation's stock option plans and, subject to the provisions of the plans, selects the employees who are to participate in such plans and determines the terms of their participation, subject to Board approval.

The Board of Directors as a whole acts as the Nominating Committee and, consequently, is responsible for nominations to the Board of Directors. The Board of Directors will consider highly qualified candidates proposed in writing by stockholders. Stockholders who wish to propose a nomination should submit the person's name and background information to the Secretary of the Corporation.

The Board of Directors held eight meetings during the fiscal year ended July 2, 1983, the Audit Committee met five times, and the Compensation and Stock Option Committee met two times. All directors attended at least 75% of the total number of meetings of the Board and the committees to which they belong.

REMUNERATION AND OTHER INFORMATION

The table below shows the remuneration paid or accrued by the Corporation and its subsidiaries during the fiscal year ended July 2, 1983, to the five most highly compensated executive officers of the Corporation, and to all officers and directors as a group, for services in all capacities.

Name and Capacities in Which Served	Salaries, Fees, Directors' Fees(1), Commissions and Bonuses(2)
Kenneth H. Olsen	\$ 655,000
President and Director	
John J. Shields	\$ 309,000
Vice President	
Winston R. Hindle, Jr.	\$ 305,000
Vice President	
John F. Smith	\$ 305,000
Vice President	
Alfred M. Bertocchi	\$ 285,000
Vice President	
All 41 officers and directors as a group, including those named above(3)(4)	\$6,223,000

(1) Each director who is not also an officer of the Corporation is entitled to an annual retainer of \$12,000 for Board service, plus \$500 for each Board meeting and each committee meeting attended. Directors are also reimbursed for out-of-pocket expenses incurred in attending Board and committee meetings. Directors may defer all or any part of their retainer or meeting fees pursuant to a deferred compensation plan which provides for payment including interest when a director leaves the Board.

(2) Other than as set forth below under "Retirement Plans", "Stock Options", and the stock plan descriptions, with respect to the fiscal year ended July 2, 1983, the officers and directors of the Corporation received no securities or property, insurance benefits or reimbursement (other than benefits under the Corporation's group insurance plans for its employees), significant personal benefits, or contingent forms of remuneration from the Corporation or its subsidiaries.

(3) Persons who served as officers for any part of the year, and their remuneration for the part of the year served, are included.

(4) The cash salary for C. Gordon Bell, a vice president who left the employ of the Corporation in July, 1983, was \$285,000.

Retirement Plans

All of the Corporation's officers, other than three officers based in Europe, are participants in the Corporation's defined benefit pension plan for its United States employees.

Benefits under the pension plan are based upon the employee's earnings during service with the Corporation and its subsidiaries and are payable after retirement in the form of annuities or lump sum benefits. The annual amount payable upon retirement at age 65 under the present provisions of the plan, without regard to any survivor options, is 1½% of the aggregate cumulative amount of the participant's base salary and wages earned on and after July 1, 1979 plus, for those persons who were plan participants on July 1, 1979, 1½% of the annual average of the participant's compensation between July 1, 1974 and June 30, 1979 multiplied by the number of years of such participant's accredited service prior to July 1, 1979. Under the present provisions of the plan, a participant's annual pension may not exceed the lesser of the maximum allowable dollar limit (\$90,000 for calendar 1983), or 100% of the participant's average compensation for the participant's three highest consecutive years of service with the Corporation.

Employees outside the United States are covered by different retirement plans varying from country to country.

Estimated annual retirement benefits at age 65 for the following individuals would be: Mr. Olsen, \$90,000; Mr. Shields, \$90,000; Mr. Hindle, \$90,000; Mr. Smith, \$90,000; and Mr. Bertocchi, \$74,000.

Stock Options

The following table shows as to certain named officers, and as to all officers as a group including the named officers: (i) the number of shares of the Corporation's Common Stock subject to options granted on and between July 2, 1978 and August 1, 1983; (ii) the average per share option exercise price thereof and the average per share market price of the Corporation's Common Stock on the dates of grant thereof; (iii) the net value of shares acquired on and between July 2, 1978 and August 1, 1983 upon the exercise of options granted during the period or prior thereto; (iv) the number of shares sold on and between July 2, 1978 and August 1, 1983, (v) the number of shares subject to all options outstanding on August 1, 1983, and (vi) the unrealized net value of such outstanding options at August 1, 1983. The Corporation does not grant stock appreciation rights.

Shares of Common Stock	K. H. Olsen	J. J. Shields	W. R. Hindle	J. F. Smith	A. M. Bertocchi	All Officers as a Group(1)
Options Granted 7/2/78 through 8/1/83:						
Number of shares.....	40,000	21,500	16,000	22,500	16,000	311,370
Average per share exercise price ..	\$46	\$52	\$52	\$51	\$52	\$46
Average per share market price on dates of grant.....	\$79	\$84	\$85	\$81	\$85	\$81
Options Exercised 7/2/78 through 8/1/83:						
Number of shares.....	-0-	10,300	7,943	-0-	14,787	162,808
Net value realized upon ex- ercise(2)	-0-	\$482,000	\$325,000	-0-	\$944,000	\$10,190,000
Sales 7/2/78 to 8/1/83:						
Number of shares.....	27,000	12,116	30,537	5,160	16,100	220,332
Options Outstanding at 8/1/83:						
Number of shares(3).....	50,000	21,890	23,587	33,213	23,825	410,750
Unrealized net value(4)	\$3,261,000	\$1,187,000	\$1,451,000	\$2,140,000	\$1,513,000	\$26,948,000

(1) Directors who are not also officers of the Corporation do not participate in the Corporation's stock option plans.

(2) The net value realized upon exercise of options is the difference between the market value of the shares received upon exercise and the exercise price thereof.

(3) In general, options granted under the Corporation's restricted stock option plans are exercisable in full on the date of grant, but shares purchased thereunder are subject to repurchase at the option of the Corporation at the exercise price, unless such repurchase option has lapsed. Such repurchase option lapses over the life of the grant whether or not the option has been exercised. See "Description of the 1976 Restricted Stock Option Plan" and "Description of the 1968 Restricted Stock Purchase Plan" below. Of the number of shares subject to options held by all officers as a group which were outstanding at August 1, 1983, approximately 74% were subject to such repurchase options.

(4) Unrealized net value represents the difference between \$105, which was the closing price of the Corporation's Common Stock on the New York Stock Exchange on Monday, August 1, 1983, and the applicable exercise price per share.

During the period July 2, 1978 through August 1, 1983, all employees of the Corporation as a group (including officers) were granted options for 4,032,110 shares at a weighted average option price per share of \$49.

On September 23, 1983, the closing price of the Corporation's Common Stock on the New York Stock Exchange was \$107 $\frac{3}{4}$.

Description of the 1976 Restricted Stock Option Plan

In 1976 the Board of Directors and the stockholders adopted the 1976 Restricted Stock Option Plan (the "Restricted Plan"). A total of 8,600,000 shares of Common Stock (subject to adjustment for stock splits and the like) in the aggregate may be sold under the Restricted Plan. Not more than 3% of the aggregate number of shares issuable under the Restricted Plan may be sold to any one employee. At August 1, 1983, approximately 7,400 employees were participating in the Restricted Plan.

The Restricted Plan authorizes the grant of non-transferable options to purchase the Corporation's Common Stock to key employees of the Corporation and its subsidiaries coupled with a prohibition against disposition of such shares and a requirement to offer such shares for resale to the Corporation at their purchase price upon termination of employment, which restrictions and obligation of resale lapse from time to time as to portions of the grant (whether or not the option has been exercised), as determined by the Board of Directors or the Compensation and Stock Option Committee of the Board of Directors (the "Committee") which administers and interprets the Restricted Plan. The exercise price of options granted under the Restricted Plan is specified by the Board of Directors, but in no event may this price be less than the lower of (i) 50% of the fair market value per share at the date of grant or (ii) book value per share as of the end of the Corporation's fiscal year immediately preceding the grant date. Options may be granted under the Restricted Plan from time to time through December 31, 1988, the termination date of the Restricted Plan.

Employees, including officers, of the Corporation or any of its subsidiaries, and consultants, are eligible to receive options under the Restricted Plan. Directors who are also employees are eligible to receive options if they are not members of the Committee. Subject to the terms of the Restricted Plan, the Committee has exclusive jurisdiction to select the employees to whom options are granted, to determine the number of shares subject to such options, the time or times when options are to be granted, the rate and time of lapse of restrictions, and other terms. Currently, options granted to U.S. employees are exercisable immediately, terminate in not more than 10 years and 90 days from the date of grant, and are exercisable only while the holder is employed by the Corporation or a subsidiary or after retirement with the consent of the Corporation.

At the time the options are exercised, the Common Stock account is increased by the par value (\$1 per share) of the shares sold and the remaining portion of the proceeds is credited to additional paid-in capital. The excess, if any, of the fair market value of the shares on the grant date over the exercise price is charged to income each year as the restrictions lapse. The amount actually deductible for Federal income tax purposes may exceed the amount charged to income

for financial reporting purposes; any Federal income tax benefit relating to this difference is credited to additional paid-in capital.

The Board of Directors may terminate, modify or suspend the Restricted Plan provided that no modification shall, without stockholder approval, increase the maximum number of shares which may be sold under the Restricted Plan in the aggregate (other than adjustments for stock splits and the like) or the percentage of such number which may be sold to any one person, decrease the minimum exercise price at which options may be granted under the Restricted Plan or extend the period during which options may be granted.

As of August 1, 1983, options for approximately 611,000 shares had been exercised under the Restricted Plan at an average purchase price per share of \$23; options for approximately 3,810,000 shares at an average purchase price per share of \$49 were outstanding with expiration dates ranging from February 10, 1987 to September 29, 1993; and approximately 4,179,000 shares remained available for additional option grants.

An option granted under the Restricted Plan is a non-statutory stock option and is taxed in accordance with Section 83 of the Internal Revenue Code (the "Code") and the regulations issued thereunder. Options granted under the Restricted Plan do not qualify as "incentive stock options" under the Economic Recovery Tax Act of 1981.

The following tax consequences under existing law are applicable to options received and to shares purchased under the Restricted Plan:

1. No taxable income will be realized by the employee at the time the option is granted.
2. If shares are acquired *before* the date on which the restrictions on the shares lapse, the employee will recognize taxable compensation income at such time as the restrictions on the shares lapse, in an amount equal to the difference between the purchase price and the fair market value of the shares on the date of lapse of the restrictions. The holding period for determining long-term capital gains on shares the employee has purchased will begin at such time as all restrictions on the shares lapse.
3. If shares are acquired *before* the date on which the restrictions on the shares lapse, the employee may elect under the Code, within a period not later than 30 days after the date of purchase, to include in gross income for the taxable year in which the employee purchases the shares, an amount equal to the difference between the purchase price and the fair market value of the purchased shares as of the date of such acquisition (determined without regard to any restrictions).

4. If shares are acquired *after* the date on which the restrictions on the shares lapse, the employee will recognize taxable compensation income on the date of exercise in an amount equal to the difference between the purchase price and the fair market value of the shares on the date of exercise.

5. In addition, a sale of shares by the employee will result in recognition of a capital gain or loss in an amount equal to the difference between the amount realized upon the sale of shares and the basis of the shares. This basis is equal to the purchase price for the shares plus the amount recognized by the employee as taxable compensation income. If the employee holds the shares for more than one year, this gain or loss will be long-term capital gain or loss.

6. In general, the Corporation is entitled to a tax deduction in the same amount as the taxable compensation income recognized by the employee.

7. If previously acquired stock is delivered in payment at its current market value when exercising an option, no taxable gain is recognized on the appreciation of the delivered shares.

Description of the 1968 Employee Stock Purchase Plan

In 1968 the Board of Directors and the stockholders adopted an Employee Stock Purchase Plan (the "Employee Plan") for substantially all employees of the Corporation and its participating subsidiaries, other than directors, officers and highly compensated employees. At August 1, 1983, approximately 55,000 employees were eligible to participate in the Employee Plan, and approximately 24,000 employees were participating.

The Employee Plan authorizes the issuance of a maximum of 5,750,000 shares of Common Stock (subject to adjustment for stock splits and the like) pursuant to the exercise of non-transferable options granted to participating employees.

Under the terms of the Employee Plan, the option price is an amount equal to 85% of the fair market value of the stock on the first or last business day of the six-month payment period (the "Payment Period"), whichever is lower (subject to adjustment for stock splits and the like). Options are granted twice yearly on December 1 and June 1, the first days of each Payment Period. The options are exercisable through accumulation of payroll deductions (up to a maximum of 10% of regular base pay) during the Payment Period. At August 1, 1983, approximately 3,477,000 shares had been purchased by employees under the Employee Plan and approximately 2,273,000 shares remained available for additional option grants.

Description of the 1981 International Employee Stock Purchase Plan

In 1981, the Board of Directors and the stockholders adopted the 1981 International Employee Stock Purchase Plan (the "International Plan"). A total of 700,000 shares of Common Stock (subject to adjustment for stock splits and the like) in the aggregate may be sold under the International Plan.

The provisions of the International Plan are substantially the same as the 1968 Employee Stock Purchase Plan described above. The International Plan is intended to extend the benefits of the Employee Plan to employees of selected foreign subsidiaries of the Corporation or branches thereof; directors and officers of the Corporation are excluded. Employees of several foreign subsidiaries presently participate in the Employee Plan, but under present provisions of the United States tax laws it is impractical to extend the benefits of the U.S. tax-qualified Employee Plan to selected branches of foreign subsidiaries. The International Plan is not intended to be a tax-qualified plan under the Internal Revenue Code.

At August 1, 1983, approximately 22,000 shares had been purchased under the International Plan and approximately 678,000 shares remained available for additional option grants.

Description of the 1968 Restricted Stock Purchase Plan

In 1968 the Board of Directors and the stockholders adopted the 1968 Restricted Stock Purchase Plan (the "1968 Plan"). The authority to grant additional options under the 1968 Plan expired upon the adoption by the stockholders of the 1976 Restricted Stock Option Plan. The terms and conditions of the 1968 Plan are substantially the same as the 1976 Restricted Stock Option Plan, except that directors were ineligible to receive options under the 1968 Plan whereas under the Restricted Plan directors who are also employees are eligible to receive options.

As of August 1, 1983, options for approximately 2,572,000 shares had been exercised under the 1968 Plan at an average purchase price per share of \$9 and options for approximately 506,000 shares at an average purchase price per share of \$21 were subject to outstanding options with expiration dates ranging from September 9, 1983 to January 25, 1987.

Description of the Employee Stock Ownership Plan

In 1982, the Board of Directors adopted the Digital Equipment Corporation Employee Stock Ownership Plan (the "ESOP") and established a related trust. Substantially all United States employees will participate in the ESOP. The Corporation intends to make contributions of stock or cash to the trust equivalent to not more than 1/2% of the base salaries (not in excess of \$100,000

salary for any single employee) of all participating employees for calendar years 1983 and 1984 and not more than $\frac{3}{4}\%$ of such base salaries for calendar years 1985, 1986 and 1987. Federal tax law generally allows a tax credit for the Corporation equal to the full value of the contribution.

Stock will be allocated to individual accounts for participating employees in proportion to their included salaries and all allocations will be fully vested. Employees are entitled to vote all shares allocated to their respective accounts. Distributions will be made at death, retirement, termination of employment, or as the ESOP may otherwise provide. Approximately \$7,500 of the Corporation's contribution to the trust for the fiscal year ended July 2, 1983 was for the benefit of officers.

PROPOSAL TO APPROVE AMENDMENTS TO THE 1976 RESTRICTED STOCK OPTION PLAN AND THE 1968 RESTRICTED STOCK PURCHASE PLAN

On August 22, 1983, the Board of Directors voted to amend the 1976 Restricted Stock Option Plan and the 1968 Restricted Stock Purchase Plan to provide for a share transfer method for exercising options, consistent with applicable tax laws and criteria and policies established by the Compensation and Stock Option Committee. Under the share transfer method, an employee may tender previously acquired Common Stock of the Corporation at its current market value in payment when exercising an option, and may further apply the shares acquired upon such exercise to satisfy the exercise price for additional option shares. This share transfer method of exercise will only be available to officers of the Corporation. Officers are subject to the provisions of Section 16(b) of the Securities Exchange Act of 1934 which prevents officers from financing the exercise of options by selling shares of Common Stock of the Corporation in the market within six months of an option exercise. The share transfer method will make certain exemptive provisions under Section 16(b) available to such officers, and will enable the deferral of the recognition of gain, under the Internal Revenue Code, on the appreciation of previously acquired shares delivered in payment when exercising an option. The amendments will become effective only upon approval by the stockholders.

The Board of Directors recommends a vote FOR approving the amendments to the Restricted Plans.

RATIFICATION OF SELECTION OF AUDITORS

The Board of Directors has selected the firm of Coopers & Lybrand, independent public accountants, to serve as auditors for the fiscal year ending June 30, 1984, subject to ratification by the stockholders. Coopers & Lybrand has served as the Corporation's auditors since the organization of the Corporation.

The Board of Directors recommends a vote **FOR** ratification of this selection.

It is expected that a member of the firm of Coopers & Lybrand will be present at the Annual Meeting, will have an opportunity to make a statement if so desired and will be available to respond to appropriate questions.

EXPENSES AND SOLICITATION

The cost of solicitation of proxies will be borne by the Corporation. In addition to soliciting stockholders through its regular employees, the Corporation may request banks and brokers to solicit customers of theirs who have shares of Common Stock of the Corporation registered in the name of a nominee. The Corporation will reimburse such banks and brokers for their reasonable out-of-pocket costs, at the rates suggested by the New York Stock Exchange. Solicitation by officers and employees of the Corporation may also be made of some stockholders in person, or by mail, telephone or telegraph, following the original solicitation.

STOCKHOLDER PROPOSALS FOR NEXT ANNUAL MEETING

Proposals of stockholders intended for inclusion in the proxy statement to be mailed to all stockholders entitled to vote at the next annual meeting of the Corporation must be received at the Corporation's principal executive offices not later than June 25, 1984. In order to curtail controversy as to the date on which a proposal was received by the Corporation, proponents should submit their proposals by Certified Mail—Return Receipt Requested.

September 26, 1983



NOTICE OF 1984 ANNUAL MEETING

September 24, 1984

Dear Fellow Stockholder:

You are cordially invited to attend our Annual Meeting of Stockholders which will be held this year on Thursday, November 1, 1984, at 11:00 A.M., at the Marriott Copley Place Hotel, 110 Huntington Avenue, Boston, Massachusetts.

The notice of meeting and proxy statement which follow describe the business to be conducted at the meeting. We will also give a presentation on the current status of our business.

Whether or not you plan to attend the meeting in person, it is important that your shares be represented and voted. After reading the enclosed Notice of Annual Meeting and Proxy Statement, may I urge you to *complete, sign, date and return* your proxy ballot in the envelope provided. If the address on the accompanying material is incorrect, please advise our Investor Services Department in writing at 111 Powdermill Road, Maynard, Massachusetts 01754.

Your vote is important. We will appreciate a prompt return of your signed proxy ballot and hope to see you at the meeting.

For the Board of Directors,

KENNETH H. OLSEN

President and Chief Executive Officer

DIGITAL EQUIPMENT CORPORATION, 146 MAIN STREET, MAYNARD, MASSACHUSETTS 01754

DIGITAL EQUIPMENT CORPORATION

NOTICE OF 1984 ANNUAL MEETING

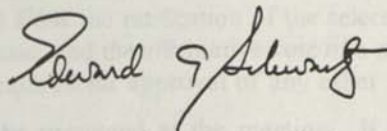
To the Stockholders of DIGITAL EQUIPMENT CORPORATION:

Notice is hereby given that the Annual Meeting of Stockholders of Digital Equipment Corporation, a Massachusetts corporation, will be held on Thursday, November 1, 1984, at 11:00 A.M., at the Marriott Copley Place Hotel, 110 Huntington Avenue, Boston, Massachusetts, for the following purposes:

1. To fix the number of directors at seven and to elect a Board of Directors for the ensuing year.
2. To approve amendments to the 1968 Employee Stock Purchase Plan and the 1981 International Employee Stock Purchase Plan to expand the class of employees eligible to participate therein.
3. To ratify the selection of the firm of Coopers & Lybrand as auditors for the fiscal year ending June 29, 1985.
4. To transact such other business as may properly come before the meeting.

Stockholders entitled to notice of and to vote at the meeting shall be determined as of the close of business on September 7, 1984, the record date fixed by the Board of Directors for such purpose.

By Order of the Board of Directors,



EDWARD A. SCHWARTZ, *Clerk*

September 24, 1984

Stockholders are requested to sign the enclosed proxy card and return it promptly in the enclosed stamped envelope to Digital Equipment Corporation, P.O. Box 490, Maynard, Massachusetts 01754, Att'n: Investor Services Department.

PROXY STATEMENT

INTRODUCTION

Proxies in the form enclosed with this proxy statement are solicited by the Board of Directors of Digital Equipment Corporation (the "Corporation") for use at the 1984 Annual Meeting of Stockholders.

An Annual Report to Stockholders, containing financial statements for the fiscal year ended June 30, 1984, has been sent to all stockholders entitled to vote. This proxy statement and form of proxy were first sent to stockholders on or about the date stated on the accompanying Notice of 1984 Annual Meeting.

Only stockholders of record as of the close of business on September 7, 1984 will be entitled to vote at the meeting and any adjournments thereof. As of that date, 58,048,905 shares of Common Stock of the Corporation were issued and outstanding. Each share outstanding as of the record date will be entitled to one vote, and stockholders may vote in person or by proxy. Execution of a proxy will not in any way affect a stockholder's right to attend the meeting and vote in person. Any stockholder giving a proxy has the right to revoke it at any time before it is exercised by written notice to the Clerk of the Corporation. In addition, stockholders attending the meeting may revoke their proxies at that time.

The persons named as attorneys in the proxies are directors of the Corporation. All properly executed proxies returned in time to be cast at the meeting, if no contrary instruction is indicated, will be voted as stated below under "Election of Directors", will be voted FOR the amendments to the employee stock purchase plans, and will be voted FOR the ratification of the selection of the auditors. Directors are elected by a plurality of votes cast, and the affirmative vote of a majority of the shares present or represented at the meeting is required for approval of any other matter.

The Corporation knows of no other matter to be presented at the meeting. If any other matter should be presented at the meeting upon which a vote properly may be taken, shares represented by all proxies received by the Corporation will be voted with respect thereto in accordance with the judgment of the persons named as attorneys in the proxies.

ELECTION OF DIRECTORS

Nominees for Directors

The directors of the Corporation are elected annually and hold office until the next annual meeting and until their successors have been elected and have qualified. Pursuant to the Corporation's by-laws, the stockholders fix the number of directors at the annual meeting, subject to the authority of the directors to increase the size of the Board. Any stockholder submitting a proxy has the right to withhold authority to vote for any individual nominee to the Board of Directors by writing that nominee's name in the space provided on the proxy. Shares represented by all proxies received by the Corporation and not so marked as to withhold authority to vote for any individual director or for all directors will be voted FOR fixing the number of directors for the ensuing year at seven and FOR the election of the nominees named below. The Corporation knows of no reason why any such nominee should be unable to serve, but if such should be the case, proxies will be voted for the election of some other person, or for fixing the number of directors at a lesser number.

The nominees for directors and further information with respect to each nominee are set forth below.

KENNETH H. OLSEN

Mr. Olsen, age 58, founded Digital Equipment Corporation in 1957 and has served since that time as its President and Chief Executive Officer. Mr. Olsen is also a director of Ford Motor Company, Shawmut Corporation and Polaroid Corporation. He has been a director of Digital Equipment Corporation since 1957.

VERNON R. ALDEN

Mr. Alden, age 61, was formerly Chairman of the Board and Executive Committee of The Boston Company, Inc., managers of financial resources. Mr. Alden is also a director of ARA Services, Inc., Augat, Inc., Colgate-Palmolive Company, McGraw-Hill, Inc., The Mead Corporation, Sonesta International Hotels Corporation and Transatlantic Fund, Inc., an open-end management investment company. He has been a director of Digital Equipment Corporation since 1959 and is a member of its Compensation and Stock Option Committee.

PHILIP CALDWELL

Mr. Caldwell, age 64, is Chairman of the Board and Chief Executive Officer of Ford Motor Company and has been an officer of Ford for over 15 years. Mr. Caldwell is also

a director of Chase Manhattan Corporation and Chase Manhattan Bank. He has been a director of Digital Equipment Corporation since 1980.

ARNAUD DE VITRY

Mr. de Vitry, age 58, is Chairman of the Board and Chief Executive Officer of Eureka SICAV, France, an investment company. He is also a director of Ionics, Incorporated. He has been a director of Digital Equipment Corporation since 1957.

GEORGES F. DORIOT

General Doriot, age 85, is the retired Chairman of the Board of American Research and Development Corporation, a venture capital investment company. He has been a director of Digital Equipment Corporation since 1972 and is a member of its Audit Committee and its Compensation and Stock Option Committee.

WILLIAM H. MCLEAN

Mr. McLean, age 73, is an engineering consultant. He was formerly the Vice President and Dean of Stevens Institute of Technology. He is also a director of National Aviation and Technology Corporation and National Telecommunications & Technology Fund, Inc., an open-end management investment company. He has been a director of Digital Equipment Corporation since 1967 and is a member of its Audit Committee.

DOROTHY E. ROWE

Miss Rowe, age 67, was formerly Senior Vice President and Treasurer of American Research and Development Corporation, a venture capital investment company. She is a member of the Advisory Board of the Boston Five Cents Savings Bank. Miss Rowe has been a director of Digital Equipment Corporation since 1962 and is a member of its Audit Committee and its Compensation and Stock Option Committee.

Stock Ownership of Nominees

Shown below is certain information as of August 1, 1984 with respect to beneficial ownership of shares of the Corporation's Common Stock by all director nominees individually and by all officers and directors of the Corporation as a group. Unless otherwise indicated, the named person possesses sole voting and investment power with respect to the shares.

<u>Beneficial Owner</u>	<u>Shares Beneficially Owned</u>
KENNETH H. OLSEN.....	2,327,520(1)
VERNON R. ALDEN	58,520
PHILIP CALDWELL	100
ARNAUD DE VITRY.....	360,000(2)
GEORGES F. DORiot.....	15,649
WILLIAM H. McLEAN.....	1,200
DOROTHY E. ROWE.....	88,177
All 46 officers and directors as a group, including those named above..	3,502,930(3)

(1) Includes 60,000 shares which Mr. Olsen has the right to acquire by exercise of stock options. Such 2,327,520 shares represent 4.0% of the Corporation's issued and outstanding Common Stock. Does not include 87,100 shares owned by The Stratford Foundation, a private charitable foundation of which Mr. Olsen is the founder and a co-trustee, as to which shares Mr. Olsen disclaims beneficial ownership.

(2) Includes 203,000 shares held by either a financial institution or a nominee in a fiduciary capacity for the benefit of members of Mr. de Vitry's family. Mr. de Vitry disclaims beneficial ownership of such shares.

(3) Includes 514,231 shares which the officers as a group have the right to acquire by exercise of stock options granted under the Corporation's various stock option plans. These 3,502,930 shares represent approximately 6% of the Corporation's issued and outstanding Common Stock, assuming exercise of the stock options.

The Corporation knows of no person who owns beneficially more than 5% of the Common Stock. Each director other than Mr. Olsen owns beneficially less than 1% of the Common Stock.

Certain Relationships and Related Transactions

Kenneth H. Olsen's son, Glen Olsen, is a director, president, and controlling shareholder of Business Systems Applications, Inc., an authorized dealer of Digital Equipment Corporation which does business with Digital Equipment Corporation on the usual terms and conditions for other

authorized dealers. During the fiscal year ended June 30, 1984, Digital Equipment Corporation's total sales to Business Systems Applications, Inc. were approximately \$170,000.

Philip Caldwell's son-in-law is a middle management employee of the Corporation and receives the usual and customary compensation for the position he serves.

Committees of the Board

The Board of Directors has an Audit Committee and a Compensation and Stock Option Committee.

The Audit Committee recommends to the Board of Directors the selection of the independent auditors to be employed by the Corporation, reviews generally the internal and external audit plans and the results thereof, reviews generally the Corporation's internal accounting controls with the internal and external auditors and reviews compliance with the Corporation's policy on non-audit services provided by the independent auditors.

The Compensation and Stock Option Committee reviews and recommends to the Board the compensation of directors and of those officers who are members of the senior management committees, and reviews and recommends to the Board the adoption of any compensation plans in which directors and officers are eligible to participate. The Committee also administers and interprets the Corporation's employee stock option plans and, subject to the provisions of the plans, selects the employees who are to participate in such plans and determines the terms of their participation, subject to Board approval.

The Board of Directors as a whole acts as a Nominating Committee and, consequently, is responsible for nominations to the Board of Directors. The Board of Directors will consider highly qualified candidates proposed in writing by stockholders. Stockholders who wish to propose a nomination should submit the person's name and background information to the Secretary of the Corporation.

The Board of Directors held nine meetings during the fiscal year ended June 30, 1984, the Audit Committee met six times, and the Compensation and Stock Option Committee met twice. All directors attended at least 75% of the total number of meetings of the Board and the committees to which they belong.

EXECUTIVE COMPENSATION AND OTHER INFORMATION

The table below shows all cash compensation for services in all capacities with the Corporation and its subsidiaries rendered during the fiscal year ended June 30, 1984, for the five most highly compensated executive officers of the Corporation and for all executive officers as a group.

Name and Capacities in Which Served	Aggregate Cash Compensation
Kenneth H. Olsen President and Director	\$ 655,000
John J. Shields Vice President	\$ 308,760
Winston R. Hindle, Jr. Vice President	\$ 308,760
John F. Smith Vice President	\$ 308,760
Alfred M. Bertocchi Vice President	\$ 286,964
All 41 executive officers as a group, including those named above(1)(2)	\$6,806,767

(1) Other than as set forth below under "Pension Plans", "Stock Options", and the stock plan descriptions, with respect to the fiscal year ended June 30, 1984, the executive officers of the Corporation received no significant non-cash compensation from the Corporation or its subsidiaries.

(2) Persons who served as executive officers for any part of the fiscal year, and their cash compensation for the part of the fiscal year served, are included.

Compensation of Directors

Each director who is not also an officer of the Corporation is entitled to an annual retainer of \$18,000 for Board service, plus \$800 for each Board meeting and each committee meeting attended. Directors are also reimbursed for out-of-pocket expenses incurred in attending Board and committee meetings. Directors may defer all or any part of their retainer or meeting fees pursuant to a deferred compensation plan which provides for payment including interest when a director leaves the Board.

Pension Plans

The Corporation and its subsidiaries have pension plans covering substantially all of their employees.

Benefits under the Corporation's defined benefit pension plan for its United States employees are based upon the employee's earnings during service with the Corporation and its subsidiaries and are payable after retirement in the form of annuities or lump sum benefits. The annual amount payable upon retirement at age 65 under the present provisions of the plan, without regard to any survivor options, is 1½% of the aggregate cumulative amount of the participant's base salary and wages earned on and after July 1, 1979 plus, for those persons who were plan participants on July 1, 1979, 1½% of the annual average of the participant's compensation between July 1, 1974 and June 30, 1979 multiplied by the number of years of such participant's accredited service prior to July 1, 1979. Under the present provisions of the plan, a participant's annual pension may not exceed the lesser of the maximum allowable dollar limit (\$90,000 for calendar 1984), or 100% of the participant's average compensation for the participant's three highest consecutive years of service with the Corporation.

Employees outside the United States are covered by different pension plans varying from country to country.

Estimated annual retirement benefits at age 65 based on the foregoing formula for the following individuals would be: Mr. Olsen, \$90,000; Mr. Shields, \$90,000; Mr. Hindle, \$90,000; Mr. Smith, \$90,000; and Mr. Bertocchi, \$74,257.

Stock Options

The following table shows as to certain named executive officers, and as to all executive officers as a group including the named executive officers: (i) the number of shares of the Corporation's Common Stock for which options were granted on and between July 1, 1979 and August 1, 1984 and granted on and between July 3, 1983 and August 1, 1984; (ii) the average per share option exercise price thereof and the average per share market price of the Corporation's Common Stock on the dates of grant thereof; (iii) the net value of shares acquired on and between July 1, 1979 and August 1, 1984 and on and between July 3, 1983 and August 1, 1984 upon the exercise of options granted during the periods or prior thereto; and (iv) the number of shares sold on and between July 1, 1979 and August 1, 1984. The Corporation does not grant stock appreciation rights.

Shares of Common Stock	K. H. Olsen	J. J. Shields	W. R. Hindle	J. F. Smith	A. M. Bertocchi	All Executive Officers as a Group(1)
Options Granted 7/1/79 through 8/1/84:						
Number of shares(2)	40,000	25,000	21,000	25,000	16,000	465,420
Average per share exercise price ..	\$56.03	\$61.01	\$54.96	\$61.01	\$52.46	\$56.25
Average per share market price on dates of grant.....	\$86.53	\$89.58	\$84.90	\$89.58	\$84.71	\$89.90
Options Granted 7/3/83 through 8/1/84:						
Number of shares(2)	10,000	8,000	5,000	8,000	-0-	150,700
Average per share exercise price ..	\$63.00	\$63.00	\$63.00	\$63.00	—	\$63.00
Average per share market price on dates of grant.....	\$85.50	\$85.50	\$85.50	\$85.50	—	\$90.89
Options Exercised 7/1/79 through 8/1/84:						
Number of shares.....	-0-	8,600	19,530	11,633	22,287	230,925
Net value realized upon exercise(3)	-0-	\$487,324	\$1,074,902	\$732,054	\$1,432,788	\$15,601,351
Options Exercised 7/3/83 through 8/1/84:						
Number of shares.....	-0-	4,280	11,587	11,633	7,500	98,766
Net value realized upon exercise(3)	-0-	\$253,146	\$750,371	\$732,054	\$488,608	\$6,353,551
Sales 7/1/79 to 8/1/84:						
Number of shares.....	18,000	7,956	27,439	4,360	15,802	140,015

(1) Directors who are not also officers of the Corporation do not participate in the Corporation's stock option plans. Information with respect to the five-year period is shown for all persons who were executive officers of the Corporation on August 1, 1984, and information for the 7/3/83—8/1/84 period is shown for all persons who were executive officers of the Corporation at any time during the period.

(2) All of the options were granted under the Corporation's 1976 Restricted Stock Option Plan. In general, options granted under the Corporation's restricted stock option plans are exercisable in full on the date of grant, but shares purchased thereunder are subject to repurchase at the option of the Corporation at the exercise price, unless such repurchase option has lapsed. Such repurchase option lapses over the life of the grant whether or not the option has been exercised. See "Description of the 1976 Restricted Stock Option Plan" and "Description of the 1968 Restricted Stock Purchase Plan" below.

(3) The net value realized upon exercise of options is the difference between the market value of the shares received upon exercise and the exercise price thereof.

During the period July 1, 1979 through August 1, 1984, all employees of the Corporation as a group (including executive officers) were granted options under the various stock option and purchase plans described below for 5,185,580 shares at a weighted average option price per share of \$56.55.

On September 19, 1984, the closing price of the Corporation's Common Stock on the New York Stock Exchange was \$99¼.

Description of the 1976 Restricted Stock Option Plan

In 1976 the Board of Directors and the stockholders adopted the 1976 Restricted Stock Option Plan (the "Restricted Plan"). A total of 8,600,000 shares of Common Stock (subject to adjustment for stock splits and the like) in the aggregate may be sold under the Restricted Plan. Not more than 3% of the aggregate number of shares issuable under the Restricted Plan may be sold to any one employee. At August 1, 1984, approximately 9,000 employees were participating in the Restricted Plan.

The Restricted Plan authorizes the grant of non-transferable options to purchase the Corporation's Common Stock to key employees of the Corporation and its subsidiaries coupled with a prohibition against disposition of such shares and a requirement to offer such shares for resale to the Corporation at their purchase price upon termination of employment, which restrictions and obligation of resale lapse from time to time as to portions of the grant (whether or not the option has been exercised), as determined by the Board of Directors or the Compensation and Stock Option Committee of the Board of Directors (the "Committee") which administers and interprets the Restricted Plan. The exercise price of options granted under the Restricted Plan is specified by the Board of Directors, but in no event may this price be less than the lower of (i) 50% of the fair market value per share at the date of grant or (ii) book value per share as of the end of the Corporation's fiscal year immediately preceding the grant date. Options may be granted under the Restricted Plan from time to time through December 31, 1988, the termination date of the Restricted Plan.

Employees, including officers, of the Corporation or any of its subsidiaries, and consultants, are eligible to receive options under the Restricted Plan. Directors who are also employees are eligible to receive options if they are not members of the Committee. Subject to the terms of the Restricted Plan, the Committee has exclusive jurisdiction to select the employees to whom options

are granted, to determine the number of shares subject to such options, the time or times when options are to be granted, the rate and time of lapse of restrictions, and other terms. Currently, options granted to U.S. employees are exercisable immediately, terminate in not more than 10 years and 90 days from the date of grant, and are exercisable only while the holder is employed by the Corporation or a subsidiary or after retirement with the consent of the Corporation.

The Board of Directors may terminate, modify or suspend the Restricted Plan provided that no modification shall, without stockholder approval, increase the maximum number of shares which may be sold under the Restricted Plan in the aggregate (other than adjustments for stock splits and the like) or the percentage of such number which may be sold to any one person, decrease the minimum exercise price at which options may be granted under the Restricted Plan or extend the period during which options may be granted.

As of August 1, 1984, options for approximately 853,000 shares had been exercised under the Restricted Plan at an average purchase price per share of \$24.85; options for approximately 4,956,000 shares at an average purchase price per share of \$54.75 were outstanding with expiration dates ranging from February 10, 1987 to September 16, 1994; and approximately 2,791,000 shares remained available for additional option grants.

An option granted under the Restricted Plan is a non-statutory stock option and is taxed in accordance with Section 83 of the Internal Revenue Code (the "Code") and the regulations issued thereunder. Options granted under the Restricted Plan do not qualify as "incentive stock options" under the Code.

Description of the 1968 Employee Stock Purchase Plan

In 1968 the Board of Directors and the stockholders adopted the 1968 Employee Stock Purchase Plan (the "Employee Plan") for substantially all employees of the Corporation and its participating subsidiaries, other than directors, officers and highly compensated employees. At August 1, 1984, approximately 60,000 employees were eligible to participate in the Employee Plan, and approximately 26,000 employees were participating.

The Employee Plan authorizes the issuance of a maximum of 5,750,000 shares of Common Stock (subject to adjustment for stock splits and the like) pursuant to the exercise of non-transferable options granted to participating employees.

Under the terms of the Employee Plan, the option price is an amount equal to 85% of the fair market value of the stock on the first or last business day of the six-month payment period (the "Payment Period"), whichever is lower (subject to adjustment for stock splits and the like).

Options are granted twice yearly on December 1 and June 1, the first days of each Payment Period. The options are exercisable through accumulation of payroll deductions (up to a maximum of 10% of regular base pay) during the Payment Period. At August 1, 1984, approximately 4,421,000 shares had been purchased by employees under the Employee Plan and approximately 1,329,000 shares remained available for additional option grants.

Federal Income Tax Consequences

The following tax consequences under the Code are applicable to options received and shares purchased under the Employee Plan:

1. No taxable income will be realized by the employee either at the time options are granted pursuant to the Employee Plan or at the time of the purchase of the shares.

2. If the employee disposes of the shares two years or more after the date of the beginning of the Payment Period when the employee acquired the shares, then the employee at that time will recognize as taxable compensation income an amount equal to the lesser of:

(a) the excess of the fair market value of the shares on the date of such disposition over the option price, or

(b) 15% of the fair market value of the shares at the beginning of the Payment Period.

In addition, the employee may recognize a long-term gain or loss in an amount equal to the difference between the amount recognized upon the sale of the shares and the basis of the shares (i.e., the purchase price plus the amount, if any, taxed as compensation income).

3. If the employee disposes of the shares within two years after the date of the beginning of the Payment Period when the employee acquired the shares, the employee at that time will recognize taxable compensation income equal to the fair market value of the shares on the date of purchase (the last business day of the applicable Payment Period) less the amount paid for the shares. In addition, the employee will recognize a capital gain or loss in an amount equal to the difference between the amount recognized upon the sale of the shares and the basis of the shares (i.e., in this case, the purchase price plus the amount taxed as compensation income). If the employee holds the shares for the applicable long-term capital gain holding period, this gain or loss will be a long-term capital gain or loss.

4. If the two-year holding period is satisfied, the Corporation will not receive any deduction for Federal income tax purposes with respect to the options or the shares issued

pursuant thereto. If the two-year holding period is not satisfied, the Corporation may be entitled to a deduction in an amount equal to the amount which is considered compensation income.

Description of the 1981 International Employee Stock Purchase Plan

In 1981, the Board of Directors and the stockholders adopted the 1981 International Employee Stock Purchase Plan (the "International Plan"). A total of 700,000 shares of Common Stock (subject to adjustment for stock splits and the like) in the aggregate may be sold under the International Plan.

The provisions of the International Plan are substantially the same as the 1968 Employee Stock Purchase Plan described above. The International Plan was adopted in order to extend the benefits of the Employee Plan to employees of selected foreign subsidiaries of the Corporation or branches thereof, other than directors and officers of the Corporation. Employees of several foreign subsidiaries presently participate in the Employee Plan, but under present provisions of the United States tax laws it is impractical to extend the benefits of the U.S. tax-qualified Employee Plan to selected branches of foreign subsidiaries. The International Plan is not intended to be a tax-qualified plan under the Code. At August 1, 1984, approximately 5,600 employees were eligible to participate in the International Plan, and approximately 1,200 employees were participating.

At August 1, 1984, approximately 67,000 shares had been purchased under the International Plan and approximately 633,000 shares remained available for additional option grants.

In general, foreign tax laws require participants in the International Plan to recognize taxable compensation income on the date of purchase of shares under the International Plan in an amount equal to the difference between the purchase price and the fair market value of the shares on the date of purchase. The foreign subsidiaries of the Corporation which participate in the International Plan generally are entitled to a tax deduction in the same amount as the taxable compensation income recognized by the employee. Because the International Plan is not a U.S. tax-qualified plan, employees of participating foreign subsidiaries who are U.S. citizens or resident aliens also recognize taxable compensation income under the Internal Revenue Code, but are entitled to a tax credit equal to the taxes paid to foreign countries in respect of the options.

Description of the 1968 Restricted Stock Purchase Plan

In 1968 the Board of Directors and the stockholders adopted the 1968 Restricted Stock Purchase Plan (the "1968 Plan"). The authority to grant additional options under the 1968 Plan expired upon the adoption by the stockholders of the 1976 Restricted Stock Option Plan. The terms and conditions of the 1968 Plan are substantially the same as the 1976 Restricted Stock Option Plan, except that directors were ineligible to receive options under the 1968 Plan whereas under the Restricted Plan directors who are also employees are eligible to receive options.

As of August 1, 1984, options for approximately 2,769,000 shares had been exercised under the 1968 Plan at an average purchase price per share of \$9.72 and options for approximately 289,000 shares at an average purchase price per share of \$24.00 were subject to outstanding options with expiration dates ranging from September 8, 1984 to January 25, 1987.

Description of the Employee Stock Ownership Plan

In 1982, the Board of Directors adopted the Digital Equipment Corporation Employee Stock Ownership Plan (the "ESOP") and established a related trust. Substantially all United States employees participate in the ESOP. The Corporation has made a contribution of stock to the trust equivalent to approximately $\frac{1}{2}\%$ of the base salaries (not in excess of \$100,000 in salary for any single employee) of all participating employees for fiscal year 1984 and intends to make contributions of stock or cash to the trust equivalent to $\frac{1}{2}\%$ of such base salaries for fiscal years 1985 through 1987 and for that portion of fiscal year 1988 which is in calendar year 1987. Federal tax law generally allows a tax credit for the Corporation equal to the full value of the contribution.

Contributions are allocated to individual accounts for participating employees in proportion to their included salaries and all allocations are fully vested. Employees are entitled to vote all shares allocated to their respective accounts. Distributions will be made at death, retirement, termination of employment, or as the ESOP may otherwise provide. Approximately \$19,000 of the Corporation's contribution to the trust with respect to the 1984 fiscal year was for the benefit of executive officers.

PROPOSAL TO APPROVE AMENDMENTS TO THE EMPLOYEE PLAN AND THE INTERNATIONAL PLAN

On June 18, 1984, the Board of Directors voted to amend the 1968 Employee Stock Purchase Plan and the 1981 International Employee Stock Purchase Plan by expanding the class of employees eligible to participate under the Plans to include officers of the Corporation and highly compensated employees. The Board of Directors believes it to be in the best interests of the Corporation for such persons to share in the economic and tax benefits afforded by the Employee Plan and the International Plan. The amendments will become effective only upon approval by the stockholders.

The Board of Directors recommends a vote FOR approving the amendments to the employee stock purchase plans.

RATIFICATION OF SELECTION OF AUDITORS

The Board of Directors has selected the firm of Coopers & Lybrand, independent public accountants, to serve as auditors for the fiscal year ending June 29, 1985, subject to ratification by the stockholders. Coopers & Lybrand has served as the Corporation's auditors since the organization of the Corporation.

The Board of Directors recommends a vote FOR ratification of this selection.

It is expected that a member of the firm of Coopers & Lybrand will be present at the Annual Meeting, will have an opportunity to make a statement if so desired and will be available to respond to appropriate questions.

EXPENSES AND SOLICITATION

The cost of solicitation of proxies will be borne by the Corporation. In addition to soliciting stockholders through its regular employees, the Corporation may request banks and brokers to solicit customers of theirs who have shares of Common Stock of the Corporation registered in the name of a nominee. The Corporation will reimburse such banks and brokers for their reasonable out-of-pocket costs, at the rates suggested by the New York Stock Exchange. Solicitation by officers and employees of the Corporation may also be made of some stockholders in person, or by mail, telephone or telegraph, following the original solicitation.

STOCKHOLDER PROPOSALS FOR NEXT ANNUAL MEETING

Proposals of stockholders intended for inclusion in the proxy statement to be mailed to all stockholders entitled to vote at the 1985 annual meeting of stockholders of the Corporation must be received at the Corporation's principal executive offices not later than May 31, 1985. In order to curtail controversy as to the date on which a proposal was received by the Corporation, proponents should submit their proposals by Certified Mail—Return Receipt Requested.

September 24, 1984



NOTICE OF 1985 ANNUAL MEETING

September 18, 1985

Dear Fellow Stockholder:

You are cordially invited to attend our Annual Meeting of Stockholders which will be held this year on Friday, November 8, 1985, at 11:00 A.M., at the Marriott Copley Place Hotel, 110 Huntington Avenue, Boston, Massachusetts.

The notice of meeting and proxy statement which follow describe the business to be conducted at the meeting. We will also give a presentation on the current status of our business.

Whether or not you plan to attend the meeting in person, it is important that your shares be represented and voted. After reading the enclosed Notice of Annual Meeting and Proxy Statement, may I urge you to *complete, sign, date and return* your proxy ballot in the envelope provided. If the address on the accompanying material is incorrect, please advise our Investor Services Department in writing at 111 Powdermill Road, Maynard, Massachusetts 01754.

Your vote is important. We will appreciate a prompt return of your signed proxy ballot and hope to see you at the meeting.

For the Board of Directors,

KENNETH H. OLSEN

President and Chief Executive Officer

DIGITAL EQUIPMENT CORPORATION, 146 MAIN STREET, MAYNARD, MASSACHUSETTS 01754

DIGITAL EQUIPMENT CORPORATION

NOTICE OF 1985 ANNUAL MEETING

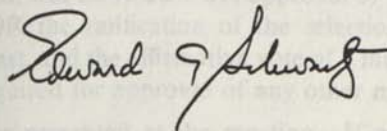
To the Stockholders of DIGITAL EQUIPMENT CORPORATION:

Notice is hereby given that the Annual Meeting of Stockholders of Digital Equipment Corporation, a Massachusetts corporation, will be held on Friday, November 8, 1985, at 11:00 A.M., at the Marriott Copley Place Hotel, 110 Huntington Avenue, Boston, Massachusetts, for the following purposes:

1. To fix the number of directors at seven and to elect a Board of Directors for the ensuing year.
2. To approve an amendment to the 1968 Employee Stock Purchase Plan to increase the number of shares subject thereto by 2,500,000 shares.
3. To approve the 1985 Restricted Stock Option Plan, a copy of which is attached to the accompanying Proxy Statement as Exhibit A.
4. To ratify the selection of the firm of Coopers & Lybrand as auditors for the fiscal year ending June 28, 1986.
5. To transact such other business as may properly come before the meeting.

Stockholders entitled to notice of and to vote at the meeting shall be determined as of the close of business on September 13, 1985, the record date fixed by the Board of Directors for such purpose.

By Order of the Board of Directors,



EDWARD A. SCHWARTZ, *Clerk*

September 18, 1985

Stockholders are requested to sign the enclosed proxy card and return it promptly in the enclosed stamped envelope to Digital Equipment Corporation, P.O. Box 490, Maynard, Massachusetts 01754, Att'n: Investor Services Department.

PROXY STATEMENT

INTRODUCTION

Proxies in the form enclosed with this proxy statement are solicited by the Board of Directors of Digital Equipment Corporation (the "Corporation") for use at the 1985 Annual Meeting of Stockholders.

An Annual Report to Stockholders, containing financial statements for the fiscal year ended June 29, 1985, has been sent to all stockholders entitled to vote. This proxy statement and form of proxy were first sent to stockholders on or about the date stated on the accompanying Notice of 1985 Annual Meeting.

Only stockholders of record as of the close of business on September 13, 1985 will be entitled to vote at the meeting and any adjournments thereof. As of that date, 59,465,225 shares of Common Stock of the Corporation were issued and outstanding. Each share outstanding as of the record date will be entitled to one vote, and stockholders may vote in person or by proxy. Execution of a proxy will not in any way affect a stockholder's right to attend the meeting and vote in person. Any stockholder giving a proxy has the right to revoke it at any time before it is exercised by written notice to the Clerk of the Corporation. In addition, stockholders attending the meeting may revoke their proxies at that time.

The persons named as attorneys in the proxies are directors of the Corporation. All properly executed proxies returned in time to be cast at the meeting, if no contrary instruction is indicated, will be voted as stated below under "Election of Directors", will be voted FOR approval of the amendment to the 1968 Employee Stock Purchase Plan, will be voted FOR approval of the 1985 Restricted Stock Option Plan and will be voted FOR the ratification of the selection of the auditors. Directors are elected by a plurality of votes cast, and the affirmative vote of a majority of the shares present or represented at the meeting is required for approval of any other matter.

The Corporation knows of no other matter to be presented at the meeting. If any other matter should be presented at the meeting upon which a vote properly may be taken, shares represented by all proxies received by the Corporation will be voted with respect thereto in accordance with the judgment of the persons named as attorneys in the proxies.

ELECTION OF DIRECTORS

Nominees for Directors

The directors of the Corporation are elected annually and hold office until the next annual meeting and until their successors have been elected and have qualified. Pursuant to the Corporation's by-laws, the stockholders fix the number of directors at the annual meeting, subject to the authority of the directors to increase the size of the Board. Any stockholder submitting a proxy has the right to withhold authority to vote for any individual nominee to the Board of Directors by writing that nominee's name in the space provided on the proxy. Shares represented by all proxies received by the Corporation and not so marked as to withhold authority to vote for any individual director or for all directors will be voted FOR fixing the number of directors for the ensuing year at seven and FOR the election of the nominees named below. The Corporation knows of no reason why any such nominee should be unable to serve, but if such should be the case, proxies will be voted for the election of some other person, or for fixing the number of directors at a lesser number.

The nominees for directors and further information with respect to each nominee are set forth below.

KENNETH H. OLSEN

Mr. Olsen, age 59, founded Digital Equipment Corporation in 1957 and has served since that time as its President and Chief Executive Officer. Mr. Olsen is also a director of Ford Motor Company, Shawmut Corporation and Polaroid Corporation. He has been a director of Digital Equipment Corporation since 1957.

VERNON R. ALDEN

Mr. Alden, age 62, was formerly Chairman of the Board and Executive Committee of The Boston Company, Inc., managers of financial resources. Mr. Alden is also a director of Augat, Inc., Colgate-Palmolive Company, McGraw-Hill, Inc., Sonesta International Hotels Corporation and Transatlantic Fund, Inc., an open-end management investment company. He has been a director of Digital Equipment Corporation since 1959 and is a member of its Compensation and Stock Option Committee.

PHILIP CALDWELL

Mr. Caldwell, age 65, is Senior Managing Director of Shearson Lehman Brothers Inc. (Lehman Brothers). In 1985, Mr. Caldwell retired as Chairman of the Board and Chief

Executive Officer of Ford Motor Company where he had been an officer for over 15 years. Mr. Caldwell is also a director of Ford Motor Company, Federated Department Stores, Inc. and Kellogg Company. He has been a director of Digital Equipment Corporation since 1980.

ARNAUD DE VITRY

Mr. de Vitry, age 59, is Chairman of the Board and Chief Executive Officer of Eureka SICAV, France, an investment company. He is also a director of Ionics, Incorporated. He has been a director of Digital Equipment Corporation since 1957.

GEORGES F. DORIOT

General Doriot, age 86, is the retired Chairman of the Board of American Research and Development Corporation, a venture capital investment company. He has been a director of Digital Equipment Corporation since 1972 and is a member of its Audit Committee and its Compensation and Stock Option Committee.

WILLIAM H. McLEAN

Mr. McLean, age 74, is an engineering consultant. He was formerly the Vice President and Dean of Stevens Institute of Technology. He is also a director of National Aviation and Technology Corporation and National Telecommunications & Technology Fund, Inc., an open-end management investment company. He has been a director of Digital Equipment Corporation since 1967 and is a member of its Audit Committee.

DOROTHY E. ROWE

Miss Rowe, age 68, was formerly Senior Vice President and Treasurer of American Research and Development Corporation, a venture capital investment company. She is a member of the Advisory Board of the Boston Five Cents Savings Bank. Miss Rowe has been a director of Digital Equipment Corporation since 1962 and is a member of its Audit Committee and its Compensation and Stock Option Committee.

Stock Ownership of Nominees

Shown below is certain information as of August 1, 1985 with respect to beneficial ownership of shares of the Corporation's Common Stock by all director nominees individually and by all officers and directors of the Corporation as a group. Unless otherwise indicated, the named person possesses sole voting and investment power with respect to the shares.

<u>Beneficial Owner</u>	<u>Shares Beneficially Owned</u>
KENNETH H. OLSEN	1,515,899(1)
VERNON R. ALDEN	43,100
PHILIP CALDWELL	100
ARNAUD DE VITRY	360,000(2)
GEORGES F. DORiot	15,649
WILLIAM H. McLEAN	1,200
DOROTHY E. ROWE	88,177
All 48 officers and directors as a group, including those named above..	2,584,109(3)

(1) Includes 60,000 shares which Mr. Olsen has the right to acquire by exercise of stock options. Such 1,515,899 shares represent 2.6% of the Corporation's issued and outstanding Common Stock, assuming exercise of the stock options. Does not include 860,900 shares owned by The Stratford Foundation, a private charitable foundation of which Mr. Olsen is the founder and a co-trustee, as to which shares Mr. Olsen disclaims beneficial ownership.

(2) Includes 157,000 shares held in trust with respect to which Mr. de Vitry does not possess voting power. Also includes 203,000 shares held by either a financial institution or a nominee in a fiduciary capacity for the benefit of members of Mr. de Vitry's family. Mr. de Vitry disclaims beneficial ownership of such 203,000 shares. Mr. de Vitry also owns \$3,000,000 of the Corporation's 8% Convertible Subordinated Debentures Due 2009.

(3) Includes 467,913 shares which the officers as a group have the right to acquire by exercise of stock options granted under the Corporation's various stock option plans. These 2,584,109 shares represent approximately 4.4% of the Corporation's issued and outstanding Common Stock, assuming exercise of the stock options.

The Corporation knows of no person who owns beneficially more than 5% of the Common Stock. Each director other than Mr. Olsen owns beneficially less than 1% of the Common Stock.

Certain Relationships and Related Transactions

As previously noted, Philip Caldwell is Senior Managing Director of Lehman Brothers. During the Corporation's last fiscal year, Lehman Brothers served as the representative of the underwriters in connection with the offer and sale of \$400,000,000 of the Corporation's 8% Convertible Subordinated Debentures Due 2009.

Mr. Caldwell's son-in-law is a middle management employee of the Corporation and receives the usual and customary compensation for the position he serves.

Committees of the Board

The Board of Directors has an Audit Committee and a Compensation and Stock Option Committee.

The Audit Committee recommends to the Board of Directors the selection of the independent auditors to be employed by the Corporation, reviews generally the internal and external audit plans and the results thereof, reviews generally the Corporation's internal accounting controls with the internal and external auditors and reviews compliance with the Corporation's policy on non-audit services provided by the independent auditors.

The Compensation and Stock Option Committee reviews and recommends to the Board the compensation of directors and of those officers who are members of the senior management committees, and reviews and recommends to the Board the adoption of any compensation plans in which directors and officers are eligible to participate. The Committee also administers and interprets the Corporation's employee stock option plans and, subject to the provisions of the plans, selects the employees who are to participate in such plans and determines the terms of their participation, subject to Board approval.

The Board of Directors as a whole acts as a Nominating Committee and, consequently, is responsible for nominations to the Board of Directors. The Board of Directors will consider highly qualified candidates proposed in writing by stockholders. Stockholders who wish to propose a nomination should submit the person's name and background information to the Secretary of the Corporation.

The Board of Directors held nine meetings during the fiscal year ended June 29, 1985, the Audit Committee met six times, and the Compensation and Stock Option Committee met three times. All directors attended at least 75% of the total number of meetings of the Board and the committees to which they belong.

EXECUTIVE COMPENSATION AND OTHER INFORMATION

The table below shows all cash compensation for services in all capacities with the Corporation and its subsidiaries rendered during the fiscal year ended June 29, 1985, for the five most highly compensated executive officers of the Corporation and for all executive officers as a group.

Name and Capacities in Which Served	Aggregate Cash Compensation
Kenneth H. Olsen President and Director	\$ 755,000
John F. Smith..... Vice President	\$ 408,950
John J. Shields Vice President	\$ 408,133
Winston R. Hindle, Jr. Vice President	\$ 405,000
James M. Osterhoff(1) Vice President	\$ 165,116
All 43 executive officers as a group, including those named above(2)(3).....	\$8,063,217

(1) Mr. Osterhoff joined the Corporation in January 1985. On an annualized basis, Mr. Osterhoff is one of the five most highly compensated executive officers of the Corporation.

(2) Other than as set forth below under "Pension Plans", "Stock Options", and the stock plan descriptions, with respect to the fiscal year ended June 29, 1985, the executive officers of the Corporation received no significant non-cash compensation from the Corporation or its subsidiaries.

(3) Persons who served as executive officers for any part of the fiscal year, and their cash compensation for the part of the fiscal year served, are included.

Compensation of Directors

Each director who is not also an officer of the Corporation is entitled to an annual retainer of \$18,000 for Board service, plus \$800 for each Board meeting and each committee meeting attended. Directors are also reimbursed for out-of-pocket expenses incurred in attending Board and committee meetings. Directors may defer all or any part of their retainer or meeting fees pursuant to a deferred compensation plan which provides for payment including interest when a director leaves the Board.

Pension Plans

The Corporation and its subsidiaries have pension plans covering substantially all of their employees.

Benefits under the Corporation's defined benefit pension plan for its United States employees are based upon the employee's earnings during service with the Corporation and its subsidiaries and are payable after retirement in the form of annuities or lump sum benefits. The annual amount payable upon retirement at age 65 under the present provisions of the plan, without regard to any survivor options, is $1\frac{1}{2}\%$ of the aggregate cumulative amount of the participant's base salary and wages earned on and after June 30, 1985 plus, for those persons who were plan participants on June 29, 1985, $1\frac{1}{2}\%$ of the annual average of the participant's compensation between June 29, 1980 and June 29, 1985 multiplied by the number of years of such participant's accredited service prior to June 30, 1985. Under the present provisions of the plan, a participant's annual pension may not exceed the lesser of the maximum allowable dollar limit (\$90,000 for calendar 1985), or 100% of the participant's average compensation for the participant's three highest consecutive years of service with the Corporation.

Employees outside the United States are covered by different pension plans varying from country to country.

Estimated annual retirement benefits at age 65 based on the foregoing formula for the following individuals would be: Mr. Olsen, \$90,000; Mr. Smith, \$90,000; Mr. Shields, \$90,000; Mr. Hindle, \$90,000; and Mr. Osterhoff, \$71,630.

Stock Options

The following table shows as to certain named executive officers, and as to all executive officers as a group including the named executive officers: (i) the number of shares of the Corporation's Common Stock for which options were granted on and between June 29, 1980 and August 1, 1985; (ii) the average per share option exercise price thereof and the average per share market price of the Corporation's Common Stock on the dates of grant thereof; (iii) the net value of shares acquired on and between June 29, 1980 and August 1, 1985 and on and between July 1, 1984 and August 1, 1985 upon the exercise of options granted during the periods or prior thereto; and (iv) the number of shares sold on and between June 29, 1980 and August 1, 1985. The Corporation does not grant stock appreciation rights.

<u>Shares of Common Stock</u>	<u>K. H. Olsen</u>	<u>J. F. Smith</u>	<u>J. J. Shields</u>	<u>W. R. Hindle</u>	<u>J. M. Osterhoff</u>	<u>All Executive Officers as a Group(1)</u>
Options Granted 6/29/80 through 8/1/85(2)(3):						
Number of shares.....	30,000	22,000	22,000	15,000	4,000	375,650
Average per share exercise price	\$65.12	\$65.02	\$65.02	\$65.12	\$69.00	\$61.59
Average per share market price on dates of grant.....	\$92.94	\$92.60	\$92.60	\$92.94	\$109.50	\$94.61
Options Exercised 6/29/80 through 8/1/85:						
Number of shares.....	-0-	11,633	8,600	11,587	-0-	217,485
Net value realized upon exercise(4)	—	\$732,054	\$487,324	\$750,371	—	\$15,234,630
Options Exercised 7/1/84 through 8/1/85:						
Number of shares.....	-0-	-0-	-0-	-0-	-0-	45,510
Net value realized upon exercise(4)	—	—	—	—	—	\$2,929,018
Sales 6/29/80 to 8/1/85:						
Number of shares.....	4,500	7,160	8,346	25,138	-0-	142,250

(1) Directors who are not also officers of the Corporation do not participate in the Corporation's stock option plans. Information with respect to the five-year period is shown for all persons who were executive officers of the Corporation on August 1, 1985, and information for the 7/1/84—8/1/85 period is shown for all persons who were executive officers of the Corporation at any time during the period.

(2) All of the options were granted under the Corporation's 1976 Restricted Stock Option Plan. In general, options granted under the Corporation's restricted stock option plans are exercisable in full on the date of grant, but shares purchased thereunder are subject to repurchase at the option of the Corporation at the exercise price, unless such repurchase option has lapsed. Such repurchase option lapses over the life of the grant whether or not the option has been exercised. See "Description of the 1976 Restricted Stock Option Plan" and "Description of the 1968 Restricted Stock Purchase Plan" below.

(3) Since July 1, 1984, no options have been granted to any of the Corporation's executive officers, except for an option to purchase 4,000 shares, as noted in the above table. In prior years,

officers were considered for grants under the Corporation's 1976 Restricted Stock Option Plan in June. Currently, officers are considered for option grants after the close of the fiscal year.

(4) The net value realized upon exercise of options is the difference between the market value of the shares received upon exercise and the exercise price thereof.

During the period June 29, 1980 through August 1, 1985, all employees of the Corporation as a group (including executive officers) were granted options under the 1976 Restricted Stock Option Plan described below for 5,915,350 shares at a weighted average option price per share of \$63.32, and for 3,518,647 shares under the 1968 Employee Stock Purchase Plan and the 1981 International Employee Stock Purchase Plan described below.

On September 16, 1985, the closing price of the Corporation's Common Stock on the New York Stock Exchange was \$106½.

Stock Plans

The Corporation has adopted several stock incentive plans to attract and retain employees. The 1976 Restricted Stock Option Plan provides a method for offering equity incentives to key employees of the Corporation. The 1968 Employee Stock Purchase Plan and the 1981 International Employee Stock Purchase Plan were adopted for substantially all employees of the Corporation and participating subsidiaries. The Corporation's plans are more specifically described below.

Description of the 1976 Restricted Stock Option Plan

In 1976 the Board of Directors and the stockholders adopted the 1976 Restricted Stock Option Plan (the "1976 Plan"). A total of 8,600,000 shares of Common Stock in the aggregate may be sold under the 1976 Plan. Not more than 3% of the aggregate number of shares issuable under the 1976 Plan may be sold to any one employee. At August 1, 1985, approximately 10,400 employees were participating in the 1976 Plan. Options may be granted under the 1976 Plan from time to time through December 31, 1988, the termination date of the 1976 Plan. However, subject to and upon approval by the stockholders of the 1985 Restricted Stock Option Plan (the "1985 Plan") (see "Proposal to Approve the 1985 Restricted Stock Option Plan"), the authority to grant additional options under the 1976 Plan will terminate. The Board of Directors has reduced the number of shares issuable under the 1976 Plan by 1,100,000 shares, subject to approval by the stockholders of the 1985 Plan.

The 1976 Plan authorizes the grant of non-transferable options to purchase the Corporation's Common Stock to key employees of the Corporation and its subsidiaries coupled with a prohibition against disposition of such shares and a requirement to offer such shares for resale to the Corporation at their purchase price upon termination of employment, which restrictions and obligation of resale lapse from time to time as to portions of the grant (whether or not the option has been exercised), as determined by the Board of Directors or the Compensation and Stock Option Committee of the Board of Directors (the "Committee") which administers and interprets the 1976 Plan. The exercise price of options granted under the 1976 Plan is specified by the Board of Directors, but in no event may this price be less than the lower of (i) 50% of the fair market value per share at the date of grant or (ii) the book value per share as of the end of the Corporation's fiscal year immediately preceding the grant date.

Employees, including officers, of the Corporation or any of its subsidiaries, and consultants, are eligible to receive options under the 1976 Plan. Directors who are also employees are eligible to receive options if they are not members of the Committee. Subject to the terms of the 1976 Plan, the Committee has authority to select the employees to whom options are granted, to determine the number of shares subject to such options, the time or times when options are to be granted, the rate and time of lapse of restrictions, and other terms. Currently, options granted to U.S. employees are exercisable immediately, terminate in not more than 10 years and 90 days from the date of grant, and are exercisable only while the holder is employed by the Corporation or a subsidiary or after retirement with the consent of the Corporation.

As of August 1, 1985, options for 1,183,354 shares had been exercised under the 1976 Plan at an average purchase price per share of \$29.19; options for 5,908,281 shares at an average purchase price per share of \$59.12 were outstanding with expiration dates ranging from February 8, 1987 to September 24, 1995; and 1,508,365 shares remained available for additional option grants.

An option granted under the 1976 Plan is a non-statutory stock option and is taxed in accordance with Section 83 of the Internal Revenue Code (the "Code") and the regulations issued thereunder. Options granted under the 1976 Plan do not qualify as "incentive stock options" under the Code.

Description of the 1968 Employee Stock Purchase Plan

In 1968 the Board of Directors and the stockholders adopted the 1968 Employee Stock Purchase Plan (the "Employee Plan") for substantially all employees of the Corporation and its participating subsidiaries, other than directors of the Corporation. At August 1, 1985, approxi-

mately 65,500 employees were eligible to participate in the Employee Plan, and approximately 29,300 employees were participating.

The Employee Plan authorizes the issuance of a maximum of 5,750,000 shares of Common Stock. The Employee Plan permits employees to purchase shares of the Corporation's Common Stock twice yearly through accumulated payroll deductions, up to a maximum of 10% of regular base pay. The six-month periods June 1 to November 30 and December 1 to May 31 are the payment periods ("Payment Period") during which payroll deductions are accumulated under the Employee Plan. The price at which shares are purchased is an amount equal to 85% of the fair market value of the stock on the first or last business day of the applicable six-month Payment Period, whichever is lower.

At August 1, 1985, 5,243,582 shares had been purchased by employees under the Employee Plan and 506,418 shares remained available.

Federal Income Tax Consequences

The following tax consequences under the Code are applicable to shares purchased under the Employee Plan:

1. No taxable income will be realized by the employee at the time of the purchase of the shares.
2. If the employee disposes of the shares two years or more after the date of the beginning of the Payment Period when the employee acquired the shares, then the employee at that time will recognize as taxable compensation income an amount equal to the lesser of:
 - (a) the excess of the fair market value of the shares on the date of such disposition over the option price, or
 - (b) 15% of the fair market value of the shares at the beginning of the Payment Period.

In addition, the employee may recognize a long-term capital gain or loss in an amount equal to the difference between the amount recognized upon the sale of the shares and the basis of the shares (i.e., the purchase price plus the amount, if any, taxed as compensation income).

3. If the employee disposes of the shares within two years after the date of the beginning of the Payment Period when the employee acquired the shares, the employee at that time will

recognize taxable compensation income equal to the fair market value of the shares on the date of purchase (the last business day of the applicable Payment Period) less the amount paid for the shares. In addition, the employee will recognize a capital gain or loss in an amount equal to the difference between the amount recognized upon the sale of the shares and the basis of the shares (i.e., in this case, the purchase price plus the amount taxed as compensation income). If the employee holds the shares for the applicable long-term capital gain holding period, this gain or loss will be a long-term capital gain or loss.

4. If the two-year holding period is satisfied, the Corporation will not receive any deduction for Federal income tax purposes with respect to the shares issued pursuant to the Employee Plan. Generally, if the two-year holding period is not satisfied, the Corporation will be entitled to a deduction in an amount equal to the amount, if any, which is considered compensation income.

Description of the 1981 International Employee Stock Purchase Plan

In 1981, the Board of Directors and the stockholders adopted the 1981 International Employee Stock Purchase Plan (the "International Plan"). A total of 700,000 shares of Common Stock in the aggregate may be sold under the International Plan.

The provisions of the International Plan are substantially the same as the 1968 Employee Stock Purchase Plan described above. The International Plan was adopted in order to extend the benefits of the Employee Plan to employees of selected foreign subsidiaries of the Corporation or branches thereof, other than directors of the Corporation. Employees of several foreign subsidiaries presently participate in the Employee Plan, but under present provisions of the United States tax laws it is impractical to extend the benefits of the U.S. tax-qualified Employee Plan to selected branches of foreign subsidiaries. The International Plan is not intended to be a tax-qualified plan under the Code. At August 1, 1985, approximately 6,600 employees were eligible to participate in the International Plan, and approximately 2,000 employees were participating.

At August 1, 1985, 113,224 shares had been purchased under the International Plan and 586,776 shares remained available.

Description of the 1968 Restricted Stock Purchase Plan

In 1968 the Board of Directors and the stockholders adopted the 1968 Restricted Stock Purchase Plan (the "1968 Plan"). The authority to grant additional options under the 1968 Plan expired upon the adoption by the stockholders of the 1976 Restricted Stock Option Plan. The terms and conditions of the 1968 Plan are substantially the same as the 1976 Restricted Stock

Option Plan, except that directors were ineligible to receive options under the 1968 Plan whereas under the 1976 Plan directors who are also employees are eligible to receive options.

As of August 1, 1985, options for 2,938,872 shares had been exercised under the 1968 Plan at an average purchase price per share of \$10.51 and options for 114,061 shares at an average purchase price per share of \$24.43 were subject to outstanding options with expiration dates ranging from September 7, 1985 to January 23, 1987.

Description of the Employee Stock Ownership Plan

In 1982, the Board of Directors adopted the Digital Equipment Corporation Employee Stock Ownership Plan (the "ESOP") and established a related trust. Substantially all United States employees participate in the ESOP. The Corporation has made a contribution of stock to the trust equivalent to approximately $\frac{1}{2}\%$ of the base salaries (not in excess of \$100,000 in salary for any single employee) of all participating employees for fiscal year 1985 and intends to make contributions of stock or cash to the trust equivalent to $\frac{1}{2}\%$ of such base salaries for fiscal years 1986 and 1987 and for that portion of fiscal year 1988 which is in calendar year 1987. Federal tax law generally allows a tax credit for the Corporation equal to the full value of the contribution.

Contributions are allocated to individual accounts for participating employees in proportion to their included salaries and all allocations are fully vested. Employees are entitled to vote all shares allocated to their respective accounts. Distributions will be made at death, retirement, termination of employment, or as the ESOP may otherwise provide. Approximately \$18,000 of the Corporation's contribution to the trust with respect to the 1985 fiscal year was for the benefit of executive officers.

PROPOSAL TO AMEND THE 1968 EMPLOYEE STOCK PURCHASE PLAN

On August 19, 1985, the Board of Directors amended the Employee Plan to increase the number of shares subject thereto from 5,750,000 to 8,250,000. The amendment will become effective only upon approval by the stockholders. This increase in shares is needed to enable the Corporation to continue operating the Employee Plan for the benefit of eligible employees.

The Board of Directors recommends a vote FOR approving the amendment to the Employee Plan.

PROPOSAL TO APPROVE THE 1985 RESTRICTED STOCK OPTION PLAN

On August 19, 1985, the Board of Directors adopted the 1985 Restricted Stock Option Plan (the "1985 Plan"), subject to stockholder approval. Upon approval by the stockholders, the 1985 Plan is intended to be the Corporation's principal equity incentive plan for key employees of the Corporation. The 1985 Plan is intended to replace the 1976 Restricted Stock Option Plan (the "1976 Plan"), which is scheduled to expire in December 1988. A total of 9,000,000 shares of Common Stock in the aggregate may be sold under the 1985 Plan. Not more than 3% of the aggregate number of shares issuable under the 1985 Plan may be sold to any one employee. Options may be granted to employees under the 1985 Plan from time to time through December 31, 1990, the termination date of the plan. Upon approval by the stockholders of the 1985 Plan, the authority to grant additional options under the 1976 Plan will terminate. The directors have reduced the number of shares issuable under the 1976 Plan by 1,100,000 shares, subject to approval by the stockholders of the 1985 Plan. However, shares may be issued under options previously granted under the 1976 Plan until the expiration date of such options. As of August 1, 1985, the latest of such dates is September 24, 1995. The complete text of the 1985 Plan is attached hereto as Exhibit A.

Description of the 1985 Restricted Stock Option Plan

The 1985 Plan is intended to provide a method whereby employees of the Corporation and its subsidiaries who are presently making and are expected to continue to make substantial contributions to the successful growth and development of the Corporation may be offered incentives in addition to those of current compensation, future pensions and such stock options as they have been or may be granted, thereby advancing the interests of the Corporation and its stockholders. The basic means whereby this is intended to be accomplished is by the grant of options to purchase the Corporation's Common Stock to key employees of the Corporation and its subsidiaries coupled with a prohibition against disposition of such shares and a requirement to offer such shares for resale to the Corporation at their purchase price upon termination of employment, which restrictions and obligation of resale shall lapse from time to time as to portions of the grant, as determined by the Board of Directors or the Compensation and Stock Option Committee of the Board of Directors (the "Committee") which is to administer and interpret the 1985 Plan.

The exercise price of options granted under the 1985 Plan is specified by the Board of Directors, but in no event may this price be less than the lower of (i) 50% of the fair market value per share at the date of grant or (ii) the book value per share as of the end of the Corporation's fiscal year immediately preceding the grant date. The 1985 Plan contains a provision permitting payment by an officer of the Corporation upon exercise of an option to be made using the

Corporation's Common Stock, as well as cash, in accordance with policies and eligibility criteria established by the Committee.

Employees, including officers, of the Corporation or any of its subsidiaries, and consultants, are eligible to receive options under the 1985 Plan. Directors who are also employees are eligible to receive options if they are not members of the Committee. Subject to the terms of the 1985 Plan, the Committee has authority to select the employees to whom options are granted, to determine the number of shares subject to such options, the time or times when options are to be granted, the rate and time of lapse of restrictions, and other terms. Options may be granted to the same employee on more than one occasion. The Corporation reserves the right under the 1985 Plan to terminate an employee's option with the employee's consent and to substitute one or more options with different terms and conditions, including a lower option price.

At the time the options are exercised, the Common Stock account will be increased by the par value (\$1 per share) of the shares sold and the remaining portion of the proceeds will be credited to additional paid-in capital. A portion of the excess, if any, of the fair market value of the shares on the grant date over the option price will be charged to operations each year as the restrictions lapse. The amount actually deductible for Federal income taxes may exceed the amount to be charged to income for book purposes; any Federal income tax benefits relating to this difference will be credited to additional paid-in capital.

The Board of Directors may terminate, modify or suspend the 1985 Plan provided that no modification shall, without stockholder approval, increase the maximum number of shares which may be sold under the 1985 Plan in the aggregate or the percentage of such number which may be sold to any one person, decrease the minimum exercise price at which options may be granted, or extend the period during which options may be granted under the 1985 Plan.

Federal Income Tax Consequences

An option granted under the 1985 Plan is a non-statutory stock option and is taxed in accordance with Section 83 of the Code and the regulations issued thereunder. Options granted under the 1985 Plan do not qualify as "incentive stock options" under Section 422A of the Code.

The following tax consequences under existing law will be applicable to shares purchased under the 1985 Plan:

1. No taxable income will be realized by the employee at the time the option is granted.
2. If shares are acquired before the date on which restrictions on the shares lapse, the employee will realize ordinary compensation income at such time as the restrictions on the shares

lapse, in an amount equal to the difference between the purchase price and the fair market value of the shares on the date of lapse of the restrictions. The holding period for determining long-term capital gains on shares the employee has purchased will begin at such time as all restrictions on the shares lapse.

3. If shares are acquired before the date on which the restrictions on the shares lapse, the employee may elect (as an alternative to the tax consequences described in (2) above) under the Code, within a period not later than 30 days after the date of purchase, to include in gross income for the taxable year in which the employee purchases the shares, an amount equal to the difference between the purchase price and the fair market value of the purchased shares as of the date of such acquisition (determined without regard to any restrictions). If this election is made, the holding period for determining long-term capital gains on the disposition of shares purchased will begin at the time of purchase. This election may not be revoked, once made, except with the consent of the Internal Revenue Service.

4. If shares are acquired after the date on which the restrictions on the shares lapse, the employee will realize ordinary compensation income on the date of exercise in an amount equal to the difference between the purchase price and the fair market value of the shares on the date of exercise. In such case, the holding period for determining long-term capital gains on the disposition of shares the employee has purchased will begin at the time of purchase.

5. In addition, a sale of shares by the employee will result in recognition of a capital gain or loss in an amount equal to the difference between the amount realized upon the sale of the shares and the basis for the shares. This basis is equal to the purchase price for the shares plus the amount recognized by the employee as taxable compensation income. If the employee holds the shares for more than six months, this gain or loss will be a long-term capital gain or loss.

6. In general, the Corporation will be entitled to a tax deduction in the same amount as the ordinary compensation income realized by the employee.

The Board of Directors recommends a vote FOR approval of the 1985 Restricted Stock Option Plan.

RATIFICATION OF SELECTION OF AUDITORS

The Board of Directors has selected the firm of Coopers & Lybrand, independent public accountants, to serve as auditors for the fiscal year ending June 28, 1986, subject to ratification by the stockholders. Coopers & Lybrand has served as the Corporation's auditors since the organization of the Corporation.

The Board of Directors recommends a vote FOR ratification of this selection.

It is expected that a member of the firm of Coopers & Lybrand will be present at the Annual Meeting, will have an opportunity to make a statement if so desired and will be available to respond to appropriate questions.

AMENDMENT OF BY-LAWS

In May 1985, the Board of Directors amended Article I, Section 1 of the By-laws of the Corporation to provide that the annual meeting of stockholders shall be held on the second Friday of November of each year.

EXPENSES AND SOLICITATION

The cost of solicitation of proxies will be borne by the Corporation. In addition to soliciting stockholders through its regular employees, the Corporation may request banks and brokers to solicit customers of theirs who have shares of Common Stock of the Corporation registered in the name of a nominee. The Corporation will reimburse such banks and brokers for their reasonable out-of-pocket costs, at the rates suggested by the New York Stock Exchange. Solicitation by officers and employees of the Corporation may also be made of some stockholders in person, or by mail, telephone or telegraph, following the original solicitation.

STOCKHOLDER PROPOSALS FOR NEXT ANNUAL MEETING

Proposals of stockholders intended for inclusion in the proxy statement to be mailed to all stockholders entitled to vote at the 1986 annual meeting of stockholders of the Corporation must be received at the Corporation's principal executive offices not later than May 30, 1986. In order to curtail controversy as to the date on which a proposal was received by the Corporation, proponents should submit their proposals by Certified Mail—Return Receipt Requested.

September 18, 1985

EXHIBIT A

1985 RESTRICTED STOCK OPTION PLAN

Section 1—Purpose

The Digital Equipment Corporation 1985 Restricted Stock Option Plan (the "Plan") is intended to provide a method whereby employees of Digital Equipment Corporation (the "Company") and its subsidiaries who are largely responsible for the management and growth of the business, and who are presently making and are expected to continue making substantial contributions to the successful management and growth of the Company and its subsidiaries, may be offered incentives in addition to those presently available and may be stimulated by personal involvement in the fortunes of the Company to continue in the service of the Company and its subsidiaries, thereby advancing the interests of the Company and its stockholders. Accordingly, the Company may, from time to time, grant to such employees as may be selected in the manner hereinafter provided, options to purchase shares of Common Stock of the Company on the terms and conditions hereinafter established.

Section 2—Administration of the Plan

The Plan shall be administered by a committee appointed by the Board of Directors of the Company (the "Committee"). The Committee shall consist of not fewer than three members of the Company's Board of Directors. The Board of Directors may from time to time remove members from or add members to the Committee. Vacancies on the Committee, howsoever caused, shall be filled by the Board of Directors. The Committee shall select one of its members as Chairman and shall hold meetings at such times and places as it may determine. Acts by a majority of the Committee or acts reduced to or approved in writing by a majority of the Committee shall be the valid acts of the Committee.

The interpretation and construction by the Committee of any provisions of the Plan or of any agreement or of other matters related to the Plan shall be final unless otherwise determined by the Board of Directors. The Committee may from time to time adopt such rules and regulations for carrying out the Plan as it may deem best. No member of the Board of Directors or the Committee shall be liable for any action or determination made in good faith with respect to the Plan.

Section 3—Stock Subject to the Plan

The shares to be issued under the Plan shall be made available either from authorized but unissued shares of Common Stock of the Company or from shares of Common Stock held in the Company's treasury, including shares purchased in the open market.

Shares issued under the Plan shall be subject to the terms, conditions and restrictions specified in the Plan and to such other terms, conditions and restrictions as the Board of Directors or the Committee may provide.

Subject to the provisions of the succeeding paragraphs of this Section 3, the aggregate number of shares which may be issued under the Plan shall not exceed nine million (9,000,000) shares, and the aggregate number of shares which may be issued to any one employee under the Plan shall not exceed three percent (3%) of the aggregate number of shares issuable under the Plan.

All shares subject to options that shall have terminated for any reason (other than by surrender for cancellation upon any exercise of all or part of such options), and any shares reacquired by the Company prior to December 31, 1990 pursuant to the provisions hereof, shall again become available for issuance under the Plan.

In the event that the number of outstanding shares of Common Stock of the Company shall be changed by reason of split-ups, combination of shares, reclassifications, recapitalizations or stock dividends, the number and class of shares which may thereafter be available under the Plan shall be appropriately adjusted as determined by the Board of Directors so as to reflect any such change, and in the case of each option outstanding at the time of any such action, the number and class of shares which may thereafter be purchased pursuant to such option and the option price per share shall be appropriately adjusted as determined by the Board of Directors to be necessary to preserve unimpaired the rights of the employee.

Section 4—Issuance of Shares

The price at which shares of Common Stock may be purchased pursuant to the options granted under the Plan shall be specified by the Board of Directors, but in no event shall such price be less than the lesser of: (i) the book value per share of the Common Stock as of the end of the fiscal year of the Company immediately preceding the date of such grant or (ii) 50% of the fair market value per share of the Common Stock on the date of such grant.

Section 5—Eligibility of Purchasers

Options may be granted under the Plan only to employees of the Company or of a subsidiary of the Company. The term “employees” shall include officers as well as other employees of the Company or of a subsidiary of the Company. Solely for the purposes of the Plan, the term “employees” shall also include consultants to the Company and its subsidiaries. Members of the Committee and directors who are not also employees of the Company or of a subsidiary of the Company shall not be eligible to participate in the Plan.

Subject to the provisions of the Plan, the Committee shall have the authority to select the employees who are to participate in the Plan, to determine the options to be granted to each employee, to determine the time or times when options shall be exercisable, and to prescribe the form of option agreements under the Plan and the legend to be affixed to the stock certificates representing shares to be issued.

Subject to the limits as to numbers of shares specified in Section 3, options may be granted to the same employee on more than one occasion.

Section 6—Option Period

Each option under the Plan shall expire on such date as the Board of Directors or the Committee shall determine (“Option Period”), and shall be subject to earlier termination as hereinafter provided.

Section 7—Non-Transferability of Options

No option under the Plan shall be transferable by the employee who is granted such option.

Section 8—Exercise of Options

An employee electing to exercise an option under the Plan shall give written notice to the Company of such election and of the number of shares the employee has elected to acquire. The employee will receive certificates for shares purchased under the Plan or may elect to receive statements of ownership instead. Full payment for shares purchased, together with provision for the amount of any taxes due in respect of the sale and issue thereof, shall be paid at the time of exercise. Until the employee has been issued a certificate or a statement of ownership for shares so acquired, the employee shall possess no stockholder rights with respect to such shares.

Consistent with applicable tax laws, policies and eligibility criteria established by the Committee, an officer may utilize the share transfer method for exercising options, whereby the officer may tender previously acquired Common Stock at its current market value in payment when exercising an option, and may further apply the shares acquired upon such exercise to satisfy the exercise price for additional shares.

Section 9—Termination of Employment

If an employee holding options under the Plan ceases to be employed by the Company or any subsidiary for any reason other than death or retirement with the consent of the Company, his or her unexercised options shall expire upon such termination of employment unless otherwise agreed to in writing by the Company.

Section 10—Death of Employee

If an employee dies during the Option Period, his or her options under the Plan shall thereafter be exercisable only during the two years following his or her death (but in no event after the expiration of the Option Period) by either his or her executor or administrator, or, if not so exercised, by the legatees or the distributees of his or her estate or by such other person or persons to whom the employee's rights under such options shall pass by will or by the applicable laws of descent and distribution, and only as to the number of shares, if any, as to which any such option was exercisable immediately prior to death.

Section 11—Restrictions on Disposition and Obligation of Resale

Shares of Common Stock acquired by an employee pursuant to the exercise of an option under the Plan shall not be sold, transferred, or otherwise disposed of and shall not be pledged or otherwise hypothecated, except as provided below. (Any such sale, transfer or other disposition, or any pledge or other hypothecation shall hereinafter be referred to as a "disposition".) In the event of the termination of employment for any reason except death or retirement with the consent of the Company, such shares shall, except as provided below, be offered for resale to the Company at their original acquisition price. Shares as to which the restrictions against disposition and the obligation of resale to the Company have lapsed in accordance with the provisions set forth below shall be referred to as "free shares". Shares as to which the restrictions against disposition and obligation of resale to the Company have not lapsed as provided below shall be referred to as "restricted shares".

(a) The restrictions against disposition and the obligation of resale to the Company of shares acquired pursuant to the Plan shall lapse as the Board of Directors or the Committee shall determine, and such terms shall be incorporated into and be made a part of the option agreement between the Company and the employee. Any provision for the lapse of the restrictions against disposition and the obligation of resale shall apply with respect to shares subject to an option whether or not the option has been exercised in whole or part as of the date of lapse.

(b) Upon the death of the employee, the restrictions against disposition of shares which have not otherwise lapsed under the Plan shall immediately lapse. Upon the retirement of the employee with the consent of the Company, the restrictions against disposition of shares which

have not otherwise lapsed under the Plan shall lapse in accordance with the schedule set forth in the option agreement covering those shares, or upon such other terms as shall be determined by the Committee or the Board of Directors.

(c) In the event of the termination of employment for any reason except death or retirement with the consent of the Company, shares issued to the employee pursuant to the exercise of an option under the Plan, which shares have not, as of the date of termination of employment, become free shares as defined above, shall become subject to an obligation of immediate resale to the Company. Shares subject to such obligation of resale shall be delivered to the Company within 30 days following the termination of employment. Within 60 days following a timely delivery of shares, the Company will compensate the employee (at the original acquisition price) for such number of shares as the Company elects to purchase and will return to the employee any shares not so purchased, and any such returned shares will thereafter be free shares. Restricted shares which are not delivered to the Company within 30 days following the termination of employment shall remain subject to the restrictions against disposition and such restrictions shall not lapse as otherwise provided in this Section 11 and in the employee's option agreement. Restricted shares represented by statements of ownership shall be deemed to have been delivered to the Company on the date of termination of employment. Nothing in this Section 11 shall require the Company to repurchase shares issued to employees under the Plan.

(d) Notwithstanding any of the foregoing restrictions, any shares acquired under the Plan may at any time be pledged or otherwise hypothecated to secure borrowing by the employee to obtain the acquisition price to be paid by the employee for such shares; provided, however, that the amount of such borrowing may not exceed the acquisition price of such shares.

(e) The provisions of this Section 11 and the provisions of any option agreement between the Company and an employee relating to the restrictions against disposition and the obligation of resale to the Company shall be applied according to their terms or according to such other terms and conditions, or at such other times and dates, as the Board of Directors or the Committee may from time to time establish.

"Retirement with the consent of the Company" as used in this Section 11 shall be determined by the Committee or the Board of Directors, and such determination shall be final. Retirement, including early retirement, under any pension plan of the Company or a subsidiary shall not by itself constitute retirement with the consent of the Company for purposes of the Plan.

Any questions as to whether and when there has been a termination of employment, and (subject to Section 4 of the Plan) any questions as to the acquisition price of shares, shall be determined by the Committee, and its determination of such questions shall be final.

Section 12—Notice of Election Under Section 83(b)

Each employee making an election under Section 83(b) of the 1954 Internal Revenue Code and the Regulations and Rulings promulgated thereunder will provide a copy thereof to the Company within 30 days of the filing of such election with the Internal Revenue Service.

Section 13—Amendments to the Plan

The Board of Directors of the Company may at any time terminate or from time to time modify or suspend the Plan, provided that no such modification without the approval of the stockholders of the Company shall:

(a) increase the maximum number of shares which may be issued under the Plan in the aggregate or the percentage of such number of shares which may be issued to any one employee (except as permitted by the last two paragraphs of Section 3); or

(b) extend the period during which options may be granted under the Plan.

Section 14—Successors and Assigns

The provisions of the Plan shall be binding upon all successors and assigns of an employee acquiring shares under the Plan, including, without limitation, the estate of any such employee and the executors, administrators or trustees of such estate, and any receiver, trustee in bankruptcy or representative of the creditors of any such employee.

Section 15—1976 Restricted Stock Option Plan

Upon approval of the Plan by the stockholders of the Company, the authority to grant additional options under the Company's 1976 Restricted Stock Option Plan ("1976 Plan") shall expire. Options theretofore granted pursuant to the 1976 Plan shall remain exercisable at such times and in such manner as is specified in the option agreements relating thereto or in accordance with such other terms and conditions as the Board of Directors or the Committee shall determine.

Section 16—Termination Date of the Plan

The Plan shall terminate on December 31, 1990; provided, however, that options granted on or before such date shall remain exercisable, in accordance with their respective terms, after the termination of the Plan.



DIGITAL EQUIPMENT CORPORATION

NOTICE OF 1986 ANNUAL MEETING

September 19, 1986

Dear Fellow Stockholder:

You are cordially invited to attend our Annual Meeting of Stockholders which will be held this year on Thursday, November 6, 1986, at 11:00 A.M., at the New England Life Hall, 225 Clarendon Street, Boston, Massachusetts.

The notice of meeting and proxy statement which follow describe the business to be conducted at the meeting. We will also give a presentation on the current status of our business.

We are very pleased that Mr. Robert R. Everett, former President of The Mitre Corporation, is a nominee for election to our Board by our stockholders for the first time.

Whether or not you plan to attend the meeting in person, it is important that your shares be represented and voted. After reading the enclosed Notice of Annual Meeting and Proxy Statement, may I urge you to complete, sign, date and return your proxy ballot in the envelope provided. If the address on the accompanying material is incorrect, please advise our Investor Services Department in writing at 111 Powdermill Road, Maynard, Massachusetts 01754.

Your vote is important. We will appreciate a prompt return of your signed proxy ballot and hope to see you at the meeting.

For the Board of Directors,

KENNETH H. OLSEN
President and Chief Executive Officer

DIGITAL EQUIPMENT CORPORATION, 146 MAIN STREET, MAYNARD, MASSACHUSETTS 01754

DIGITAL EQUIPMENT CORPORATION

NOTICE OF 1986 ANNUAL MEETING

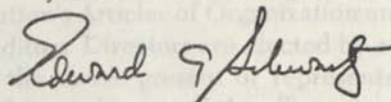
To the Stockholders of DIGITAL EQUIPMENT CORPORATION:

Notice is hereby given that the Annual Meeting of Stockholders of Digital Equipment Corporation, a Massachusetts corporation, will be held on Thursday, November 6, 1986, at 11:00 A.M., at the New England Life Hall, 225 Clarendon Street, Boston, Massachusetts, for the following purposes:

1. To fix the number of directors at eight and to elect a Board of Directors for the ensuing year.
2. To approve an amendment to the Corporation's Articles of Organization to increase the authorized Common Stock, \$1 par value, of the Corporation from 225,000,000 shares to 450,000,000 shares.
3. To ratify the selection of the firm of Coopers & Lybrand as auditors for the fiscal year ending June 27, 1987.
4. To transact such other business as may properly come before the meeting.

Stockholders entitled to notice of and to vote at the meeting shall be determined as of the close of business on September 8, 1986, the record date fixed by the Board of Directors for such purpose.

By Order of the Board of Directors,



EDWARD A. SCHWARTZ, Clerk

September 19, 1986

Stockholders are requested to sign the enclosed proxy card and return it promptly in the enclosed stamped envelope to Digital Equipment Corporation, P.O. Box 490, Maynard, Massachusetts 01754, Att'n: Investor Services Department.

PROXY STATEMENT

INTRODUCTION

Proxies in the form enclosed with this proxy statement are solicited by the Board of Directors of Digital Equipment Corporation (the "Corporation") for use at the 1986 Annual Meeting of Stockholders.

An Annual Report to Stockholders, containing financial statements for the fiscal year ended June 28, 1986, has been sent to all stockholders entitled to vote. This proxy statement and form of proxy were first sent to stockholders on or about the date of the accompanying Notice of 1986 Annual Meeting.

Only stockholders of record as of the close of business on September 8, 1986 will be entitled to vote at the meeting and any adjournments thereof. As of that date, 128,928,057 shares of Common Stock of the Corporation were issued and outstanding. Each share outstanding as of the record date will be entitled to one vote, and stockholders may vote in person or by proxy. Execution of a proxy will not in any way affect a stockholder's right to attend the meeting and vote in person. Any stockholder giving a proxy has the right to revoke it at any time before it is exercised by written notice to the Clerk of the Corporation. In addition, stockholders attending the meeting may revoke their proxies at that time.

The persons named as attorneys in the proxies are directors of the Corporation. All properly executed proxies returned in time to be cast at the meeting, if no contrary instruction is indicated, will be voted as stated below under "Election of Directors", will be voted FOR approval of the proposed amendment to the Corporation's Articles of Organization and will be voted FOR the ratification of the selection of the auditors. Directors are elected by a plurality of votes cast, the affirmative vote of a majority of the shares present or represented at the meeting is required for ratification of the selection of the auditors, and the affirmative vote of a majority of the outstanding shares of Common Stock of the Corporation is required for approval of the amendment to the Articles of Organization.

The Corporation knows of no other matter to be presented at the meeting. If any other matter should be presented at the meeting upon which a vote properly may be taken, shares represented by all proxies received by the Corporation will be voted with respect thereto in accordance with the judgment of the persons named as attorneys in the proxies.

ELECTION OF DIRECTORS

Nominees for Directors

The directors of the Corporation are elected annually and hold office until the next annual meeting and until their successors have been elected and have qualified. Pursuant to the Corporation's By-laws, the stockholders fix the number of directors at the annual meeting subject to the authority of the directors to increase the size of the Board. Any stockholder submitting a proxy has the right to withhold authority to vote for any individual nominee to the Board of Directors by writing the nominee's name in the space provided on the proxy. Shares represented by all proxies received by the Corporation and not so marked as to withhold authority to vote for any individual director or for all directors will be voted FOR fixing the number of directors for the ensuing year at eight and FOR the election of the nominees named below. The Corporation knows of no reason why any such nominee should be unable to serve, but if such should be the case, proxies will be voted for the election of some other person, or for fixing the number of directors at a lesser number.

The nominees for directors and further information with respect to each nominee are set forth below.

KENNETH H. OLSEN

Mr. Olsen, age 60, founded Digital Equipment Corporation in 1957 and has served since that time as its President and Chief Executive Officer. Mr. Olsen is also a director of Ford Motor Company and Polaroid Corporation. He has been a director of Digital Equipment Corporation since 1957.

VERNON R. ALDEN

Mr. Alden, age 63, was formerly Chairman of the Board and Executive Committee of The Boston Company, Inc., managers of financial resources. Mr. Alden is also a director of Augat, Inc., Colgate-Palmolive Company, McGraw-Hill, Inc., Intermet Corporation, Sonesta International Hotels Corporation and Transatlantic Fund, Inc., an open-end management investment company. He has been a director of Digital Equipment Corporation since 1959 and is a member of its Compensation and Stock Option Committee.

PHILIP CALDWELL

Mr. Caldwell, age 66, is Senior Managing Director of Shearson Lehman Brothers Inc. (Lehman Brothers). In 1985, Mr. Caldwell retired as Chairman of the Board and

Chief Executive Officer of Ford Motor Company where he had been an officer for over 15 years. Mr. Caldwell is also a director of Ford Motor Company, Federated Department Stores, Inc. and Kellogg Company. He has been a director of Digital Equipment Corporation since 1980 and is a member of its Audit Committee.

ARNAUD DE VITRY

Mr. de Vitry, age 60, is Chairman of the Board and Chief Executive Officer of Eureka SICAV, France, an investment company. He is also a director of Ionics Incorporated. He has been a director of Digital Equipment Corporation since 1957.

GEORGES F. DORIOT

General Doriot, age 87, is the retired Chairman of the Board of American Research and Development Corporation, a venture capital investment company. He has been a director of Digital Equipment Corporation since 1972 and is a member of its Audit Committee and its Compensation and Stock Option Committee.

ROBERT R. EVERETT

Mr. Everett, age 65, is an engineering consultant. He recently retired as President of The Mitre Corporation, a federal contract research center. Mr. Everett was elected a director of Digital Equipment Corporation by the Board of Directors effective July 1, 1986 and is a member of its Compensation and Stock Option Committee.

WILLIAM H. McLEAN

Mr. McLean, age 75, is an engineering consultant. He was formerly the Vice President and Dean of Stevens Institute of Technology. He is also a director of National Aviation and Technology Corporation and National Telecommunications & Technology Fund, Inc., an open-end management investment company. He has been a director of Digital Equipment Corporation since 1967 and is a member of its Audit Committee.

DOROTHY E. ROWE

Miss Rowe, age 69, was formerly Senior Vice President and Treasurer of American Research and Development Corporation, a venture capital investment company. She is a member of the Advisory Board of the Boston Five Cents Savings Bank. Miss Rowe has been a director of Digital Equipment Corporation since 1962 and is a member of its Audit Committee and its Compensation and Stock Option Committee.

Stock Ownership of Nominees

Shown below is certain information as of August 1, 1986, with respect to beneficial ownership of shares of the Corporation's Common Stock by all director nominees individually and by all officers and directors of the Corporation as a group. All share numbers reflect the two-for-one stock split effected May 9, 1986. Unless otherwise indicated, the named person possesses sole voting and investment power with respect to the shares.

<u>Beneficial Owner</u>	<u>Shares Beneficially Owned</u>
KENNETH H. OLSEN	2,567,370(1)
VERNON R. ALDEN	57,110(2)
PHILIP CALDWELL	200
ARNAUD DE VITRY	772,630(3)
ROBERT R. EVERETT	—0—
GEORGES F. DORIOT	31,298
WILLIAM H. MCLEAN	2,400
DOROTHY E. ROWE	176,354
All 52 officers and directors as a group, including those named above	4,940,638(4)

(1) Includes 170,000 shares which Mr. Olsen has the right to acquire by exercise of stock options. Such 2,567,370 shares represent 2% of the Corporation's issued and outstanding Common Stock, assuming exercise of the stock options. Does not include 2,142,240 shares owned by The Stratford Foundation, a private charitable foundation of which Mr. Olsen is the founder and co-trustee, as to which shares Mr. Olsen disclaims beneficial ownership.

(2) Includes 22,810 shares held by Mr. Alden's wife, as to which shares Mr. Alden disclaims beneficial ownership.

(3) Includes 366,630 shares held in trust with respect to which Mr. de Vitry does not possess voting power. Also includes 406,000 shares held by either a financial institution or a nominee in a fiduciary capacity for the benefit of members of Mr. de Vitry's family. Mr. de Vitry disclaims beneficial ownership of such 406,000 shares.

(4) Includes 1,181,502 shares which the officers as a group have the right to acquire by exercise of stock options granted under the Corporation's various stock option plans. These 4,940,638 shares represent approximately 3.8% of the Corporation's issued and outstanding Common Stock, assuming exercise of the stock options.

The Corporation knows of no person who owns beneficially more than 5% of the Common Stock. Each director other than Mr. Olsen owns beneficially less than 1% of the Common Stock.

Certain Relationships and Related Transactions

As previously noted, Philip Caldwell is Senior Managing Director of Lehman Brothers, the Corporation's investment bankers. Mr. Caldwell's son-in-law is a middle management employee of the Corporation and receives the usual and customary compensation for the position he serves.

Committees of the Board

The Board of Directors has an Audit Committee and a Compensation and Stock Option Committee.

The Audit Committee recommends to the Board of Directors the selection of the independent auditors to be employed by the Corporation, reviews generally the internal and external audit plans and the results thereof, reviews generally the Corporation's internal accounting controls with the internal and external auditors and reviews compliance with the Corporation's policy on non-audit services provided by the independent auditors.

The Compensation and Stock Option Committee reviews and recommends to the Board the compensation of directors and of those officers who are members of the senior management committees, and reviews and recommends to the Board the adoption of any compensation plans in which directors and officers are eligible to participate. The Committee also administers and interprets the Corporation's employee stock option plans and, subject to the provisions of the plans, selects the employees who are to participate in such plans and determines the terms of their participation, subject to Board approval.

The Board of Directors as a whole acts as a Nominating Committee and, consequently, is responsible for nominations to the Board of Directors. The Board of Directors will consider highly qualified candidates proposed in writing by stockholders. Stockholders who wish to propose a nomination should submit the person's name and background information to the Clerk of the Corporation.

The Board of Directors held nine meetings during the fiscal year ended June 28, 1986, the Audit Committee met five times, and the Compensation and Stock Option Committee met three times. All directors attended at least 75% of the total number of meetings of the Board and the committees to which they belong.

EXECUTIVE COMPENSATION AND OTHER INFORMATION

The table below shows all cash compensation for services in all capacities with the Corporation and its subsidiaries rendered during the fiscal year ended June 28, 1986, for the five most highly compensated executive officers of the Corporation and for all executive officers as a group.

<u>Name and Capacities in Which Served</u>	<u>Aggregate Cash Compensation</u>
Kenneth H. Olsen President and Director	\$ 755,003
Winston R. Hindle, Jr. Senior Vice President	\$ 405,002
John J. Shields Senior Vice President	\$ 405,002
John F. Smith Senior Vice President	\$ 405,002
James M. Osterhoff Vice President	\$ 305,019
All 45 executive officers as a group, including those named above(1) (2)	\$8,921,552

(1) Other than as set forth below under "Pension Plans", "Stock Options", and the stock plan descriptions, with respect to the fiscal year ended June 28, 1986, the executive officers of the Corporation received no significant non-cash compensation from the Corporation or its subsidiaries.

(2) Persons who served as executive officers for any part of the fiscal year, and their cash compensation for the part of the fiscal year served, are included.

Compensation of Directors

Each director who is not also an officer of the Corporation is entitled to an annual retainer of \$20,000 for Board service, plus \$1,000 for each Board meeting and each committee meeting attended. Directors are also reimbursed for out-of-pocket expenses incurred in attending Board and committee meetings. Directors may defer all or any part of their retainer or meeting fees pursuant to a deferred compensation plan which provides for payment including interest when a director leaves the Board.

Pension Plans

The Corporation and its subsidiaries have pension plans covering substantially all of their employees.

Benefits under the Corporation's defined benefit pension plan for its United States employees are based upon the employee's earnings during service with the Corporation and its subsidiaries and are payable after retirement in the form of annuities or lump sum benefits. The annual amount payable upon retirement at age 65 under the present provisions of the plan, without regard to any survivor options, is $1\frac{1}{4}\%$ of the aggregate cumulative amount of the participant's base salary and wages earned on and after June 30, 1985 plus, for those persons who were plan participants on June 29, 1985, $1\frac{1}{4}\%$ of the annual average of the participant's compensation between June 29, 1980 and June 29, 1985 multiplied by the number of years of such participant's accredited service prior to June 30, 1985. Under the present provisions of the plan, a participant's annual pension may not exceed the lesser of the maximum allowable dollar limit (\$90,000 for fiscal 1986), or 100% of the participant's average compensation for the participant's three highest paid consecutive years of service with the Corporation.

Employees outside the United States are covered by different pension plans varying from country to country.

Estimated annual retirement benefits at age 65 based on the foregoing formula for the following individuals would be: Mr. Olsen, \$90,000; Mr. Hindle, \$90,000; Mr. Shields, \$90,000; Mr. Smith, \$90,000; and Mr. Osterhoff, \$80,562.

Stock Options

The following table shows as to certain named executive officers, and as to all executive officers as a group including the named executive officers: (i) the number of shares of the Corporation's Common Stock for which options were granted on and between June 30, 1985 and June 28, 1986; (ii) the average per share option exercise price thereof and the average per share market price of the Corporation's Common Stock on the dates of grant thereof; and (iii) the net value of shares acquired on and between June 30, 1985 and June 28, 1986 upon the exercise of options granted during the period or prior thereto. The Corporation does not grant stock appreciation rights. All share numbers reflect the two-for-one stock split effected May 9, 1986.

<u>Shares of Common Stock</u>	<u>K. H. Olsen</u>	<u>W. R. Hindle</u>	<u>J. J. Shields</u>	<u>J. F. Smith</u>	<u>J. M. Osterhoff</u>	<u>All Executive Officers as a Group (1)</u>
Options Granted 6/30/85 through 6/28/86(2):						
Number of shares	50,000	12,000	24,000	24,000	8,000	324,000
Average per share exercise price	\$38.50	\$38.50	\$38.50	\$38.50	\$38.50	\$38.50
Average per share price on dates of grant	\$55.56	\$55.56	\$55.56	\$55.56	\$55.56	\$55.64
Options Exercised 6/30/85 through 6/28/86:						
Number of shares	—0—	—0—	5,700	8,260	—0—	107,184
Net value realized upon exercise(3)	—0—	—0—	\$178,443	\$484,790	—0—	\$5,316,373

(1) Information is shown for all persons who were executive officers of the Corporation at any time during the fiscal year ended June 28, 1986.

(2) Options granted prior to November 8, 1985 were granted under the Corporation's 1976 Restricted Stock Option Plan. Options granted on or after November 8, 1985 were granted under the Corporation's 1985 Restricted Stock Option Plan. In general, options granted under the Corporation's restricted stock option plans are exercisable in full on the date of grant, but shares purchased thereunder are subject to repurchase at the option of the Corporation at the exercise price, unless such repurchase option has lapsed. Such repurchase option lapses over the life of the grant whether or not the option has been exercised. See "Description of the 1985 Restricted Stock Option Plan", "Description of the 1976 Restricted Stock Option Plan" and "Description of the 1968 Restricted Stock Purchase Plan" below.

(3) The net value realized upon exercise of options is the difference between the market value of the shares received upon exercise and the exercise price thereof.

Stock Plans

The Corporation has adopted several stock incentive plans to attract and retain employees. The 1985 Restricted Stock Option Plan provides a method for offering equity incentives to key employees of the Corporation. The 1968 Employee Stock Purchase Plan and the 1981 International Employee Stock Purchase Plan were adopted for substantially all employees of

the Corporation and participating subsidiaries. The Corporation's plans are more specifically described below. All share numbers have been adjusted to reflect the two-for-one stock split effected May 9, 1986.

Description of the 1985 Restricted Stock Option Plan

In 1985 the Board of Directors and the stockholders adopted the 1985 Restricted Stock Option Plan (the "1985 Plan"). A total of 18,000,000 shares of Common Stock in the aggregate may be sold under the 1985 Plan. Not more than 3% of the aggregate number of shares issuable under the 1985 Plan may be sold to any one employee. Options may be granted to employees under the 1985 Plan from time to time through December 31, 1990, the termination date of the 1985 Plan. At August 1, 1986, approximately 7,700 employees were participating in the 1985 Plan.

The 1985 Plan authorizes the grant of non-transferable options to purchase the Corporation's Common Stock to key employees of the Corporation and its subsidiaries coupled with a prohibition against disposition of such shares and a requirement to offer such shares for resale to the Corporation at their purchase price upon termination of employment. The restrictions and obligation of resale lapse from time to time as to portions of the grant (whether or not the option has been exercised), as determined by the Board of Directors or the Compensation and Stock Option Committee of the Board of Directors (the "Committee") which administers and interprets the 1985 Plan.

The exercise price of options granted under the 1985 Plan is specified by the Board of Directors, but in no event may this price be less than the lower of (i) 50% of the fair market value per share at the date of grant or (ii) the book value per share as of the end of the Corporation's fiscal year immediately preceding the grant date. The 1985 Plan contains a provision permitting payment by an officer of the Corporation upon exercise of an option to be made using the Corporation's Common Stock, as well as cash, in accordance with policies and eligibility criteria established by the Committee.

Employees, including officers, of the Corporation or any of its subsidiaries, and consultants, are eligible to receive options under the 1985 Plan. Directors who are also employees are eligible to receive options if they are not members of the Committee. Subject to the terms of the 1985 Plan, the Committee has authority to select the employees to whom options are granted, to determine the number of shares subject to such options, the time or times when options are to be granted, the rate and time of lapse of restrictions, and other terms. Options may be granted to the same employee on more than one occasion. Currently, options granted

to U.S. employees are exercisable immediately, terminate not more than 10 years and 90 days from the date of grant, and are exercisable only while the holder is employed by the Corporation or a subsidiary or after retirement with the consent of the Corporation.

The Board of Directors may terminate, modify or suspend the 1985 Plan, provided that no modification shall, without stockholder approval, increase the maximum number of shares which may be sold under the 1985 Plan in the aggregate or the percentage of such number which may be sold to any one person, decrease the minimum exercise price at which options may be granted, or extend the period during which options may be granted under the 1985 Plan.

An option granted under the 1985 plan is a non-statutory stock option and is taxed in accordance with Section 83 of the Internal Revenue Code (the "Code") and the regulations issued thereunder. Options granted under the 1985 Plan do not qualify as "incentive stock options" under the Code.

As of August 1, 1986, no options had been exercised under the 1985 Plan; options for 2,347,760 shares at an average purchase price per share of \$55.35 were outstanding with expiration dates ranging from February 6, 1996 to September 28, 1996; and 15,652,240 shares remained available for additional option grants.

Description of the 1976 Restricted Stock Option Plan

In 1976 the Board of Directors and the stockholders adopted the 1976 Restricted Stock Option Plan (the "1976 Plan"). The authority to grant additional options under the 1976 Plan expired upon the adoption by the stockholders of the 1985 Plan in November 1985. The terms and conditions of the 1976 Plan are substantially the same as the 1985 Plan.

As of August 1, 1986, options for 3,330,528 shares had been exercised under the 1976 Plan at an average purchase price per share of \$17.58 and options for 11,196,738 shares at an average purchase price per share of \$34.70 were subject to outstanding options with expiration dates ranging from February 9, 1987 to December 22, 1995.

Description of the 1968 Restricted Stock Purchase Plan

In 1968 the Board of Directors and the stockholders adopted the 1968 Restricted Stock Purchase Plan (the "1968 Plan"). The authority to grant additional options under the 1968 Plan expired upon the adoption by the stockholders of the 1976 Restricted Stock Option Plan. The terms and conditions of the 1968 Plan are substantially the same as the 1976 and 1985

Plans except that directors were ineligible to receive options under the 1968 Plan whereas under the 1976 and 1985 Plans directors who are also employees are eligible to receive options.

As of August 1, 1986, options for 6,095,390 shares had been exercised under the 1968 Plan at an average purchase price per share of \$5.50 and options for 3,810 shares at an average purchase price per share of \$10.99 were subject to outstanding options with expiration dates ranging from August 24, 1986 to January 23, 1987.

Description of the 1968 Employee Stock Purchase Plan

In 1968 the Board of Directors and the stockholders adopted the 1968 Employee Stock Purchase Plan (the "Employee Plan") for substantially all employees of the Corporation and its participating subsidiaries, other than directors of the Corporation. At August 1, 1986, approximately 66,400 employees were eligible to participate in the Employee Plan, and approximately 35,000 employees were participating.

The Employee Plan authorizes the issuance of a maximum of 16,500,000 shares of Common Stock. The Employee Plan permits employees to purchase shares of the Corporation's Common Stock twice yearly through accumulated payroll deductions, up to a maximum of 10% of regular base pay. The six-month periods June 1 to November 30 and December 1 to May 31 are the payment periods ("Payment Period") during which payroll deductions are accumulated under the Employee Plan. The price at which shares are purchased is an amount equal to 85% of the fair market value of the stock on the first or last business day of the applicable six-month Payment Period, whichever is lower.

At August 1, 1986, 12,156,440 shares had been purchased by employees under the Employee Plan and 4,343,560 shares remained available.

Description of the 1981 International Employee Stock Purchase Plan

In 1981, the Board of Directors and the stockholders adopted the 1981 International Employee Stock Purchase Plan (the "International Plan"). A total of 1,400,000 shares of Common Stock in the aggregate may be sold under the International Plan.

The provisions of the International Plan are substantially the same as the 1968 Employee Stock Purchase Plan described above. The International Plan was adopted in order to extend the benefits of the Employee Plan to employees of selected foreign subsidiaries of the Corporation or branches thereof, other than directors of the Corporation. Employees of several foreign subsidiaries presently participate in the Employee Plan, but under present

provisions of the United States tax laws it is impractical to extend the benefits of the U.S. tax-qualified Employee Plan to selected branches of foreign subsidiaries. At August 1, 1986, approximately 9,700 employees were eligible to participate in the International Plan, and approximately 4,000 employees were participating.

At August 1, 1986, 384,905 shares had been purchased under the International Plan and 1,015,095 shares remained available.

Description of the Employee Stock Ownership Plan

In 1982, the Board of Directors adopted the Digital Equipment Corporation Employee Stock Ownership Plan (the "ESOP") and established a related trust. Substantially all United States employees participate in the ESOP. The Corporation intends to make contributions of stock or cash to the trust equivalent to $\frac{1}{2}\%$ of the base salaries of all participating employees (not in excess of \$100,000 in salary for any single employee) per year to the extent that Federal tax law allows a tax credit for the Corporation equal to the full value of the contribution.

Contributions are allocated to individual accounts for participating employees in proportion to their included salaries and all allocations are fully vested. Employees are entitled to vote all shares allocated to their respective accounts. Distributions will be made at death, retirement, termination of employment, or as the ESOP may otherwise provide. Approximately \$20,000 of the Corporation's contribution to the trust with respect to the 1986 fiscal year will be for the benefit of executive officers.

PROPOSAL TO AMEND THE ARTICLES OF ORGANIZATION

The Board of Directors has voted to recommend to the stockholders an amendment to the Articles of Organization of the Corporation to increase the Corporation's authorized Common Stock, \$1 par value, from 225,000,000 shares to 450,000,000 shares.

As of August 1, 1986, 128,791,295 shares of Common Stock were issued and outstanding. In addition, approximately 36,906,963 shares of Common Stock were reserved for issuance for the Corporation's various employee stock option and stock purchase plans. As of August 1, 1986, there were approximately 59,301,742 shares authorized and not issued or reserved for issuance. Stockholders of the Corporation do not now have preemptive rights to subscribe for purchase additional shares of the presently authorized Common Stock, and the stockholders will have no preemptive rights to subscribe for or purchase any of the additional shares of Common Stock to be authorized.

If the increase in the number of authorized shares is approved, approximately 284,301,742 shares will be available for issuance by the Board of Directors from time to time for any proper corporate purpose that does not require prior stockholder approval. The Board of Directors has no present plans for the issuance of shares, and there are no present agreements or undertakings with respect thereto, except with respect to shares already reserved for issuance, but it is considered advisable that such shares be authorized so as to be available for prompt issuance should the occasion arise.

The Board of Directors recommends a vote FOR adopting the amendment to the Articles of Organization.

RATIFICATION OF SELECTION OF AUDITORS

The Board of Directors has selected the firm of Coopers & Lybrand, independent public accountants, to serve as auditors for the fiscal year ending June 27, 1987, subject to ratification by the stockholders. Coopers & Lybrand has served as the Corporation's auditors since the organization of the Corporation.

The Board of Directors recommends a vote FOR ratification of this selection.

It is expected that a member of the firm of Coopers & Lybrand will be present at the Annual Meeting, will have an opportunity to make a statement if so desired and will be available to respond to appropriate questions.

AMENDMENT OF BY-LAWS

In November 1985, the Board of Directors amended Article I, Section 1 of the By-laws of the Corporation to provide that the annual meeting of stockholders shall be held on the first Thursday of November of each year.

In June 1986 the Board of Directors amended Article III ("Officers") of the By-laws of the Corporation to authorize the President of the Corporation to appoint employees to titled positions, as he sees fit, and to distinguish between officers elected by the Board of Directors, and these other titled employees.

EXPENSES AND SOLICITATION

The cost of solicitation of proxies will be borne by the Corporation. In addition to soliciting stockholders through its regular employees, the Corporation may request banks and brokers to solicit customers of theirs who have shares of Common Stock of the Corporation registered in the name of a nominee. The Corporation will reimburse such banks and brokers for their reasonable out-of-pocket costs, at the rates suggested by the New York Stock Exchange. Solicitation by officers and employees of the Corporation may also be made of some stockholders in person, or by mail, telephone or telegraph, following the original solicitation.

STOCKHOLDER PROPOSALS FOR NEXT ANNUAL MEETING

Proposals of stockholders intended for inclusion in the proxy statement to be mailed to all stockholders entitled to vote at the 1987 annual meeting of stockholders of the Corporation must be received at the Corporation's principal executive offices not later than May 29, 1987. In order to curtail controversy as to the date on which a proposal was received by the Corporation, proponents should submit their proposals by Certified Mail — Return Receipt Requested.

September 19, 1986



DIGITAL EQUIPMENT CORPORATION

NOTICE OF 1987 ANNUAL MEETING

September 15, 1987

Dear Fellow Stockholder:

You are cordially invited to attend our Annual Meeting of Stockholders which will be held this year on Thursday, November 5, 1987, at 11:00 A.M. at the World Trade Center, Commonwealth Pier, 164 Northern Avenue, Boston, Massachusetts.

The notice of meeting and proxy statement which follow describe the business to be conducted at the meeting. We will also give a presentation on the current status of our business.

Whether or not you plan to attend the meeting in person, it is important that your shares be represented and voted. After reading the enclosed Notice of Annual Meeting and Proxy Statement, may I urge you to complete, sign, date and return your proxy ballot in the envelope provided. If the address on the accompanying material is incorrect, please advise our Investor Services Department in writing at 111 Powdermill Road, Maynard, Massachusetts 01754.

Your vote is important. We will appreciate a prompt return of your signed proxy ballot and hope to see you at the meeting.

For the Board of Directors,

A handwritten signature in black ink, reading "Kenneth H. Olsen".

KENNETH H. OLSEN

President and Chief Executive Officer

Edward A. Schwartz, Clerk

September 15, 1987

Stockholders are requested to sign the enclosed proxy card and return it promptly in the enclosed stamped envelope to Digital Equipment Corporation, P.O. Box 490, Maynard, Massachusetts 01754, Attn: Investor Services Department.

DIGITAL EQUIPMENT CORPORATION, 146 MAIN STREET, MAYNARD, MASSACHUSETTS 01754

DIGITAL EQUIPMENT CORPORATION

NOTICE OF 1987 ANNUAL MEETING

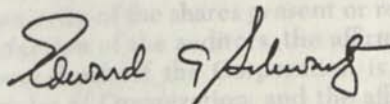
To the Stockholders of DIGITAL EQUIPMENT CORPORATION:

Notice is hereby given that the Annual Meeting of Stockholders of Digital Equipment Corporation, a Massachusetts corporation, will be held on Thursday, November 5, 1987, at 11:00 A.M., at the World Trade Center, Commonwealth Pier, 164 Northern Avenue, Boston, Massachusetts, for the following purposes:

1. To fix the number of directors at seven and to elect a Board of Directors for the ensuing year.
2. To approve an amendment to the Corporation's Restated Articles of Organization to eliminate the personal liability of directors for monetary damages for breach of fiduciary duty under certain circumstances.
3. To approve an amendment to the Corporation's By-laws relating to indemnification of directors, officers and employees.
4. To ratify the selection of the firm of Coopers & Lybrand as auditors for the fiscal year ending July 2, 1988.
5. To transact such other business as may properly come before the meeting.

Stockholders entitled to notice of and to vote at the meeting shall be determined as of the close of business on September 8, 1987, the record date fixed by the Board of Directors for such purpose.

By Order of the Board of Directors,



EDWARD A. SCHWARTZ, Clerk

September 15, 1987

Stockholders are requested to sign the enclosed proxy card and return it promptly in the enclosed stamped envelope to Digital Equipment Corporation, P.O. Box 490, Maynard, Massachusetts 01754, Att'n: Investor Services Department.

PROXY STATEMENT

INTRODUCTION

Proxies in the form enclosed with this proxy statement are solicited by the Board of Directors of Digital Equipment Corporation (the "Corporation") for use at the 1987 Annual Meeting of Stockholders.

An Annual Report to Stockholders, containing financial statements for the fiscal year ended June 27, 1987, has been sent to all stockholders entitled to vote. This proxy statement and form of proxy were first sent to stockholders on or about the date of the accompanying Notice of 1987 Annual Meeting.

Only stockholders of record as of the close of business on September 8, 1987 will be entitled to vote at the meeting and any adjournments thereof. As of that date, 126,755,523 shares of Common Stock of the Corporation (excluding treasury shares) were issued and outstanding. Each share outstanding as of the record date will be entitled to one vote, and stockholders may vote in person or by proxy. Execution of a proxy will not in any way affect a stockholder's right to attend the meeting and vote in person. Any stockholder giving a proxy has the right to revoke it at any time before it is exercised by written notice to the Clerk of the Corporation. In addition, stockholders attending the meeting may revoke their proxies at that time.

The persons named as attorneys in the proxies are directors of the Corporation. All properly executed proxies returned in time to be cast at the meeting, if no contrary instruction is indicated, will be voted as stated below under "Election of Directors", will be voted FOR approval of the proposed amendment to the Corporation's Restated Articles of Organization, will be voted FOR approval of the proposed amendments to the Corporation's By-laws and will be voted FOR the ratification of the selection of the auditors. Directors are elected by a plurality of votes cast, the affirmative vote of a majority of the shares present or represented at the meeting is required for ratification of the selection of the auditors, the affirmative vote of two-thirds of the outstanding shares of Common Stock of the Corporation is required for approval of the amendment to the Restated Articles of Organization, and the affirmative vote of a majority of the outstanding shares of Common Stock is required for approval of the amendment to the By-laws.

The Corporation knows of no other matter to be presented at the meeting. If any other matter should be presented at the meeting upon which a vote properly may be taken, shares represented by all proxies received by the Corporation will be voted with respect thereto in accordance with the judgment of the persons named as attorneys in the proxies.

ELECTION OF DIRECTORS

Nominees for Directors

The directors of the Corporation are elected annually and hold office until the next annual meeting and until their successors have been elected and have qualified. Pursuant to the Corporation's By-laws, the stockholders fix the number of directors at the annual meeting, subject to the authority of the directors to increase the size of the Board. Any stockholder submitting a proxy has the right to withhold authority to vote for any individual nominee to the Board of Directors by writing the nominee's name in the space provided on the proxy. Shares represented by all proxies received by the Corporation and not so marked as to withhold authority to vote for any individual director or for all directors will be voted FOR fixing the number of directors for the ensuing year at seven and FOR the election of the nominees named below. The Corporation knows of no reason why any such nominee should be unable to serve, but if such should be the case, proxies will be voted for the election of some other person, or for fixing the number of directors at a lesser number.

The nominees for directors and further information with respect to each nominee are set forth below.

KENNETH H. OLSEN

Mr. Olsen, age 61, founded Digital Equipment Corporation in 1957 and has served since that time as its President and Chief Executive Officer. Mr. Olsen is also a director of Ford Motor Company and Polaroid Corporation. He has been a director of Digital Equipment Corporation since 1957.

VERNON R. ALDEN

Mr. Alden, age 64, was formerly Chairman of the Board and Executive Committee of The Boston Company, Inc., managers of financial resources. Mr. Alden is also a director of Augat, Inc., Colgate-Palmolive Company, McGraw-Hill, Inc., Internet Corporation and Sonesta International Hotels Corporation. He has been a director of Digital Equipment Corporation since 1959 and is a member of its Compensation and Stock Option Committee.

PHILIP CALDWELL

Mr. Caldwell, age 67, is Senior Managing Director of Shearson Lehman Brothers Inc. In 1985, Mr. Caldwell retired as Chairman of the Board and Chief Executive Officer of Ford Motor Company where he had been an officer for over 15 years. Mr. Caldwell is

also a director of Ford Motor Company, Federated Department Stores, Inc. and Kellogg Company. He has been a director of Digital Equipment Corporation since 1980 and is a member of its Audit Committee and Compensation and Stock Option Committee.

ARNAUD DE VITRY

Mr. de Vitry, age 61, is Chairman of the Board and Chief Executive Officer of Eureka SICAV, France, an investment company. He is also a director of Ionics Incorporated. He has been a director of Digital Equipment Corporation since 1957.

ROBERT R. EVERETT

Mr. Everett, age 66, is an engineering consultant. He retired as President of The Mitre Corporation, a federal contract research center, in 1986. Mr. Everett has been a director of Digital Equipment Corporation since 1986 and is a member of its Compensation and Stock Option Committee.

WILLIAM H. McLEAN

Mr. McLean, age 76, is an engineering consultant. He was formerly the Vice President and Dean of Stevens Institute of Technology. He is also a director of National Aviation and Technology Corporation and National Telecommunications & Technology Fund, Inc., an open-end management investment company. He has been a director of Digital Equipment Corporation since 1967 and is a member of its Audit Committee.

DOROTHY E. ROWE

Miss Rowe, age 70, was formerly Senior Vice President and Treasurer of American Research and Development Corporation, a venture capital investment company. She is a member of the Advisory Board of the Boston Five Cents Savings Bank. Miss Rowe has been a director of Digital Equipment Corporation since 1962 and is a member of its Audit Committee and its Compensation and Stock Option Committee.

Stock Ownership of Nominees

Shown below is certain information as of August 1, 1987, with respect to beneficial ownership of shares of the Corporation's Common Stock by all director nominees individually and by all officers and directors of the Corporation as a group. Unless otherwise indicated, the named person possesses sole voting and investment power with respect to the shares.

<u>Beneficial Owner</u>	<u>Shares Beneficially Owned</u>
KENNETH H. OLSEN	2,581,416(1)
VERNON R. ALDEN	56,230(2)
PHILIP CALDWELL	200
ARNAUD DE VITRY	620,000(3)
ROBERT R. EVERETT	100
WILLIAM H. MCLEAN	2,400
DOROTHY E. ROWE	176,354
All 47 officers and directors as a group, including those named above	4,750,507(4)

(1) Includes 140,000 shares which Mr. Olsen has the right to acquire by exercise of stock options. Such 2,581,416 shares represent 2% of the Corporation's issued and outstanding Common Stock, assuming exercise of the stock options. Does not include 2,108,745 shares owned by The Stratford Foundation, a private charitable foundation of which Mr. Olsen is the founder and co-trustee, as to which shares Mr. Olsen disclaims beneficial ownership.

(2) Includes 22,870 shares held by Mr. Alden's wife, as to which shares Mr. Alden disclaims beneficial ownership.

(3) Includes 264,000 shares held in trust with respect to which Mr. de Vitry does not possess voting power. Also includes 356,000 shares held by either a financial institution or a nominee in a fiduciary capacity for the benefit of members of Mr. de Vitry's family. Mr. de Vitry disclaims beneficial ownership of such 356,000 shares.

(4) Includes 1,129,388 shares which the officers as a group have the right to acquire by exercise of stock options granted under the Corporation's stock option plans. These 4,750,507 shares represent approximately 3.8% of the Corporation's issued and outstanding Common Stock, assuming exercise of the stock options.

The Corporation knows of no person who owns beneficially more than 5% of the Common Stock. Each director other than Mr. Olsen owns beneficially less than 1% of the Common Stock.

Certain Relationships and Related Transactions

As previously noted, Philip Caldwell is Senior Managing Director of Shearson Lehman Brothers, Inc., the Corporation's investment bankers. Mr. Caldwell's son-in-law is a middle management employee of the Corporation and receives the usual and customary compensation for the position he serves.

In addition to his service as a director, Robert Everett also performs consulting services for the Company for which he receives reasonable and customary fees.

Committees of the Board

The Board of Directors has an Audit Committee and a Compensation and Stock Option Committee.

The Audit Committee recommends to the Board of Directors the selection of the independent auditors to be employed by the Corporation, reviews generally the internal and external audit plans and the results thereof, reviews generally the Corporation's internal accounting controls with the internal and external auditors and reviews compliance with the Corporation's policy on non-audit services provided by the independent auditors.

The Compensation and Stock Option Committee reviews and recommends to the Board the compensation of directors and of those officers who are members of the senior management committees, and reviews and recommends to the Board the adoption of any compensation plans in which directors and officers are eligible to participate. The Committee also administers and interprets the Corporation's employee stock plans and, subject to the provisions of the plans, selects the employees who are to participate in such plans and determines the terms of their participation, subject to Board approval.

The Board of Directors as a whole acts as a Nominating Committee and, consequently, is responsible for nominations to the Board of Directors. The Board of Directors will consider highly qualified candidates proposed in writing by stockholders. Stockholders who wish to propose a nomination should submit the person's name and background information to the Clerk of the Corporation.

The Board of Directors held nine meetings during the fiscal year ended June 27, 1987, the Audit Committee met five times, and the Compensation and Stock Option Committee met three times. All directors attended at least 75% of the total number of meetings of the Board and the committees to which they belong.

EXECUTIVE COMPENSATION AND OTHER INFORMATION

The table below shows all cash compensation for services in all capacities with the Corporation and its subsidiaries rendered during the fiscal year ended June 27, 1987, for the five most highly compensated executive officers of the Corporation and for all executive officers as a group.

<u>Name and Capacities in Which Served</u>	<u>Aggregate Cash Compensation</u>
Kenneth H. Olsen	\$ 905,706
President and Director	
John J. Shields	\$ 512,233
Senior Vice President	
John F. Smith	\$ 511,114
Senior Vice President	
Winston R. Hindle, Jr.	\$ 460,627
Senior Vice President	
James M. Osterhoff	\$ 359,062
Vice President	
All 44 executive officers as a group, including those named above (1) (2)	\$10,771,548

(1) Other than as set forth below under "Pension Plans", "Stock Options", and the stock plan descriptions, with respect to the fiscal year ended June 27, 1987, the executive officers of the Corporation received no significant non-cash compensation from the Corporation or its subsidiaries.

(2) Persons who served as executive officers for any part of the fiscal year, and their cash compensation for the part of the fiscal year served, are included.

Compensation of Directors

Each director who is not also an employee of the Corporation is entitled to an annual retainer of \$20,000 for Board service, plus \$1,000 for each Board meeting and each committee meeting attended. Directors are also reimbursed for out-of-pocket expenses incurred in attending Board and committee meetings. Directors may defer all or any part of their retainer or meeting fees pursuant to a deferred compensation plan, amended and restated in May 1987. Pursuant to the plan, non-employee directors of the Corporation may elect to defer receipt of all or a specified portion of their compensation in the form of cash with an interest rate related to Treasury bills or in the form of units, the value of each unit initially being equal to the fair market value of one share of the Common Stock of the Corporation on the date the compensation being deferred would otherwise be payable. The plan provides that compensation deferred under the plan, whether in the form of cash or units, will be paid out in cash after termination of service as a director. Directors may elect that compensation so deferred be paid out in a lump sum or in up to ten annual installments. Payment of compensation deferred under the plan commences in January of the year following the year in which service as a director terminates, except that earlier or accelerated distributions may be made in certain events of unforeseeable emergency.

Pursuant to a retirement plan for non-employee directors adopted in May 1987, each non-employee director of the Corporation on the date of adoption of the plan, and every other non-employee director who is 70 years of age or older and who has completed at least five years of service on the Board, is entitled upon termination of service to an annualized benefit for life which is equal to the annual retainer for non-employee directors in effect on the date of termination of service. The plan also provides for coordinated disability benefits for all non-employee directors equal to the annual retainer in effect on the date of total disability.

Pension Plans

The Corporation and its subsidiaries have pension plans covering substantially all of their employees.

Benefits under the Corporation's defined benefit pension plan for its United States employees are based upon the employee's earnings during service with the Corporation and its subsidiaries and are payable after retirement in the form of annuities or lump sum benefits. The annual amount payable upon retirement at age 65 under the present provisions of the plan, without regard to any survivor options, is 1½% of the aggregate cumulative amount of the participant's base salary and wages earned on and after June 30, 1985 plus, for those persons who were plan participants on June 29, 1985, 1½% of the annual average of the participant's

compensation between June 29, 1980 and June 29, 1985 multiplied by the number of years of such participant's accredited service prior to June 30, 1985. Under the present provisions of the plan, a participant's annual pension may not exceed the lesser of the maximum allowable dollar limit (\$90,000 for fiscal 1987), or 100% of the participant's average compensation for the participant's three highest paid consecutive years of service with the Corporation.

Employees outside the United States are covered by different pension plans varying from country to country.

Estimated annual retirement benefits at age 65 based on the foregoing formula for the following individuals would be: Mr. Olsen, \$90,000; Mr. Shields, \$90,000; Mr. Smith, \$90,000; Mr. Hindle, \$90,000; and Mr. Osterhoff, \$80,562.

Stock Options

The following table shows as to certain named executive officers, and as to all executive officers as a group including the named executive officers: (i) the number of shares of the Corporation's Common Stock for which options were granted on and between June 29, 1986 and June 27, 1987; (ii) the average per share option exercise price thereof; (iii) the average per share market price of the Corporation's Common Stock on the dates of grant thereof; and (iv) the net value of shares acquired on and between June 29, 1986 and June 27, 1987 upon the exercise of options granted during the period or prior thereto. The Corporation does not grant stock appreciation rights.

Shares of Common Stock	K. H. Olsen	J. J. Shields	J. F. Smith	W. R. Hindle	J. M. Osterhoff	All Executive Officers as a Group (1)
Options Granted 6/29/86 through 6/27/87 (2)						
Number of shares	30,000	15,000	15,000	8,000	8,000	223,200
Average per share exercise price	\$56.00	\$56.00	\$56.00	\$56.00	\$56.00	\$56.00
Average per share price on dates of grant	\$96.69	\$96.69	\$96.69	\$96.69	\$96.69	\$96.69
Options Exercised 6/29/86 through 6/27/87:						
Number of shares	—	720	—	1,600	—	71,924
Net value realized upon ex- ercise (3)	—	\$113,565	—	\$239,067	—	\$5,855,061

(1) Information is shown for all persons who were executive officers of the Corporation at any time during the fiscal year ended June 27, 1987.

(2) All of the options were granted under the Corporation's 1985 Restricted Stock Option Plan at exercise prices which were less than 100% of the fair market value of the Common Stock on the grant dates. In general, options granted under the Corporation's restricted stock option plans are exercisable in full on the date of grant, but shares purchased thereunder are subject to repurchase at the option of the Corporation at the exercise price, unless such repurchase option has lapsed. Such repurchase option lapses over the life of the grant whether or not the option has been exercised. See "Description of the 1985 Restricted Stock Option Plan" and "Description of the 1976 Restricted Stock Option Plan."

(3) The net value realized upon exercise of options is the difference between the market value of the shares received upon exercise and the exercise price thereof.

Stock Plans

The Corporation has adopted several stock incentive plans to attract and retain employees. The 1985 Restricted Stock Option Plan provides a method for offering equity incentives to key employees of the Corporation. The 1968 Employee Stock Purchase Plan and the 1981 International Employee Stock Purchase Plan were adopted for substantially all employees of the Corporation and participating subsidiaries. The Corporation's plans are more specifically described below.

Description of the 1985 Restricted Stock Option Plan

In 1985 the Board of Directors and the stockholders adopted the 1985 Restricted Stock Option Plan (the "1985 Plan"). A total of 18,000,000 shares of Common Stock in the aggregate may be sold under the 1985 Plan. Not more than 3% of the aggregate number of shares issuable under the 1985 Plan may be sold to any one employee. Options may be granted to employees under the 1985 Plan from time to time through December 31, 1990, the termination date of the 1985 Plan. At August 1, 1987, approximately 8,000 employees were participating in the 1985 Plan.

The 1985 Plan authorizes the grant of non-transferable options to purchase the Corporation's Common Stock to key employees of the Corporation and its subsidiaries coupled with a prohibition against disposition of such shares and a requirement to offer such shares for resale

to the Corporation at their purchase price upon termination of employment. The restrictions and obligation of resale lapse from time to time as to portions of the grant (whether or not the option has been exercised), as determined by the Board of Directors or the Compensation and Stock Option Committee of the Board of Directors (the "Committee") which administers and interprets the 1985 Plan.

The exercise price of options granted under the 1985 Plan is specified by the Board of Directors, but in no event may this price be less than the lower of (i) 50% of the fair market value per share at the date of grant or (ii) the book value per share as of the end of the Corporation's fiscal year immediately preceding the grant date. The 1985 Plan contains a provision permitting payment by an officer of the Corporation upon exercise of an option to be made using the Corporation's Common Stock, as well as cash, in accordance with policies and eligibility criteria established by the Committee.

Employees, including officers, of the Corporation or any of its subsidiaries, and consultants, are eligible to receive options under the 1985 Plan. Directors who are also employees are eligible to receive options if they are not members of the Committee. Subject to the terms of the 1985 Plan, the Committee has authority to select the employees to whom options are granted, to determine the number of shares subject to such options, the time or times when options are to be granted, the rate and time of lapse of restrictions, and other terms. Options may be granted to the same employee on more than one occasion. Currently, options granted to U.S. employees are exercisable immediately, terminate not more than 10 years and 90 days from the date of grant, and are exercisable only while the holder is employed by the Corporation or a subsidiary or after retirement with the consent of the Corporation.

The Board of Directors may terminate or amend the 1985 Plan, provided that no amendment shall, without stockholder approval, increase the maximum number of shares which may be sold under the 1985 Plan in the aggregate or the percentage of such number which may be sold to any one person, decrease the minimum exercise price at which options may be granted, or extend the period during which options may be granted under the 1985 Plan.

An option granted under the 1985 Plan is a non-statutory stock option and is taxed in accordance with Section 83 of the Internal Revenue Code (the "Code") and the regulations issued thereunder. Options granted under the 1985 Plan do not qualify as "incentive stock options" under the Code.

As of August 1, 1987, options for 44,804 shares had been exercised under the 1985 Plan at an average exercise price per share of \$53.81; options for 2,785,669 shares at an average exercise price per share of \$55.67 were outstanding with expiration dates ranging from February 6, 1996 to September 13, 1997; and 15,169,527 shares remained available for additional option grants.

Description of the 1976 Restricted Stock Option Plan

In 1976 the Board of Directors and the stockholders adopted the 1976 Restricted Stock Option Plan (the "1976 Plan"). The authority to grant additional options under the 1976 Plan expired upon the adoption by the stockholders of the 1985 Plan in November 1985. The terms and conditions of the 1976 Plan are substantially the same as the 1985 Plan.

As of August 1, 1987, options for 4,500,739 shares had been exercised under the 1976 Plan at an average exercise price per share of \$19.41 and options for 9,830,417 shares at an average exercise price per share of \$30.99 were outstanding with expiration dates ranging from September 18, 1987 to December 22, 1995.

Description of the 1968 Restricted Stock Purchase Plan

In 1968 the Board of Directors and the stockholders adopted the 1968 Restricted Stock Purchase Plan (the "1968" Plan). The authority to grant additional options under the 1968 Plan expired upon the adoption by the stockholders of the 1976 Restricted Stock Option Plan. The terms and conditions of the 1968 Plan are substantially the same as the 1976 and 1985 Plans except that directors were ineligible to receive options under the 1968 Plan whereas under the 1976 and 1985 Plans directors who are also employees are eligible to receive options.

As of August 1, 1987, options for 6,099,200 shares had been exercised under the 1968 Plan at an average exercise price per share of \$5.50. There are no longer any options outstanding under the 1968 Plan.

Description of the 1968 Employee Stock Purchase Plan

In 1968 the Board of Directors and the stockholders adopted the 1968 Employee Stock Purchase Plan (the "Employee Plan") for substantially all employees of the Corporation and its participating subsidiaries, other than directors of the Corporation. At August 1, 1987, approximately 72,600 employees were eligible to participate in the Employee Plan, and approximately 47,500 employees were participating.

The Employee Plan authorizes the issuance of a maximum of 16,500,000 shares of Common Stock. The Employee Plan permits employees to purchase shares of the Corporation's Common Stock twice yearly through accumulated payroll deductions, up to a maximum of 10% of regular base pay. The six-month periods June 1 to November 30 and December 1 to May 31 are the payment periods ("Payment Period") during which payroll deductions are accumulated under the Employee Plan. The price at which shares are purchased is an amount equal to 85% of the fair market value of the stock on the first or last business day of the applicable six-month Payment Period, whichever is lower.

At August 1, 1987, 13,400,619 shares had been purchased by employees under the Employee Plan and 3,099,381 shares remained available.

Description of the 1981 International Employee Stock Purchase Plan

In 1981, the Board of Directors and the stockholders adopted the 1981 International Employee Stock Purchase Plan (the "International Plan"). A total of 1,400,000 shares of Common Stock in the aggregate may be sold under the International Plan.

The provisions of the International Plan are substantially the same as the 1968 Employee Stock Purchase Plan described above. The International Plan was adopted in order to extend the benefits of the Employee Plan to employees of selected foreign subsidiaries of the Corporation or branches thereof, other than directors of the Corporation. Employees of several foreign subsidiaries presently participate in the Employee Plan, but under present provisions of the United States tax laws it is impractical to extend the benefits of the U.S. tax-qualified Employee Plan to selected branches of foreign subsidiaries. At August 1, 1987, approximately 13,300 employees were eligible to participate in the International Plan, and approximately 6,600 employees were participating.

At August 1, 1987, 561,423 shares had been purchased under the International Plan and 838,577 shares remained available.

Description of the Employee Stock Ownership Plan

In 1982, the Board of Directors adopted the Digital Equipment Corporation Employee Stock Ownership Plan (the "ESOP") and established a related trust. The ESOP and related trust were terminated and plan assets distributed in May 1987 as a result of the elimination of the tax credit allowable to the Corporation equal to the full value of the Corporation's contributions of stock or cash to the trust.

Substantially all United States employees participated in the ESOP. Contributions were allocated to individual accounts for participating employees in proportion to their included salaries and all allocations were fully vested. Approximately \$10,175 of the Corporation's contribution to the trust with respect to the 1987 fiscal year was for the benefit of executive officers.

PROPOSAL TO AMEND THE CORPORATION'S RESTATED ARTICLES OF ORGANIZATION RELATING TO DIRECTORS' LIABILITY

The Board of Directors has unanimously voted to recommend to the stockholders of the Corporation for their approval a proposal to amend Article Six of the Corporation's Restated Articles of Organization to eliminate the personal liability of the Corporation's directors to the Corporation or its stockholders for monetary damages for claims arising out of the breach of their fiduciary duty of care.

The proposed amendment to Article Six is consistent with Section 13(b) of Chapter 156B of the Massachusetts General Laws ("Chapter 156B") enacted by the Massachusetts legislature in December 1986, which is designed, among other things, to encourage qualified individuals to serve as directors of Massachusetts corporations by permitting such corporations to include in their Articles of Organization a provision eliminating or limiting directors' liability for monetary damages for breach of their duty of care. This new legislation is also believed to be in response to recent changes in the market for directors' liability insurance, principally due to the significant rise in the number and magnitude of lawsuits against directors, with the consequence that such insurance has become increasingly more expensive and unavailable on traditional terms, if available at all.

According to published sources, the inability of corporations to provide meaningful director and officer liability insurance has had a damaging effect on the ability of public corporations to recruit and retain corporate directors. Although the Corporation has not experienced a problem in obtaining directors and officers liability insurance or in recruiting and retaining directors, the Corporation's Board of Directors believes that the Corporation should take every possible step to ensure that the Corporation will continue to be able to attract the most qualified officers and directors.

Section 13(b) of Chapter 156B is an enabling provision only. An amendment to the Articles of Organization approved by a vote of two-thirds of the Common Stock outstanding is required to effect any limitation or elimination of liability. The Board believes it prudent and appropriate to amend the Restated Articles of Organization to the extent permitted by the

legislation. The purpose of the proposed amendment and the reason it is being recommended to stockholders is to ensure that the Corporation will continue to be able to retain and attract individuals of high quality and ability to serve as its directors.

Description of Proposal

The proposed amendment would amend Article Six of the Corporation's Restated Articles of Organization by adding the following provision:

No director shall be personally liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director notwithstanding any provision of law imposing such liability; provided, that, to the extent required by applicable law, this provision shall not eliminate or limit the liability of a director (i) for any breach of the director's duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under section sixty-one or sixty-two of Chapter 156B of the Massachusetts General Laws, or (iv) for any transaction from which the director derived an improper personal benefit. This provision shall not eliminate the liability of a director for any act or omission occurring prior to the date upon which this provision becomes effective. No amendment to or repeal of this provision shall apply to or have any adverse effect upon the liability or alleged liability of any director for or with respect to any acts or omissions of such director occurring prior to such amendment or repeal.

Under Massachusetts law, directors stand in a fiduciary relationship to the Corporation and its stockholders, owing a duty of loyalty and care in the management of the Corporation's affairs. These require that a director perform his duties in good faith and in a manner he reasonably believes to be in the best interests of the Corporation, and with such care as an ordinarily prudent person in a like position would use under similar circumstances. In an action by the Corporation or its stockholders for the breach of a fiduciary duty, a director could be subject to monetary damages and equitable remedies. The proposed amendment would eliminate the right the Corporation or its stockholders might have to recover monetary damages against a director for a breach of the duty of care, such as a grossly negligent business decision, including such a decision in connection with any sale of, or attempt by any party to acquire, the Corporation. With regard to directors who are also officers of the Corporation, the proposed amendment will apply to their conduct as directors only and will not affect the right that the Corporation or its stockholders might have to recover monetary damages for such individuals' conduct in their capacity as officers. The right to pursue non-monetary

equitable remedies for such a breach, such as injunctions and rescissions of contracts, would remain unaffected, although equitable remedies may not be as meaningful in certain circumstances as the ability to recover monetary damages, and, in some circumstances, may be totally ineffective to remedy a breach of duty.

Moreover, the amendment would not eliminate or omit the liability of directors (1) for breaches of their duty of loyalty to the Corporation or its stockholders; (2) for acts or omissions not in good faith or which involve intentional misconduct or knowing violation of law; (3) under Sections sixty-one or sixty-two (relating to unauthorized distributions by the Corporation and to loans to officers or directors, respectively) of Chapter 156B of the Massachusetts General Laws; or (4) for any transaction from which the director derived an improper personal benefit. Additionally, the amendment would have no effect on directors' liabilities under Federal securities laws. Finally, under the law, this provision does not eliminate or limit the liability of a director for any act or omission occurring prior to the date upon which such provision becomes effective. There is currently no litigation pending or, to the best of the Corporation's knowledge, threatened, involving the Board of Directors or any of its members which would be affected by the proposed amendment were it currently in effect.

The Corporation is not aware of any judicial interpretation to date of the validity, scope or extent of this new Massachusetts statutory provision relating to directors' liability; accordingly, the potential outcome of any litigation arising out of interpretations of the statute is uncertain.

Adoption of the proposed amendment may discourage or deter stockholders or management from bringing a lawsuit against directors for breach of fiduciary duty of care, including grossly negligent business decisions, even though such an action, if successful, might otherwise have benefited the Corporation and its stockholders. In light of the foregoing, the directors may be considered to have an interest which is adverse to the Corporation inasmuch as they may directly benefit from the adoption of the proposed amendment to the detriment of the other stockholders. However, the directors believe they are acting in good faith and in a manner they reasonably believe to be in the best interests of the Corporation in proposing this amendment.

Proposed Action

Approval of the proposed amendment would require the affirmative vote of the holders of at least two-thirds of the outstanding shares of Common Stock of the Corporation entitled to

vote at the meeting. The Board of Directors recommends a vote FOR the approval of the proposed amendment.

PROPOSAL TO AMEND BY-LAWS RELATING TO INDEMNIFICATION OF DIRECTORS AND OFFICERS

The Board of Directors has unanimously voted to approve and to recommend to the stockholders of the Corporation for their approval and adoption a proposal to amend Article V, Section 2 of the Corporation's By-laws (i) to clarify the scope of indemnification under the By-law and (ii) to authorize the Board of Directors to cause the Corporation to enter into agreements with directors and officers of the Corporation indemnifying such persons for certain expenses and liabilities which they may incur as a result of their service with the Corporation. As so amended, Article V, Section 2 of the By-laws will read as set forth in Exhibit A-1 to this Proxy Statement. Approval of the amendment to the By-laws requires the affirmative vote of the holders of a majority of the shares of Common Stock outstanding and entitled to vote at the meeting.

Article V, Section 2 of the By-laws relates to indemnification of directors, officers and employees of the Corporation. The proposed amendment to the By-laws does not change the class of persons indemnified thereunder, but permits the directors to authorize the Corporation to enter into individual indemnification agreements with directors and officers. The proposed changes to the present indemnification By-law (which is designated as Section 2(a) in Exhibit A-1) are primarily of a technical nature and are discussed further below.

If the amendment to the By-laws is approved, the Corporation intends to enter into indemnification agreements, in substantially the form of the Indemnification Agreement set forth in Exhibit A-2 to this Proxy Statement, with each of its directors and officers. In addition, the Corporation expects to enter into Indemnification Agreements with individuals who become directors and officers in the future. Although the implied authority to enter into indemnification agreements already exists under the Corporation's By-law indemnification provisions, the Board of Directors nonetheless believes it desirable to submit the proposed by-law amendment to the stockholders for approval because Board members will be among the intended beneficiaries of the proposed Indemnification Agreement. Stockholders voting to approve the proposed by-law amendment may later be estopped from challenging the validity of the Indemnification Agreement or any other future agreements with provisions substantially similar to those contained in the Indemnification Agreement. If the amendment to the By-laws is not approved, the Board of Directors will consider whether, in any event, to enter into such

agreements notwithstanding the failure to obtain stockholder approval or to propose the same or similar action to the stockholders at a later date. At the present time, no decision has been made as to which course of action the Corporation would take.

Description of Proposal

The proposed amendment would add a new subparagraph (b) to Article V, Section 2 of the Corporation's By-laws, as set forth in Exhibit A-1 to this Proxy Statement. Under the terms of this provision, the Board of Directors would be authorized to cause the Corporation to enter into agreements with a director or officer of the Corporation providing indemnification by the Corporation to such persons not inconsistent with the terms of Article V, Section 2.

The form of Indemnification Agreement which the Board of Directors intends to cause the Corporation to enter into with each of its directors and officers provides that the Corporation will pay certain expenses incurred by a director or officer in connection with any threatened, pending or completed action, suit, arbitration or proceeding, whether civil, criminal, administrative, or investigative, and specifically including action by or in the name of the Corporation ("derivative suits"), where the individual's involvement is by reason of the fact that he or she is or was a director or officer. Such amounts include attorneys' fees and other expenses customarily incurred in connection with legal proceedings as well as judgments, fines and amounts paid in settlement. Indemnification would be available for actions, suits, arbitrations or proceedings commenced after the effective date of the Indemnification Agreement. A director or officer will not receive indemnification if the director or officer is found not to have acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Corporation.

The Corporation's By-laws provide, as does the Indemnification Agreement, that the Corporation shall indemnify directors and officers for certain expenses and liabilities which they may incur as a result of their service with the Corporation. However, the Indemnification Agreement provides a number of procedures, presumptions and remedies used in the determination of the right of the director or officer to indemnification. The Indemnification Agreement would cover parties with respect to acts and omissions occurring prior to adoption of the proposed amendment. The Corporation has not received any notice of, nor does the Corporation know of, any threatened or pending claim or proceeding against any director or officer which would give rise to a claim for indemnification under the Indemnification Agreement.

The Indemnification Agreement provides that if an action against an indemnified party is dismissed, with or without prejudice, the defense is deemed to have been successful and indemnification is required to be made. The Indemnification Agreement also provides that litigation expenses must be advanced within twenty days of any request against an undertaking to repay if the payee is ultimately determined not to be entitled to indemnification. A determination of entitlement must be made within sixty days of an indemnification request; otherwise a determination in favor of the indemnified party is deemed to have been made. If there is a change in control of the Corporation (as defined in the Indemnification Agreement), the indemnified party is presumed to be entitled to indemnification (although the Corporation may overcome this presumption), and the indemnified party may require that independent counsel (as defined in the Indemnification Agreement) make the determination of entitlement and may choose such counsel, subject to objection by the Corporation on limited grounds specified in the Indemnification Agreement relating to the independence of the counsel specified by the indemnified party. If a determination of entitlement is made, the Corporation is bound, but if the indemnified party is denied indemnification pursuant to the terms of the Indemnification Agreement he or she is entitled to seek a de novo determination from a court. The indemnified party is entitled to enforce the Indemnification Agreement in court and the Corporation is precluded from challenging the validity of the procedures and presumptions contained in the Indemnification Agreement. In the event that large damage awards are rendered against any director or officer who is entitled to indemnification under the Indemnification Agreement, and such award is not covered by directors and officers liability insurance, the Corporation would be obligated to expend corporate funds to satisfy its obligations under the Indemnification Agreement, which expenditures could affect the investment of stockholders in the Corporation. Similarly, if the Corporation were not to maintain directors and officers liability insurance, the Corporation would be obligated to expend corporate funds to satisfy its obligations under the Indemnification Agreement.

Although many of the terms of the Indemnification Agreement are not explicitly sanctioned by Section 67 of the Massachusetts Business Corporation Law, which sets forth standards for indemnification of directors and officers of Massachusetts corporations, Section 67 is by its terms nonexclusive. Therefore, it is expected that the Indemnification Agreement will be enforceable if a court concludes that the agreement is reasonable and consistent with the public policy underlying the limitations expressed in the statute. As a result of the Corporation's By-laws and the terms of the proposed Indemnification Agreement, the Corporation may not have an effective recourse against a director or officer who is found liable to the Corporation in a derivative action brought against such person on behalf of the

Corporation. Although indemnification of directors and officers under such circumstances may be found by a court to be unenforceable for reasons of public policy, the Corporation is not aware of any precedents under Massachusetts law which would require such a finding should a director or officer of the Corporation seek to enforce his rights to indemnification under the By-laws and the Indemnification Agreement. The Indemnification Agreements may be amended from time to time by mutual consent, without further stockholder approval, to reflect changes in Massachusetts law or for other reasons, provided that the terms of any such amendments are not inconsistent with the Corporation's Articles of Organization or By-laws.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers or persons controlling the Corporation pursuant to the foregoing provisions, the Corporation has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy and is therefore unenforceable. In the event that such a claim for indemnification were to arise with regard to litigation under the Federal securities laws, the question of whether such indemnification is enforceable may have to be resolved by a court of appropriate jurisdiction.

Indemnification agreements such as the form proposed by the Corporation's Board of Directors offer directors and officers of the Corporation significantly greater assurance that they will be indemnified for actions taken in good faith and in a manner they reasonably believed to be in the best interests of the Corporation. In light of the foregoing, both the directors and officers of the Corporation may be considered to have an interest which is adverse to the Corporation inasmuch as they may directly benefit from the adoption of the proposed amendment to the detriment of the other stockholders. The Indemnification Agreements may not be unilaterally revised or repealed by the Corporation in the event of a change in composition or philosophy of the Board of Directors, whether resulting from a change in control or otherwise.

The proposed changes to the present indemnification By-law, Article V, Section 2 (which is designated as Section 2(a) in Exhibit A-1) are primarily of a technical nature. The changes include the following:

- (i) Including an express reference in the by-law to indemnification of "amounts paid in settlement." The Corporation has in the past deemed amounts paid in settlement as liabilities.
- (ii) Replacing the word "corporation" with the word "organization" with respect to indemnification by the Corporation for service on an entity other than the Corpora-

tion. This change represents a potential expansion of the scope of indemnification, to the extent an individual serves at the request of the Corporation on another entity not organized as a corporation.

- (iii) Providing that the Corporation shall indemnify directors, officers and employees who serve at the Corporation's request with respect to an employee benefit plan, as permitted by Section 67 of Chapter 156B of the Massachusetts General Laws.
- (iv) Providing in the by-law that indemnification may include payment of expenses in advance of final disposition of an action as permitted by Massachusetts law and in accordance with the Corporation's historical practice.
- (v) Modifying the settlement section of the by-law to achieve greater flexibility for the Corporation and to assure that the by-law will not be inconsistent with the proposed indemnification agreements.

Proposed Action

Approval of the proposed amendment to Article V, Section 2 of the Corporation's By-laws requires the affirmative vote of the holders of a majority of the outstanding shares of Common Stock of the Corporation entitled to vote at the meeting. The Board of Directors recommends a vote FOR the approval of the amendment to the By-laws.

RATIFICATION OF SELECTION OF AUDITORS

The Board of Directors has selected the firm of Coopers & Lybrand, independent public accountants, to serve as auditors for the fiscal year ending July 2, 1988, subject to ratification by the stockholders. Coopers & Lybrand has served as the Corporation's auditors since the organization of the Corporation.

The Board of Directors recommends a vote FOR ratification of this selection.

It is expected that a member of the firm of Coopers & Lybrand will be present at the Annual Meeting, will have an opportunity to make a statement if so desired and will be available to respond to appropriate questions.

AMENDMENT OF BY-LAWS

In December 1986, the Board of Directors amended the By-laws to provide that the annual meeting shall be held on a date fixed by the Directors between October 15 and November 15 in each year; to permit irrevocable proxies as contemplated by the Massachusetts Business Corporation Law; to allow the directors, without amendment of the corporate charter, to vote to restore previously reacquired shares to the status of authorized but unissued shares and to provide that notice of stockholders' meetings shall be given by the Clerk or an Assistant Clerk at least seven days before the meeting or such longer period as required by law.

EXPENSES AND SOLICITATION

The cost of solicitation of proxies will be borne by the Corporation. In addition to soliciting stockholders through its regular employees, the Corporation may request banks and brokers to solicit customers of theirs who have shares of Common Stock of the Corporation registered in the name of a nominee. The Corporation will reimburse such banks and brokers for their reasonable out-of-pocket costs, at the rates suggested by the New York Stock Exchange. Georgeson & Company Inc., New York, New York, has been retained by the Corporation to assist with the solicitation of proxies at a fee estimated not to exceed \$20,000. Solicitation by officers and employees of the Corporation may also be made of some stockholders in person, or by mail, telephone or telegraph, following the original solicitation.

STOCKHOLDER PROPOSALS FOR NEXT ANNUAL MEETING

Proposals of stockholders intended for inclusion in the proxy statement to be mailed to all stockholders entitled to vote at the 1988 annual meeting of stockholders of the Corporation must be received at the Corporation's principal executive offices not later than May 27, 1988. In order to curtail controversy as to the date on which a proposal was received by the Corporation, proponents should submit their proposals by Certified Mail — Return Receipt Requested.

September 15, 1987

EXHIBIT A-1

2. *Indemnification.* (a) Each director, officer and employee shall be indemnified by this corporation against any cost, expense (including attorneys' fees), judgment, liability and/or amount paid in settlement reasonably incurred by or imposed upon him in connection with any action, suit or proceeding (including any proceeding before any administrative or legislative body or agency), to which he may be made a party or otherwise involved or with which he shall be threatened, by reason of his being, or related to his status as, a director, officer, or employee of this corporation or of any other organization which he serves or has served as director, officer or employee at the request of this corporation, or which he serves or has served at the request of this corporation in any capacity with respect to any employee benefit plan (whether or not he continues to be a director, officer or employee of the corporation or such other organization, or whether or not he is continuing to serve in any capacity with respect to any employee benefit plan, at the time such action, suit or proceeding is brought or threatened), except with respect to matters as to which he shall be finally adjudicated in any such action, suit or proceeding not to have acted in good faith in the reasonable belief that his action was in the best interest of the corporation or, to the extent that such matter relates to service with respect to an employee benefit plan, in the best interests of the participants or beneficiaries of such plan. Unless otherwise provided by the corporation, in the event of settlement of any action, suit or proceeding brought or threatened, such indemnification shall be limited to matters covered by the settlement as to which the corporation is advised by independent counsel (which may be the counsel regularly employed by the corporation) that such person, in the opinion of such counsel, acted in good faith in the reasonable belief that his action was in the best interest of the corporation, or, to the extent that such matter relates to service with respect to an employee benefit plan, in the best interests of the participants or beneficiaries of such plan. The foregoing right of indemnification shall be in addition to any rights to which any such person may otherwise be entitled and shall inure to the benefit of the executors or administrators of each such person. The corporation may pay the expenses incurred by any such person in defending a civil or criminal action, suit or proceeding in advance of the final disposition of such action, suit or proceeding, upon receipt of an undertaking by such person to repay such amount if it is determined that such person is not entitled to indemnification hereunder or otherwise, which undertaking may be accepted without reference to the financial ability of such person to make repayment. This section 2(a) shall be subject to amendment or repeal only by action of the stockholders.

(b) The directors may, without stockholder approval, authorize the corporation to enter into agreements, including any amendments or modifications thereto, with any of its directors, officers or other persons described in paragraph (a) providing for indemnification of such persons to the maximum extent permitted under applicable law and the corporation's Articles of Organization and By-laws.

1. Services by Indemnified Person. Indemnified Person agrees to serve or continue to serve as a director or officer of the Company for so long as he is duly elected or appointed or until his contract removal, death or written resignation.

2. Indemnification and Advancement. Indemnified Person shall be entitled to be reimbursed for all expenses incurred by him or on his behalf in connection with the defense of any action, suit or proceeding in which he is involved.

3.1 The Company shall advance all expenses incurred by or on behalf of Indemnified Person in connection with any proceeding or proceedings by or against Indemnified Person and by an undertaking to repay all expenses advanced to the extent Indemnified Person shall be adjudged liable to repay to the Company pursuant to Section 2.2 or 2.3. The obligation to advance expenses shall be accepted without reference to Indemnified Person's financial ability to repay.

2.2. Except as specifically provided in Sections 2.1, 2.3 and 2.3.1, within 90 days after receipt of a request therefor, the Company shall indemnify Indemnified Person to the full extent permitted by law and by the Articles of Organization and By-laws of the Company, as presently in effect, against all expenses, judgments, penalties, fines and amounts paid in settlement, actually and reasonably incurred by him or on his behalf in connection with any proceeding or any claim, issue or matter therein. A request for indemnification must be accompanied by reasonable evidence of the amount for which indemnification is requested and must indicate a choice of Independent Counsel, if any, to make any determination pursuant to Section 2.3.

2.3. Notwithstanding any other provision of this Agreement, Indemnified Person shall be indemnified against all expenses attributable to any proceeding (or any claim, issue or matter relating thereto) which was initiated, conducted or determined by a court of competent jurisdiction on the merits or otherwise in Indemnified Person's favor or which was terminated

EXHIBIT A-2

This Agreement is made and entered into this _____ day of _____, 198 ("Agreement"), by and between Digital Equipment Corporation, a Massachusetts corporation (the "Company", which term shall include any one or more of its subsidiaries where appropriate), and ("Indemnitee"). Certain capitalized terms are used in this Agreement as specifically defined in Section 6.

In consideration of the premises and the covenants contained herein, the Company and Indemnitee do hereby covenant and agree as follows:

1. Services by Indemnitee. Indemnitee agrees to serve or continue to serve [as a director or officer] of the Company for so long as he is duly elected or appointed or until his earlier removal, death or written resignation.

2. Indemnification and Advances.

2.1 The Company shall advance all Expenses incurred by or on behalf of Indemnitee in connection with any Proceeding within twenty days after the receipt by the Company of a request therefor, accompanied or preceded by reasonable evidence of such Expenses and by an undertaking to repay all Expenses advanced to the extent Indemnitee shall be adjudicated, or determined pursuant to Section 3.2 or 3.3, to be not entitled to indemnification therefor (which undertaking shall be accepted without reference to Indemnitee's financial ability to repay).

2.2 Except as specifically provided in Sections 3.1, 3.2 and 3.3, within 60 days after receipt of a request therefor the Company shall indemnify Indemnitee to the full extent permitted by law and by the Articles of Organization and by-laws of the Company as presently in effect, against all Expenses, judgments, penalties, fines and amounts paid in settlement actually and reasonably incurred by him or on his behalf in connection with any Proceeding or any claim, issue or matter therein. A request for indemnification must be accompanied by reasonable evidence of the amount for which indemnification is requested, and must indicate a choice of Independent Counsel, if any, to make any determination pursuant to Section 3.3.

2.3 Notwithstanding any other provision of this Agreement, Indemnitee shall be indemnified against all Expenses attributable to any Proceeding (or any claim, issue or matter relating thereto) which was adjudicated or determined by a court of competent jurisdiction, on the merits or otherwise, in Indemnitee's favor, or which was terminated

without any liability to Indemnitee or the Company by dismissal or withdrawal, with or without prejudice.

3. Exceptions.

3.1 No indemnification shall be provided hereunder with respect to any claim, issue or matter to the extent that Indemnitee has been adjudicated not to have acted in good faith in the reasonable belief that his action was in the best interest of the Company (or, in the case of service with respect to an employee benefit plan, in the best interests of the participants or beneficiaries of such employee benefit plan).

3.2 If a Change in Control has not occurred, no indemnification shall be provided hereunder to the extent that, within 60 days of the receipt by the Company of a request for indemnification, Indemnitee has been determined (after investigation) by (a) the Board of Directors of the Company by a majority vote of a quorum of Disinterested Directors, or (b) if such a quorum is not obtainable, or if directed by majority vote of a quorum of Disinterested Directors, Independent Counsel (selected by majority vote of the Disinterested Directors or, if none, by majority vote of the Board of Directors) in a written opinion, not to have acted in good faith in the reasonable belief that his action was in the best interest of the Company (or, in the case of service with respect to an employee benefit plan, in the best interests of the participants or beneficiaries of such employee benefit plan).

3.3 If a Change in Control has occurred, no indemnification shall be provided hereunder to the extent that, within 60 days of the receipt by the Company of a request for indemnification, Indemnitee has been determined (after investigation) by (a) the Independent Counsel specified by Indemnitee in the request for indemnification or (b) if no such specification is made, by a person, persons or entity who would be entitled to make such a determination pursuant to Section 3.2 if a Change in Control had not occurred, not to have acted in good faith in the reasonable belief that his action was in the best interest of the Company (or, in the case of service with respect to an employee benefit plan, in the best interests of the participants or beneficiaries of such employee benefit plan). A person, persons or entity making a determination pursuant to this Section 3.3 shall have the burden of proof in overcoming that presumption.

3.4 Indemnitee shall cooperate with any person, persons or entity making an investigation pursuant to Section 3.2 or 3.3 to the extent reasonably requested. Any costs or expenses (including attorneys' fees and disbursements) incurred by Indemnitee in so

cooperating shall be borne by the Company (irrespective of the determination as to Indemnatee's entitlement to indemnification), and the Company hereby indemnifies and agrees to hold Indemnatee harmless therefrom.

4. Remedies of Indemnatee.

4.1 In the event that (i) a determination is made that Indemnatee is not entitled to indemnification under this Agreement, (ii) a required advancement of Expenses is not timely made or (iii) payment of any required indemnification is not timely made within the 60 day period prescribed in Sections 3.2 and 3.3, Indemnatee shall be entitled to an adjudication in an appropriate court of the Commonwealth of Massachusetts, or in any other court of competent jurisdiction, of his entitlement to such indemnification or advancement of Expenses. Alternatively, Indemnatee, at his option, may seek an award in arbitration to be conducted by a single arbitrator pursuant to the rules of the American Arbitration Association, and judgment upon any arbitration award may be entered in any court having jurisdiction. Indemnatee shall commence a proceeding seeking such an adjudication or an award in arbitration within 180 days following the date on which Indemnatee first has the right to commence such proceeding. The Company shall not oppose Indemnatee's right to seek any such adjudication or award in arbitration.

4.2 In the event that a determination shall have been made pursuant to this Agreement that Indemnatee is not entitled to indemnification, any such judicial proceeding or arbitration shall be conducted in all respects as a de novo trial, or arbitration, on the merits and Indemnatee shall not be prejudiced by reason of such adverse determination. If a Change in Control shall have occurred, in any such judicial proceeding or arbitration the Company shall have the burden of proving that Indemnatee is not entitled to indemnification or advancement of Expenses, as the case may be, notwithstanding such adverse determination.

4.3 The Company shall be precluded from asserting in any judicial proceeding or arbitration that the procedures and presumptions of this Agreement are not valid, binding and enforceable and shall stipulate in any such court or before any such arbitrator that the Company is bound by all the provisions of this Agreement.

4.4 In the event that Indemnatee seeks a judicial adjudication of or an award in arbitration to enforce his rights under, or to recover damages for breach of, this Agreement, Indemnatee shall be entitled to recover from the Company, and shall be indemnified by the Company against, any and all expenses (of the types described in the

definition of Expenses) actually and reasonably incurred by him in such judicial adjudication or arbitration, if he prevails therein or if such recovery is ordered by the court or the arbitrator. If it shall be determined in such judicial adjudication that Indemnitee is entitled to receive part but not all of the indemnification or advancement of expenses sought, the expenses incurred by Indemnitee in connection with such judicial adjudication or arbitration shall be appropriately pro rated.

5. Insurance. To the extent that the Company maintains an insurance policy or policies providing liability insurance for directors or officers of the Company (or fiduciaries of any other enterprise), Indemnitee shall be covered by such policy or policies in accordance with its or their terms to the maximum extent of the coverage available for any director or officer (or fiduciary) under such policy or policies, whether or not Indemnitee is still a director or officer of the Company. The Company shall not be liable under this Agreement to make any payment or amounts otherwise indemnifiable hereunder if and to the extent Indemnitee has otherwise actually received such payment under any insurance policy, contract, agreement or otherwise.

6. Definitions.

6.1 "Change in Control" means a change in control of the Company of a nature that would be required to be reported in response to Item (6)(e) of Schedule 14A of Regulation 14A (or in response to any similar schedule or form) promulgated under the Securities Exchange Act of 1934 (the "Act"), whether or not the Company is then subject to such reporting requirement; provided, however, that, without limitation, such a Change in Control shall be deemed to have occurred if (i) any "person" (as such term is used in Sections 13(d) and 14(d) of the Act) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Act), directly or indirectly, of securities of the Company representing 20% or more of the combined voting power of the Company's then outstanding securities without the prior approval of at least two-thirds of the members of the Board of Directors in office immediately prior to such person attaining such percentage interest; (ii) the Company is a party to a merger, consolidation, sale of assets or other reorganization, or a proxy contest, as a consequence of which members of the Board of Directors in office immediately prior to such transaction or event constitute less than a majority of the Board of Directors thereafter; or (iii) during any period of two consecutive years, individuals who at the beginning of such period constituted the Board of Directors (including for this purpose any new director whose election or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds of the directors

then still in office who were directors at the beginning of such period) cease for any reason to constitute at least a majority of the Board of Directors.

6.2 "Disinterested Director" means a director of the Company who is not and was not a party to the Proceeding in respect of which indemnification is sought by Indemnitee.

6.3 "Expenses" shall include all reasonable attorneys' fees, court costs, transcript costs, fees of experts, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees, and all other disbursements or expenses of the type customarily incurred in connection with prosecuting, defending, appearing as a witness in, preparing to prosecute or defend or appear as a witness in, or investigating a Proceeding.

6.4 "Independent Counsel" means a law firm, or a member of a law firm, that is experienced in matters of corporation law and neither presently is, nor in the past five years has been, retained to represent: (i) the Company or Indemnitee in any matter material to either such party, or (ii) any other party to the Proceeding giving rise to a claim for indemnification hereunder. Notwithstanding the foregoing, the term "Independent Counsel" shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnitee in any action to determine Indemnitee's rights under this Agreement.

6.5 "Proceeding" means any pending, threatened or completed action, suit, arbitration, alternate dispute resolution mechanism, investigation, administrative hearing or any other proceeding whether civil, criminal, administrative or investigative in which Indemnitee is or may be involved as a witness or defendant by reason of being, having been or having agreed to become a director or officer of the Company or, at the request of the Company, being, having been or having agreed to become a director, officer or fiduciary of any other entity or enterprise, except such a proceeding initiated by Indemnitee.

7. General

7.1 The rights provided by this Agreement shall not be exclusive of any other rights to which Indemnitee may at any time be entitled under applicable law, the Company's Articles of Organization or by-laws, any other agreement, a vote of stockholders or a resolution of directors, or otherwise.

7.2 This Agreement shall continue until and terminate upon the later of: (a) ten (10) years after the date that Indemnitee shall have ceased to serve as a [director or officer] of the Company or fiduciary of any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise which Indemnitee served at the request of the Company; or (b) the final termination of all pending Proceedings in respect of which Indemnitee is granted rights hereunder and of any proceeding commenced by Indemnitee relating thereto. This Agreement shall be binding upon the Company and its successors and assigns and shall inure to the benefit of Indemnitee and his heirs, executors and administrators.

7.3 In the event of any payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall take all action necessary to secure such rights, including execution of such documents as are necessary to enable the Company to bring suit to enforce such rights.

7.4 If any provision or provisions of this Agreement shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (a) the validity, legality and enforceability of the remaining provisions of this Agreement shall not in any way be affected or impaired thereby; and (b) to the fullest extent possible, the provisions of this Agreement shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

7.5 No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by both of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provision hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.

7.6 Indemnitee agrees promptly to notify the Company in writing upon being served with any summons, citation, subpoena, complaint, indictment, information or other document relating to any Proceeding or matter which may be subject to indemnification or advancement of Expenses covered hereunder; provided, however, that the failure to give any such notice shall not disqualify the Indemnitee from indemnification hereunder.

7.7 All notices, requests, demands and other communications hereunder shall be in writing and shall have been duly given if (i) actually received, or (ii) mailed by certified or registered mail, postage prepaid, on the third business day after the date on which it is so mailed.

7.8 This Agreement shall be governed by, and construed and enforced in accordance with, the laws of the Commonwealth of Massachusetts.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the day and year first above written.

Attest:

DIGITAL EQUIPMENT CORPORATION

By _____

By _____

INDEMNITEE

Address: _____



DIGITAL EQUIPMENT CORPORATION
NOTICE OF 1988 ANNUAL MEETING

September 15, 1988

Dear Fellow Stockholder:

You are cordially invited to attend our Annual Meeting of Stockholders which will be held this year on Thursday, November 3, 1988, at 11:00 A.M., at the World Trade Center, Commonwealth Pier, 164 Northern Avenue, Boston, Massachusetts.

The notice of meeting and proxy statement which follow describe the business to be conducted at the meeting. We will also give a presentation on the current status of our business.

Whether or not you plan to attend the meeting in person, it is important that your shares be represented and voted. After reading the enclosed Notice of Annual Meeting and Proxy Statement, may I urge you to complete, sign, date and return your proxy ballot in the envelope provided. If the address on the accompanying material is incorrect, please advise our Investor Services Department in writing at 111 Powdermill Road, Maynard, Massachusetts 01754.

Your vote is important. We will appreciate a prompt return of your signed proxy ballot and hope to see you at the meeting.

For the Board of Directors,

KENNETH H. OLSEN
President and Chief Executive Officer

DIGITAL EQUIPMENT CORPORATION, 146 MAIN STREET, MAYNARD, MASSACHUSETTS 01754

DIGITAL EQUIPMENT CORPORATION

NOTICE OF 1988 ANNUAL MEETING

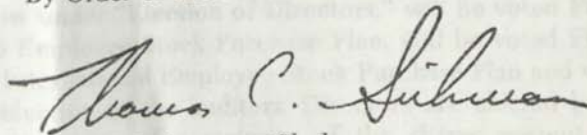
To the Stockholders of DIGITAL EQUIPMENT CORPORATION:

Notice is hereby given that the Annual Meeting of Stockholders of Digital Equipment Corporation, a Massachusetts corporation, will be held on Thursday, November 3, 1988, at 11:00 A.M., at the World Trade Center, Commonwealth Pier, 164 Northern Avenue, Boston, Massachusetts, for the following purposes:

1. To fix the number of directors at seven and to elect a Board of Directors for the ensuing year.
2. To approve an amendment to the 1968 Employee Stock Purchase Plan to increase the number of shares subject thereto by 9,000,000 shares.
3. To approve an amendment to the 1981 International Employee Stock Purchase Plan to increase the number of shares subject thereto by 1,000,000 shares.
4. To ratify the selection of the firm of Coopers & Lybrand as auditors for the fiscal year ending July 1, 1989.
5. To transact such other business as may properly come before the meeting.

Stockholders entitled to notice of and to vote at the meeting shall be determined as of the close of business on September 9, 1988, the record date fixed by the Board of Directors for such purpose.

By Order of the Board of Directors,



THOMAS C. SIEKMAN, Clerk

September 15, 1988

Stockholders are requested to sign the enclosed proxy card and return it promptly in the enclosed stamped envelope to Digital Equipment Corporation, P.O. Box 490, Maynard, Massachusetts 01754, Att'n: Investor Services Department.

PROXY STATEMENT

INTRODUCTION

Proxies in the form enclosed with this proxy statement are solicited by the Board of Directors of Digital Equipment Corporation (the "Corporation") for use at the 1988 Annual Meeting of Stockholders.

An Annual Report to Stockholders, containing financial statements for the fiscal year ended July 2, 1988, has been sent to all stockholders entitled to vote. This proxy statement and form of proxy were first sent to stockholders on or about the date of the accompanying Notice of 1988 Annual Meeting.

Only stockholders of record as of the close of business on September 9, 1988 will be entitled to vote at the meeting and any adjournments thereof. As of that date, 126,586,825 shares of Common Stock of the Corporation (excluding treasury shares) were issued and outstanding. Each share outstanding as of the record date will be entitled to one vote, and stockholders may vote in person or by proxy. Execution of a proxy will not in any way affect a stockholder's right to attend the meeting and vote in person. Any stockholder giving a proxy has the right to revoke it at any time before it is exercised by written notice to the Clerk of the Corporation. In addition, stockholders attending the meeting may revoke their proxies at that time.

The persons named as attorneys in the proxies are directors of the Corporation. All properly executed proxies returned in time to be cast at the meeting, if no contrary instruction is indicated, will be voted as stated below under "Election of Directors," will be voted FOR approval of the amendment to the 1968 Employee Stock Purchase Plan, will be voted FOR approval of the amendment to the 1981 International Employee Stock Purchase Plan and will be voted FOR the ratification of the selection of the auditors. Directors are elected by a plurality of votes cast and the affirmative vote of a majority of the shares present or represented at the meeting is required for approval of the other matters.

The Corporation knows of no other matter to be presented at the meeting. If any other matter should be presented at the meeting upon which a vote properly may be taken, shares represented by all proxies received by the Corporation will be voted with respect thereto in accordance with the judgment of the persons named as attorneys in the proxies.

ELECTION OF DIRECTORS

Nominees for Directors

The directors of the Corporation are elected annually and hold office until the next annual meeting and until their successors have been elected and have qualified. Pursuant to the Corporation's By-laws, the stockholders fix the number of directors at the annual meeting, subject to the authority of the directors to increase the size of the Board. Any stockholder submitting a proxy has the right to withhold authority to vote for any individual nominee to the Board of Directors by writing the nominee's name in the space provided on the proxy. Shares represented by all proxies received by the Corporation and not so marked as to withhold authority to vote for any individual director or for all directors will be voted FOR fixing the number of directors for the ensuing year at seven and FOR the election of the nominees named below. The Corporation knows of no reason why any such nominee should be unable to serve, but if such should be the case, proxies will be voted for the election of some other person, or for fixing the number of directors at a lesser number.

The nominees for directors and further information with respect to each nominee are set forth below.

KENNETH H. OLSEN

Mr. Olsen, age 62, founded Digital Equipment Corporation in 1957 and has served since that time as its President and Chief Executive Officer. Mr. Olsen is also a director of Ford Motor Company and Polaroid Corporation. He has been a director of Digital Equipment Corporation since 1957.

VERNON R. ALDEN

Mr. Alden, age 65, was Chairman of the Board and Executive Committee of The Boston Company, Inc., a financial services company, from 1969 to 1978. He was President of Ohio University from 1962 to 1969. Mr. Alden is also a director of Augat, Inc., Colgate-Palmolive Company, Intermet Corporation, McGraw-Hill, Inc. and Sonesta International Hotels Corporation. He is also a trustee of several cultural and educational organizations. He has been a director of Digital Equipment Corporation since 1959 and is a member of its Compensation and Stock Option Committee.

PHILIP CALDWELL

Mr. Caldwell, age 68, is Senior Managing Director of Shearson Lehman Hutton, Inc.. In 1985, Mr. Caldwell retired as Chairman of the Board and Chief Executive Officer of Ford Motor Company where he had been an officer for over 15 years. Mr. Caldwell is

also a director of Ford Motor Company and Kellogg Company. He has been a director of Digital Equipment Corporation since 1980 and is a member of its Audit Committee and Compensation and Stock Option Committee.

ARNAUD DE VITRY

Mr. de Vitry, age 62, is Chairman of the Board and Chief Executive Officer of Eureka SICAV, France, an investment company. He is also a director of Ionics, Incorporated and Schlumberger Limited. He has been a director of Digital Equipment Corporation since 1957.

ROBERT R. EVERETT

Mr. Everett, age 67, is an engineering consultant. He retired as President of The Mitre Corporation, a federal contract research center, in 1986. Mr. Everett has been a director of Digital Equipment Corporation since 1986 and is a member of its Compensation and Stock Option Committee.

WILLIAM H. MCLEAN

Mr. McLean, age 77, is an engineering consultant. He was formerly the Vice President and Dean of Stevens Institute of Technology. He is also a director of National Aviation and Technology Corporation and National Telecommunications & Technology Fund, Inc., an open-end management investment company. He has been a director of Digital Equipment Corporation since 1967 and is a member of its Audit Committee.

DOROTHY E. ROWE

Miss Rowe, age 71, was formerly Senior Vice President and Treasurer of American Research and Development Corporation, a venture capital investment company. She is a member of the Advisory Board of the Boston Five Cents Savings Bank. Miss Rowe has been a director of Digital Equipment Corporation since 1962 and is a member of its Audit Committee and its Compensation and Stock Option Committee.

Stock Ownership of Nominees

Shown below is certain information as of August 1, 1988, with respect to beneficial ownership of shares of the Corporation's Common Stock by all director nominees individually and by all officers and directors of the Corporation as a group. Unless otherwise indicated, the named person possesses sole voting and investment power with respect to the shares.

<u>Beneficial Owner</u>	<u>Shares Beneficially Owned</u>
KENNETH H. OLSEN	2,605,161 (1)
VERNON R. ALDEN	56,000 (2)
PHILIP CALDWELL	1,200 (3)
ARNAUD DE VITRY	590,000 (4)
ROBERT R. EVERETT	100
WILLIAM H. MCLEAN	2,400
DOROTHY E. ROWE	140,730
All 47 officers and directors as a group, including those named above	4,787,178 (5)

(1) Includes 170,000 shares which Mr. Olsen has the right to acquire by exercise of stock options. Such 2,605,161 shares represent 2% of the Corporation's issued and outstanding Common Stock, assuming exercise of the stock options. Includes 20,424 shares held by a trust for the benefit of Mr. Olsen's wife. Does not include 2,420,145 shares owned by The Stratford Foundation, a private charitable foundation of which Mr. Olsen is the founder and co-trustee, as to which shares Mr. Olsen disclaims beneficial ownership.

(2) Includes 22,870 shares held by Mr. Alden's wife, as to which shares Mr. Alden disclaims beneficial ownership.

(3) Does not include 40 shares held by a limited partnership in which Mr. Caldwell has an indirect interest, as to which shares Mr. Caldwell disclaims beneficial ownership.

(4) Includes 234,000 shares held in trust with respect to which Mr. de Vitry does not possess voting power. Also includes 356,000 shares held by either a financial institution or a nominee in a fiduciary capacity for the benefit of members of Mr. de Vitry's family. Mr. de Vitry disclaims beneficial ownership of such 356,000 shares.

(5) Includes 1,197,788 shares which the officers as a group have the right to acquire by exercise of stock options granted under the Corporation's stock option plans. These 4,787,178

shares represent approximately 3.8% of the Corporation's issued and outstanding Common Stock, assuming exercise of the stock options.

The Corporation knows of no person who owns beneficially more than 5% of the Common Stock. Each director other than Mr. Olsen owns beneficially less than 1% of the Common Stock.

Certain Relationships and Related Transactions

As previously noted, Philip Caldwell is Senior Managing Director of Shearson Lehman Hutton, Inc., the Corporation's investment bankers. Mr. Caldwell's son-in-law is a middle management employee of the Corporation and receives the usual and customary compensation for the position he serves.

In addition to his service as a director, Robert Everett also performs consulting services for the Company for which he receives reasonable and customary fees. During the fiscal year ended July 2, 1988, Mr. Everett received \$64,500 for such consulting services.

Committees of the Board

The Board of Directors has an Audit Committee and a Compensation and Stock Option Committee.

The Audit Committee recommends to the Board of Directors the selection of the independent auditors to be employed by the Corporation, reviews generally the internal and external audit plans and the results thereof, reviews generally the Corporation's internal accounting controls with the internal and external auditors and reviews compliance with the Corporation's policy on non-audit services provided by the independent auditors.

The Compensation and Stock Option Committee reviews and recommends to the Board the compensation of directors and of those officers who are members of the senior management committees, and reviews and recommends to the Board the adoption of any compensation plans in which directors and officers are eligible to participate. The Committee also administers and interprets the Corporation's employee stock plans and, subject to the provisions of the plans, selects the employees who are to participate in such plans and determines the terms of their participation, subject to Board approval.

The Board of Directors as a whole acts as a Nominating Committee and, consequently, is responsible for nominations to the Board of Directors. The Board of Directors will consider highly qualified candidates proposed in writing by stockholders. Stockholders who wish to

propose a nomination should submit the person's name and background information to the Clerk of the Corporation.

The Board of Directors held nine meetings during the fiscal year ended July 2, 1988, the Audit Committee met four times, and the Compensation and Stock Option Committee met four times. All directors attended at least 75% of the total number of meetings of the Board and the committees to which they belong.

EXECUTIVE COMPENSATION AND OTHER INFORMATION

The table below shows all cash compensation for services in all capacities with the Corporation and its subsidiaries rendered during the fiscal year ended July 2, 1988, for the five most highly compensated executive officers of the Corporation and for all executive officers as a group.

<u>Name and Capacities in Which Served</u>	<u>Aggregate Cash Compensation</u>
Kenneth H. Olsen President and Director	\$ 931,527
John J. Shields Senior Vice President	\$ 525,810
John F. Smith Senior Vice President	\$ 519,605
Winston R. Hindle, Jr. Senior Vice President	\$ 470,204
James M. Osterhoff Vice President	\$ 365,708
All 41 executive officers as a group, including those named above(1)(2)	\$10,913,745

(1) Other than as set forth below under "Pension Plans", "Stock Options", and the stock plan descriptions, with respect to the fiscal year ended July 2, 1988, the executive officers of the Corporation received no significant non-cash compensation from the Corporation or its subsidiaries.

(2) Persons who served as executive officers for any part of the fiscal year, and their cash compensation for the part of the fiscal year served, are included.

Compensation of Directors

Each director who is not also an employee of the Corporation is entitled to an annual retainer of \$20,000 for Board service, plus \$1,000 for each Board meeting and each committee meeting attended. Directors are also reimbursed for out-of-pocket expenses incurred in attending Board and committee meetings. Directors may defer all or any part of their retainer or meeting fees pursuant to a deferred compensation plan, amended and restated in May 1987. Pursuant to the plan, non-employee directors of the Corporation may elect to defer receipt of all or a specified portion of their compensation in the form of cash with an interest rate related to Treasury bills or in the form of units, the value of each unit initially being equal to the fair market value of one share of the Common Stock of the Corporation on the date the compensation being deferred would otherwise be payable.

The plan provides that compensation deferred under the plan, whether in the form of cash or units, will be paid out in cash after termination of service as a director. Directors may elect that compensation so deferred be paid out in a lump sum or in up to ten annual installments. Payment of compensation deferred under the plan commences in January of the year following the year in which service as a director terminates, except that earlier or accelerated distributions may be made in certain events of unforeseeable emergency.

Pursuant to a retirement plan for non-employee directors adopted in May 1987, each non-employee director of the Corporation on the date of adoption of the plan, and every other non-employee director who is 70 years of age or older and who has completed at least five years of service on the Board, is entitled upon termination of service to an annualized benefit for life which is equal to the annual retainer for non-employee directors in effect on the date of termination of service. The plan also provides for coordinated disability benefits for all non-employee directors equal to the annual retainer in effect on the date of total disability.

Pension Plans

The Corporation and its subsidiaries have pension plans covering substantially all of their employees.

Benefits under the Corporation's defined benefit pension plan for its United States employees are based upon the employee's earnings during service with the Corporation and are payable after retirement in the form of annuities or lump sum benefits. The annual amount payable upon retirement at age 65 under the present provisions of the plan, without regard to any survivor options, is $1\frac{1}{2}\%$ of the aggregate cumulative amount of the participant's base salary and wages earned on and after June 30, 1985 plus, for those persons who were plan participants on June 29, 1985, $1\frac{1}{2}\%$ of the annual average of the participant's compensation

between June 29, 1980 and June 29, 1985 multiplied by the number of years of such participant's accredited service prior to June 30, 1985. Under the present provisions of the plan, a participant's annual pension may not exceed the lesser of the maximum allowable dollar limit (\$94,023 for fiscal 1988), or 100% of the participant's average compensation for the participant's three highest paid consecutive years of service with the Corporation.

Employees outside the United States are covered by different pension plans varying from country to country.

Estimated annual retirement benefits at age 65 based on the foregoing formula for the following individuals would be: Mr. Olsen, \$94,023; Mr. Shields, \$94,023; Mr. Smith, \$94,023; Mr. Hindle, \$94,023; and Mr. Osterhoff, \$79,256.

Stock Options

The following table shows as to certain named executive officers, and as to all current executive officers as a group including the named executive officers: (i) the number of shares of the Corporation's Common Stock for which options were granted under one of the Corporation's restricted stock option plans on and between June 30, 1985 and July 2, 1988; (ii) the average per share option exercise price thereof and the average per share market price of the Corporation's Common Stock on the dates of grant thereof; and (iii) the net value of shares acquired on and between June 30, 1985 and July 2, 1988 upon the exercise of options granted during the period or prior thereto. The Corporation does not grant stock appreciation rights.

<u>Shares of Common Stock (1)</u>	<u>K. H. Olsen</u>	<u>J. J. Shields</u>	<u>J. F. Smith</u>	<u>W. R. Hindle</u>	<u>J. M. Osterhoff</u>	<u>All Executive Officers as a Group (2)</u>
Options Granted 6/30/85 through 7/2/88(3)						
Number of shares.....	110,000	54,000	54,000	29,000	25,000	751,200
Average per share exer- cise price	\$74.50	\$75.17	\$75.17	\$78.86	\$85.32	\$79.01
Average per share price on dates of grant	\$101.52	\$102.37	\$102.37	\$106.44	\$114.58	\$106.79
Options Exercised 6/30/85 through 7/2/88						
Number of shares.....	60,000	37,580	9,100	16,200	—	419,644
Net value realized upon exercise(4)	\$9,052,060	\$4,366,168	\$671,205	\$1,611,602	—	\$45,992,332

(1) All share numbers and option prices have been adjusted to reflect the two-for-one stock split effected May 9, 1986.

(2) Directors who are not also officers of the Corporation do not participate in the Corporation's stock option plans.

(3) Options granted prior to November 8, 1985 were granted under the Corporation's 1976 Restricted Stock Option Plan and options granted on or after November 8, 1985 were granted under the Corporation's 1985 Restricted Stock Option Plan. In general, options granted under the Corporation's restricted stock option plans are exercisable in full on the date of grant, but shares purchased thereunder are subject to repurchase at the option of the Corporation at the exercise price, unless such repurchase option has lapsed. Such repurchase option lapses over the life of the grant whether or not the option has been exercised. See "Description of the 1985 Restricted Stock Option Plan" and "Description of the 1976 Restricted Stock Option Plan."

(4) The net value realized upon exercise of options is the difference between the market value of the shares received upon exercise and the exercise price thereof.

During the period June 30, 1985 through July 2, 1988, all employees of the Corporation as a group (including current officers who are not executive officers, but not including current executive officers) were granted options under the Corporation's restricted stock options plans described below for 5,879,720 shares at a weighted average option price per share of \$104.83.

On September 9, 1988, the closing price of the Corporation's Common Stock on the New York Stock Exchange was \$94.75.

Stock Plans

The Corporation has adopted several stock incentive plans to attract and retain employees. The 1985 Restricted Stock Option Plan provides a method for offering equity incentives to key employees of the Corporation. The 1968 Employee Stock Purchase Plan and the 1981 International Employee Stock Purchase Plan were adopted for substantially all employees of the Corporation and participating subsidiaries. The Corporation's plans are more specifically described below.

Description of the 1985 Restricted Stock Option Plan

In 1985 the Board of Directors and the stockholders adopted the 1985 Restricted Stock Option Plan (the "1985 Plan"). A total of 18,000,000 shares of Common Stock in the aggregate may be sold under the 1985 Plan. Not more than 3% of the aggregate number of shares issuable under the 1985 Plan may be sold to any one employee. Options may be granted to employees under the 1985 Plan from time to time through December 31, 1990, the termination date of the 1985 Plan. At August 1, 1988, approximately 11,000 employees were participating in the 1985 Plan.

The 1985 Plan authorizes the grant of non-transferable options to purchase the Corporation's Common Stock to key employees of the Corporation and its subsidiaries coupled with a prohibition against disposition of such shares and a requirement to offer such shares for resale to the Corporation at their purchase price upon termination of employment. The restrictions and obligation of resale lapse from time to time as to portions of the grant (whether or not the option has been exercised), as determined by the Board of Directors or the Compensation and Stock Option Committee of the Board of Directors (the "Committee") which administers and interprets the 1985 Plan.

The exercise price of options granted under the 1985 Plan is specified by the Board of Directors, but in no event may this price be less than the lower of (i) 50% of the fair market value per share at the date of grant or (ii) the book value per share as of the end of the Corporation's fiscal year immediately preceding the grant date. The 1985 Plan contains a provision permitting payment by an officer of the Corporation upon exercise of an option to be made using the Corporation's Common Stock, as well as cash, in accordance with policies and eligibility criteria established by the Committee.

Employees, including officers, of the Corporation or any of its subsidiaries, and consultants, are eligible to receive options under the 1985 Plan. Directors who are also employees are eligible to receive options if they are not members of the Committee. Subject to the terms of the 1985 Plan, the Committee has authority to select the employees to whom options are granted, to determine the number of shares subject to such options, the time or times when options are to be granted, the rate and time of lapse of restrictions, and other terms. Options may be granted to the same employee on more than one occasion. Currently, options granted to U.S. employees are exercisable immediately, terminate not more than 10 years and 90 days from the date of grant, and are exercisable only while the holder is employed by the Corporation or a subsidiary or after retirement with the consent of the Corporation.

The Board of Directors may terminate or amend the 1985 Plan, provided that no amendment shall, without stockholder approval, increase the maximum number of shares which may be sold under the 1985 Plan in the aggregate or the percentage of such number which may be sold to any one person, decrease the minimum exercise price at which options may be granted, or extend the period during which options may be granted under the 1985 Plan.

An option granted under the 1985 Plan is a non-statutory stock option and is taxed in accordance with Section 83 of the Internal Revenue Code (the "Code") and the regulations issued thereunder. Options granted under the 1985 Plan do not qualify as "incentive stock options" under the Code.

As of August 1, 1988, options for 166,853 shares had been exercised under the 1985 Plan at an average exercise price per share of \$54.54; options for 5,841,806 shares at an average exercise price per share of \$109.25 were outstanding with expiration dates ranging from February 6, 1996 to April 18, 1998; and 11,991,341 shares remained available for additional option grants.

Description of the 1976 Restricted Stock Option Plan

In 1976 the Board of Directors and the stockholders adopted the 1976 Restricted Stock Option Plan (the "1976 Plan"). The authority to grant additional options under the 1976 Plan expired upon the adoption by the stockholders of the 1985 Plan in November 1985. The terms and conditions of the 1976 Plan are substantially the same as the 1985 Plan.

As of August 1, 1988, options for 5,458,973 shares had been exercised under the 1976 Plan at an average exercise price per share of \$20.71 and options for 8,742,632 shares at an average exercise price per share of \$30.51 were outstanding with expiration dates ranging from September 7, 1988 to December 22, 1995.

Description of the 1968 Employee Stock Purchase Plan

In 1968 the Board of Directors and the stockholders adopted the 1968 Employee Stock Purchase Plan (the "Employee Plan") for substantially all employees of the Corporation and its participating subsidiaries, other than directors of the Corporation. At August 1, 1988, approximately 90,000 employees were eligible to participate in the Employee Plan, and approximately 53,000 employees were participating.

The Employee Plan authorizes the issuance of a maximum of 16,500,000 shares of Common Stock. The Employee Plan permits employees to purchase shares of the Corporation's Common Stock twice yearly through accumulated payroll deductions, up to a maximum of 10% of regular base pay. The six-month periods June 1 to November 30 and December 1 to May 31 are the payment periods ("Payment Period") during which payroll deductions are accumulated under the Employee Plan. The price at which shares are purchased is an amount equal to 85% of the fair market value of the stock on the first or last business day of the applicable six-month Payment Period, whichever is lower.

The Board of Directors may terminate or amend the Employee Plan, provided that no amendment shall, without stockholder approval, increase the number of shares of Common Stock to be offered under the Plan or change the class of employees eligible to participate in the Plan.

During the period June 30, 1985 through July 2, 1988 executive officers of the Corporation purchased shares under the Employee Plan as follows: Mr. Shields, 859 shares; Mr. Smith, 859 shares; Mr. Osterhoff, 794 shares; all current executive officers as a group, 20,447 shares. During the period June 30, 1985 through July 2, 1988, all employees as a group (including current officers who are not executive officers, but not including current executive officers) purchased a total of 14,952,638 shares under the Employee Plan.

At August 1, 1988, 14,973,085 shares had been purchased by employees under the Employee Plan and 1,526,915 shares remained available.

Federal Income Tax Consequences

The following tax consequences under the Code are applicable to shares purchased under the Employee Plan:

1. No taxable income will be realized by the employee at the time of the purchase of the shares.
2. If the employee disposes of the shares two years or more after the date of the beginning of the Payment Period when the employee acquired the shares, then the employee at that time will recognize as taxable compensation income an amount equal to the lesser of:
 - (a) the excess of the fair market value of the shares on the date of such disposition over the option price, or
 - (b) 15% of the fair market value of the shares at the beginning of the Payment Period.

In addition, the employee may realize a long-term capital gain or loss in an amount equal to the difference between the amount realized upon the sale of the shares and the basis of the shares (i.e., the purchase price plus the amount, if any, taxed as compensation income). The Tax Reform Act of 1986 retains the statutory structure for categorizing gains and losses from the sale of capital assets; accordingly, the designation as capital gain or loss has meaning in the Code. The preferential tax treatment of capital gains has been eliminated for taxable years after 1987; capital gains are taxable at the same rates as ordinary income.

3. If the employee disposes of the shares within two years after the date of the beginning of the Payment Period when the employee acquired the shares, the employee at that time will recognize taxable compensation income equal to the fair market value of the shares on the date of purchase (the last business day of the applicable Payment Period) less the amount paid for the shares. In addition, the employee will recognize a capital gain or loss in an amount equal to the difference between the amount realized upon the sale of the shares and the basis of the shares (i.e., in this case, the purchase price plus the amount taxed as compensation income).

Description of the 1981 International Employee Stock Purchase Plan

In 1981, the Board of Directors and the stockholders adopted the 1981 International Employee Stock Purchase Plan (the "International Plan"). A total of 1,400,000 shares of Common Stock in the aggregate may be sold under the International Plan. At August 1, 1988, approximately 15,400 employees were eligible to participate in the International Plan, and approximately 7,200 employees were participating.

The provisions of the International Plan are substantially the same as the 1968 Employee Stock Purchase Plan described above. The International Plan was adopted in order to extend the benefits of the Employee Plan to employees of selected foreign subsidiaries of the Corporation or branches thereof, other than directors of the Corporation. Employees of several foreign subsidiaries presently participate in the Employee Plan, but under present provisions of the United States tax laws it is impractical to extend the benefits of the U.S. tax-qualified Employee Plan to selected branches of foreign subsidiaries. The International Plan is not intended to be a tax qualified plan under the Code.

The Board of Directors may terminate or amend the International Plan, provided that no amendment shall, without stockholder approval, increase the number of shares of Common Stock to be offered under the Plan or change the class of employees eligible to participate in the Plan.

During the period June 30, 1985 through July 2, 1988 the executive officers of the Corporation purchased shares under the International Plan as follows: None of the executive officers named on page 8 purchased shares under the International Plan; all current executive officers as a group purchased a total of 2,027 shares under the International Plan. During the period June 30, 1985 through July 2, 1988, all employees as a group (including current officers who are not executive officers, but not including current executive officers) purchased a total of 825,090 shares under the International Plan.

At August 1, 1988, 827,117 shares had been purchased under the International Plan and 572,883 shares remained available.

Employees participating in the International Plan will be subject to taxation in accordance with the laws of the countries where they are resident or employed. Accordingly, the tax consequences applicable to employees will vary depending on the country. Because the International Plan is not a U.S. tax-qualified plan, employees of participating foreign subsidiaries who are U.S. citizens or resident aliens also recognize taxable compensation income under the Code, but may be entitled with certain limitations to a U.S. foreign tax credit equal to the taxes paid to foreign countries in respect of the shares.

PROPOSAL TO AMEND THE 1968 EMPLOYEE STOCK PURCHASE PLAN

On August 9, 1988, the Board of Directors amended the Employee Plan to increase the number of shares subject thereto from 16,500,000 to 25,500,000. The amendment will become effective only upon approval by the stockholders. This increase in shares is needed to enable the Corporation to continue operating the Employee Plan for the benefit of eligible employees.

The Board of Directors recommends a vote FOR approving the amendment to the Employee Plan.

PROPOSAL TO AMEND THE 1981 INTERNATIONAL EMPLOYEE STOCK PURCHASE PLAN

On August 9, 1988, the Board of Directors amended the International Plan to increase the number of shares subject thereto from 1,400,000 to 2,400,000. The amendment will become effective only upon approval by the stockholders. This increase in shares is needed to enable

the Corporation to continue operating the International Plan for the benefit of eligible employees.

The Board of Directors recommends a vote FOR approving the amendment to the International Plan.

RATIFICATION OF SELECTION OF AUDITORS

The Board of Directors has selected the firm of Coopers & Lybrand, independent certified public accountants, to serve as auditors for the fiscal year ending July 1, 1989, subject to ratification by the stockholders. Coopers & Lybrand has served as the Corporation's auditors since the organization of the Corporation.

The Board of Directors recommends a vote FOR ratification of this selection.

It is expected that a member of the firm of Coopers & Lybrand will be present at the Annual Meeting, will have an opportunity to make a statement if so desired and will be available to respond to appropriate questions.

AMENDMENT OF BY-LAWS

In June 1988, the Board of Directors amended the by-laws to provide that the provisions of Chapter 110D of the Massachusetts General Laws shall not apply to "control share acquisitions" of the Corporation within the meaning of said Chapter 110D.

EXPENSES AND SOLICITATION

The cost of solicitation of proxies will be borne by the Corporation. In addition to soliciting stockholders through its regular employees, the Corporation may request banks and brokers to solicit customers of theirs who have shares of Common Stock of the Corporation registered in the name of a nominee. The Corporation will reimburse such banks and brokers for their reasonable out-of-pocket costs, at the rates suggested by the New York Stock Exchange. Solicitation by officers and employees of the Corporation may also be made of some stockholders in person, or by mail, telephone or telegraph, following the original solicitation.

STOCKHOLDER PROPOSALS FOR NEXT ANNUAL MEETING

Proposals of stockholders intended for inclusion in the proxy statement to be mailed to all stockholders entitled to vote at the 1989 annual meeting of stockholders of the Corporation must be received at the Corporation's principal executive offices not later than May 26, 1989. In order to curtail controversy as to the date on which a proposal was received by the Corporation, proponents should submit their proposals by Certified Mail — Return Receipt Requested.

September 15, 1988

digital

DIGITAL EQUIPMENT CORPORATION
NOTICE OF 1989 ANNUAL MEETING

September 19, 1989

Dear Fellow Stockholder:

You are cordially invited to attend our Annual Meeting of Stockholders which will be held this year on Monday, November 6, 1989, at 11:00 A.M., at the World Trade Center, Commonwealth Pier, 164 Northern Avenue, Boston, Massachusetts.

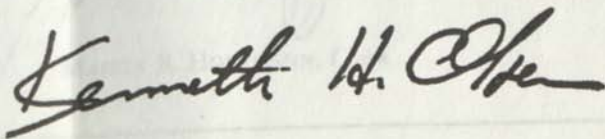
The notice of meeting and proxy statement which follow describe the business to be conducted at the meeting. We will also give a presentation on the current status of our business.

We are very pleased that Mr. Colby H. Chandler, Chairman of the Board and Chief Executive Officer of Eastman Kodak Company, is a nominee for election to our Board for the first time.

Whether or not you plan to attend the meeting in person, it is important that your shares be represented and voted. After reading the enclosed Notice of Annual Meeting and Proxy Statement, may I urge you to complete, sign, date and return your proxy ballot in the envelope provided. If the address on the accompanying material is incorrect, please advise our Investor Services Department in writing at 111 Powdermill Road, Maynard, Massachusetts 01754.

Your vote is important. We will appreciate a prompt return of your signed proxy ballot and hope to see you at the meeting.

For the Board of Directors,



KENNETH H. OLSEN
President and Chief Executive Officer

DIGITAL EQUIPMENT CORPORATION

NOTICE OF 1989 ANNUAL MEETING

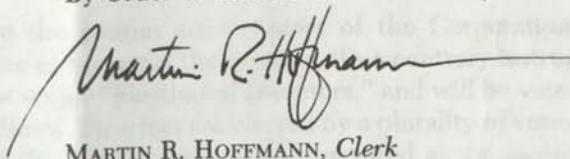
To the Stockholders of DIGITAL EQUIPMENT CORPORATION:

Notice is hereby given that the Annual Meeting of Stockholders of Digital Equipment Corporation, a Massachusetts corporation, will be held on Monday, November 6, 1989, at 11:00 A.M., at the World Trade Center, Commonwealth Pier, 164 Northern Avenue, Boston, Massachusetts, for the following purposes:

1. To fix the number of directors at eight and to elect a Board of Directors for the ensuing year.
2. To ratify the selection of the firm of Coopers & Lybrand as auditors for the fiscal year ending June 30, 1990.
3. To transact such other business as may properly come before the meeting.

Stockholders entitled to notice of and to vote at the meeting shall be determined as of the close of business on September 8, 1989, the record date fixed by the Board of Directors for such purpose.

By Order of the Board of Directors,



MARTIN R. HOFFMANN, Clerk

September 19, 1989

Stockholders are requested to sign the enclosed proxy card and return it promptly in the enclosed stamped envelope to Digital Equipment Corporation, P.O. Box 490, Maynard, Massachusetts 01754, Att'n: Investor Services Department.

PROXY STATEMENT

INTRODUCTION

Proxies in the form enclosed with this proxy statement are solicited by the Board of Directors of Digital Equipment Corporation (the "Corporation") for use at the 1989 Annual Meeting of Stockholders.

An Annual Report to Stockholders, containing financial statements for the fiscal year ended July 1, 1989, has been sent to all stockholders entitled to vote. This proxy statement and form of proxy were first sent to stockholders on or about the date of the accompanying Notice of 1989 Annual Meeting.

Only stockholders of record as of the close of business on September 8, 1989 will be entitled to vote at the meeting and any adjournments thereof. As of that date, 122,026,848 shares of Common Stock of the Corporation (excluding treasury shares) were issued and outstanding. Each share outstanding as of the record date will be entitled to one vote, and stockholders may vote in person or by proxy. Execution of a proxy will not in any way affect a stockholder's right to attend the meeting and vote in person. Any stockholder giving a proxy has the right to revoke it at any time before it is exercised by written notice to the Clerk of the Corporation. In addition, stockholders attending the meeting may revoke their proxies at that time.

The persons named as attorneys in the proxies are directors of the Corporation. All properly executed proxies returned in time to be cast at the meeting, if no contrary instruction is indicated, will be voted as stated below under "Election of Directors," and will be voted for the ratification of the selection of the auditors. Directors are elected by a plurality of votes cast and the affirmative vote of a majority of the shares present or represented at the meeting is required for ratification of the selection of auditors.

The Corporation knows of no other matter to be presented at the meeting. If any other matter should be presented at the meeting upon which a vote properly may be taken, shares represented by all proxies received by the Corporation will be voted with respect thereto in accordance with the judgment of the persons named as attorneys in the proxies.

ELECTION OF DIRECTORS

Nominees for Directors

The directors of the Corporation are elected annually and hold office until the next annual meeting and until their successors have been elected and have qualified. Pursuant to the Corporation's By-Laws, the stockholders fix the number of directors at the annual meeting, subject to the authority of the directors to increase the size of the Board. Any stockholder submitting a proxy has the right to withhold authority to vote for any individual nominee to the Board of Directors by writing the nominee's name in the space provided on the proxy. Shares represented by all proxies received by the Corporation and not so marked as to withhold authority to vote for any individual director or for all directors will be voted FOR fixing the number of directors for the ensuing year at eight and FOR the election of the nominees named below. The Corporation knows of no reason why any such nominee should be unable to serve, but if such should be the case, proxies will be voted for the election of some other person, or for fixing the number of directors at a lesser number.

The nominees for directors and further information with respect to each nominee are set forth below.

KENNETH H. OLSEN

Mr. Olsen, age 63, founded Digital Equipment Corporation in 1957 and has served since that time as its President and Chief Executive Officer. Mr. Olsen is also a director of Ford Motor Company and Polaroid Corporation. He has been a director of Digital Equipment Corporation since 1957.

VERNON R. ALDEN

Mr. Alden, age 66, was Chairman of the Board and Executive Committee of The Boston Company, Inc., a financial services company, from 1969 to 1978. He was President of Ohio University from 1962 to 1969. Mr. Alden is also a director of Augat, Inc., Colgate-Palmolive Company, Intermet Corporation, McGraw-Hill, Inc. and Sonesta International Hotels Corporation. He is also a trustee of several cultural and educational organizations. He has been a director of Digital Equipment Corporation since 1959 and is a member of its Compensation and Stock Option Committee.

PHILIP CALDWELL

Mr. Caldwell, age 69, is Senior Managing Director of Shearson Lehman Hutton, Inc.. In 1985, Mr. Caldwell retired as Chairman of the Board and Chief Executive Officer of

Ford Motor Company where he had been an officer for over 15 years. Mr. Caldwell is also a director of Ford Motor Company and Kellogg Company. He has been a director of Digital Equipment Corporation since 1980 and is a member of its Audit Committee and Compensation and Stock Option Committee.

COLBY H. CHANDLER

Mr. Chandler, age 64, has been Chief Executive Officer, Chairman of the Board and Chairman of the Executive Committee of Eastman Kodak Company (Kodak) since July 1983. Mr. Chandler has been a director of Kodak since 1974. He assumed the presidency of Kodak in January 1977, with additional duties of General Manager of the Photographic Division in 1979 and 1980. He is a member of the Boards of Directors of Citicorp, Ford Motor Company and J. C. Penney Company, Inc.

ARNAUD DE VITRY

Mr. de Vitry, age 63, is Chairman of the Board and Chief Executive Officer of Eureka SICAV, France, an investment company. He is also a director of Ionics, Incorporated and Schlumberger Limited. He has been a director of Digital Equipment Corporation since 1957.

ROBERT R. EVERETT

Mr. Everett, age 68, is an engineering consultant. He retired as President of the Mitre Corporation, a federal contract research center, in 1986. Mr. Everett has been a director of Digital Equipment Corporation since 1986 and is a member of its Compensation and Stock Option Committee.

WILLIAM H. McLEAN

Mr. McLean, age 78, is an engineering consultant. He was formerly the Vice President and Dean of Stevens Institute of Technology. He is also a director of National Aviation and Technology Corporation and National Telecommunications & Technology Fund, Inc., an open-end management investment company. He has been a director of Digital Equipment Corporation since 1967 and is a member of its Audit Committee.

DOROTHY E. ROWE

Miss Rowe, age 72, was formerly Senior Vice President and Treasurer of American Research and Development Corporation, a venture capital investment company. She is a member of the Advisory Board of the Boston Five Cents Savings Bank. Miss Rowe

has been a director of Digital Equipment Corporation since 1962 and is a member of its Audit Committee and its Compensation and Stock Option Committee.

Stock Ownership of Nominees

Shown below is certain information as of August 1, 1989, with respect to beneficial ownership of shares of the Corporation's Common Stock by all director nominees individually and by all officers and directors of the Corporation as a group. Unless otherwise indicated, the named person possesses sole voting and investment power with respect to the shares.

<u>Beneficial Owner</u>	<u>Shares Beneficially Owned</u>
KENNETH H. OLSEN	2,620,299 (1)
VERNON R. ALDEN	55,740 (2)
PHILIP CALDWELL	1,200 (3)
COLBY H. CHANDLER	1,000 (4)
ARNAUD DE VITRY	590,000 (5)
ROBERT R. EVERETT	100
WILLIAM H. MCLEAN	2,400
DOROTHY E. ROWE	140,730
All 46 officers and directors as a group, including those named above	4,858,195 (6)

(1) Includes 192,000 shares which Mr. Olsen has the right to acquire by exercise of stock options. Such 2,620,299 shares represent 2.15% of the Corporation's issued and outstanding Common Stock, assuming exercise of the stock options. Includes 20,624 shares held by a trust for the benefit of Mr. Olsen's wife. Does not include 1,936,015 shares owned by the Stratford Foundation, a private charitable foundation of which Mr. Olsen is the founder and co-trustee, as to which shares Mr. Olsen disclaims beneficial ownership.

(2) Includes 22,870 shares held by Mr. Alden's wife, as to which shares Mr. Alden disclaims beneficial ownership.

(3) Does not include 40 shares held by a limited partnership in which Mr. Caldwell has an indirect interest, as to which shares Mr. Caldwell disclaims beneficial ownership.

(4) Mr. Chandler acquired 1,000 shares of the Corporation's Common Stock on August 28, 1989.

(5) Includes 234,000 shares held in trust with respect to which Mr. de Vitry does not possess voting power. Also includes 356,000 shares held by either a financial institution or a nominee in a fiduciary capacity for the benefit of members of Mr. de Vitry's family. Mr. de Vitry disclaims beneficial ownership of such 356,000 shares.

(6) Includes 1,302,630 shares which the officers as a group have the right to acquire by exercise of stock options granted under the Corporation's stock option plans. These 4,858,195 shares represent approximately 4% of the Corporation's issued and outstanding Common Stock, assuming exercise of the stock options.

The Corporation knows of no person who owns beneficially more than 5% of the Common Stock. Each director other than Mr. Olsen owns beneficially less than 1% of the Common Stock.

Certain Relationships and Related Transactions

As previously noted, Philip Caldwell is Senior Managing Director of Shearson Lehman Hutton, Inc., the Corporation's investment bankers. Mr. Caldwell's son-in-law is a middle management employee of the Corporation and receives the usual and customary compensation for the position he serves.

In addition to his service as a director, Robert Everett also performs consulting services for the Company for which he receives reasonable and customary fees. During the fiscal year ended July 1, 1989, Mr. Everett received \$130,500 for such consulting services.

Committees of the Board

The Board of Directors has an Audit Committee and a Compensation and Stock Option Committee.

The Audit Committee recommends to the Board of Directors the selection of the independent auditors to be employed by the Corporation, reviews generally the internal and external audit plans and the results thereof, reviews generally the Corporation's internal accounting controls with the internal and external auditors and reviews compliance with the Corporation's policy on non-audit services provided by the independent auditors.

The Compensation and Stock Option Committee reviews and recommends to the Board the compensation of directors and of those officers who are members of the senior management committees, and reviews and recommends to the Board the adoption of any compensation plans in which directors and officers are eligible to participate. The Committee also

administers and interprets the Corporation's employee stock plans and, subject to the provisions of the plans, selects the employees who are to participate in such plans and determines the terms of their participation, subject to Board approval.

The Board of Directors as a whole acts as a Nominating Committee and, consequently, is responsible for nominations to the Board of Directors. The Board of Directors will consider highly qualified candidates proposed in writing by stockholders. Stockholders who wish to propose a nomination should submit the person's name and background information to the Clerk of the Corporation.

The Board of Directors held ten meetings during the fiscal year ended July 1, 1989, the Audit Committee met four times and the Compensation and Stock Option Committee met three times. All directors attended at least 75% of the total number of meetings of the Board and the committees to which they belong.

EXECUTIVE COMPENSATION AND OTHER INFORMATION

The table below shows all cash compensation for services in all capacities with the Corporation and its subsidiaries rendered during the fiscal year ended July 1, 1989, for the five most highly compensated executive officers of the Corporation and for all executive officers as a group.

<u>Name and Capacities in Which Served</u>	<u>Aggregate Cash Compensation</u>
Kenneth H. Olsen President and Director	\$ 949,592
John J. Shields Senior Vice President	\$ 532,231
John F. Smith Senior Vice President	\$ 529,477
Winston R. Hindle, Jr. Senior Vice President	\$ 464,804
Pier Carlo Falotti Vice President	\$ 429,257
All 39 executive officers as a group, including those named above(1)(2)	\$10,971,042

(1) Other than as set forth below under "Pension Plans", "Stock Options", and the stock plan descriptions, with respect to the fiscal year ended July 1, 1989, the executive officers of the Corporation received no significant non-cash compensation from the Corporation or its subsidiaries.

(2) The total includes the cash compensation for persons who served as executive officers for part of the fiscal year.

Compensation of Directors

Each director who is not also an employee of the Corporation is entitled to an annual retainer of \$20,000 for Board service, plus \$1,000 for each Board meeting and each committee meeting attended. Directors are also reimbursed for out-of-pocket expenses incurred in attending Board and committee meetings. Directors may defer all or any part of their retainer or meeting fees pursuant to a deferred compensation plan, amended and restated in May 1987. Pursuant to the plan, non-employee directors of the Corporation may elect to defer receipt of all or a specified portion of their compensation in the form of cash with an interest rate related to Treasury bills or in the form of units, the value of each unit initially being equal to the fair market value of one share of the Common Stock of the Corporation on the date the compensation being deferred would otherwise be payable.

The plan provides that compensation deferred under the plan, whether in the form of cash or units, will be paid out in cash after termination of service as a director. Directors may elect that compensation so deferred be paid out in a lump sum or in up to ten annual installments. Payment of compensation deferred under the plan commences in January of the year following the year in which service as a director terminates, except that earlier or accelerated distributions may be made in certain events of unforeseeable emergency.

Pursuant to a retirement plan for non-employee directors adopted in May 1987, each non-employee director of the Corporation on the date of adoption of the plan, and every other non-employee director who is 70 years of age or older and who has completed at least five years of service on the Board, is entitled upon termination of service to an annualized benefit for life which is equal to the annual retainer for non-employee directors in effect on the date of termination of service. The plan also provides for coordinated disability benefits for all non-employee directors equal to the annual retainer in effect on the date of total disability.

Pension Plans

The Corporation and its subsidiaries have pension plans covering substantially all of their employees.

Benefits under the Corporation's defined benefit pension plan for its United States employees are based upon the employee's earnings during service with the Corporation and are payable after retirement in the form of annuities or lump sum benefits. Pursuant to an amendment effective July 1, 1989, the annual amount payable upon retirement at age 65, without regard to any survivor options, is 1½% of the aggregate cumulative amount of the participant's base salary and wages earned on and after July 1, 1989, plus, for those persons who were active plan participants on July 1, 1989 or who later become active participants credited with prior service, 1½% of the annual average of the participant's compensation between July 1, 1984 and July 1, 1989 multiplied by the number of years of such participant's accredited service prior to July 1, 1989. Under the present provisions of the plan, a participant's annual pension may not exceed the lesser of the maximum allowable dollar limit (\$98,064 for fiscal 1989), or 100% of the participant's average compensation for the participant's three highest paid consecutive years of service with the Corporation.

Employees outside the United States are covered by different pension plans varying from country to country.

Estimated annual retirement benefits at age 65 based on the foregoing formula for the following individuals would be: Mr. Olsen, \$98,064; Mr. Shields, \$98,064; Mr. Smith, \$98,064; and Mr. Hindle, \$98,064. Mr. Falotti is employed outside of the United States and does not participate in the Corporation's defined benefit pension plan described above. Mr. Falotti participates in a contributory pension plan applicable to employees in Switzerland.

Stock Options

The following table shows as to certain named executive officers, and as to all current executive officers as a group including the named executive officers: (i) the number of shares of the Corporation's Common Stock for which options were granted under one of the Corporation's restricted stock option plans on and between July 3, 1988 and July 1, 1989; (ii) the average per share option exercise price thereof and the average per share market price of the Corporation's Common Stock on the dates of grant thereof; and (iii) the net value of shares acquired on and between July 3, 1988 and July 1, 1989 upon the exercise of options granted during the period or prior thereto. The Corporation does not grant stock appreciation rights.

<u>Shares of Common Stock(1)</u>	<u>K. H. Olsen</u>	<u>J. J. Shields</u>	<u>J. F. Smith</u>	<u>W. R. Hindle</u>	<u>P. C. Falotti</u>	<u>All Executive Officers as a Group(2)</u>
Options Granted 7/3/88 through 7/1/89(3)						
Number of shares	22,000	12,000	12,000	4,000	6,000	199,400
Average per share exercise price	\$73.00	\$73.00	\$73.00	\$73.00	\$73.00	\$73.00
Average per share price on dates of grant	\$102.63	\$102.63	\$102.63	\$102.63	\$102.63	\$101.73
Options Exercised 7/3/88 through 7/1/89						
Number of shares	-0-	-0-	-0-	-0-	-0-	42,918
Net value realized upon exercise(4)	—	—	—	—	—	\$2,888,127

(1) All share numbers and option prices have been adjusted to reflect the two-for-one stock split effected May 9, 1986.

(2) Directors who are not also officers of the Corporation do not participate in the Corporation's stock option plans.

(3) Options granted prior to November 8, 1985 were granted under the Corporation's 1976 Restricted Stock Option Plan and options granted on or after November 8, 1985 were granted under the Corporation's 1985 Restricted Stock Option Plan. In general, options granted under the Corporation's restricted stock option plans are exercisable in full on the date of grant, but shares purchased thereunder are subject to repurchase at the option of the Corporation at the exercise price, unless such repurchase option has lapsed. Such repurchase option lapses over the life of the grant whether or not the option has been exercised. See "Description of the 1985 Restricted Stock Option Plan" and "Description of the 1976 Restricted Stock Option Plan."

(4) The net value realized upon exercise of options is the difference between the market value of the shares received upon exercise and the exercise price thereof.

On September 8, 1989, the closing price of the Corporation's Common Stock on the New York Stock Exchange Composite Tape was \$98.125.

Stock Plans

The Corporation has adopted several stock incentive plans to attract and retain employees. The 1985 Restricted Stock Option Plan provides a method for offering equity incentives to key employees of the Corporation. The 1968 Employee Stock Purchase Plan and the 1981 International Employee Stock Purchase Plan were adopted for substantially all employees of the Corporation and participating subsidiaries. The Corporation's plans are more specifically described below.

Description of the 1985 Restricted Stock Option Plan

In 1985 the Board of Directors and the stockholders adopted the 1985 Restricted Stock Option Plan (the "1985 Plan"). A total of 18,000,000 shares of Common Stock in the aggregate may be sold under the 1985 Plan. Not more than 3% of the aggregate number of shares issuable under the 1985 Plan may be sold to any one employee. Options may be granted to employees under the 1985 Plan from time to time through December 31, 1990, the termination date of the 1985 Plan. At August 1, 1989, approximately 14,000 employees were participating in the 1985 Plan.

The 1985 Plan authorizes the grant of non-transferable options to purchase the Corporation's Common Stock to key employees of the Corporation and its subsidiaries coupled with a prohibition against disposition of such shares and a requirement to offer such shares for resale to the Corporation at their purchase price upon termination of employment. The restrictions and obligation of resale lapse from time to time as to portions of the grant (whether or not the option has been exercised), as determined by the Board of Directors or the Compensation and Stock Option Committee of the Board of Directors (the "Committee") which administers and interprets the 1985 Plan.

The exercise price of options granted under the 1985 Plan is specified by the Board of Directors, but in no event may this price be less than the lower of (i) 50% of the fair market value per share at the date of grant or (ii) the book value per share as of the end of the Corporation's fiscal year immediately preceding the grant date. The 1985 Plan contains a provision permitting payment by an officer of the Corporation upon exercise of an option to be made using the Corporation's Common Stock, as well as cash, in accordance with policies and eligibility criteria established by the Committee.

Employees, including officers, of the Corporation or any of its subsidiaries, and consultants, are eligible to receive options under the 1985 Plan. Directors who are also employees are eligible to receive options if they are not members of the Committee. Subject to the terms of

the 1985 Plan, the Committee has authority to select the employees to whom options are granted, to determine the number of shares subject to such options, the time or times when options are to be granted, the rate and time of lapse of restrictions, and other terms. Options may be granted to the same employee on more than one occasion. Currently, options granted to U.S. employees generally are exercisable immediately, terminate not more than 10 years and 90 days from the date of grant, and are exercisable only while the holder is employed by the Corporation or a subsidiary or after retirement with the consent of the Corporation.

The Board of Directors may terminate or amend the 1985 Plan, provided that no amendment shall, without stockholder approval, increase the maximum number of shares which may be sold under the 1985 Plan in the aggregate or the percentage of such number which may be sold to any one person, decrease the minimum exercise price at which options may be granted, or extend the period during which options may be granted under the 1985 Plan.

An option granted under the 1985 Plan is a non-statutory stock option and is taxed in accordance with Section 83 of the Internal Revenue Code (the "Code") and the regulations issued thereunder. Options granted under the 1985 Plan do not qualify as "incentive stock options" under the Code.

As of August 1, 1989, options for 291,715 shares had been exercised under the 1985 Plan at an average exercise price per share of \$55.09; options for 9,024,136 shares at an average exercise price per share of \$96.21 were outstanding with expiration dates ranging from February 6, 1996 to August 30, 1999; and 8,684,149 shares remained available for additional option grants.

Description of the 1976 Restricted Stock Option Plan

In 1976 the Board of Directors and the stockholders adopted the 1976 Restricted Stock Option Plan (the "1976 Plan"). The authority to grant additional options under the 1976 Plan expired upon the adoption by the stockholders of the 1985 Plan in November 1985. The terms and conditions of the 1976 Plan are substantially the same as the 1985 Plan.

As of August 1, 1989, options for 6,434,957 shares had been exercised under the 1976 Plan at an average exercise price per share of \$21.62 and options for 7,592,214 shares at an average exercise price per share of \$30.08 were outstanding with expiration dates ranging from September 2, 1989 to December 22, 1995.

Description of the 1968 Employee Stock Purchase Plan

In 1968 the Board of Directors and the stockholders adopted the 1968 Employee Stock Purchase Plan (the "Employee Plan") for substantially all employees of the Corporation and its participating subsidiaries, other than directors of the Corporation. At August 1, 1989, approximately 90,300 employees were eligible to participate in the Employee Plan, and approximately 53,000 employees were participating.

The Employee Plan authorizes the issuance of a maximum of 25,500,000 shares of Common Stock. The Employee Plan permits employees to purchase shares of the Corporation's Common Stock twice yearly through accumulated payroll deductions, up to a maximum of 10% of regular base pay. The six month periods June 1 to November 30 and December 1 to May 31 are the payment periods ("Payment Period") during which payroll deductions are accumulated under the Employee Plan. The price at which shares are purchased is an amount equal to 85% of the fair market value of the stock on the first or last business day of the applicable six-month Payment Period, whichever is lower.

The Board of Directors may terminate or amend the Employee Plan, provided that no amendment shall, without stockholder approval, increase the number of shares of Common Stock to be offered under the Plan or change the class of employees eligible to participate in the Plan.

During the period July 3, 1988 through July 1, 1989, executive officers of the Corporation purchased shares under the Employee Plan as follows: Mr. Shields, 267 shares; Mr. Smith, 267 shares; all current executive officers as a group, 6,427 shares.

At August 1, 1989, 17,051,288 shares had been purchased by employees under the Employee Plan and 8,448,712 shares remained available.

Description of the 1981 International Employee Stock Purchase Plan

In 1981, the Board of Directors and the stockholders adopted the 1981 International Employee Stock Purchase Plan (the "International Plan"). A total of 2,400,000 shares of Common Stock in the aggregate may be sold under the International Plan. At August 1, 1989, approximately 18,300 employees were eligible to participate in the International Plan, and approximately 7,600 employees were participating.

The provisions of the International Plan are substantially the same as the 1968 Employee Stock Purchase Plan described above. The International Plan was adopted in order to extend the benefits of the Employee Plan to employees of selected foreign subsidiaries of the

Corporation or branches thereof, other than directors of the Corporation. Employees of several foreign subsidiaries presently participate in the Employee Plan, but under present provisions of the United States tax laws it is impractical to extend the benefits of the U.S. tax-qualified Employee Plan to selected branches of foreign subsidiaries. The International Plan is not intended to be a tax qualified plan under the Code.

The Board of Directors may terminate or amend the International Plan, provided that no amendment shall, without stockholder approval, increase the number of shares of Common Stock to be offered under the Plan or change the class of employees eligible to participate in the Plan.

During the period July 3, 1988 through July 1, 1989, the executive officers of the Corporation purchased shares under the International Plan as follows: Mr. Falotti, 257 shares; all current executive officers as a group, 469 shares.

At August 1, 1989, 1,166,498 shares had been purchased under the International Plan and 1,233,502 shares remained available.

RATIFICATION OF SELECTION OF AUDITORS

The Board of Directors has selected the firm of Coopers & Lybrand, independent accountants, to serve as auditors for the fiscal year ending June 30, 1990, subject to ratification by the stockholders. Coopers & Lybrand has served as the Corporation's auditors since the organization of the Corporation.

The Board of Directors recommends a vote FOR ratification of this selection.

It is expected that a member of the firm of Coopers & Lybrand will be present at the Annual Meeting, will have an opportunity to make a statement if so desired and will be available to respond to appropriate questions.

AMENDMENT OF BY-LAWS

In August 1989, the Board of Directors amended the Corporation's By-Laws to provide that special meetings of stockholders may be called upon written application of one or more stockholders who hold at least 40% of the capital stock entitled to vote at the meeting, as contemplated by recent amendments to the Massachusetts Business Corporation Law.

EXPENSES AND SOLICITATION

The cost of solicitation of proxies will be borne by the Corporation. In addition to soliciting stockholders through its regular employees, the Corporation may request banks and brokers to solicit customers of theirs who have shares of Common Stock of the Corporation registered in the name of a nominee. The Corporation will reimburse such banks and brokers for their reasonable out-of-pocket costs, at the rates suggested by the New York Stock Exchange. Solicitation by officers and employees of the Corporation may also be made of some stockholders in person, or by mail, telephone or telegraph, following the original solicitation.

STOCKHOLDER PROPOSALS FOR NEXT ANNUAL MEETING

Proposals of stockholders intended for inclusion in the proxy statement to be mailed to all stockholders entitled to vote at the 1990 annual meeting of stockholders of the Corporation must be received at the Corporation's principal executive offices not later than May 22, 1990. In order to curtail controversy as to the date on which a proposal was received by the Corporation, proponents should submit their proposals by Certified Mail-Return Receipt Requested.

September 19, 1989

digital

DIGITAL EQUIPMENT CORPORATION
NOTICE OF 1990 ANNUAL MEETING

September 14, 1990

Dear Fellow Stockholder:

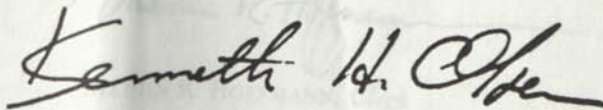
You are cordially invited to attend our Annual Meeting of Stockholders, which will be held this year on Thursday, November 1, 1990, at 11:00 A.M., at the World Trade Center, Commonwealth Pier, 164 Northern Avenue, Boston, Massachusetts.

The notice of meeting and proxy statement which follow describe the business to be conducted at the meeting. We will also give a presentation on the current status of our business.

Whether or not you plan to attend the meeting in person, it is important that your shares be represented and voted. After reading the enclosed Notice of Annual Meeting and Proxy Statement, may I urge you to complete, sign, date and return your proxy ballot in the envelope provided. If the address on the accompanying material is incorrect, please advise our Investor Services Department in writing at 111 Powdermill Road, Maynard, Massachusetts 01754.

Your vote is important. We will appreciate a prompt return of your signed proxy ballot and hope to see you at the meeting.

For the Board of Directors,



KENNETH H. OLSEN
President and Chief Executive Officer

DIGITAL EQUIPMENT CORPORATION, 146 MAIN STREET, MAYNARD, MASSACHUSETTS 01754

DIGITAL EQUIPMENT CORPORATION

NOTICE OF 1990 ANNUAL MEETING

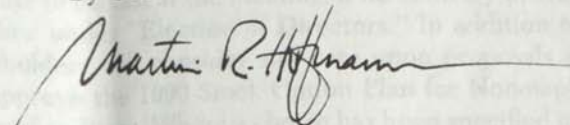
To the Stockholders of DIGITAL EQUIPMENT CORPORATION:

Notice is hereby given that the Annual Meeting of Stockholders of Digital Equipment Corporation, a Massachusetts corporation, will be held on Thursday, November 1, 1990, at 11:00 A.M., at the World Trade Center, Commonwealth Pier, 164 Northern Avenue, Boston, Massachusetts, for the following purposes:

1. To elect three members to the Board of Directors to serve for a three-year term as Class I Directors.
2. To consider and act upon a proposal to approve the 1990 Equity Plan.
3. To consider and act upon a proposal to approve the 1990 Stock Option Plan for Nonemployee Directors.
4. To ratify the selection of the firm of Coopers & Lybrand as auditors for the fiscal year ending June 29, 1991.

Stockholders entitled to notice of and to vote at the meeting shall be determined as of the close of business on September 7, 1990, the record date fixed by the Board of Directors for such purpose.

By Order of the Board of Directors,



MARTIN R. HOFFMANN, Clerk

September 14, 1990

Stockholders are requested to sign the enclosed proxy card and return it promptly in the enclosed postage paid envelope to Digital Equipment Corporation, P.O. Box 490, Maynard, Massachusetts 01754, Att'n: Investor Services Department.

PROXY STATEMENT

INTRODUCTION

Proxies in the form enclosed with this proxy statement are solicited by the Board of Directors of Digital Equipment Corporation (the "Corporation") for use at the 1990 Annual Meeting of Stockholders (the "Meeting").

An Annual Report to Stockholders, containing financial statements for the fiscal year ended June 30, 1990, has been sent to all stockholders entitled to vote. This proxy statement and form of proxy were first sent to stockholders on or about the date of the accompanying Notice of 1990 Annual Meeting.

Only stockholders of record as of the close of business on September 7, 1990 will be entitled to vote at the Meeting and any adjournments thereof. As of that date, 119,373,697 shares of Common Stock of the Corporation (excluding treasury shares) were issued and outstanding. Each share outstanding as of the record date will be entitled to one vote, and stockholders may vote in person or by proxy. Execution of a proxy will not in any way affect a stockholder's right to attend the meeting and vote in person. Any stockholder giving a proxy has the right to revoke it at any time before it is exercised by written notice to the Clerk of the Corporation. In addition, stockholders attending the Meeting may revoke their proxies at that time.

The persons named as attorneys in the proxies are directors of the Corporation. All properly executed proxies returned in time to be cast at the Meeting, if no contrary instruction is indicated, will be voted as stated below under "Election of Directors." In addition to the election of Class I Directors, the stockholders will consider and vote upon proposals (i) to approve the 1990 Equity Plan, (ii) to approve the 1990 Stock Option Plan for Nonemployee Directors and (iii) to ratify the selection of auditors. Where a choice has been specified on the proxy with respect to the foregoing matters, the shares represented by the proxy will be voted in accordance with the specification and will be voted FOR if no specification is indicated. Directors are elected by a plurality of votes cast, and the affirmative vote of a majority of the shares present or represented at the meeting is required for approval of the other matters.

The Corporation knows of no other matter to be presented at the Meeting. If any other matter should be presented at the Meeting upon which a vote properly may be taken, shares

represented by all proxies received by the Corporation will be voted with respect thereto in accordance with the judgment of the persons named as attorneys in the proxies.

PRINCIPAL HOLDERS OF VOTING SECURITIES

The following table sets forth as of July 31, 1990, the name of the person who, to the knowledge of management, beneficially owned 5% or more of the shares of Common Stock of the Corporation outstanding at said date, the number of shares owned by such person and the percentage of the outstanding shares represented thereby.

Name and Address of Beneficial Owner	Amount and Nature of Ownership	Percent of Class
Sanford C. Bernstein & Co., Inc. 767 Fifth Avenue New York, New York 10153	6,105,982 (1)	5%

(1) Sanford C. Bernstein possesses sole voting power as to 3,242,436 of the shares, shared voting power as to none of such shares and sole dispositive power as to all of such shares.

ELECTION OF DIRECTORS

Prior to the enactment of legislation by the Massachusetts legislature on April 18, 1990, the directors of the Corporation had been elected annually to hold office until the next annual meeting of stockholders and until their successors had been elected and qualified. Pursuant to the legislation, every publicly-held corporation organized under Massachusetts law is required to have a classified (staggered) board of directors. A corporation may elect to be exempt from the classified board requirement by a vote of the directors, or by a vote of the holders of two-thirds of the outstanding voting stock of the corporation at a meeting held after January 1, 1992. On June 11, 1990, the Board of Directors of the Corporation unanimously voted to divide the Board into three classes, one of which consists of three directors and two of which consist of two directors each, so that one class ("Class I Directors") will be elected at the Meeting for a three-year term, one class ("Class II Directors") will be elected at the 1991 Annual Meeting of Stockholders for a three-year term, and one class ("Class III Directors") will be elected at the 1992 Annual Meeting of Stockholders for a three-year term, and in each case to hold office until their successors have been duly elected and qualified. The initial terms of office of the Class I, Class II and Class III Directors will extend until the 1990, 1991 and 1992 Annual

Meetings of Stockholders, respectively. See "Information Regarding Classification of the Board of Directors."

The nominees for Class I Directors, Messrs. Olsen, Caldwell and McLean, are presently serving as directors of the Corporation and were elected at the Annual Meeting of Stockholders held November 6, 1989. Shares represented by all proxies received by the Board of Directors and not so marked as to withhold authority to vote for any individual nominee will be voted (unless one or more nominees are unable or unwilling to serve) for the election of all nominees for Class I Directors. The Board of Directors knows of no reason why any such nominee should be unable or unwilling to serve, but if such should be the case, proxies will be voted for the election of some other person or the Board of Directors will fix the number of directors at a lesser number.

Set forth below is information with respect to each nominee for a Class I Director to be elected at the Meeting and for each Class II Director and Class III Director. All of the directors were previously elected by the stockholders.

Nominees to Serve as Directors for a Three-Year Term Expiring at the 1993 Annual Meeting (Class I Directors)

KENNETH H. OLSEN

Mr. Olsen, age 64, founded Digital Equipment Corporation in 1957 and has served since that time as its President and Chief Executive Officer. Mr. Olsen is also a director of Ford Motor Company and Polaroid Corporation. He has been a director of Digital Equipment Corporation since 1957.

PHILIP CALDWELL

Mr. Caldwell, age 70, is a director and Senior Managing Director of Shearson Lehman Brothers Inc. and a director of Shearson Lehman Brothers Holdings Inc. In 1985, Mr. Caldwell retired as Chairman of the Board and Chief Executive Officer of Ford Motor Company, where he had been an officer for over 15 years. Mr. Caldwell is also a director of Kellogg Company. He has been a director of Digital Equipment Corporation since 1980 and is Chairman of its Audit Committee and a member of its Compensation and Stock Option Committee.

WILLIAM H. MCLEAN

Mr. McLean, age 79, is an engineering consultant. He was formerly the Vice President and Dean of Stevens Institute of Technology. He is also a director of National

Aviation and Technology Corporation and National Telecommunications & Technology Fund, Inc., an open-end management investment company. He has been a director of Digital Equipment Corporation since 1967 and is a member of its Audit Committee.

Directors Serving a Term Expiring at the 1991 Annual Meeting (Class II Directors)

VERNON R. ALDEN

Mr. Alden, age 67, was Chairman of the Board and Executive Committee of The Boston Company, Inc., a financial services company, from 1969 to 1978. He was President of Ohio University from 1962 to 1969. Mr. Alden is also a director of Augat, Inc., Colgate-Palmolive Company, Intermet Corporation, McGraw-Hill, Inc. and Sonesta International Hotels Corporation. He is also a trustee of several cultural and educational organizations. He has been a director of Digital Equipment Corporation since 1959 and is a member of its Compensation and Stock Option Committee.

ROBERT R. EVERETT

Mr. Everett, age 69, is an engineering consultant. He retired as President of the Mitre Corporation, a federal contract research center, in 1986. Mr. Everett has been a director of Digital Equipment Corporation since 1986 and is Chairman of its Compensation and Stock Option Committee.

Directors Serving a Term Expiring at the 1992 Annual Meeting (Class III Directors)

COLBY H. CHANDLER

Mr. Chandler, age 65, retired as Chairman of the Board and Chief Executive Officer of Eastman Kodak Company ("Kodak") in May 1990. Prior to that time he had been Chief Executive Officer, Chairman of the Board and Chairman of the Executive Committee of Kodak since July 1983. He assumed the presidency of Kodak in January 1977. Mr. Chandler has been a director of Kodak since 1974. He is also a director of Citicorp, Ford Motor Company and J. C. Penney Company, Inc. Mr. Chandler has been a director of Digital Equipment Corporation since 1989 and is a member of its Audit Committee.

ARNAUD DE VITRY

Mr. de Vitry, age 64, is an engineering consultant. Prior to August 1990, Mr. de Vitry was Chairman of the Board and Chief Executive Officer of Eureka SICAV, France, an investment company, since 1980. He is also a director of Ionics, Incorporated and

Schlumberger Limited. Mr. de Vitry has been a director of Digital Equipment Corporation since 1957.

Stock Ownership of Directors

Shown below is certain information as of August 1, 1990, with respect to beneficial ownership of shares of the Corporation's Common Stock by all directors (including the three nominees for Class I Directors) individually, and by all officers and directors of the Corporation as a group. Unless otherwise indicated, the named person possesses sole voting and investment power with respect to the shares.

<u>Beneficial Owner</u>	<u>Shares Beneficially Owned</u>
KENNETH H. OLSEN	2,632,998 (1)
VERNON R. ALDEN	54,140 (2)
PHILIP CALDWELL	1,200 (3)
COLBY H. CHANDLER	2,000
ARNAUD DE VITRY	590,000 (4)
ROBERT R. EVERETT	300
WILLIAM H. MCLEAN	2,400
All 43 officers and directors as a group, including those named above	4,643,331 (5)

(1) Includes 209,600 shares which Mr. Olsen has the right to acquire by exercise of stock options. Such shares represent 2.1% of the Corporation's issued and outstanding Common Stock, assuming exercise of the stock options. Includes 20,844 shares held by a trust for the benefit of Mr. Olsen's wife. Does not include 1,760,485 shares owned by the Stratford Foundation, a private charitable foundation of which Mr. Olsen is the founder and co-trustee, as to which shares Mr. Olsen disclaims beneficial ownership.

(2) Includes 22,770 shares held by Mr. Alden's wife, as to which shares Mr. Alden disclaims beneficial ownership.

(3) Does not include 40 shares held by a limited partnership in which Mr. Caldwell has an indirect interest, as to which shares Mr. Caldwell disclaims beneficial ownership.

(4) Includes 225,000 shares held in trust with respect to which Mr. de Vitry does not possess voting power. Also includes 365,000 shares held by either a financial institution

or a nominee in a fiduciary capacity for the benefit of members of Mr. de Vitry's family. Mr. de Vitry disclaims beneficial ownership of such 365,000 shares.

(5) Includes 1,271,480 shares which the officers as a group have the right to acquire by exercise of stock options granted under the Corporation's stock option plans. These 4,643,331 shares represent approximately 3.8% of the Corporation's issued and outstanding Common Stock, assuming exercise of the stock options.

Each director other than Mr. Olsen owns beneficially less than 1% of the Common Stock.

Certain Relationships and Related Transactions

As previously noted, Philip Caldwell is Senior Managing Director of Shearson Lehman Brothers Inc. ("Shearson"), the Corporation's investment banker. Shearson performs financial and investment banking services for the Corporation for which it receives usual and customary compensation. Mr. Caldwell's son-in-law is a middle management employee of the Corporation and receives the usual and customary compensation for the position he serves.

In February 1990 the Corporation entered into an agreement with Eastman Kodak Company ("Kodak") providing for the management and operation by the Corporation of voice, data and text telecommunications services for Kodak. As part of the agreement, the Corporation hired Kodak employees and purchased assets required to support these services. Colby Chandler, a director of the Corporation, was Chairman and Chief Executive Officer of Kodak at the time the agreement was signed. He did not participate in the Digital Board of Directors' discussions regarding the transactions contemplated by the agreement.

In addition to his service as a director, Robert Everett also performs consulting services for the Corporation for which he receives reasonable and customary fees. During the fiscal year ended June 30, 1990, Mr. Everett received \$92,000 for such consulting services.

Committees of the Board

The Board of Directors has an Audit Committee and a Compensation and Stock Option Committee.

The Audit Committee recommends to the Board of Directors the selection of the independent auditors to be employed by the Corporation, reviews generally the internal and external audit plans and the results thereof, reviews generally the Corporation's internal accounting controls with the internal and external auditors and reviews compliance with the Corporation's policy on non-audit services provided by the independent auditors.

The Compensation and Stock Option Committee reviews and recommends to the Board the compensation of directors and of those officers who are members of the senior management committees, and reviews and recommends to the Board the adoption of any compensation plans in which directors and officers are eligible to participate. The Committee also administers and interprets the Corporation's employee stock plans and, subject to the provisions of the plans, selects the employees who are to participate in such plans and determines the terms of their participation.

The Board of Directors as a whole acts as a Nominating Committee and, consequently, is responsible for nominations to the Board of Directors. The Board of Directors will consider highly qualified candidates proposed in writing by stockholders. Stockholders who wish to propose a nomination should submit the person's name and background information to the Clerk of the Corporation.

The Board of Directors held ten meetings during the fiscal year ended June 30, 1990, the Audit Committee met four times and the Compensation and Stock Option Committee met six times. All directors attended at least 75% of the total number of meetings of the Board and the committees on which they serve.

INFORMATION REGARDING CLASSIFICATION OF THE BOARD OF DIRECTORS

On April 18, 1990, the Massachusetts legislature enacted legislation entitled "An Act to Provide Protection to Massachusetts Corporations" (the "Act"), which provides that publicly-held corporations organized under Massachusetts law are required to have a classified board of directors consisting of three classes as nearly equal in size as possible. The three classes initially will have terms expiring at the first, second and third annual meetings, respectively, following the effective date of the Act. The Act provides that a corporation may elect to be exempt from the classified board provisions of the Act by a vote of the directors, or by a vote of the holders of two-thirds of the outstanding voting stock of a corporation at a meeting held after January 1, 1992. The stated purpose of the legislation is to provide protection to Massachusetts corporations, including their stockholders, employees, suppliers and customers and the communities in which the corporations' facilities are located.

The Act also provides that any corporation that is subject to the classified board provisions also will be subject to the severance payment provisions of the Act, which provide that employees of certain Massachusetts corporations who suffer involuntary termination of

employment during a period of up to twelve months after a contested stockholders' meeting will be entitled to certain severance payments.

The Board of Directors of the Corporation has divided the seven directors presently in office into three classes, as further described below. While no stockholder vote is necessary to approve the classification of the Board of Directors, stockholders are urged to read the following discussion.

Provisions Regarding the Board of Directors Prior to the Act

With respect to the election of directors, under the law prior to adoption of the Act, the stockholders determined the number of directors of the Corporation, and the Board of Directors could be enlarged by the stockholders at any special meeting or by vote of a majority of the directors then in office. Additionally, under the pre-existing law, each of the directors of the Corporation was elected to the Board of Directors annually for a term of one year.

With respect to the removal of directors, prior to adoption of the Act, Massachusetts law provided generally that directors could be removed by the holders of a majority of the shares entitled to vote in the election of directors with or without cause, and that directors could be removed from office for cause by vote of a majority of the directors then in office. Any vacancy in the Board of Directors, whether resulting from the removal of an incumbent director or any other cause, could be filled by the stockholders or a majority of the remaining directors.

Description of Classified Board

The Board of Directors is divided into three classes with one class consisting of three directors and the other two classes consisting of two directors each. The Class I Directors will be elected for a three-year term at the Meeting, the Class II Directors will be elected for a three-year term at the 1991 Annual Meeting of Stockholders and the Class III Directors will be elected for a three-year term at the 1992 Annual Meeting of Stockholders. Messrs. Olsen, Caldwell and McLean constitute the Class I Directors; Messrs. Alden and Everett constitute the Class II Directors; and Messrs. Chandler and de Vitry constitute the Class III Directors. At each annual meeting of stockholders following the initial classification, the class of directors to be elected will be elected for a three-year term of office.

Under the Act, the number of directors will be determined only by the Board of Directors. Once a corporation is subject to the classified board provisions of the Act, directors may be removed by a majority vote of the stockholders only for "cause", as defined in the Act, or by the remaining directors for cause. With respect to vacancies in the Board of Directors, the Act

provides that any vacancies on the Board will be filled only by a majority of the remaining directors, even if the number of such directors is less than a quorum. Any newly created or eliminated directorships resulting from an increase or decrease in the size of the Board of Directors shall be apportioned by the Board of Directors among the three classes of directors so as to maintain such classes as nearly equal as possible. Any director filling a newly created or vacant directorship shall have a term of office equal to the remainder of the full term of the class of directors in which the new directorship was created or the vacancy occurred and until such director's successor shall have been elected and qualified.

Existing Anti-Takeover Protection

On December 11, 1989, the Board of Directors unanimously adopted a Stockholder Rights Plan (the "Rights Plan"). Under the Rights Plan, the Corporation distributed to stockholders a dividend of one Common Stock Purchase Right (the "Rights") for each outstanding share of the Corporation's Common Stock. Initially, each Right will entitle holders of Common Stock to buy one share of Common Stock of the Corporation at an exercise price of \$400, subject to adjustment. The Rights will become exercisable only if a person or group acquires 20% or more of the Common Stock, or announces a tender or exchange offer which would result in its ownership of 30% or more of the Common Stock, or a person owning 10% or more of the Common Stock is determined by the Board of Directors to be an "Adverse Person", as defined in the Rights Plan.

If any person or group becomes the beneficial owner of 25% or more of the Common Stock except pursuant to a tender offer for all shares which the directors determine to be at a fair price and in the best interests of the Corporation; a 20% or more stockholder engages in a merger with the Corporation in which the Corporation survives and its Common Stock remains outstanding and unchanged; certain other events involving the Corporation and a 20% or more stockholder occur; or, under certain circumstances, the Board of Directors determines a 10% or more stockholder to be an Adverse Person, each Right not then held by such person or related parties will entitle its holder to purchase, at the Right's then current exercise price, Common Stock of the Corporation (or, in certain circumstances as determined by the Board of Directors, a combination of cash, property, Common Stock or other securities) having a value of twice the Right's exercise price. In addition, at any time after a stockholder acquires a 20% or more equity interest in the Corporation, if the Corporation is involved in a merger or other business combination transaction with another person in which its Common Stock is changed or converted, or sells or transfers more than 50% of its assets or earning power to another person, each Right that has not previously been exercised or voided will entitle its holder to

purchase, at the Right's then current exercise price, shares of common stock of such other person having a value of twice the Right's exercise price. The Corporation generally is entitled to redeem the Rights at \$.01 per Right at any time until the Board of Directors determines a 10% or more stockholder to be an Adverse Person or the tenth day following public announcement that a 20% equity interest in the Corporation has been acquired. The Rights Plan will expire on December 21, 1999 unless the Rights are earlier redeemed by the Corporation.

The adoption of the Rights Plan has the effect of making an unsolicited takeover of the Corporation more difficult and more costly to any potential acquiror in circumstances in which the Board of Directors determines that such an unsolicited takeover is not in the best interests of the Corporation's stockholders.

On January 22, 1990, the Board of Directors unanimously amended the Corporation's By-laws to provide that special meetings of stockholders may be called upon written application of one or more stockholders who hold at least 90% of the capital stock entitled to vote at the meeting. The effect of the amendment is to make it more difficult for the stockholders to call a special meeting of stockholders. The By-laws were further amended on January 22, 1990 to increase the directors' flexibility with respect to setting the time and place of the annual meeting of stockholders and to require advance notice (i) for any business to be properly brought before a stockholders' meeting by a stockholder and (ii) of nominations of persons for election to the Board of Directors at the annual meeting. In addition, on August 13, 1990, conforming amendments to the Corporation's By-laws were unanimously adopted by the Board of Directors to reflect the provisions of the Act.

The Articles of Organization and By-laws of the Corporation as currently constituted do not contain any other provisions which management considers to have an "anti-takeover effect". Cumulative voting with respect to the election of directors is not provided under the Articles of Organization or By-laws of the Corporation.

The Board of Directors is not presently aware of any attempt by a third party to obtain control of the Corporation through a tender offer or otherwise. The Corporation has not experienced any problems with respect to the continuity and stability of the Board of Directors or corporate management and policies. Nonetheless, in view of the increasing use in recent years of unsolicited takeovers as acquisition techniques, the Board of Directors believes that anti-takeover devices such as the ones described above are appropriate measures which will help to assure such continuity and stability in future periods. Accordingly, the Board of

Directors may consider adopting other anti-takeover devices in the future, although none is currently being considered.

Consequences of a Classified Board

The classification of the Board of Directors will tend to slow the pace of any change in control of the Corporation. Accordingly, such provision could have the effect of discouraging a potential acquiror from seeking control of the Corporation and, since it affects every election of directors, it will make it more difficult for the stockholders to change a majority of the Board of Directors, even if the only reason for the change may be the performance of the present directors. It would take at least two annual stockholders' meetings to elect a majority of the Board of Directors.

In recent years there has been an increase in the number of takeover attempts preceded by an accumulation of stock and an attempt by the person making the takeover attempt to attain representation on the board of directors of a publicly-held corporation. Representation on the board of directors may be sought in order to increase the likelihood that a takeover attempt, reorganization or sale proposal by the purchaser will succeed. If an attempt to attain representation on the board of directors fails, the purchaser could commence a proxy contest (which could be costly to a corporation) in order to attain such representation. It is possible that such a contest could be designed to force a corporation to repurchase the stock owned by the purchaser at a premium in order to terminate the takeover attempt or proxy contest.

The Board of Directors of the Corporation believes that a classification of the Board of Directors will discourage changes in control which are unsolicited and not negotiated with the Board of Directors and will provide the Board of Directors time to study a purchaser's proposal adequately, to ensure that any proposed reorganization or sale of the Corporation, its stock or assets is in the best interests of stockholders, to evaluate adequately alternatives to a purchaser's proposal and to ensure that the best possible price is obtained in any transaction in which control of the Corporation is transferred. Although a change in the Board of Directors or a takeover of the Corporation would not necessarily be detrimental to the Corporation, the Board of Directors believes that the classification of the Board of Directors will encourage potential purchasers to negotiate with the Board of Directors concerning their proposals. The lack of haste in making a determination concerning the terms proposed by the purchaser and whether such terms are in the best interests of the Corporation and its stockholders would result either in a more reasoned determination that such a transaction is not in the best interests of stockholders or in a better planned, more efficiently executed transaction.

Another consequence of the increase in the length of time required to elect a majority of a classified Board of Directors is to help assure continuity and stability of the Corporation's management and policies, since a majority of the directors at any given time will have prior experience as directors of the Corporation.

EXECUTIVE COMPENSATION AND OTHER INFORMATION

The table below shows all cash compensation for services in all capacities with the Corporation and its subsidiaries rendered during the fiscal year ended June 30, 1990, for the five most highly compensated executive officers of the Corporation and for all executive officers as a group.

<u>Name and Capacities in Which Served</u>	<u>Aggregate Cash Compensation</u>
Kenneth H. Olsen President and Director	\$ 982,452
John F. Smith Senior Vice President	\$ 555,858
Winston R. Hindle, Jr. Senior Vice President	\$ 455,813
Martin R. Hoffmann Vice President	\$ 405,005(1)
James M. Osterhoff Vice President	\$ 387,188
All 37 executive officers as a group, including those named above	\$10,988,770(2)(3)(4)

(1) Does not include \$60,224 paid to Mr. Hoffmann for moving, relocation and related expenses.

(2) Other than as set forth below under "Pension Plans", "Stock Options" and the stock plan descriptions, with respect to the fiscal year ended June 30, 1990, the executive officers of the Corporation received no significant non-cash compensation from the Corporation or its subsidiaries.

(3) Persons who served as executive officers for any part of the fiscal year, and their cash compensation for the part of the fiscal year served, are included.

(4) Does not include amounts paid to a former executive officer who resigned his position with the Corporation in October 1989 and entered into an agreement with the Corporation pursuant to which the former executive officer, among other things, received from the Corporation a lump-sum payment equal to approximately \$1.2 million and continued to receive certain fringe, insurance and retirement benefits.

Compensation of Directors

Each director who is not also an employee of the Corporation received a retainer of \$21,000 for his services during the fiscal year ended June 30, 1990 plus \$1,000 for each Board meeting and each committee meeting attended. Commencing July 1, 1990, the annual retainer for nonemployee directors is \$25,000. Directors are also reimbursed for out-of-pocket expenses incurred in attending Board and committee meetings.

Directors may defer all or any part of their retainer or meeting fees pursuant to a deferred compensation plan, amended and restated in May 1987. Pursuant to the plan, nonemployee directors of the Corporation may elect to defer receipt of all or a specified portion of their compensation in the form of cash, with an interest rate related to Treasury bills, or in the form of units, the value of each unit initially being equal to the fair market value of one share of the Common Stock of the Corporation on the date the compensation being deferred would otherwise be payable. The plan provides that compensation deferred under the plan, whether in the form of cash or units, will be paid out in cash after termination of service as a director. Directors may elect that compensation so deferred be paid out in a lump sum or in up to ten annual installments. Payment of compensation deferred under the plan commences in January of the year following the year in which service as a director terminates, except that earlier or accelerated distributions may be made in certain events of unforeseeable emergency.

Pursuant to a retirement plan for nonemployee directors adopted in May 1987, each nonemployee director of the Corporation on the date of adoption of the plan, and every other nonemployee director who is 70 years of age or older and who has completed at least five years of service on the Board, is entitled upon termination of service to an annualized benefit for life which is equal to the annual retainer for nonemployee directors in effect on the date of termination of service. The plan also provides for coordinated disability benefits for all nonemployee directors equal to the annual retainer in effect on the date of total disability.

On August 13, 1990 the Board of Directors adopted, subject to stockholder approval, the 1990 Stock Option Plan for Nonemployee Directors (the "Nonemployee Directors Plan"). For

more information concerning the Nonemployee Directors Plan, see "Proposal to Approve the 1990 Stock Option Plan for Nonemployee Directors."

Pension Plans

The Corporation and its subsidiaries have pension plans covering substantially all of their employees.

Benefits under the Corporation's defined benefit pension plan for its United States employees are based upon the employee's earnings during service with the Corporation and are payable after retirement in the form of annuities or lump sum benefits. Pursuant to an amendment effective July 1, 1989, the annual amount payable upon retirement at age 65, without regard to any survivor options, is $1\frac{1}{2}\%$ of the aggregate cumulative amount of the participant's base salary and wages earned on and after July 1, 1989, plus, for those persons who were active plan participants on July 1, 1989, or who later become active participants credited with prior service, $1\frac{1}{2}\%$ of the annual average of the participant's compensation between July 1, 1984 and July 1, 1989, multiplied by the number of years of such participant's accredited service prior to July 1, 1989. For purposes of calculating a participant's pension benefit, annual compensation for plan years commencing after December 31, 1988 is limited to \$200,000. Under the present provisions of the plan, a participant's annual pension may not exceed the lesser of the maximum allowable dollar limit (\$102,582 for fiscal 1990), or 100% of the participant's average compensation for the participant's three highest paid consecutive years of service with the Corporation.

Employees outside the United States are covered by different pension plans varying from country to country.

Estimated annual retirement benefits at age 65 based on the foregoing formula for the following individuals would be: Mr. Olsen, \$102,582; Mr. Smith, \$102,582; Mr. Hindle, \$102,582; Mr. Hoffmann, \$22,182 and Mr. Osterhoff, \$55,219.

Stock Options

The following table shows as to certain named executive officers, and as to all current executive officers as a group including the named executive officers: (i) the number of shares of the Corporation's Common Stock for which options were granted under the Corporation's 1985 Restricted Stock Option Plan (the "1985 Plan") on and between June 28, 1987 and June 30, 1990; (ii) the average per share option exercise price thereof and the average per share market price of the Corporation's Common Stock on the dates of grant thereof; and (iii) the

net value of shares acquired on and between June 28, 1987 and June 30, 1990 upon the exercise of options granted during the period or prior thereto. The Corporation's current stock plans do not authorize the grant of stock appreciation rights.

<u>Shares of Common Stock (1)</u>	<u>K. H. Olsen</u>	<u>J. F. Smith</u>	<u>W. R. Hindle</u>	<u>M. R. Hoffmann</u>	<u>J. M. Osterhoff</u>	<u>All Executive Officers as a Group (2)</u>
Options Granted						
6/28/87 through 6/30/90 (3)						
Number of shares	69,600	36,600	16,200	20,600	22,500	547,500
Average per share exercise price	\$108.75	\$107.10	\$118.43	\$74.36	\$106.33	\$104.25
Average per share price on dates of grant	\$130.84	\$128.90	\$142.24	\$91.28	\$128.00	\$125.67
Options Exercised						
6/28/87 through 6/30/90						
Number of shares	60,000	3,900	17,600	-0-	-0-	365,918
Net value realized upon exercise (4) . .	\$9,052,060	\$349,635	\$1,600,046	-0-	-0-	\$38,574,348

(1) All share numbers and option prices have been adjusted to reflect the two-for-one stock split effected May 9, 1986.

(2) Directors who are not also officers of the Corporation do not participate in the Corporation's stock option plans.

(3) Options granted prior to November 8, 1985 were granted under the Corporation's 1976 Restricted Stock Option Plan and options granted on or after November 8, 1985 were granted under the 1985 Plan. In general, options granted under the Corporation's restricted stock option plans are exercisable in full on the date of grant, but shares purchased thereunder are subject to repurchase at the option of the Corporation at the exercise price, unless such repurchase option has lapsed. Such repurchase option lapses over the life of the grant whether or not the option has been exercised. See "Description of the 1985 Restricted Stock Option Plan" and "Description of the 1976 Restricted Stock Option Plan."

(4) The net value realized upon exercise of options is the difference between the market value of the shares received upon exercise and the exercise price thereof.

During the period June 28, 1987 through June 30, 1990, all employees of the Corporation as a group (excluding current executive officers) were granted options under the 1985 Restricted Stock Option Plan for 9,553,870 shares at a weighted average option price per share of \$99.13.

On September 7, 1990, the closing price of the Corporation's Common Stock on the New York Stock Exchange was \$65.25.

Stock Plans

The Corporation has adopted several stock incentive plans to attract and retain employees. The 1985 Restricted Stock Option Plan provides a method for offering equity incentives to key employees of the Corporation and its subsidiaries. The 1968 Employee Stock Purchase Plan and the 1981 International Employee Stock Purchase Plan were adopted for substantially all employees of the Corporation and participating subsidiaries. The Corporation's plans are more specifically described below.

Description of the 1985 Restricted Stock Option Plan

In 1985 the Board of Directors and the stockholders adopted the 1985 Restricted Stock Option Plan (the "1985 Plan"). A total of 18,000,000 shares of Common Stock in the aggregate may be sold under the 1985 Plan. Not more than 3% of the aggregate number of shares issuable under the 1985 Plan may be sold to any one employee. Options may be granted to employees under the 1985 Plan from time to time through December 31, 1990, the termination date of the 1985 Plan. However, subject to and upon approval by the stockholders of the 1990 Equity Plan (see "Proposal to Approve the 1990 Equity Plan"), the authority to grant additional options under the 1985 Plan will terminate. On August 1, 1990, approximately 16,200 employees were participating in the 1985 Plan.

The 1985 Plan authorizes the grant of non-transferable options to purchase the Corporation's Common Stock to key employees of the Corporation and its subsidiaries coupled with a prohibition against disposition of such shares and a requirement to offer such shares for resale to the Corporation at their purchase price upon termination of employment. The restriction

against disposition and obligation of resale lapse from time to time as to portions of the grant (whether or not the option has been exercised), as determined by the Board of Directors or the Compensation and Stock Option Committee of the Board of Directors (the "Committee"), which administers and interprets the 1985 Plan.

The exercise price of options granted under the 1985 Plan is specified by the Board of Directors, but in no event may this price be less than the lower of (i) 50% of the fair market value per share at the date of grant or (ii) the book value per share as of the end of the Corporation's fiscal year immediately preceding the grant date. The 1985 Plan contains a provision permitting payment by an officer of the Corporation upon exercise of an option to be made using the Corporation's Common Stock, as well as cash, in accordance with policies and eligibility criteria established by the Committee.

Employees, including officers, of the Corporation or any of its subsidiaries, and consultants, are eligible to receive options under the 1985 Plan. Directors who are also employees are eligible to receive options if they are not members of the Committee. Subject to the terms of the 1985 Plan, the Committee has authority to select the employees to whom options are granted, to determine the number of shares subject to such options, the time or times when options are to be granted, the rate and time of lapse of restrictions, and other terms. Options may be granted to the same employee on more than one occasion. Currently, options granted to U.S. employees generally are exercisable immediately, are exercisable only while the holder is employed by the Corporation or a subsidiary or after retirement with the consent of the Corporation, and terminate not more than 10 years and 90 days from the date of grant.

The Board of Directors may terminate or amend the 1985 Plan, provided that no amendment shall, without stockholder approval, increase the maximum number of shares which may be sold under the 1985 Plan in the aggregate or the percentage of such number which may be sold to any one person, decrease the minimum exercise price at which options may be granted, or extend the period during which options may be granted under the 1985 Plan.

An option granted under the 1985 Plan is a non-statutory stock option and is taxed in accordance with Section 83 of the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations issued thereunder. Options granted under the 1985 Plan do not qualify as "incentive stock options" under the Code.

As of August 1, 1990, options for 520,588 shares had been exercised under the 1985 Plan at an average exercise price per share of \$57.97; options for 11,938,064 shares at an average

exercise price per share of \$90.82 were outstanding with expiration dates ranging from February 6, 1996 to September 17, 2000; and 5,541,348 shares remained available for additional option grants.

Description of the 1976 Restricted Stock Option Plan

In 1976 the Board of Directors and the stockholders adopted the 1976 Restricted Stock Option Plan (the "1976 Plan"). The authority to grant additional options under the 1976 Plan expired upon the adoption by the stockholders of the 1985 Plan in November 1985. The terms and conditions of the 1976 Plan are substantially the same as the 1985 Plan.

As of August 1, 1990, options for 7,458,705 shares had been exercised under the 1976 Plan at an average exercise price per share of \$22.50 and options for 6,479,840 shares at an average exercise price per share of \$32.76 were outstanding with expiration dates ranging from September 14, 1990 to December 22, 1995.

Description of the 1968 Employee Stock Purchase Plan

In 1968 the Board of Directors and the stockholders adopted the 1968 Employee Stock Purchase Plan (the "Employee Plan") for substantially all employees of the Corporation and its participating subsidiaries, other than directors of the Corporation. At August 1, 1990, approximately 94,400 employees were eligible to participate in the Employee Plan, and approximately 49,400 employees were participating.

The Employee Plan authorizes the issuance of a maximum of 25,500,000 shares of Common Stock. The Employee Plan permits employees to purchase shares of the Corporation's Common Stock twice yearly through accumulated payroll deductions, up to a maximum of 10% of regular base pay. The six-month periods June 1 to November 30 and December 1 to May 31 are the payment periods ("Payment Period") during which payroll deductions are accumulated under the Employee Plan. The price at which shares are purchased is an amount equal to 85% of the fair market value of the stock on the first or last business day of the applicable six-month Payment Period, whichever is lower.

The Board of Directors may terminate or amend the Employee Plan, provided that no amendment shall, without stockholder approval, increase the number of shares of Common Stock to be offered under the Plan or change the class of employees eligible to participate in the Plan.

During the period June 28, 1987 through June 30, 1990, executive officers of the Corporation purchased shares under the Employee Plan as follows: Mr. Smith, 766 shares; Mr. Osterhoff, 767 shares; all current executive officers as a group, 17,940 shares; and all employees as a group (excluding current executive officers), 6,001,262 shares.

At August 1, 1990, 19,419,821 shares had been purchased by employees under the Employee Plan and 6,080,179 shares remained available.

Description of the 1981 International Employee Stock Purchase Plan

In 1981, the Board of Directors and the stockholders adopted the 1981 International Employee Stock Purchase Plan (the "International Plan"). A total of 2,400,000 shares of Common Stock in the aggregate may be sold under the International Plan. At August 1, 1990, approximately 18,400 employees were eligible to participate in the International Plan, and approximately 7,700 employees were participating.

The provisions of the International Plan are substantially the same as the Employee Plan described above. The International Plan was adopted in order to extend the benefits of the Employee Plan to employees (other than directors of the Corporation) of selected non-U.S. subsidiaries of the Corporation or branches thereof. Employees of several non-U.S. subsidiaries presently participate in the Employee Plan, but under present provisions of the United States tax laws it is impractical to extend the benefits of the U.S. tax-qualified Employee Plan to selected branches of non-U.S. subsidiaries. The International Plan is not intended to be a tax qualified plan under the Code.

The Board of Directors may terminate or amend the International Plan, provided that no amendment shall, without stockholder approval, increase the number of shares of Common Stock to be offered under the Plan or change the class of employees eligible to participate in the Plan.

During the period June 28, 1987 through June 30, 1990, the executive officers of the Corporation purchased shares under the International Plan as follows: all current executive officers as a group, 1,494 shares; and all employees as a group (excluding current executive officers), 1,032,290 shares.

At August 1, 1990, 1,595,207 shares had been purchased under the International Plan and 804,793 shares remained available.

PROPOSAL TO APPROVE THE 1990 EQUITY PLAN

On August 13, 1990, the Board of Directors adopted the Digital Equipment Corporation 1990 Equity Plan (the "1990 Plan"), subject to stockholder approval. Upon approval by the stockholders, the 1990 Plan will replace the 1985 Plan as the Corporation's principal equity incentive plan for key employees of the Corporation and its subsidiaries. The 1985 Plan is scheduled to expire December 31, 1990.

The 1990 Plan is intended to advance the interests of the Corporation and its stockholders by improving the Corporation's ability to attract and retain qualified individuals who are in a position to contribute to the management and growth of the Corporation and its subsidiaries, and to provide an increased incentive for such individuals to contribute to the Corporation's future success.

The 1990 Plan authorizes the grant of awards from the date of its adoption by the Board of Directors until December 31, 1995, subject to approval of the 1990 Plan by the stockholders prior to August 13, 1991. The 1990 Plan, which permits additional types of awards and greater latitude as to the terms and conditions of awards than the 1985 Plan, would provide the Corporation with greater flexibility to adapt the compensation of employees to new circumstances such as changing business conditions, developments in applicable tax and other laws and trends in executive compensation practices.

Description of Proposed Plan

The following summary description is qualified in its entirety by reference to the full text of the 1990 Plan, which is attached to this Proxy Statement as Exhibit A.

Available Shares

Subject to adjustment for stock dividends, stock splits and similar events, under the 1990 Plan the maximum number of shares of the Company's Common Stock available for grants of awards under the 1990 Plan will be (i) until June 29, 1991, the maximum number of shares available for issuance under the 1985 Plan as of the date of approval of the 1990 Plan by the Corporation's stockholders and (ii) for each fiscal year subsequent to the fiscal year ending June 29, 1991, but prior to the beginning of the fiscal year commencing on June 29, 1996, 1½% of the issued shares of the Corporation's Common Stock (including treasury shares) as of the first day of such fiscal year. As of August 1, 1990, there were 5,541,348 shares available for additional option grants under the 1985 Plan. As of that date, 1½% of the issued shares of the Corporation's Common Stock equaled 1,950,123 shares.

Under the 1990 Plan, all shares of Common Stock available for grants of awards in any fiscal year (or portion thereof) that are not used in the grant of awards in such fiscal year will be available for use in subsequent years. Shares subject to any unexercised or undistributed portion of any terminated, expired or forfeited award also will be available for further award under the 1990 Plan. Notwithstanding the foregoing, the total number of shares that may be delivered pursuant to the exercise of ISOs (as defined below) granted under the 1990 Plan cannot exceed 5,000,000 shares and the total number of shares that are cumulatively available for Restricted Stock Awards, Unrestricted Stock Awards and Stock Unit Awards (all as defined below) cannot exceed 5,000,000 shares.

Administration

The 1990 Plan will be administered by the Compensation and Stock Option Committee of the Board of Directors (the "Committee") consisting of not fewer than three members of the Board of Directors, none of whom is an employee of the Corporation. Subject to the terms of the 1990 Plan, the Committee will have the authority to establish rules for the administration of the Plan; to select the employees to whom awards are granted; to determine the type of awards to be granted and the number of shares covered by such awards; and to set the terms and conditions of such awards. The Committee will have authority to grant awards singly, in combination or in tandem. The Committee's authority to take certain actions under the 1990 Plan will include authority to accelerate payment or vesting under, or waive the restrictions applicable to, any 1990 Plan award. The Board of Directors may also establish a committee of one or more members of the Corporation's Board of Directors who are also officers of the Corporation for the purposes of administering grants of awards under the 1990 Plan to employees who are not subject to the provisions of Section 16 of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

Eligibility

Employees, including officers, of the Corporation or any of its subsidiaries are eligible to receive awards under the 1990 Plan. Directors who are also employees are eligible to receive awards if they are not members of the Committee. Awards may be granted to the same employee on more than one occasion.

Stock Options

The 1990 Plan permits the granting of stock options that qualify as incentive stock options ("ISOs") under the Code and options that do not so qualify ("NQOs"). The exercise price of

each option is determined by the Committee, but in the case of ISOs, cannot be less than the fair market value of the stock on the date of grant, and in the case of NQOs cannot be less than the lesser of (i) 50% of the fair market value of the Common Stock on the date of grant or (ii) the book value per share as of the end of the fiscal year immediately preceding the date of grant. Options may be exercised (i) by payment in full of the purchase price in cash, (ii) by delivery of an assignment to the Corporation of the proceeds from the sale of Common Stock acquired upon exercise together with an authorization to the broker or selling agent to pay that amount to the Corporation, or, (iii) at the discretion of the Committee, in whole or in part by the tendering of unrestricted shares of Common Stock of the Corporation having a fair market value on the exercise date equal to the exercise price.

The Committee will determine at what time or times options may be exercised, the term of each option (except that in the case of ISOs, the term may not exceed ten years) and the restrictions, if any, applicable to options or the shares of Common Stock subject to such options.

Stock Appreciation Rights

The 1990 Plan authorizes the grant of stock appreciation rights ("SARs"), either separately from, in combination with, or in tandem with other awards granted under the 1990 Plan. Upon exercise, the holder of an SAR is entitled to receive with respect to each share of Common Stock to which the SAR relates, an amount, in cash or restricted or unrestricted Common Stock, or a combination thereof (at the Committee's discretion) equal to the excess of the fair market value per share of the Corporation's Common Stock on the date of exercise over the award price per SAR. The award price is determined by the Committee and cannot be less than the minimum exercise price for NQOs described above.

Restricted Stock and Unrestricted Stock

The 1990 Plan authorizes the Committee to award to recipients shares of Common Stock subject to restrictions ("Restricted Stock Awards"), as well as shares of Common Stock which are free from any restrictions ("Unrestricted Stock Awards"). The acquisition price of Common Stock issued pursuant to such awards shall be the par value of the Common Stock, or in the case of shares delivered from the Corporation's treasury, Common Stock may be acquired without payment to the Corporation, consistent with applicable state law.

Restricted Stock Awards entitle the recipient to acquire shares of restricted stock subject to restrictions against disposition and an obligation of resale to the Corporation and such other

restrictions, conditions and contingencies as determined by the Committee. In the event of termination of employment for reasons other than death, disability or retirement (unless otherwise provided by the Committee or in the award instrument), the shares of restricted stock as to which the restrictions have not lapsed shall be offered for resale to the Corporation.

The Committee may provide that the Common Stock deliverable or issuable pursuant to any award granted under the 1990 Plan will be restricted.

Stock Unit Awards

The 1990 Plan authorizes the grant of awards which entitle the recipient to receive, without payment, stock units in the form of phantom shares of stock ("Stock Unit Awards"). The stock units are valued at the Committee's discretion in whole or in part by reference to the fair market value of the Corporation's Common Stock. The Committee will determine the terms and conditions applicable to Stock Unit Awards, including any applicable restrictions, conditions or contingencies, which may be related to personal, corporate or other categories of performance. Stock Unit Awards are payable in shares of Common Stock or cash, or any combination thereof, at the discretion of the Committee. An employee who receives a Stock Unit Award may be given rights to dividend equivalents, payable in cash, stock, or additional stock units, subject to any conditions the Committee may impose.

General

Except as otherwise determined by the Committee, unexercised awards or awards subject to restrictions which have not lapsed shall be forfeited under the 1990 Plan upon termination of employment for reasons other than death, permanent disability or retirement.

The 1990 Plan provides that the Committee, in its sole discretion, upon the request of a recipient of an award, may defer the date of payment of cash or stock under such awards.

In the event of stock dividends, stock splits and similar events, the Board of Directors will make appropriate adjustments to the maximum number of shares of Common Stock that may be delivered under the 1990 Plan, the maximum number of shares that may be issued for certain types of awards, the number of shares covered by outstanding awards, and the grant, purchase or exercise price with respect to any award.

The Board of Directors may also make appropriate adjustments to take into account material changes in law or accounting matters or certain other corporate changes or events or a change in control of the Corporation.

The Board of Directors may at any time terminate the 1990 Plan or suspend the grant of awards under the 1990 Plan. The Board may amend the 1990 Plan or any outstanding award at any time for any lawful purpose, provided that no amendment, without the approval of the Corporation's stockholders, can increase the maximum number of shares that may be issued under the 1990 Plan or issued in the aggregate pursuant to certain kinds of awards, and no amendment, without stockholder approval (where such approval would be necessary to satisfy applicable securities or tax law or stock exchange rules), can extend the period during which awards may be granted or change the group of persons eligible to receive awards under the 1990 Plan.

Tax Aspects Under the U.S. Internal Revenue Code

Incentive Stock Options. No taxable income is recognized by the optionee upon the grant or exercise of an ISO. However, the exercise of an ISO may result in alternative minimum tax liability for the optionee. If no disposition of shares issued to an optionee pursuant to the exercise of an ISO is made by the optionee within two years from the date of grant or within one year after the date of exercise, then upon sale of such shares, any amount realized in excess of the exercise price (the amount paid for the shares) will be taxed to the optionee as a long-term capital gain and any loss sustained will be a long-term capital loss, and no deduction will be allowed to the Corporation for Federal income tax purposes.

If shares of Common Stock acquired upon the exercise of an ISO are disposed of prior to the expiration of the two-year and one-year holding periods described above (a "disqualifying disposition"), generally the optionee will recognize ordinary income in the year of disposition in an amount equal to the excess (if any) of the fair market value of the shares on the date of exercise (or, if less, the amount realized on an arms-length sale of such shares) over the exercise price thereof, and the Corporation will be entitled to deduct such amount. Any gain realized from the shares in excess of the amount taxed as ordinary income will be taxed as capital gain and will not be deductible by the Corporation.

Generally, an ISO will not be eligible for the tax treatment described above if it is exercised more than three months following termination of employment (one year following termination of employment by reason of permanent and total disability), except in certain cases where the ISO is exercised after the death of the optionee. If an ISO is exercised at a time when it no longer qualifies for the tax treatment described above, the option is treated as a non-qualified option.

Non-Qualified Options. No taxable income is recognized by the optionee at the time an NQO is granted under the 1990 Plan. Generally, on the date of exercise of an NQO, ordinary income is recognized by the optionee in an amount equal to the difference between the exercise price and the fair market value of the shares on the date of exercise, and the Corporation receives a tax deduction for the same amount. Upon disposition of the shares acquired, an optionee generally recognizes the appreciation or depreciation on the shares after the date of exercise as either short-term or long-term capital gain or loss depending on how long the shares have been held.

If restricted stock is received upon exercise of an option or stock appreciation right, the income and the deduction, if any, associated with such award may be deferred in accordance with the rules described below for restricted stock.

Stock Appreciation Rights. No income will be realized by an optionee in connection with the grant of a stock appreciation right. When the stock appreciation right is exercised, the optionee will generally be required to include as taxable ordinary income in the year of such exercise an amount equal to the amount of cash received and the fair market value of any stock received. The Corporation will generally be entitled to a deduction equal to the amount includable as ordinary income by such optionee.

Restricted Stock. A recipient of restricted stock generally will be subject to tax at ordinary income rates on the excess of the fair market value of the stock (measured at the time the stock is either transferable or is no longer subject to forfeiture) over the amount, if any, paid for such stock. However, a recipient who elects under Section 83(b) of the Code within 30 days of the date of issuance of the restricted stock to be taxed at the time of issuance of the restricted stock will recognize ordinary income on the date of issuance equal to the fair market value of the shares of restricted stock at that time (measured as if the shares were unrestricted and could be sold immediately), minus any amount paid for such stock. If the shares subject to such election are forfeited, the recipient will be entitled to a capital loss for tax purposes only for the amount paid for the forfeited shares, not the amount recognized as ordinary income as a result of the Section 83(b) election. The holding period to determine whether the recipient has long-term or short-term capital gain or loss upon sale of shares begins when the forfeiture period expires (or upon issuance of the shares, if the recipient elected immediate recognition of income under Section 83(b)).

Unrestricted Stock; Stock Units. A recipient of unrestricted stock or stock units will generally be subject to tax at ordinary income rates on any cash received and on the fair market value of any Common Stock issued pursuant to such an award, and the Corporation will

generally be entitled to a deduction equal to the amount of ordinary income realized by the recipient. Any cash received and the fair market value of any Common Stock received will generally be included in income (and a corresponding deduction will generally be available to the Corporation) at time of receipt. The capital gain or loss holding period for any Common Stock distributed under an award will begin when the recipient recognizes ordinary income in respect of that distribution.

Section 16(b). Special rules apply in the case of individuals subject to Section 16(b) of the Exchange Act. In particular, under current law shares received pursuant to the exercise of a stock option, other stock award or SAR are treated as restricted as to transferability and subject to a substantial risk of forfeiture for a period of six months after the date of exercise or acquisition. Accordingly, if no election is made under Section 83(b) of the Code by an individual subject to Section 16(b), the amount of ordinary income recognized and the amount of the Corporation's deduction are determined as of such later date.

The Board of Directors recommends a vote **FOR** approving the 1990 Plan.

PROPOSAL TO APPROVE THE 1990 STOCK OPTION PLAN FOR NONEMPLOYEE DIRECTORS

On August 13, 1990, the Board of Directors adopted the 1990 Stock Option Plan for Nonemployee Directors (the "Nonemployee Directors Plan"), subject to stockholder approval. The Nonemployee Directors Plan provides for a one-time grant of an option to purchase 5,000 shares of the Corporation's Common Stock to nonemployee directors of the Corporation (presently 6 persons). The Nonemployee Directors Plan is intended to increase the proprietary interest of nonemployee members of the Board of Directors in the continued success of the Corporation and to provide them with an incentive to continue to serve as directors.

The Compensation and Stock Option Committee of the Board of Directors (the "Committee") will have the authority to administer, interpret and make determinations under the Nonemployee Directors Plan. Eligibility for and the grant of shares under the Nonemployee Directors Plan is automatic in nature and each eligible nonemployee director will receive an option to purchase the same fixed number of shares under the Plan. Therefore, the Committee will not have any discretion with respect to the amount of or the terms of any individual grant under the Nonemployee Directors Plan.

Description of Proposed Plan

The following summary description is qualified in its entirety by reference to the full text of the Nonemployee Directors Plan, which is attached to this Proxy Statement as Exhibit B.

Upon approval of the Nonemployee Directors Plan by the Corporation's stockholders, and receipt by the Corporation of a no-action letter from the Securities and Exchange Commission or an opinion of counsel with respect to certain legal matters in connection with the Nonemployee Directors Plan, each nonemployee director in office will receive a one-time grant of a nontransferable option to purchase 5,000 shares of Common Stock of the Corporation. Each nonemployee director who is initially elected after stockholder approval of the Nonemployee Directors Plan automatically will receive a grant of an option to purchase 5,000 shares of Common Stock of the Corporation as of the date of commencement of service as a director.

An aggregate of 100,000 shares of the Corporation's Common Stock will be available for issuance under the Nonemployee Directors Plan, subject to automatic adjustment in the event of a stock dividend, stock split or similar events. If any options granted under the Nonemployee Directors Plan expire or terminate without exercise, in whole or in part, the shares reserved therefor will revert to the option pool to be available under the Plan.

The exercise price of an option will be 100% of the fair market value per share of Common Stock of the Corporation on the date the option is granted, payable by delivery of cash or a check to the order of the Corporation or by delivery of shares of Common Stock of the Corporation owned by the nonemployee director which have a fair market value equal to the exercise price of the option being exercised, or by any combination of these methods.

Options granted to nonemployee directors ("Participants") under the Nonemployee Directors Plan will become exercisable at the rate of 20% per year commencing on the first anniversary of the date the Participant begins serving as a director of the Corporation, with credit given for all past service by incumbent nonemployee directors. If required by applicable securities laws, options granted under the Nonemployee Directors Plan will not be exercisable for at least six months after the date of grant, and shares received upon exercise of any such option may not be sold for at least six months after purchase, except in the event of disability or death of the Participant. Options granted under the Nonemployee Directors Plan will expire ten years from the date of grant, unless terminated earlier in accordance with the Nonemployee Directors Plan. However, any option granted to a Participant who ceases to be a

director of the Corporation because of death will expire one year from the date of the Participant's death.

If a Participant ceases to be a member of the Board because of permanent disability or death, his or her option will become immediately exercisable in full. If a Participant ceases to be a member of the Board after his or her option becomes exercisable, the option will remain exercisable in accordance with its terms.

If a Participant ceases to be a member of the Board for any reason other than those described above prior to the time his or her option becomes fully exercisable, the option will terminate with respect to the shares as to which the option is not then exercisable, except that if a Participant retires from the Board at a time when he or she is eligible to receive benefits under the Corporation's Retirement Arrangement for Nonemployee Directors (see "Executive Compensation and Other Information - Compensation of Directors" for a description of the retirement arrangement), the option will become exercisable in accordance with the provisions of the Nonemployee Directors Plan as if the Participant's service had continued.

The Board of Directors may amend, modify or terminate the Nonemployee Directors Plan at any time, subject to certain restrictions described in the Plan, and provided that prior approval by the stockholders of the Corporation must be obtained to increase the number of shares available for grant. If required by law, prior stockholder approval must also be obtained to (i) change the eligibility requirements under the Nonemployee Directors Plan, (ii) increase the number of shares subject to any option, (iii) change the purchase price of the shares subject to any option, (iv) extend the period during which options may be granted, or (v) materially increase the benefits to Participants. The Nonemployee Directors Plan will terminate on December 31, 2000, unless terminated earlier by the Board of Directors.

Tax Aspects under the U.S. Internal Revenue Code

No taxable income will be recognized by a Participant at the time the option is granted. Generally, subject to the discussion below of Section 16(b) of the Exchange Act and Section 83(b) of the Code, at exercise, ordinary income will be recognized by the Participant in an amount equal to the difference between the option exercise price and the fair market value of the shares on the date of exercise, and the Corporation will receive a tax deduction for the same amount. At disposition, appreciation or depreciation after the date of exercise will be treated as either short-term or long-term capital gain or loss depending on how long the shares have been held.

As the Participants in the Nonemployee Directors Plan are subject to Section 16(b) of the Exchange Act, under current law, each generally will not be taxed until six months after exercise of his or her option, with the excess of the fair market value of the stock at the end of the six-month period over the option price being taxed as ordinary income. The holding period for determining whether subsequent gain or loss will be a short-term or long-term capital gain or loss begins at the end of such six-month period. However, Participants may elect under Section 83(b) of the Code within 30 days after exercise to be taxed at the time of exercise, in which case the holding period for capital gain purposes will begin upon exercise.

The Board of Directors recommends a vote **FOR** approving the Nonemployee Directors Plan.

RATIFICATION OF SELECTION OF AUDITORS

The Board of Directors has selected the firm of Coopers & Lybrand, independent accountants, to serve as auditors for the fiscal year ending June 29, 1991, subject to ratification by the stockholders. Coopers & Lybrand has served as the Corporation's auditors since the organization of the Corporation.

The Board of Directors recommends a vote **FOR** ratification of this selection.

It is expected that a member of the firm of Coopers & Lybrand will be present at the Meeting, will have an opportunity to make a statement if so desired and will be available to respond to appropriate questions.

AMENDMENT OF BY-LAWS

As described above in "Information Regarding Classification of the Board of Directors," on January 22, 1990, the Board of Directors amended the Corporation's By-laws to increase the directors' flexibility with respect to setting the time and place of the annual meeting of stockholders and to provide that special meetings of stockholders may be called upon written application of one or more stockholders who hold at least 90% of the capital stock entitled to vote at the meeting. The By-laws were further amended in January 1990 to require advance notice (i) for any business to be properly brought before a stockholders' meeting by a stockholder and (ii) of nominations of persons for election to the Board of Directors at the annual meeting. In addition, conforming amendments to the By-laws were adopted by the

Board of Directors on August 13, 1990 to reflect the provisions of the Act regarding the classified Board of Directors.

EXPENSES AND SOLICITATION

The cost of solicitation of proxies will be borne by the Corporation. In addition to soliciting stockholders through its regular employees, the Corporation may request banks and brokers to solicit customers of theirs who have shares of Common Stock of the Corporation registered in the name of a nominee. The Corporation will reimburse such banks and brokers for their reasonable out-of-pocket costs, at the rates suggested by the New York Stock Exchange. Solicitation by officers and employees of the Corporation may also be made of some stockholders in person, or by mail, telephone or telegraph, following the original solicitation. Morrow & Co., Inc., New York, New York, has been retained by the Corporation to assist with the solicitation of proxies at a fee estimated not to exceed \$15,000.

STOCKHOLDER PROPOSALS FOR NEXT ANNUAL MEETING

Proposals of stockholders intended for inclusion in the proxy statement to be mailed to all stockholders entitled to vote at the 1991 Annual Meeting of Stockholders of the Corporation must be received at the Corporation's principal executive offices not later than May 17, 1991. In order to curtail controversy as to the date on which a proposal was received by the Corporation, proponents should submit their proposals by Certified Mail-Return Receipt Requested.

September 14, 1990

DIGITAL EQUIPMENT CORPORATION 1990 EQUITY PLAN

Section 1 — *Purpose*

The Digital Equipment Corporation 1990 Equity Plan (the "Plan") is intended to advance the interests of Digital Equipment Corporation (the "Company") and its stockholders by improving the Company's ability to attract and retain Employees who are in a position to make substantial contributions to the successful management and growth of the Company and its subsidiaries and to stimulate the personal involvement of these Employees in the fortunes of the Company, thereby encouraging their continued service with the Company and its subsidiaries. Accordingly, the Company may, from time to time, grant to such Employees as may be selected in the manner provided in the Plan, options to purchase shares of Stock of the Company, stock appreciation rights, awards of Stock of the Company and awards of stock units (collectively, the "Awards"), all on the terms and conditions hereinafter established.

Section 2 — *Administration*

The Plan shall be administered by a committee appointed by the Board of Directors of the Company (the "Committee"), which shall consist of not fewer than three members of the Company's Board of Directors. The Board of Directors may from time to time remove members from or add members to the Committee, and vacancies on the Committee, howsoever caused, shall be filled by the Board of Directors. All members of the Committee must be disinterested persons within the meaning of Rule 16b-3 or any successor provision ("Rule 16b-3") under the Securities Exchange Act of 1934, as amended (the "1934 Act"), if required for compliance with Rule 16b-3. The Committee shall select one of its members as Chairman and shall hold meetings at such times and places as it may determine. Acts by a majority of the Committee or acts reduced to or approved in writing by a majority of the Committee shall be the valid acts of the Committee. Any authority or power granted in the Plan to the Committee shall also be deemed to be granted to the Board of Directors, and any action permitted to be taken or determination permitted to be made by the Committee may also be taken or made by the Board of Directors; provided, however, that to the extent required by Rule 16b-3 with respect to specific grants of Awards, such power or authority shall only reside in and such actions or determinations shall only be made by an administrator or administrators in compliance with Rule 16b-3. The Board of Directors may also establish a committee of one or

more members of the Company's Board of Directors who are also officers of the Company for the purposes of administering grants of Awards under the Plan to Employees who are not subject to the provisions of Section 16 of the 1934 Act. If such a committee is established, it shall have all the power and authority of the Committee under the Plan with respect to such Awards.

The Committee shall have full authority to interpret the Plan, to grant waivers of Plan restrictions and to adopt such rules, regulations and guidelines for carrying out the Plan as it may deem necessary or proper, all of which powers shall be executed in the best interests of the Company and in keeping with the purposes of the Plan. Such powers shall include, but shall not be limited to, the power to modify or amend the Plan and to adopt such procedures, subplans and the like as may be necessary to comply with provisions of the laws of other countries in which the Company or any subsidiary of the Company may operate in order to assure the viability of Awards granted under the Plan and to enable Employees employed in such other countries to receive advantages and benefits under the Plan and consistent with such laws.

Subject to the provisions of the Plan, the Committee shall have the authority to select the Employees who are eligible to participate in the Plan, to determine the Awards to be granted to each Employee, to determine the time or times when Awards shall be exercisable or when restrictions, conditions and contingencies shall lapse and to establish any other restrictions, conditions and contingencies on Awards in addition to those prescribed by the Plan. The Committee shall also prescribe the form of agreements or other instruments under the Plan and the legends, if any, to be affixed to the certificates representing shares of Stock to be issued. The Committee shall have the authority to grant Awards singly, in combination or in tandem.

The determinations of the Committee in the administration of the Plan shall be final and conclusive unless otherwise determined by the Board of Directors. No member of the Board of Directors or the Committee shall be liable for any action or determination made in good faith with respect to the Plan.

Section 3 — *Shares of Stock Subject to the Plan*

The shares of stock available for issuance under the Plan shall be authorized but unissued shares of the Company's Common Stock or previously issued shares of the Company's Common Stock reacquired by the Company in any manner and held in its treasury ("Stock"). No fractional shares of Stock shall be delivered under the Plan. Subject to adjustment as provided in Section 7.9 below, the maximum number of shares of Stock available for the grant

of Awards under the Plan from the date of its adoption by the Board of Directors until June 29, 1991, shall be the maximum number of shares of Stock available for issuance under the Company's 1985 Restricted Stock Option Plan (the "1985 Plan") as of the date of approval of the Plan by the Company's stockholders. Subject to adjustment as provided in Section 7.9 below, the maximum number of shares of Stock available for the grant of Awards under the Plan for each fiscal year subsequent to the fiscal year ending on June 29, 1991, but prior to the beginning of the fiscal year commencing on June 29, 1996, shall be one and one-half percent (1½%) of the total number of issued shares of the Company's Common Stock (including treasury shares) as of the first day of such fiscal year. Such maximum number of shares shall be increased in any fiscal year by the number of shares of Stock available for the grant of Awards hereunder in the previous fiscal year or years but not covered by Awards granted hereunder in such fiscal year or years since the adoption of the Plan. Notwithstanding any other provision of the Plan, in no event shall more than five million (5,000,000) shares of Stock be cumulatively available for the issuance of Stock pursuant to ISOs granted under the Plan, or shall more than five million (5,000,000) shares of Stock be cumulatively available for grant pursuant to Restricted Stock Awards, Unrestricted Stock Awards and Stock Unit Awards. Regardless of whether Stock Unit Awards and Stock Appreciation Rights are settled for shares of Stock or cash, the number of shares of Stock to which a Stock Unit Award or Stock Appreciation Right relates shall be subtracted from the maximum number of shares available for the grant of Awards under the Plan. Regardless of whether a Stock Unit Award is settled for shares of Stock or cash, the number of shares of Stock to which a Stock Unit Award relates shall be subtracted from the cumulative aggregate number of shares available for grant pursuant to Restricted Stock Awards, Unrestricted Stock Awards and Stock Unit Awards. Notwithstanding the foregoing, any dividend or dividend equivalent paid or credited to an Employee in shares of Stock or Stock Units pursuant to Sections 5.3(b) or 5.4(b) below shall not be subtracted from the maximum number of shares available for the grant of Awards under the Plan or the cumulative aggregate number of shares available for grant pursuant to Restricted Stock Awards, Unrestricted Stock Awards and Stock Unit Awards.

Shares of Stock issued under the Plan shall be subject to the terms, restrictions, conditions and contingencies specified in the Plan and to such other terms, restrictions, conditions and contingencies as the Committee may provide. Further, shares of Stock subject to Awards that expire unexercised or are forfeited, terminated, canceled (in whole or in part), or in any other manner are not issued to an Employee (except shares of Stock that are not issued to an Employee pursuant to Awards settled in cash in lieu thereof), shall become available immediately for the future grant of Awards under the Plan.

Section 4 — Eligibility

Awards may be granted under the Plan only to Employees of the Company or of a subsidiary of the Company. The term "Employees" shall include officers as well as all other employees of the Company or of a subsidiary of the Company. Members of the Committee and members of the Board of Directors who are not Employees of the Company or of a subsidiary of the Company shall not be eligible to participate in the Plan. Awards may be granted to the same Employee on more than one occasion.

Section 5 — Types of Awards

5.1 Options.

(a) *Definition of Options.* An "Option" is an Award entitling the recipient upon exercise of the Option to purchase Stock at a specified price for a specified period of time. Both "incentive stock options", as defined in Section 422A of the Internal Revenue Code of 1986, as amended (the "Code"), or any successor provision, and Options that are not incentive stock options ("Non-Qualified Options"), may be granted under the Plan. Any Option intended to qualify as an incentive stock option is referred to in the Plan as an "ISO". Instruments evidencing ISOs shall contain such terms and conditions as are required under applicable provisions of the Code.

(b) *Exercise Price.* The exercise price of an Option shall be determined by the Committee subject to the following rules:

(1) The exercise price of a Non-Qualified Option shall not be less than the lesser of
(i) 50% of the Fair Market Value per share of the Stock on the date the Option is granted or
(ii) the book value per share of the Stock as of the end of the fiscal year of the Company immediately preceding the date of such grant.

(2) The exercise price of an ISO shall not be less than 100% of the Fair Market Value per share of the Stock on the date the Option is granted.

(c) *Duration of Options.* The Committee shall determine the latest date on which an ISO or a Non-Qualified Option may be exercised; provided, however, that the latest date on which an ISO may be exercised shall be no later than the date that is ten years after the date the ISO was granted.

(d) *Exercise of Options.* Subject to the applicability of Section 7.3 below, an Option shall become exercisable at such time or times, and on such conditions, as the Committee may

specify. The Committee may at any time accelerate the time at which all or any part of an Option may be exercised.

An Employee electing to exercise an Option shall give written or electronic notice to the Company of the election and of the number of shares of Stock that the Employee elects to acquire, accompanied by any documents or instruments required by the Company and payment in full for the Stock purchased, together with provision for the amount of any taxes due in respect of the sale and issue thereof. The Employee shall receive certificates for shares of Stock purchased or may elect to receive statements of ownership instead.

(e) *Payment for Stock.* Stock purchased by an Employee upon exercise of an Option may be paid for in any legal manner so specified by the Committee, including the following methods, which may be used in combination if specified by the Committee:

(1) In cash or by check, bank draft or money order payable to the order of the Company.

(2) Through the delivery of an assignment to the Company of a sufficient amount of the proceeds from the sale of the Stock acquired upon exercise to pay for all of the Stock acquired upon exercise and an authorization to the broker or selling agent to pay that amount to the Company, which sale shall be by the Employee's direction at the time of exercise, provided that such method does not result in a violation of applicable law. This method of payment may not be used to purchase shares of Restricted Stock as to which the restrictions, conditions and contingencies have not already lapsed.

(3) Through the delivery of an amount of previously acquired shares of Stock having in the aggregate a Fair Market Value equal to the exercise price, provided that such method is consistent with applicable tax laws, policies and eligibility criteria established by the Committee. Employees may further apply the Stock acquired upon such exercise to satisfy the exercise price for additional Stock.

(f) *Special Rules for ISOs.* ISOs shall not be granted to (i) employees of any subsidiary of the Company with respect to which the Company does not satisfy the ownership requirements set forth in Section 425(f) of the Code, or (ii) officers who are not employees of the Company or of any subsidiary of the Company. In addition, the following special rules shall apply to ISOs:

(1) Consistent with Section 422A of the Code and any associated regulations, notices or other official pronouncements of general applicability, to the extent that the aggregate Fair Market Value (determined as of the date of grant) of the shares of Stock with respect to which ISOs are exercisable for the first time by the holder of an Option during any calendar year (under all plans of the Company and its subsidiaries) exceeds \$100,000, such Option shall not be treated as an ISO. Nothing in this special rule shall be construed as limiting the exercisability of any Option unless the Committee provides for a limitation at the time of grant.

(2) An Employee holding an ISO shall agree to notify the Company in writing immediately after he or she makes a disqualifying disposition of any Stock acquired pursuant to the exercise of an ISO. A "disqualifying disposition" is any disposition (including any sale) of Stock before the later of (i) two years after the date the Employee was granted the ISO or (ii) one year after the date the Employee acquired Stock by exercising the ISO. If the Employee has died before the Stock is sold, these holding period requirements do not apply and no disqualifying disposition can occur thereafter.

(g) *Conversion of ISOs.* The Committee may in its discretion take such actions as may be necessary to convert the holder's outstanding ISOs (or any installments or portions of installments thereof) into Non-Qualified Options regardless of whether such holder is an Employee at the time of such conversion. At the time of such conversion of an ISO, the Committee (with the consent of the holder of the Option) may impose such conditions on the exercise of the resulting Non-Qualified Options as it may determine, provided that such conditions shall not be inconsistent with the Plan. Nothing in the Plan shall be deemed to give any holder of an ISO the right to have ISOs converted into Non-Qualified Options, and no such conversion shall occur until and unless the Committee takes appropriate action. The Committee, with the consent of the holder of an outstanding ISO, may also terminate any portion of such ISO.

5.2 Stock Appreciation Rights.

(a) *Description of Stock Appreciation Rights.* A "Stock Appreciation Right" is an Award entitling the recipient upon exercise of the Right to receive an amount, in cash or Stock, or a combination thereof (at the Committee's discretion), determined in whole or in part by reference to appreciation in the Fair Market Value of the Company's Common Stock. A Stock Appreciation Right entitles the Employee to receive, with respect to each share of Stock to which the Right relates, the excess of (1) the Fair Market Value of a share of the Company's

Common Stock on the date of exercise over (2) the Award price per Right as determined by the Committee in accordance with the provisions of Section 5.2(b) below.

(b) *Other Terms and Conditions of Stock Appreciation Rights.* Subject to the applicability of Section 7.3 below, a Stock Appreciation Right shall become and remain exercisable, at such time or times and subject to such restrictions, conditions and contingencies as the Committee may prescribe. Subject to the applicability of Section 7.3 below, the Committee may at any time accelerate the time at which all or any part of the Right may be exercised. The Award price per Right of a Stock Appreciation Right shall not be less than the lesser of (i) 50% of the Fair Market Value of a share of the Company's Common Stock on the date the Right is granted or (ii) the book value per share of the Company's Common Stock as of the end of the fiscal year of the Company immediately preceding the date of such grant. An Employee electing to exercise a Stock Appreciation Right must give written or electronic notice to the Company of the election, accompanied by any documents or instruments required by the Company, together with provision for the amount of any taxes due with respect thereto.

5.3 Restricted and Unrestricted Stock.

(a) *Definition of Restricted Stock Awards.* A "Restricted Stock Award" entitles the recipient to acquire shares of Restricted Stock subject to the restrictions against disposition and the obligation of resale described in paragraph (c) below, and such other restrictions, conditions and contingencies as determined by the Committee, for the par value per share of the Stock, or, in the case of shares of Stock delivered from the Company's treasury, without any payment to the Company, if consistent with applicable state law. The Committee may determine that the price, if any, to be paid by an Employee for the shares of Stock subject to a Restricted Stock Award has been satisfied by past services rendered by such Employee pursuant to Section 7.12 below. The Committee may provide that such other restrictions, conditions and contingencies be related to personal performance, corporate performance or any other category of performance deemed by the Committee to be important to the success of the Company or any of its subsidiaries. The provisions of Restricted Stock Awards need not be the same with respect to each recipient of such an Award.

(b) *Rights as a Stockholder.* An Employee who receives Restricted Stock pursuant to a grant of a Restricted Stock Award and upon payment in full of the par value per share of Restricted Stock, if required, or pursuant to the exercise of an Option or Stock Appreciation Right will have all the rights of a stockholder with respect to the Restricted Stock, including voting and dividend rights, subject to the restrictions described in paragraph (c) below and

any other restrictions, conditions and contingencies imposed by the Committee at the time of grant. The Committee may require that dividends be paid in additional shares of Restricted Stock or in Stock Units.

(c) *Restrictions and Obligations of Resale.* "Restricted Stock" is Stock subject to the following restrictions against disposition and obligation of resale to the Company. Restricted Stock shall not be sold, transferred, or otherwise disposed of and shall not be pledged or otherwise hypothecated, except as provided in the Plan. (Any such sale, transfer or other disposition, or any pledge or other hypothecation shall hereinafter be referred to as a "disposition".) In the event of the termination of employment for any reason other than the reasons specified in Sections 6.1, 6.2, 6.3 and 6.4 below, Restricted Stock shall, except as provided in the Plan, be offered for resale to the Company at its original acquisition price or forfeited to the Company if no price was paid.

(d) *Lapsing of Restrictions.* Subject to the applicability of Section 7.3 below, the restrictions against disposition and the obligation of resale to the Company of Restricted Stock shall lapse as the Committee shall determine, and such terms shall be incorporated into and be made a part of the Award instrument. Subject to the applicability of Section 7.3 below, the Committee may at any time accelerate the time at which the restrictions against disposition and the obligation of resale to the Company on all or any part of the shares of Restricted Stock shall lapse.

(e) *Resale and Forfeiture Mechanics.* In the event of a termination of employment for any reason other than the reasons specified in Sections 6.1, 6.2, 6.3 and 6.4 below, shares of Restricted Stock as to which the restrictions against disposition and the obligation of resale to the Company have not lapsed shall be delivered to the Company within 30 days following such termination of employment. Within 60 days following a timely delivery of such shares, the Company will compensate the Employee (at the original acquisition price, if any) for such number of shares as the Company elects to purchase and will return to the Employee any shares not so purchased. Any shares of Restricted Stock returned to the Employee will thereafter be free of the restrictions against disposition and the obligation of resale to the Company under the Plan. Shares of Restricted Stock that are not delivered to the Company within 30 days following the termination of employment shall remain subject to the restrictions against disposition and the obligation of resale to the Company, and such restrictions and obligation shall not lapse as otherwise provided in the Plan or in the Award instrument. Shares of Restricted Stock represented by statements of ownership shall be deemed to have been

delivered to the Company on the date of termination of employment. Nothing in this Section 5.3 shall require the Company to repurchase Restricted Stock issued under the Plan.

(f) *Notice of Election.* Any Employee making an election under Section 83(b) of the Code with respect to any share of Restricted Stock must provide a copy thereof to the Company within 30 days of the filing of such election with the Internal Revenue Service.

(g) *Other Awards Settled with Restricted Stock.* The Committee may, at the time any Award described in this Section 5 is granted, provide that any or all of the Stock delivered or issuable pursuant to the Award will be Restricted Stock. Any provision for the lapse of the restrictions against disposition and the obligation of resale to the Company may apply with respect to Restricted Stock issuable upon settlement of an Award whether or not the Award has been settled in whole or in part as of the date of lapse.

(h) *Unrestricted Stock Awards.* Subject to the applicability of Section 7.3 below, the Committee may, in its sole discretion, sell or transfer to any eligible Employee shares of Stock free of the restrictions against disposition and the obligation of resale to the Company under the Plan, for the par value per share of the Stock ("Unrestricted Stock Award"), or, in the case of shares of Stock delivered from the Company's treasury, without any payment to the Company, if consistent with applicable state law. The Committee may determine that the price, if any, to be paid by an Employee for the shares of Stock subject to an Unrestricted Stock Award has been satisfied by past services rendered by such Employee pursuant to Section 7.12 below. Any Employee who receives an Unrestricted Stock Award will have all the rights of a stockholder, including voting and dividend rights.

5.4 Stock Units.

(a) *Description of Stock Unit Awards.* A "Stock Unit Award" entitles the recipient to receive, without payment, "Stock Units" in the form of phantom shares of Stock, which are valued at the Committee's discretion in whole or in part by reference to, or otherwise based on the Fair Market Value of the Company's Common Stock.

(b) *Other Terms and Conditions of Stock Units.* Stock Units shall have such other terms and conditions as the Committee shall determine and shall be settleable in shares of Stock or cash, or any combination thereof, at the discretion of the Committee. Subject to the provisions of the Plan, the Committee shall have authority to determine the Employees of the Company and its subsidiaries to whom and the time or times at which Stock Unit Awards shall be made and all other restrictions, conditions and contingencies of such Awards. The Committee may

provide that such restrictions, conditions and contingencies be related to personal performance, corporate performance or any other category of performance deemed by the Committee to be important to the success of the Company or any of its subsidiaries. An Employee who receives Stock Units may be given rights to dividend equivalents, subject to any conditions imposed by the Committee at the time of grant. The Committee may provide that any such dividend equivalents be paid in cash, in shares of Stock or in additional Stock Units. The provisions of Stock Unit Awards need not be the same with respect to each recipient of such an Award. Subject to the applicability of Section 7.3 below, the Committee may at any time accelerate the time at which any restrictions, conditions and contingencies on Stock Units shall lapse.

Section 6 — Termination of Employment

6.1 Death of Employee.

If an Employee dies while employed by the Company or any subsidiary of the Company, or upon the death of an Employee after termination of employment described in Sections 6.2, 6.3 and 6.4 below, the following rules shall apply:

(a) Each Option and Stock Appreciation Right held by the Employee immediately prior to his or her death shall become fully exercisable and may be exercised only until one year after his or her death (whether or not this period ends after expiration of the exercise period specified in the Award instrument, except that the exercise period of any ISO shall not be extended by this paragraph but rather shall be limited as provided in Section 5.1(c) above) by the Employee's executor or administrator, or if not so exercised, by the legatees or distributees of his or her estate or by such other person or persons to whom the Employee's rights under such Option or Stock Appreciation Right shall pass by will or by the applicable laws of descent and distribution.

(b) Each share of Restricted Stock and each Stock Unit covered by an Award held by the Employee immediately prior to his or her death will immediately become free of all restrictions, conditions and contingencies thereon.

6.2 Disability of Employee.

If an Employee ceases to be employed by the Company or any subsidiary of the Company by reason of his or her permanent and total disability, as determined by the Committee, the following rules shall apply:

(a) Each Option and Stock Appreciation Right held by the Employee when his or her employment ends shall become fully exercisable and shall continue to be exercisable in accordance with the terms set forth in the Award instrument relating to such Award or upon such other terms as shall be determined by the Committee, unless otherwise provided in the Award instrument.

(b) Each share of Restricted Stock and each Stock Unit covered by an Award held by the Employee when his or her employment ends will immediately become free of all restrictions, conditions and contingencies thereon, unless otherwise provided in the Award instrument.

6.3 Retirement With the Consent of the Company Prior to Age 65.

If an Employee ceases to be employed by the Company or any subsidiary of the Company by reason of his or her retirement with the consent of the Company prior to age 65, as determined by the Committee, the Employee's rights with respect to Awards held by him or her as of such retirement date shall be as set forth in the Award instrument relating to such Award. For purposes of this Section 6.3, "retirement with the consent of the Company prior to age 65" shall be retirement prior to age 65 in accordance with policies, rules and eligibility criteria established by the Committee, including without limitation, those related to inimical conduct and association with a competitor. Retirement, including early retirement, under any pension plan of the Company or any subsidiary of the Company shall not by itself constitute retirement with the consent of the Company for purposes of the Plan.

6.4 Termination of Employment at Age 65 or After.

If an Employee ceases to be employed by the Company or any subsidiary of the Company by reason of his or her termination of employment without cause at age 65 or after, then the following rules shall apply:

(a) Each Option and Stock Appreciation Right held by the Employee when his or her employment ends shall become fully exercisable and shall continue to be exercisable in accordance with the terms set forth in the Award instrument relating to such Award or upon such other terms as shall be determined by the Committee, unless otherwise provided in the Award instrument.

(b) Each share of Restricted Stock and each Stock Unit covered by an Award held by the Employee when his or her employment ends will immediately become free of all

restrictions, conditions and contingencies thereon, unless otherwise provided in the Award instrument.

6.5 Other Termination of Employment.

If an Employee ceases to be employed by the Company or any subsidiary of the Company for any reason other than the reasons specified in Sections 6.1, 6.2, 6.3 and 6.4 above, the following rules shall apply:

(a) Each Option and Stock Appreciation Right held by the Employee that is unexercised when his or her employment ends shall expire upon such termination of employment, unless otherwise agreed to in writing by the Committee.

(b) Each share of Restricted Stock held by the Employee on which all restrictions, conditions and contingencies have not lapsed shall be offered for resale to the Company in accordance with Section 5.3 above, and each Stock Unit as to which all restrictions, conditions and contingencies have not lapsed shall be forfeited, unless otherwise agreed to in writing by the Committee.

6.6 Committee Determinations.

Any question as to (a) whether there has been a termination of employment, (b) the acquisition price of shares of Stock, (c) the existence of "cause", (d) whether there has occurred a "permanent and total disability," or (e) whether there has occurred a retirement "with the consent of the Company" shall be determined by the Committee, and its determination of such question shall be final.

Section 7 — General Provisions

7.1 Term and Amendment.

Unless earlier terminated by the Board of Directors, the Plan shall terminate on December 31, 1995, and no Awards shall be granted under the Plan after such date; provided, however, that Awards payable or requiring exercise which are granted on or before this date shall remain payable or exercisable in accordance with their respective terms after the termination of the Plan; and provided, further that the authority of the Committee to take actions with respect to any such Awards as contemplated herein shall extend beyond termination of the Plan.

The Board of Directors may at any time terminate the Plan or suspend the grant of Awards under the Plan. The Board of Directors may at any time amend the Plan or any outstanding Award for any lawful purpose; provided, that no amendment, without the approval of the Company's stockholders, shall increase the maximum number of shares of Stock that may be issued under the Plan or issued in the aggregate pursuant to the certain Awards listed in Section 3 above (except as permitted by the last paragraph of Section 3 above and Section 7.9 below); and provided, further that no amendment, without the approval of the Company's stockholders (where such approval is necessary to satisfy then-applicable requirements of federal securities laws, the Code or rules of any stock exchange on which the Company's Common Stock is listed), shall extend the period during which Awards may be granted under the Plan or amend the eligibility provisions of Sections 4 and 5.1(f) above.

7.2 Non-Transferability of Awards.

(a) No Award (other than Stock or cash transferred to an Employee under the Plan without restrictions) may be transferred other than by will or by the laws of descent and distribution, and during an Employee's lifetime an Award requiring exercise may be exercised only by him or her (or in the event of incapacity, the person or persons properly appointed to act on his or her behalf).

(b) Notwithstanding anything contained herein to the contrary, in the event an Employee terminates his or her employment and retains Awards pursuant to Sections 6.3 or 6.4 above to assume a position with a governmental, charitable or educational institution, the Committee, in its sole discretion and provided such arrangement is in accordance with applicable law, may authorize a third party, including but not limited to a "blind" trust, acceptable to the applicable governmental, charitable or educational institution, the Employee and the Committee, to act on behalf and for the benefit of such Employee with respect to such Awards.

7.3 Holding Periods.

Any equity security, as defined in the 1934 Act or the rules and regulations promulgated thereunder, offered pursuant to an Award under the Plan may not be sold for at least six months after acquisition thereof, and any derivative security, as defined in the 1934 Act or in the rules and regulations promulgated thereunder, offered pursuant to an Award under the Plan may not be exercised for at least six months after acquisition thereof, except, in either case, in the event of the disability or death of the holder thereof. The foregoing provision shall apply automatically only to grants of Awards to Employees subject to the provisions of Section

16 of the 1934 Act or the rules and regulations promulgated thereunder. The Committee shall have the authority to provide that such holding periods also apply to other Employees. Should any provision of this paragraph require modification or be unnecessary to comply with the requirements of Rule 16b-3, the Committee may waive such provision and/or amend this Plan to add to or modify the provisions hereof accordingly.

7.4 Documentation of Awards.

Awards shall be evidenced by written instruments prescribed by the Committee from time to time. The instruments may be in the form of agreements to be executed by both the Employee and the Company or certificates, letters or similar instruments, which need not be executed by the Employee but acceptance of which will evidence agreement to the terms of the Award.

7.5 Rights as a Stockholder.

Except as specifically provided by the Plan, the receipt of an Award will not give an Employee rights as a stockholder; the Employee will obtain such rights, subject to any limitations imposed by the Plan or the Award instrument, upon actual receipt of Stock.

7.6 Conditions on Delivery of Stock.

The Company will not be obligated to deliver any Stock pursuant to the Plan or to remove any restrictions from Stock previously delivered under the Plan until (a) all restrictions, conditions and contingencies of the Award have been satisfied or removed, (b) in the opinion of the Company's counsel, all applicable federal and state laws and regulations have been complied with and (c) all other legal matters in connection with the issuance and delivery of such Stock have been approved by the Company's counsel.

7.7 Tax Withholding.

The Company will withhold from any cash payment made pursuant to an Award an amount sufficient to satisfy all federal, state and local withholding tax requirements (the "withholding tax requirements").

In the case of an Award pursuant to which Stock may be delivered, the Committee will have the right to require that the Employee or other appropriate person remit to the Company an amount sufficient to satisfy the withholding tax requirements or make other arrangements satisfactory to the Committee with regard to such requirements prior to the delivery of the

Stock. If and to the extent that withholding is required, the Committee may permit the Employee or other appropriate person to elect, at the time and in the manner as the Committee provides, to have the Company hold back from the Stock to be delivered, or to deliver to the Company, Stock having a value calculated to satisfy the withholding tax requirements.

If at the time an ISO is exercised the Committee determines that the Company could be subject to withholding tax requirements with respect to a disposition of the Stock received upon exercise, the Committee may require as a condition of exercise that the person exercising the ISO agree to give security as the Committee deems adequate to meet the potential liability of the Company for the withholding tax requirements and to augment that security from time to time in any amount reasonably deemed necessary by the Committee to preserve the adequacy of the security.

7.8 Deferral of Payments.

The Committee may in its sole discretion, upon the request of an Employee holding an Award, defer the date on which any payment of cash or Stock under such an Award shall be made. The Committee may also establish rules and procedures for the crediting of interest on deferred cash payments and dividends or dividend equivalents for deferred payments denominated in Stock or Stock Units. The Committee shall assure that any deferral complies with applicable requirements of the Code. Any deferral, whether requested by the Employee or specified in the Award instrument or otherwise by the Committee, may be subject to forfeiture in accordance with terms established by the Committee.

7.9 Adjustments in the Event of Certain Transactions.

(a) In the event of a stock dividend, stock split or combination of shares, recapitalization or other change in the Company's capitalization, or other distribution with respect to holders of the Company's Common Stock other than normal cash dividends, the Board of Directors shall make appropriate adjustments to the maximum number of shares of Stock that may be delivered under the Plan and to the maximum number of shares of Stock that may be issued pursuant to certain Awards as set forth in Section 3 above.

(b) In any event referred to in paragraph (a) the Board of Directors shall also make any appropriate adjustments to the number and kind of shares of Stock subject to Awards then outstanding or subsequently granted, any exercise or purchase prices relating to Awards and any other provisions of Awards affected by such change. The Board of Directors may also make

adjustments to take into account material changes in law or in accounting practices or principles, mergers, consolidations, acquisitions, dispositions, repurchases or similar corporate transactions, or any other event, if it is determined by the Board of Directors that adjustments are appropriate to avoid distortion in the operation of the Plan, but no such adjustments other than those required by law may adversely affect the rights of any Employee (without the Employee's consent) under any Award previously granted.

(c) Any adjustments made pursuant to paragraphs (a) or (b) with respect to ISOs shall be made only after the Board of Directors, after consulting with the Company's counsel, determines whether such adjustments would constitute a "modification" of the ISOs (as that term is defined in Section 425 of the Code) or would otherwise cause any adverse tax consequences for the holders of the ISOs. If the Board of Directors determines that such adjustments to be made with respect to ISOs would constitute a modification of the ISOs, it may refrain from making such adjustments.

7.10 Employment Rights.

Neither the adoption of the Plan nor the grant of Awards shall confer upon any person any right to continued employment with the Company or any subsidiary of the Company or affect in any way the right of the Company or any subsidiary of the Company to terminate an employment relationship at any time. Except as specifically provided by the Committee, the Company shall not be liable for the loss of existing or potential profit in Awards granted under the Plan in the event of termination of an employment relationship even if the termination is in violation of an obligation of the Company or any subsidiary of the Company to the Employee.

7.11 Fair Market Value.

For purposes of the Plan, "Fair Market Value" of a share of Stock on any date will be the average of the high and low selling prices of the Company's Common Stock in the New York Stock Exchange Composite Transactions Index as of the last business day for which prices are available prior to such date.

7.12 Past Services as Consideration.

If, pursuant to an Award under the Plan, an Employee purchases or receives Stock under an Award for a price equal to the par value of the Stock, the Committee may determine that such price has been satisfied by past services rendered by the Employee.

7.13 Change in Control.

(a) In order to maintain Employees' rights in the event of any Change in Control of the Company, the Board of Directors (as constituted on the date the Award is granted or as constituted immediately prior to the Change in Control) may, in its sole discretion, as to any Award, either on the date an Award is granted or any time thereafter, take any one or more of the following actions:

(1) Provide for the acceleration of any time periods relating to the exercise or realization of or lapse of restrictions, conditions and contingencies under any Award so that the Award may be exercised or realized in full on or before a date fixed by the Board of Directors.

(2) Provide for the purchase of any Award, upon the Employee's request, for an amount of cash equal to the amount that could have been obtained upon the exercise of the Award or realization of the Employee's rights thereunder had the Award been currently exercisable or payable.

(3) Make such adjustment to any Award then outstanding as the Board of Directors deems appropriate to reflect the Change in Control.

(4) Cause any Award then outstanding to be assumed, or new rights substituted therefor, by the acquiring or surviving corporation after the Change in Control.

The Committee may, in its discretion, include further provisions and limitations relating to the Change in Control in any Award instrument as it may deem equitable and in the best interests of the Company.

(b) A "Change in Control" is defined to mean any of the following events:

(1) The acquisition by any person (including a group, within the meaning of Sections 13(d)(3) or 14(d)(2) of the 1934 Act), other than the Company or any subsidiary of the Company, of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the 1934 Act) of 20% or more of the combined voting power of the Company's outstanding voting securities.

(2) The first purchase under a tender offer or exchange offer, other than an offer by the Company or any subsidiary of the Company, pursuant to which shares of the Company's Common Stock have been purchased.

(3) During any period of two consecutive years, individuals who at the beginning of such period constitute the Board of Directors of the Company cease for any reason to constitute at least a majority thereof, unless the election or the nomination for election by stockholders of the Company of each new Director was approved by a vote of at least two-thirds of the Directors then still in office who were Directors at the beginning of the period.

(4) Approval by stockholders of the Company of a merger, consolidation, liquidation or dissolution of the Company, or the sale of all or substantially all of the assets of the Company.

7.14 Approvals.

Anything in the Plan to the contrary notwithstanding, the effectiveness of the Plan and of the grant of all Awards is subject to, and the Plan and the Awards granted under it shall be of no force and effect unless and until, and no Awards granted shall in any way vest or become exercisable unless and until the approval of the Plan by the affirmative vote of a majority of the shares of the Company's Common Stock present in person or by proxy and entitled to vote at a meeting of stockholders at which the Plan is presented for approval. In the event that such approval has not been received on or before August 13, 1991, the Plan and any Awards granted shall be null and void, and upon the occurrence of the approval, the Plan and the Awards shall become effective as of the date of the Board of Directors' approval of the Plan. The Company's obligation to sell and deliver shares of Stock under the Plan is subject to the approval of any governmental authority required in connection with the authorization, issuance or sale of the Stock.

7.15 Successors and Assigns.

The Plan shall be binding upon all successors and assigns of an Employee receiving an Award under the Plan, including, without limitation, the estate of any such Employee and the executors, administrators or trustees of such estate, and any receiver, trustee in bankruptcy or representative of the creditors of any such Employee.

7.16 1985 Plan.

Upon approval of the Plan by the Company's stockholders, the authority to grant additional options under the Company's 1985 Plan shall expire. Options granted pursuant to the 1985 Plan shall remain exercisable at the times and in the manner specified in the option

agreements relating to the 1985 Plan or in accordance with such other terms and conditions as the Committee shall determine.

7.17 Governing Law.

The Plan and all determinations made and related actions taken by the Committee, to the extent not otherwise governed by the Code or the securities laws of the United States, shall be governed by the laws of the Commonwealth of Massachusetts and shall be construed accordingly.

7.18 Definitions.

As used in the Plan, the following terms shall have the following meanings:

<u>Term</u>	<u>Section in Which Term is Defined</u>
"Awards"	Section 1
"Change in Control"	Section 7.13(b)
"Code"	Section 5.1(a)
"Committee"	Section 2
"Company"	Section 1
"Employee"	Section 4
"Fair Market Value"	Section 7.11
"ISO"	Section 5.1(a)
"1985 Plan"	Section 3
"1934 Act"	Section 2
"Non-Qualified Option"	Section 5.1(a)
"Option"	Section 5.1(a)
"Plan"	Section 1
"Restricted Stock"	Section 5.3(c)
"Restricted Stock Award"	Section 5.3(a)
"Rule 16b-3"	Section 2
"Stock"	Section 3
"Stock Appreciation Right"	Section 5.2(a)
"Stock Units"	Section 5.4(a)
"Stock Unit Award"	Section 5.4(a)
"Unrestricted Stock Award"	Section 5.3(h)

DIGITAL EQUIPMENT CORPORATION
1990 STOCK OPTION PLAN FOR NONEMPLOYEE DIRECTORS

Section 1 — Purpose

The purpose of the 1990 Stock Option Plan for Nonemployee Directors (the "Plan") is to increase the proprietary interest of nonemployee members of the Board of Directors in the continued success of Digital Equipment Corporation (the "Company") and to provide them with an incentive to continue to serve as directors.

Section 2 — Administration

The Plan shall be administered by the Compensation and Stock Option Committee of the Board of Directors of the Company, or any successor committee thereto. The Committee shall have responsibility finally and conclusively to interpret the provisions of the Plan and to decide all questions of fact arising in its application. No member of the Committee shall be liable for any action or determination made in good faith with respect to the Plan.

Section 3 — Type of Options

Options granted pursuant to the Plan shall be nonstatutory options which are not intended to meet the requirements of Section 422A of the Internal Revenue Code of 1986, as amended (the "Code").

Section 4 — Eligibility

Directors of the Company who are not employees of the Company or any subsidiary or affiliate thereof ("Nonemployee Directors") shall be eligible to participate in the Plan. Each Nonemployee Director to whom stock options are granted shall be a participant ("Participant") under the Plan.

Section 5 — Stock Available under the Plan

Subject to adjustment as provided in Section 10 below, an aggregate of 100,000 shares of the Company's Common Stock shall be available for issuance pursuant to the provisions of the Plan. Such shares may be authorized and unissued shares or may be shares issued and thereafter acquired by the Company. If an option granted under the Plan shall expire or terminate for any reason without having been exercised in whole or in part, the unpurchased

shares subject to such option shall again be available for subsequent option grants under the Plan.

Section 6 — Automatic Grant of Options

(a) Each Nonemployee Director in office at the time the Plan is approved by the Company's stockholders pursuant to Section 7.7 hereof shall receive automatically and without further action by the Board of Directors or the Committee a grant of an option to purchase 5,000 shares of Common Stock of the Company in accordance with the provisions of Section 7, and subject to adjustment as provided in Section 10. Such grant shall be made as of the date of approval of the Plan by the Company's stockholders.

(b) Each Nonemployee Director who commences his or her service as a director after approval of the Plan by the Company's stockholders pursuant to Section 7.7 hereof shall receive automatically and without further action by the Board of Directors or the Committee a grant of an option to purchase 5,000 shares of Common Stock of the Company in accordance with the provisions of Section 7, and subject to adjustment as provided in Section 10. Such grant shall be made as of the date of such Nonemployee Director's commencement of service as a director of the Company.

Section 7 — Terms and Conditions of Options

7.1 Exercise of Options.

(a) Each option granted under the Plan shall be exercisable at the rate of 20% per year commencing on the first anniversary of the date the Participant begins serving as a Director, subject to the provisions of Section 9 hereof. Each option granted under the Plan to Nonemployee Directors who commenced service as a director prior to the date of stockholder approval of the Plan shall be exercisable to the extent of 20% of the shares covered by the option for each year of service completed as of such date, subject to the provisions of Section 9 hereof.

(b) Notwithstanding the provisions of paragraph (a) above, an option granted to any Participant shall become immediately exercisable in full upon the first to occur of:

(1) The death of any Participant, in which case the option may be exercised by the Participant's executor or administrator, or if not so exercised, by the legatees or distributees of his or her estate or by such other person or persons to whom the Participant's

rights under the option shall pass by will or by the applicable laws of descent and distribution;

(2) Such time as the Participant ceases to be a director of the Company by reason of his or her permanent disability.

(c) In the event that a Participant ceases to be a director of the Company as a result of retirement from the Board of Directors at a time when such Participant is eligible to receive benefits under the Company's Retirement Arrangement for Nonemployee Directors in effect as of the effective date of this Plan, such Participant shall retain the option granted to him or her under the Plan whether or not it is fully exercisable at the time of such retirement, and such option, if not fully exercisable at the time of such retirement, shall become exercisable in accordance with the terms of paragraph (a) above, as if the Participant's service as a director had continued.

(d) In the event that the Participant ceases to be a director of the Company for any reason other than those specified in paragraphs (b) and (c) above prior to the time a Participant's option becomes fully exercisable, the option will terminate with respect to the shares as to which the option is not then exercisable and all rights of the Participant to such shares shall terminate without further obligation on the part of the Company.

(e) In the event that the Participant ceases to be a director of the Company after his or her option has become exercisable in whole or in part, such option shall remain exercisable in whole or in part, as the case may be, in accordance with the terms hereof.

(f) Options granted under the Plan shall expire ten years from the date on which the option is granted, unless terminated earlier in accordance with the Plan; provided, however, that in the event a Participant ceases to be a Director of the Company by reason of death, including without limitation in the event that a Participant dies after ceasing to be a Director of the Company by reason of disability or retirement, any option granted to such Participant hereunder shall expire one year from the date of the Participant's death (whether or not this period ends after expiration of the exercise period).

7.2 Exercise Price.

The exercise price of an option shall be 100% of the fair market value per share of Common Stock of the Company on the date the option is granted. For purposes of the Plan, "fair market value" of a share of stock on any date shall mean the average of the high and low selling prices of the Company's Common Stock on the New York Stock Exchange Composite

Transactions Index as of the date of grant, or if the date of grant is not a business day, as of the last business day for which prices are available prior to the date of grant.

7.3 Payment of Exercise Price.

(a) Subject to the terms and conditions of the Plan and the documentation of the options pursuant to Section 7.5 hereof, an option granted hereunder shall, to the extent then exercisable, be exercisable in whole or in part by giving written notice to the Company stating the number of shares with respect to which the option is being exercised, accompanied by payment in full for such shares; provided, however, that there shall be no such exercise at any one time as to fewer than one hundred (100) shares or all of the remaining shares then purchasable by the person or persons exercising the option, if fewer than one hundred (100) shares.

(b) Options granted under the Plan may be paid for by delivery of cash or a check to the order of the Company in an amount equal to the exercise price of such options, or by delivery to the Company of shares of Common Stock of the Company already owned by the Participant having a fair market value equal in amount to the exercise price of the option being exercised, provided that such method is consistent with applicable tax laws, or by any combination of such methods of payment.

7.4 Rights as a Stockholder.

Except as specifically provided by the Plan, the grant of an option will not give a Participant rights as a stockholder; the Participant will obtain such rights, subject to any limitations imposed by the Plan, upon actual receipt of Common Stock of the Company.

7.5 Documentation of Option Grants.

Option grants shall be evidenced by written instruments prescribed by the Committee from time to time. The instruments may be in the form of agreements to be executed by both the Participant and the Company or certificates, letters or similar instruments, which need not be executed by the Participant but acceptance of which will evidence agreement to the terms of the grant.

7.6 Nontransferability of Options.

No option granted under the Plan shall be assignable or transferable by the Participant to whom it is granted, either voluntarily or by operation of law, except by will or the laws of

descent and distribution. During the life of the Participant, the option shall be exercisable only by such person (or in the event of incapacity, by the person or persons properly appointed to act on his or her behalf).

7.7 Approvals.

The effectiveness of the Plan and of the grant of all options is subject to (i) the approval of the Plan by the affirmative vote of a majority of the shares of the Company's Common Stock present in person or by proxy and entitled to vote at a meeting of the stockholders at which the Plan is presented for approval and (ii) receipt by the Company of an opinion of counsel or the written concurrence of the Staff of the Securities and Exchange Commission with opinions as set forth in a no-action letter, related to compliance of the Plan with Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended (the "1934 Act"), and such other matters deemed necessary or appropriate by counsel for the Company. In the event that such approval as aforesaid has not been received on or before August 13, 1991, or in the event that such opinion or concurrence has not been received on or before August 13, 1991, then in either such event the Plan and options granted hereunder shall be null and void, and upon the occurrence of both such approval and opinion or concurrence as aforesaid, the Plan and such options shall become effective as of the date of the stockholders' approval of the Plan. Notwithstanding anything to the contrary in the Plan, no options granted hereunder shall become exercisable until such approval and opinion or concurrence have been received.

The Company's obligation to sell and deliver shares of stock under the Plan is subject to the approval of any governmental authority required in connection with the authorization, issuance or sale of the stock.

Section 8 — Regulatory Compliance and Listing

(a) The issuance or delivery of any shares of stock subject to exercisable options hereunder may be postponed by the Committee for such period as may be required to comply with any applicable requirements under the Federal securities laws, any applicable listing requirements of any national securities exchange or any requirements under any law or regulation applicable to the issuance or delivery of such shares. The Company shall not be obligated to issue or deliver any such shares if the issuance or delivery thereof would constitute a violation of any provision of any law or of any regulation of any governmental authority or any national securities exchange.

(b) No discretion concerning decisions regarding the Plan shall be afforded to a person who is not a "disinterested person" within the meaning of Section 16 of and Rule 16b-3 promulgated under the 1934 Act. Sections 4 and 6 hereof shall not be amended more than once every six months, other than to comport with changes in the Code or the rules thereunder. Should any provision of this paragraph require modification or be unnecessary to comply with the requirements of Section 16 of and Rule 16b-3 under the 1934 Act, the Committee may waive such provision and/or amend this Plan to add to or modify the provisions hereof accordingly.

Section 9 — *Holding Periods*

Any option granted under the Plan may not be exercised for at least six months after the grant thereof, and the shares of stock that are received upon exercise of any option granted under the Plan may not be sold for at least six months after acquisition thereof, except in the event of the disability or death of the holder thereof. Should any provision of this paragraph require modification or be unnecessary to comply with the requirements of Section 16 of and Rule 16b-3 under the 1934 Act, the Committee may waive such provision and/or amend this Plan to add to or modify the provisions hereof accordingly.

Section 10 — *Adjustment in Event of Changes in Capitalization*

In the event of a stock dividend, stock split or combination of shares, recapitalization or other change in the Company's capitalization, or other distribution with respect to holders of the Company's Common Stock other than normal cash dividends, automatic adjustment shall be made in the number and kind of shares as to which outstanding options or portions thereof then unexercised shall be exercisable and in the available shares set forth in Section 5 hereof, to the end that the proportionate interest of the option holder shall be maintained as before the occurrence of such event. Such adjustment in outstanding options shall be made without change in the total price applicable to the unexercised portion of such options and with a corresponding adjustment in the option price per share. Automatic adjustment shall also be made in the number and kind of shares subject to options subsequently granted under the Plan.

Section 11 — *No Right to Reelection*

Nothing in the Plan shall be deemed to create any obligation on the part of the Board of Directors to nominate any Nonemployee Director for reelection by the Company's stockhold-

ers, nor confer upon any Nonemployee Director the right to remain a member of the Board of Directors for any period of time, or at any particular rate of compensation.

Section 12 — *Amendment and Termination*

(a) Except as provided in section 8(b), the Board of Directors shall have the right to amend, modify or terminate the Plan at any time and from time to time; provided, however, that unless required by law, no such amendment or modification shall (a) affect any right or obligation with respect to any grant theretofore made; (b) in any manner affect the requirements set forth in Section 8(b) hereof; or (c) unless previously approved by the stockholders, increase the number of shares of Common Stock available for grants as provided in Section 5 hereof (as adjusted pursuant to Section 10 hereof). In addition, no such amendment shall, unless previously approved by the stockholders (where such approval is necessary to satisfy then applicable requirements of federal securities laws, the Code or rules of any stock exchange on which the Company's Common Stock is listed), (i) in any manner affect the eligibility requirements set forth in Section 4 hereof, (ii) increase the number of shares of Common Stock subject to any option, (iii) change the purchase price of the shares of Common Stock subject to any option, (iv) extend the period during which options may be granted under the Plan, or (v) materially increase the benefits to Participants under the Plan.

(b) Unless earlier terminated by the Board of Directors, the Plan shall terminate on December 31, 2000; provided, however, that options which are granted on or before this date shall remain exercisable in accordance with their respective terms after the termination of the Plan.

Section 13 — *Governing Law*

The Plan shall be governed by and construed in accordance with the laws of the Commonwealth of Massachusetts.



September 14, 1992

Dear Fellow Stockholder:

You are cordially invited to attend our Annual Meeting of Stockholders, which will be held this year on Thursday, November 5, 1992, at 11:00 A.M., at the World Trade Center, Commonwealth Pier, 164 Northern Avenue, Boston, Massachusetts.

The notice of meeting and proxy statement which follow describe the business to be conducted at the meeting. There will also be a presentation on the current status of our business.

We are very pleased that Thomas P. Gerrity, Dean of the Wharton School of the University of Pennsylvania, became a member of our Board on January 23, 1992 and is a nominee for election to our Board for the first time. We are also pleased to announce that Robert B. Palmer became a member of our Board on July 22, 1992. Mr. Palmer will become President and Chief Executive Officer of the Corporation on October 1, 1992.

Whether or not you plan to attend the meeting in person, it is important that your shares be represented and voted. After reading the enclosed Notice of Annual Meeting and Proxy Statement, may I urge you to complete, sign, date and return your proxy ballot in the envelope provided. If the address on the accompanying material is incorrect, please advise our Investor Services Department in writing at 111 Powdermill Road, Maynard, Massachusetts 01754.

Your vote is important. We will appreciate a prompt return of your signed proxy ballot and hope to see you at the meeting.

For the Board of Directors,

A handwritten signature in dark ink, reading "Kenneth H. Olsen". The signature is fluid and cursive, with the first name "Kenneth" being more prominent and the last name "Olsen" written in a more compact, cursive style.

KENNETH H. OLSEN
President and Chief Executive Officer

DIGITAL EQUIPMENT CORPORATION

NOTICE OF 1992 ANNUAL MEETING

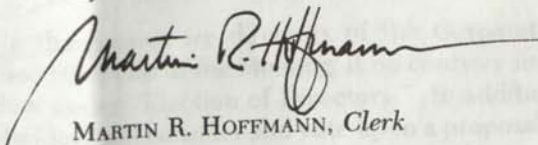
To the Stockholders of DIGITAL EQUIPMENT CORPORATION:

Notice is hereby given that the Annual Meeting of Stockholders of Digital Equipment Corporation, a Massachusetts corporation, will be held on Thursday, November 5, 1992, at 11:00 A.M., at the World Trade Center, Commonwealth Pier, 164 Northern Avenue, Boston, Massachusetts, for the following purposes:

1. To elect three members to the Board of Directors to serve for a three-year term as Class III Directors.
2. To ratify the selection of the firm of Coopers & Lybrand as auditors for the fiscal year ending July 3, 1993.
3. To transact such other business as may properly come before the meeting.

Stockholders entitled to notice of and to vote at the meeting shall be determined as of the close of business on September 8, 1992, the record date fixed by the Board of Directors for such purpose.

By Order of the Board of Directors,



MARTIN R. HOFFMANN, Clerk

September 14, 1992

Stockholders are requested to sign the enclosed proxy card and return it promptly in the enclosed postage paid envelope to Digital Equipment Corporation, P.O. Box 1006, New York, New York 10269.

PROXY STATEMENT

INTRODUCTION

Proxies in the form enclosed with this proxy statement are solicited by the Board of Directors of Digital Equipment Corporation (the "Corporation") for use at the 1992 Annual Meeting of Stockholders (the "Meeting").

An Annual Report to Stockholders, containing financial statements for the fiscal year ended June 27, 1992, has been sent to all stockholders entitled to vote. This proxy statement and form of proxy were first sent to stockholders on or about the date of the accompanying Notice of 1992 Annual Meeting.

Only stockholders of record as of the close of business on September 8, 1992 will be entitled to vote at the Meeting and any adjournments thereof. As of that date, 128,192,214 shares of Common Stock of the Corporation (excluding treasury shares) were issued and outstanding. Each share outstanding as of the record date will be entitled to one vote, and stockholders may vote in person or by proxy. Execution of a proxy will not in any way affect a stockholder's right to attend the meeting and vote in person. Any stockholder giving a proxy has the right to revoke it at any time before it is exercised by written notice to the Clerk of the Corporation. In addition, stockholders attending the Meeting may revoke their proxies at that time.

The persons named as attorneys in the proxies are directors of the Corporation. All properly executed proxies returned in time to be cast at the Meeting, if no contrary instruction is indicated, will be voted as stated below under "Election of Directors." In addition to the election of Class III Directors, the stockholders will consider and vote upon a proposal to ratify the selection of auditors. Where a choice has been specified on the proxy with respect to this matter, the shares represented by the proxy will be voted in accordance with the specification and will be voted FOR if no specification is indicated. Directors are elected by a plurality of votes cast, and the affirmative vote of a majority of the shares present or represented at the Meeting is required for approval of the ratification of the selection of auditors.

The Corporation knows of no other matter to be presented at the Meeting. If any other matter should be presented at the Meeting upon which a vote properly may be taken, shares represented by all proxies received by the Corporation will be voted with respect thereto in accordance with the judgment of the persons named as attorneys in the proxies.

ELECTION OF DIRECTORS

The Board of Directors of the Corporation is divided into three classes. Each class serves three years, with the terms of office of the respective classes expiring in successive years. The directors in Class I will be nominees for election to three-year terms at the 1993 Annual Meeting of Stockholders, and the directors in Class II will be nominees for election to three-year terms at the 1994 Annual Meeting of Stockholders.

The present term of office for the directors in Class III ("Class III Directors") expires at the Meeting. Messrs. Colby H. Chandler and Arnaud de Vitry were elected at the Annual Meeting of Stockholders held November 6, 1989 and are nominees for re-election to three-year terms as Class III Directors. Dr. Thomas P. Gerrity is a nominee for election for the first time to a three-year term as a Class III Director. If reelected or elected, as the case may be, the Class III Director nominees will hold office until the Annual Meeting of Stockholders to be held in 1995 and until their successors have been duly elected and have qualified. Shares represented by all proxies received by the Board of Directors and not so marked as to withhold authority to vote for any individual nominee will be voted (unless one or more nominees are unable or unwilling to serve) for the election of all nominees for Class III Directors. The Board of Directors knows of no reason why any such nominee should be unable or unwilling to serve, but if such should be the case, proxies will be voted for the election of some other person or the Board of Directors will fix the number of directors at a lesser number.

Set forth below is information with respect to each nominee for a Class III Director to be elected at the Meeting and for each Class I Director and Class II Director. With the exception of Dr. Gerrity and Mr. Palmer, all of the directors were previously elected by the stockholders.

Nominees to Serve as Directors for a Three-Year Term Expiring at the 1995 Annual Meeting (Class III Directors)

COLBY H. CHANDLER

Mr. Chandler, age 67, retired as the Chairman of the Board and Chief Executive Officer of Eastman Kodak Company ("Kodak") in May 1990. Prior to that time he had been Chief Executive Officer, Chairman of the Board and Chairman of the Executive Committee of Kodak since July 1983. He assumed the presidency of Kodak

in January 1977. Mr. Chandler has been a director of Kodak since 1974. He is also a director of Citicorp, Ford Motor Company and J.C. Penney Company, Inc. Mr. Chandler has been a director of the Corporation since 1989 and is a member of its Audit Committee and Nominating Committee.

ARNAUD DE VITRY

Mr. de Vitry, age 66, is an engineering consultant. From 1980 to 1990, Mr. de Vitry was Chairman of the Board and Chief Executive Officer of Eureka SICAV, France, an investment company. He is a director of Ionics, Incorporated and Schlumberger Limited. Mr. de Vitry has been a director of the Corporation since 1957 and is Chairman of its Nominating Committee.

THOMAS P. GERRITY

Dr. Gerrity, age 51, has served as Dean of the Wharton School of the University of Pennsylvania since July 1990. From 1969 to 1989, Dr. Gerrity was chief executive officer of Index Group, Inc. ("Index"), an information technology consulting company he founded. In 1988, Index became part of Computer Sciences Corporation ("CSC") and Dr. Gerrity was subsequently appointed president of CSC's commercial professional services group, CSC Consulting. Dr. Gerrity is presently a director of the Federal National Mortgage Association and Sun Company, Inc. He was elected a director of the Corporation by the Board of Directors on January 23, 1992, and is a member of the Corporation's Compensation and Stock Option Committee and Nominating Committee.

Directors Serving a Term Expiring at the 1993 Annual Meeting (Class I Directors)

PHILIP CALDWELL

Mr. Caldwell, age 72, has been Senior Managing Director of Shearson Lehman Brothers Inc. ("Lehman Brothers") and a director of Shearson Lehman Brothers Holdings Inc. since May 1985. He succeeded Mr. Henry Ford II as Chief Executive Officer of Ford Motor Company in 1979 and as Chairman in 1980. He retired as Chairman and Chief Executive Officer in 1985 and from the Board in 1990. He has

served as a director of The Chase Manhattan Corporation and The Chase Manhattan Bank, N.A., Federated Department Stores, Inc. and the Kellogg Company, Inc., and continues to serve as a director of The Mexico Fund, Inc. and as a trustee of several cultural and educational organizations. He has been a director of the Corporation since 1980 and is Chairman of its Audit Committee and a member of its Compensation and Stock Option Committee.

WILLIAM H. MCLEAN

Mr. McLean, age 81, is an engineering consultant. He was formerly the Vice President and Dean of Stevens Institute of Technology. He has been a director of the Corporation since 1967 and is a member of its Audit Committee and Nominating Committee.

KENNETH H. OLSEN

Mr. Olsen, age 66, founded Digital Equipment Corporation in 1957 and has served since that time as its President and Chief Executive Officer. Mr. Olsen has announced that he will retire from this position and resign as a director of the Corporation effective October 1, 1992. Mr. Olsen is a director of Ford Motor Company and Polaroid Corporation, and has been a director of the Corporation since 1957.

ROBERT B. PALMER

Mr. Palmer, age 52, has been elected to succeed Mr. Olsen as President and Chief Executive Officer of the Corporation effective October 1, 1992. Mr. Palmer joined the Corporation in 1985 and has served as Vice President, Semiconductor and Interconnect Technology, and most recently, as Vice President, Manufacturing, Logistics and Component Engineering. From 1980 to 1985, he was Executive Vice President of Semiconductor Operations at Mostek Corporation ("Mostek"), a subsidiary of United Technologies Corporation. Mr. Palmer was a founder of Mostek, where he held a series of senior management positions prior to its acquisition in 1980 by United Technologies. Mr. Palmer was elected a director of the Corporation by the Board of Directors on July 22, 1992.

Directors Serving a Term Expiring at the 1994 Annual Meeting (Class II Directors)

VERNON R. ALDEN

Mr. Alden, age 69, was Chairman of the Board and Executive Committee of The Boston Company, Inc., a financial services company, from 1969 to 1978. He was President of Ohio University from 1962 to 1969. Mr. Alden is also a director of Augat, Inc., Colgate-Palmolive Company, Intermet Corporation, McGraw-Hill, Inc. and Sonesta International Hotels Corporation. He is also a trustee of several cultural and educational organizations. He has been a director of the Corporation since 1959 and is a member of its Compensation and Stock Option Committee and Nominating Committee.

ROBERT R. EVERETT

Mr. Everett, age 71, is an engineering consultant. He retired as President of the Mitre Corporation, a federal contract research center, in 1986. Mr. Everett has been a director of the Corporation since 1986.

THOMAS L. PHILLIPS

Mr. Phillips, age 68, retired as Chairman of the Board and Chief Executive Officer of Raytheon Company ("Raytheon") in March 1991, having served as Chief Executive Officer since 1968, and as Chairman of the Board since 1975. He has been a director of Raytheon since 1962. Mr. Phillips is also a director of the John Hancock Mutual Life Insurance Co., State Street Research and Management Co. and Knight-Ridder, Inc. Mr. Phillips has been a director of the Corporation since 1991. He is Chairman of the Corporation's Compensation and Stock Option Committee and a member of its Nominating Committee.

Stock Ownership of Directors

Shown below is certain information as of August 1, 1992, with respect to beneficial ownership of shares of the Corporation's Common Stock by all directors (including the three nominees for Class III Directors) individually, and by all officers and directors of the Corporation as a group. Unless otherwise indicated, the named person possesses sole voting and investment power with respect to the shares.

<u>Beneficial Owner</u>	<u>Shares Beneficially Owned</u>
KENNETH H. OLSEN	2,569,528(1)
VERNON R. ALDEN	56,064(2)(3)
PHILIP CALDWELL	6,200(2)
COLBY H. CHANDLER	7,000(4)
ARNAUD DE VITRY	113,260(2)(5)
ROBERT R. EVERETT	6,300(2)
THOMAS P. GERRITY	1,000
WILLIAM H. MCLEAN	7,400(2)
ROBERT B. PALMER	110,144(6)
THOMAS L. PHILLIPS	6,000(7)
All 34 officers and directors as a group, including those named above	4,018,178(8)

(1) Includes 244,600 shares which Mr. Olsen has the right to acquire by exercise of stock options and 21,554 shares held by a trust for the benefit of Mr. Olsen's wife. Such shares represent 2% of the Corporation's issued and outstanding Common Stock, assuming exercise of the stock options. Does not include 1,533,000 shares owned by the Stratford Foundation, a private charitable foundation of which Mr. Olsen is the founder and a trustee, as to which shares Mr. Olsen disclaims beneficial ownership.

(2) Includes 5,000 shares which the director has the right to acquire by exercise of a stock option granted pursuant to the Corporation's 1990 Stock Option Plan for Nonemployee Directors ("Nonemployee Directors Plan").

(3) Includes 22,944 shares held by Mr. Alden's wife, as to which shares Mr. Alden disclaims beneficial ownership.

(4) Includes 2,000 shares which Mr. Chandler has the right to acquire by exercise of a stock option granted pursuant to the Corporation's Nonemployee Directors Plan.

(5) Includes 104,660 shares indirectly held by Mr. de Vitry's wife, as to which shares Mr. de Vitry disclaims beneficial ownership. Does not include 196,400 shares held in trust of which Mr. de Vitry is the principal indirect beneficiary, 25,340 shares held in trust of which Mr. de Vitry's wife is the principal indirect beneficiary and an additional 260,000 shares held in separate trusts of which Mr. de Vitry's two adult daughters are the principal indirect beneficiaries. Mr. de Vitry disclaims beneficial ownership of such 481,740 shares.

(6) Includes 101,300 shares which Mr. Palmer has the right to acquire by exercise of stock options and 8,500 shares awarded as restricted stock under the Corporation's 1990 Equity Plan.

(7) Includes 1,000 shares which Mr. Phillips has the right to acquire by exercise of a stock option granted pursuant to the Corporation's Nonemployee Directors Plan.

(8) Includes 1,248,300 shares which the directors and officers as a group have the right to acquire by exercise of stock options granted under the Corporation's stock plans. These 4,018,178 shares represent approximately 3.1% of the Corporation's issued and outstanding Common Stock, assuming exercise of the stock options.

Each director other than Mr. Olsen owns beneficially less than 1% of the Common Stock.

Certain Relationships and Related Transactions

As previously noted, Philip Caldwell is Senior Managing Director of Lehman Brothers, one of the Corporation's investment bankers. Lehman Brothers performs financial and investment banking services for the Corporation for which it receives usual and customary compensation. Mr. Caldwell's son-in-law is a middle management employee of the Corporation and receives the usual and customary compensation for the position he serves.

In addition to his service as a director, Robert Everett also performs consulting services for the Corporation for which he receives reasonable and customary fees. During the fiscal year ended June 27, 1992, Mr. Everett received \$105,000 for such consulting services.

Committees of the Board

The Board of Directors has an Audit Committee, a Compensation and Stock Option Committee and a Nominating Committee.

The Audit Committee selects the independent auditors to be employed by the Corporation, subject to ratification by the Corporation's stockholders, reviews generally the internal and external audit plans and the results thereof, and reviews generally the Corporation's internal accounting controls with the internal and external auditors. The members of the Audit Committee are Mr. Caldwell, Chairman, and Messrs. Chandler and McLean.

The Compensation and Stock Option Committee reviews and recommends to the Board the compensation of directors and senior management and reviews and recommends to the Board the adoption of any compensation plans in which directors and officers are eligible to participate. The Committee also administers and interprets the Corporation's stock plans and, subject to the provisions of the plans, selects the employees who are to participate in such plans and determines the terms of their participation. The members of the Compensation and Stock Option Committee are Mr. Phillips, Chairman, and Messrs. Alden, Caldwell and Gerrity.

On January 23, 1992, the Board of Directors established a Nominating Committee, which is responsible for recommending nominees to the Board of Directors. The members of the Nominating Committee are Mr. de Vitry, Chairman, and Messrs. Alden, Chandler, Gerrity, McLean and Phillips. The Nominating Committee will consider highly qualified candidates proposed in writing by stockholders. Stockholders who wish to propose a nomination should submit the person's name and background information to the Clerk of the Corporation.

The Board of Directors held eleven meetings during the fiscal year ended June 27, 1992, the Audit Committee met five times, the Compensation and Stock Option Committee met six times and the Nominating Committee met one time. All directors attended at least 75% of the total number of meetings of the Board and the committees on which they serve.

EXECUTIVE COMPENSATION AND OTHER INFORMATION

The table below shows all cash compensation for services in all capacities with the Corporation and its subsidiaries rendered during the fiscal year ended June 27, 1992, for the five most highly compensated executive officers of the Corporation and for all executive officers as a group.

<u>Name and Capacities in Which Served</u>	<u>Aggregate Cash Compensation</u>
Kenneth H. Olsen President and Director	\$ 995,018
John F. Smith Senior Vice President	\$ 655,000
Winston R. Hindle, Jr. Senior Vice President	\$ 455,008
Martin R. Hoffmann Vice President	\$ 425,014
John L. Sims Vice President	\$ 372,992
All 15 executive officers as a group, including those named above . .	\$5,772,327(1) (2) (3)

(1) Other than as set forth below under "Pension Plans," "Stock Options and Awards," and the stock plan descriptions, with respect to the fiscal year ended June 27, 1992, the executive officers of the Corporation received no significant non-cash compensation from the Corporation or its subsidiaries.

(2) Persons who served as executive officers for any part of the fiscal year, and their cash compensation for the part of the fiscal year served, are included.

(3) Does not include separation amounts paid to a former executive officer who resigned his position with the Corporation in December 1991 and entered into an agreement with the Corporation pursuant to which the former executive officer, among other things, received a lump sum payment equal to approximately \$830,000 and continued to receive certain fringe, insurance and retirement benefits.

Cash Incentive Program

On August 20, 1992, the Compensation and Stock Option Committee of the Board of Directors approved and adopted a cash incentive program (the "Incentive Program") for members of the Corporation's management team and certain other key employees. The

objective of the Incentive Program is to motivate and reward outstanding employees for the accomplishment of annual progress towards long-term corporate performance goals.

Performance objectives under the Incentive Program will be established on an annual basis at the beginning of the fiscal year for which performance is measured. Payouts under the Incentive Program will be made after the close of the applicable fiscal year.

For fiscal 1993, cash incentive awards for certain executive officers and other members of senior management under the Incentive Program will be directly related to the achievement of corporate-wide financial performance objectives and performance targets established for their individual areas of responsibility. For other participants, cash incentive awards will be made at the discretion of management, based upon the participants' performance measured against performance goals established for each individual. For all participants, if minimum corporate financial performance objectives are not met, the Corporation will not make any awards under the Incentive Program.

As the Incentive Program was not in effect for fiscal year 1992, no payments were made under the Incentive Program to any executive officers during the Corporation's past fiscal year.

Compensation of Directors

Each director who is not also an employee of the Corporation received a retainer of \$25,000 (or ratable portion thereof) for his services during the fiscal year ended June 27, 1992, plus \$1,000 for each Board meeting and each committee meeting attended. Directors are also reimbursed for out-of-pocket expenses incurred in attending Board and committee meetings.

Directors may defer all or any part of their retainer or meeting fees pursuant to a deferred compensation plan, amended and restated in May 1987 and further amended in April 1991. Pursuant to the plan, nonemployee directors of the Corporation may elect to defer receipt of all or a specified portion of their compensation in the form of cash, with an interest rate related to Treasury bills, or in the form of units, the value of each unit initially being equal to the fair market value of one share of the Common Stock of the Corporation on the date the compensation being deferred would otherwise be payable. The plan provides that compensation deferred under the plan, whether in the form of cash or units, will be paid out in cash after termination of service as a director. Directors may elect that compensation so deferred be paid out in a lump sum or in up to ten annual installments. Payment of compensation deferred under the plan commences in January of the year following the year in which service as a director terminates.

Pursuant to a retirement plan for nonemployee directors adopted in May 1987, each nonemployee director of the Corporation on the date of adoption of the plan, and every other nonemployee director who is 70 years of age or older and who has completed at least five years of service on the Board, is entitled upon termination of service to an annualized benefit for life which is equal to the annual retainer for nonemployee directors in effect on the date of termination of service. The plan also provides for coordinated disability benefits for all nonemployee directors equal to the annual retainer in effect on the date of total disability.

Each nonemployee director of the Corporation also participates in the 1990 Stock Option Plan for Nonemployee Directors ("Nonemployee Directors Plan"), which provides for a one-time grant of an option to purchase 5,000 shares of the Corporation's Common Stock at 100% of the fair market value of the stock on the date of grant. Eligibility for and the grant of options under the Nonemployee Directors Plan is automatic in nature, occurring as of the date of commencement of service as a nonemployee director. The options become exercisable at the rate of 20% per year beginning on the first anniversary of the date the director begins service, with credit given for all past service by directors who were serving as of the date of approval of the Nonemployee Directors Plan. The options expire ten years from the date of grant, unless terminated earlier in accordance with the terms of the Plan. The Nonemployee Directors Plan authorizes the issuance of a maximum of 100,000 shares of Common Stock, and will terminate on December 31, 2000.

Pension Plans

The Corporation and its subsidiaries have pension plans covering substantially all of their employees.

Benefits under the Corporation's defined benefit pension plan (the "Pension Plan") for its U.S. employees are based upon the employee's earnings during service with the Corporation and are payable after retirement in the form of annuities or lump sum benefits. The annual amount payable upon retirement at age 65 is in general 1.5% of the aggregate amount of the participant's compensation earned on and after July 1, 1989. Those persons who were active participants on July 1, 1989, or who later become active participants credited with prior service, are also eligible to receive 1.5% of the average of the participant's annual compensation between July 1, 1984 and July 1, 1989, multiplied by the number of years of accredited service prior to July 1, 1989. For purposes of calculating a participant's pension benefit, annual compensation for plan years commencing after December 31, 1988 is limited to \$200,000, subject to adjustment to reflect cost of living increases. A participant's annual pension may

not exceed the lesser of the maximum allowable dollar limit, or 100% of the participant's average compensation for the participant's three highest paid consecutive years of service with the Corporation.

The Digital Equipment Corporation Restoration Pension Plan (the "Restoration Plan"), adopted effective as of May 1, 1992, compensates the Corporation's employees for reductions in the benefits calculated under the Pension Plan due to legislative and regulatory limitations. The Restoration Plan provides additional retirement compensation equal to the difference between the benefit a participant would receive under the Pension Plan without the legislative and regulatory limitations and the benefit actually payable to the participant under the Pension Plan.

Employees outside the United States are covered by different pension plans varying from country to country.

Estimated annual retirement benefits at age 65 based on projected or, in the case of Mr. Olsen, actual eligible compensation for the following individuals would be: Mr. Olsen, \$439,303; Mr. Smith, \$311,704; Mr. Hindle, \$209,271; Mr. Hoffmann, \$43,298 and Mr. Sims, \$103,830.

Stock Options and Awards

The following table shows as to certain named executive officers, and as to all current executive officers as a group including the named executive officers: (i) the number of shares of the Corporation's Common Stock for which options were granted under the Corporation's 1990 Equity Plan on and between June 30, 1991 and June 27, 1992; (ii) the average per share option exercise price thereof and the average per share market price of the Corporation's Common Stock on the dates of grant thereof; (iii) the net value of shares acquired on and between June 30, 1991 and June 27, 1992 upon the exercise of options granted during the period or prior thereto; and (iv) the number of shares of the Corporation's Common Stock awarded as restricted stock under the 1990 Equity Plan on and between June 30, 1991 and June 27, 1992. The Corporation has not awarded stock appreciation rights under its stock plans.

<u>Shares of Common Stock</u>	<u>K.H. Olsen</u>	<u>J.F. Smith</u>	<u>W.R. Hindle</u>	<u>M.R. Hoffmann</u>	<u>J.L. Sims</u>	<u>All 15 Executive Officers as a Group (1)</u>
Options Granted 6/30/91 through 6/27/92(2)(3)						
Number of shares	130,000	100,000	20,000	30,000	40,000	563,000
Average per share exercise price	\$55.75	\$55.75	\$55.75	\$55.75	\$55.75	\$55.77
Average per share price on dates of grant	\$55.75	\$55.75	\$55.75	\$55.75	\$55.75	\$55.77
Options Exercised 6/30/91 through 6/27/92						
Number of shares	-0-	-0-	-0-	-0-	3,880	24,220
Net value realized upon exercise (4)	-0-	-0-	-0-	-0-	\$143,985	\$545,003
Restricted Stock Awarded 6/30/91 through 6/27/92(5)						
Number of shares	-0-	-0-	-0-	-0-	-0-	27,050

(1) Information is shown for all persons who were executive officers of the Corporation at any time during the fiscal year ended June 27, 1992.

(2) Of the 563,000 shares of Common Stock for which stock options were granted to all executive officers as a group in fiscal year 1992, 560,000 shares (and all shares designated for the named executive officers) were subject to performance options with terms of five years and 90 days. The options vest at a rate of 20% per year, but may not be exercised unless the Corporation's stock price averages at least \$100 over 90 consecutive trading days. The options expire upon termination of employment with the Corporation. As Mr. Olsen has announced his retirement from the Corporation effective October 1, 1992, as of such date, his performance option will expire.

(3) In July 1992, restricted stock options were granted to executive officers and other employees under the Corporation's 1990 Equity Plan. Such options are exercisable in full on the date of grant, but shares purchased are subject to restrictions against disposition and repurchase at the option of the Corporation at the exercise price, unless such restrictions have lapsed. Such restrictions lapse over the life of the grant or such shorter period as may be

specified by the Compensation and Stock Option Committee of the Board of Directors, whether or not the option has been exercised. See "Description of the 1990 Equity Plan." Such options were granted to the named executive officers as follows: Mr. Smith, 25,000 shares; Mr. Hindle, 5,000 shares; Mr. Hoffmann, 8,000 shares and Mr. Sims, 10,000 shares. Restricted stock options for 175,500 shares were granted to all executive officers as a group.

(4) The net value realized upon exercise of options is the difference between the market value of the shares received upon exercise and the exercise price thereof.

(5) Awards of restricted stock were made under the Corporation's 1990 Equity Plan, subject to restrictions against disposition and an obligation to forfeit the shares if the officer's employment with the Corporation terminates prior to the time the restrictions lapse. Such restrictions lapse over periods of six months to five years. See "Description of the 1990 Equity Plan."

On September 8, 1992, the closing price of the Corporation's Common Stock on the New York Stock Exchange was \$35.63.

Stock Plans

The Corporation has adopted several stock incentive plans to attract and retain employees, as more specifically described below.

Description of the 1990 Equity Plan

In 1990, the Board of Directors and the stockholders adopted the 1990 Equity Plan (the "Equity Plan"), which is the Corporation's principal equity incentive plan for employees of the Corporation and its subsidiaries. As of August 1, 1992, approximately 11,950 employees were participating in the Equity Plan. The Equity Plan is administered by the Compensation and Stock Option Committee of the Board of Directors (the "Committee"), and authorizes the grant of awards through December 31, 1995.

Employees, including officers, of the Corporation or any of its subsidiaries are eligible to receive awards under the Equity Plan. Directors who are also employees are eligible to receive awards if they are not members of the Committee. Awards may be granted to the same employee on more than one occasion.

The maximum number of shares of the Corporation's Common Stock available for grants of awards under the Equity Plan at its date of adoption for use during the fiscal year ended June 29, 1991 was 5,673,660. Subject to adjustment for stock dividends, stock splits and similar

events, the maximum number of shares of the Corporation's Common Stock available for grants of awards for each fiscal year subsequent to the fiscal year ended June 29, 1991, but prior to the beginning of the fiscal year commencing on June 29, 1996, is 1.5% of the issued shares of the Corporation's Common Stock (including treasury shares) as of the first day of such fiscal year. As of June 28, 1992, 1.5% of the issued shares of the Corporation's Common Stock equaled 1,950,123 shares.

All shares of Common Stock available for grants of awards in any fiscal year (or portion thereof) that are not used for the grant of awards in such fiscal year are available for use in subsequent years. Shares subject to any unexercised or undistributed portion of any terminated, expired or forfeited award also are available for further award under the Equity Plan. Notwithstanding the foregoing, the total number of shares that may be delivered pursuant to the exercise of ISOs (as defined below) granted under the Equity Plan cannot exceed 5,000,000 shares and the total number of shares that are cumulatively available for Restricted Stock Awards, Unrestricted Stock Awards and Stock Unit Awards (all as defined below) cannot exceed 5,000,000 shares.

The Equity Plan permits the grant of stock options that qualify as incentive stock options ("ISOs") under the Internal Revenue Code of 1986, as amended (the "Code"), and options that do not so qualify ("NQOs"). The exercise price of each option is determined by the Committee, but in the case of ISOs, cannot be less than the fair market value of the stock on the date of grant, and in the case of NQOs cannot be less than the lesser of (i) 50% of the fair market value of the Common Stock on the date of grant or (ii) the book value per share as of the end of the fiscal year immediately preceding the date of grant.

The Committee determines at what time or times options may be exercised and the manner of payment for the options, the term of each option (except that in the case of ISOs, the term may not exceed ten years) and the restrictions, if any, applicable to options or the shares of Common Stock subject to options. NQOs have been granted under the Equity Plan, with a restriction against disposition of the shares and a requirement to offer them for resale to the Corporation at their purchase price upon termination of employment. The restriction against disposition and obligation of resale lapse from time to time as to portions of the grant (whether or not the option has been exercised), as determined by the Committee. NQOs granted to U.S. employees generally are exercisable immediately and only while the holder is employed by the Corporation or a subsidiary or after retirement with the consent of the Corporation, and terminate not more than 10 years and 90 days from the date of grant. Certain

performance NQOs have also been granted to certain members of senior management. For a description of these NQOs, see Note 2 to the stock option table on page 13.

The Committee may also award shares of Common Stock subject to restrictions ("Restricted Stock Awards") under the Equity Plan, as well as shares of Common Stock which are free from any restrictions ("Unrestricted Stock Awards"). Restricted Stock Awards entitle the recipient to acquire shares of restricted stock subject to restrictions against disposition and an obligation of resale to the Corporation and such other restrictions, conditions and contingencies as determined by the Committee. The Committee may provide that the Common Stock deliverable or issuable pursuant to any award (including options) granted under the Equity Plan will be restricted.

The Equity Plan also authorizes the grant of stock appreciation rights ("SARs"), either separately from, in combination with, or in tandem with other awards granted under the Plan. Upon exercise, the holder of an SAR is entitled to receive with respect to each share of Common Stock to which the SAR relates, an amount, in cash or restricted or unrestricted Common Stock, or a combination thereof (at the Committee's discretion) equal to the excess of the fair market value per share of the Corporation's Common Stock on the date of exercise over the award price per SAR. The award price is determined by the Committee and cannot be less than the minimum exercise price for NQOs described above.

The Equity Plan also authorizes the grant of awards which entitle the recipient to receive, without payment, stock units in the form of phantom shares of stock ("Stock Units"). The Stock Units are valued at the Committee's discretion in whole or in part by reference to the fair market value of the Corporation's Common Stock and are payable in shares of Common Stock or cash, or any combination thereof, at the discretion of the Committee. The Committee may also determine the terms and conditions applicable to Stock Units, including any restrictions, conditions or contingencies, which may be related to personal, corporate or other categories of performance.

The Board of Directors may at any time terminate the Equity Plan or suspend the grant of awards under the Equity Plan. The Board may amend the Equity Plan or any outstanding award at any time for any lawful purpose, provided that no amendment, without the approval of the Corporation's stockholders, can increase the maximum number of shares that may be issued under the Equity Plan or issued in the aggregate pursuant to certain kinds of awards, and no amendment, without stockholder approval (where such approval would be necessary to satisfy applicable securities or tax law or stock exchange rules), can extend the period

during which awards may be granted or change the group of persons eligible to receive awards under the Equity Plan.

As of August 1, 1992, under the Equity Plan, 953,970 shares of restricted stock had been awarded, no options granted had been exercised and options for 6,085,635 shares (including options granted in July 1992), at an average exercise price per share of \$61.15, were outstanding with expiration dates ranging from June 3, 2001 to October 20, 2002. At the beginning of fiscal year 1993, the total number of shares available under the Equity Plan for the grant of awards during the fiscal year was 3,721,621.

Description of the 1985 Restricted Stock Option Plan

In 1985 the Board of Directors and the stockholders adopted the 1985 Restricted Stock Option Plan (the "1985 Plan"). The authority to grant additional options under the 1985 Plan expired upon the adoption by the stockholders of the Equity Plan in November 1990.

The 1985 Plan authorized the grant of non-transferable options to purchase the Corporation's Common Stock to key employees of the Corporation and its subsidiaries (including officers) and consultants, coupled with a prohibition against disposition of such shares and a requirement to offer such shares for resale to the Corporation at their purchase price upon termination of employment. The restriction against disposition and obligation of resale lapse from time to time as to portions of the grant (whether or not the option has been exercised), as determined by the Board of Directors or the Committee, which administers and interprets the 1985 Plan. Options granted to U.S. employees generally are currently exercisable, are exercisable only while the holder is employed by the Corporation or a subsidiary or after retirement with the consent of the Corporation (unless otherwise agreed by the Corporation), and terminate not more than 10 years and 90 days from the date of grant.

Subject to the terms of the 1985 Plan, the Committee had authority to select the employees to whom options were granted, to determine the number of shares subject to such options, the time or times when options were to be granted, the rate and time of lapse of restrictions, and other terms. The exercise price of options granted under the 1985 Plan was specified by the Board of Directors, and was in no event less than the lower of (i) 50% of the fair market value per share at the date of grant or (ii) the book value per share as of the end of the Corporation's fiscal year immediately preceding the grant date.

Options granted under the 1985 Plan are non-statutory stock options and are taxed in accordance with Section 83 of the Code, and the regulations issued thereunder. Options granted under the 1985 Plan do not qualify as "incentive stock options" under the Code.

As of August 1, 1992, options for 638,459 shares had been exercised under the 1985 Plan at an average exercise price per share of \$57.12, and options for 11,064,710 shares at an average exercise price per share of \$91.02 were outstanding with expiration dates ranging from February 6, 1996 to November 11, 2000.

Description of the 1976 Restricted Stock Option Plan

In 1976 the Board of Directors and the stockholders adopted the 1976 Restricted Stock Option Plan (the "1976 Plan"). The authority to grant additional options under the 1976 Plan expired upon the adoption by the stockholders of the 1985 Plan in November 1985. The terms and conditions of the 1976 Plan are substantially the same as the 1985 Plan.

As of August 1, 1992, options for 8,907,791 shares had been exercised under the 1976 Plan at an average exercise price per share of \$23.30 and options for 4,863,306 shares at an average exercise price per share of \$34.34 were outstanding with expiration dates ranging from August 22, 1992 to December 22, 1995.

Description of the 1968 Employee Stock Purchase Plan

In 1968 the Board of Directors and the stockholders adopted the 1968 Employee Stock Purchase Plan (the "Employee Plan") for substantially all employees of the Corporation and its participating subsidiaries, other than directors of the Corporation. At August 1, 1992, approximately 63,280 employees were eligible to participate in the Employee Plan, and approximately 33,510 employees were participating.

The Employee Plan authorizes the issuance of a maximum of 33,500,000 shares of Common Stock. The Employee Plan permits employees to purchase shares of the Corporation's Common Stock twice yearly through accumulated payroll deductions, up to a maximum of 10% of regular base pay. The six-month periods June 1 to November 30 and December 1 to May 31 are the payment periods ("Payment Period") during which payroll deductions are accumulated under the Employee Plan. The price at which shares are purchased is an amount equal to 85% of the fair market value of the stock on the first or last business day of the applicable six-month Payment Period, whichever is lower.

The Board of Directors may terminate or amend the Employee Plan, provided that no amendment shall, without stockholder approval, increase the number of shares of Common Stock to be offered under the Plan or change the class of employees eligible to participate in the Plan.

During the period June 30, 1991 through June 27, 1992, executive officers of the Corporation purchased shares under the Employee Plan as follows: Mr. Sims, 488 shares; and all executive officers as a group, 2,868 shares.

At August 1, 1992, 26,867,943 shares had been purchased by employees under the Employee Plan and 6,632,057 shares remained available.

Description of the 1981 International Employee Stock Purchase Plan

In 1981 the Board of Directors and the stockholders adopted the 1981 International Employee Stock Purchase Plan (the "International Plan"). A total of 5,900,000 shares of Common Stock in the aggregate may be sold under the International Plan. At August 1, 1992, approximately 38,400 employees were eligible to participate in the International Plan, and approximately 15,630 employees were participating.

The provisions of the International Plan are substantially the same as the Employee Plan described above. The International Plan was adopted in order to extend the benefits of the Employee Plan to employees (other than directors of the Corporation) of selected non-U.S. subsidiaries of the Corporation or branches thereof. The International Plan is not intended to be a tax qualified plan under the Code.

The Board of Directors may terminate or amend the International Plan, provided that no amendment shall, without stockholder approval, increase the number of shares of Common Stock to be offered under the Plan or change the class of employees eligible to participate in the Plan.

During the period June 30, 1991 through June 27, 1992, none of the executive officers named on page 9 purchased shares under the International Plan, and all executive officers as a group purchased a total of 1,762 shares.

At August 1, 1992, 3,555,697 shares had been purchased under the International Plan and 2,344,303 shares remained available.

RATIFICATION OF SELECTION OF AUDITORS

The Audit Committee of the Board of Directors has selected the firm of Coopers & Lybrand, independent accountants, to serve as auditors for the fiscal year ending July 3, 1993, subject to ratification by the stockholders. Coopers & Lybrand has served as the Corporation's auditors since the organization of the Corporation.

The Board of Directors recommends a vote **FOR** ratification of this selection.

It is expected that a member of the firm of Coopers & Lybrand will be present at the Meeting, will have an opportunity to make a statement if so desired and will be available to respond to appropriate questions.

EXPENSES AND SOLICITATION

The cost of solicitation of proxies will be borne by the Corporation. In addition to soliciting stockholders through its regular employees, the Corporation may request banks and brokers to solicit customers of theirs who have shares of Common Stock of the Corporation registered in the name of a nominee. The Corporation will reimburse such banks and brokers for their reasonable out-of-pocket costs, at the rates suggested by the New York Stock Exchange. Solicitation by officers and employees of the Corporation may also be made of some stockholders in person, or by mail, telephone or telegraph, following the original solicitation. Georgeson & Company Inc., New York, New York, has been retained by the Corporation to assist with the solicitation of proxies at a cost to the Corporation estimated not to exceed \$15,000.

STOCKHOLDER PROPOSALS FOR NEXT ANNUAL MEETING

Proposals of stockholders intended for inclusion in the proxy statement to be mailed to all stockholders entitled to vote at the 1992 Annual Meeting of Stockholders of the Corporation must be received at the Corporation's principal executive offices not later than May 17, 1993. In order to curtail controversy as to the date on which a proposal was received by the Corporation, proponents should submit their proposals by Certified Mail — Return Receipt Requested.

September 14, 1992

digital

DIGITAL EQUIPMENT CORPORATION

NOTICE OF 1993 ANNUAL MEETING

Dear Fellow Stockholder:

September 14, 1993

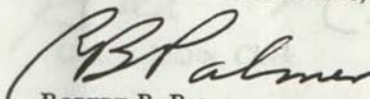
You are cordially invited to attend our Annual Meeting of Stockholders, which will be held this year on Thursday, November 4, 1993, at 11:00 A.M., at the World Trade Center, Commonwealth Pier, 164 Northern Avenue, Boston, Massachusetts.

The notice of meeting and proxy statement which follow describe the business to be conducted at the meeting. We will also give a presentation on the current status of our business.

We are very pleased that Kathleen F. Feldstein, a noted economist, became a member of our Board on June 17, 1993 and is a nominee for election to our Board for the first time. We are also pleased that Delbert C. Staley, former Chairman and Chief Executive Officer of NYNEX Corporation, will become a member of our Board on September 16, 1993. William H. McLean will be retiring from the Board of Directors when his term expires this year, and is therefore not a nominee for election. He has served on our Board for 26 years. We are grateful to him for his many contributions to Digital over the years and we will miss his participation on the Board.

Whether or not you plan to attend the meeting in person, it is important that your shares be represented and voted. After reading the enclosed Notice of Annual Meeting and Proxy Statement, may I urge you to complete, sign, date and return your proxy ballot in the envelope provided. If the address on the accompanying material is incorrect, please advise our Investor Services Department in writing at 111 Powdermill Road, Maynard, Massachusetts 01754.

For the Board of Directors,



ROBERT B. PALMER

President and Chief Executive Officer

DIGITAL EQUIPMENT CORPORATION, 146 MAIN STREET, MAYNARD, MASSACHUSETTS 01754

**YOUR VOTE IS IMPORTANT.
PLEASE SIGN, DATE AND RETURN YOUR PROXY.**

DIGITAL EQUIPMENT CORPORATION

NOTICE OF 1993 ANNUAL MEETING

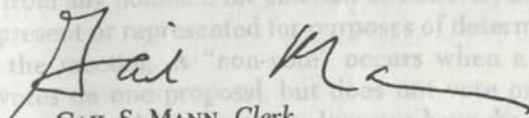
To the Stockholders of DIGITAL EQUIPMENT CORPORATION:

Notice is hereby given that the Annual Meeting of Stockholders of Digital Equipment Corporation, a Massachusetts corporation, will be held on Thursday, November 4, 1993, at 11:00 A.M., at the World Trade Center, Commonwealth Pier, 164 Northern Avenue, Boston, Massachusetts, for the following purposes:

1. To elect three members to the Board of Directors to serve for a three-year term as Class I Directors.
2. To approve an amendment to the 1968 Employee Stock Purchase Plan to increase the number of shares subject thereto by 5,300,000 shares.
3. To approve an amendment to the 1981 International Employee Stock Purchase Plan to increase the number of shares subject thereto by 4,200,000 shares.
4. To approve an amendment to the Corporation's Restated Articles of Organization to authorize the issuance of preferred stock.
5. To ratify the selection of the firm of Coopers & Lybrand as auditors for the fiscal year ending July 2, 1994.
6. To transact such other business as may properly come before the meeting.

Stockholders entitled to notice of and to vote at the meeting shall be determined as of the close of business on September 7, 1993, the record date fixed by the Board of Directors for such purpose.

By Order of the Board of Directors,



GAIL S. MANN, Clerk

September 14, 1993

Stockholders are requested to sign the enclosed proxy card and return it promptly in the enclosed postage paid envelope to Digital Equipment Corporation, P.O. Box 1006, New York, New York 10269.

PROXY STATEMENT

INTRODUCTION

Proxies in the form enclosed with this proxy statement are solicited by the Board of Directors of Digital Equipment Corporation (the "Corporation") for use at the 1993 Annual Meeting of Stockholders (the "Meeting").

An Annual Report to Stockholders, containing financial statements for the fiscal year ended July 3, 1993, has been sent to all stockholders entitled to vote. This proxy statement and form of proxy were first sent to stockholders on or about the date of the accompanying Notice of 1993 Annual Meeting.

Only stockholders of record as of the close of business on September 7, 1993 will be entitled to vote at the Meeting and any adjournments thereof. As of that date, 135,009,330 shares of Common Stock of the Corporation (excluding treasury shares) were issued and outstanding. Each share outstanding as of the record date will be entitled to one vote, and stockholders may vote in person or by proxy. Execution of a proxy will not in any way affect a stockholder's right to attend the meeting and vote in person. Any stockholder giving a proxy has the right to revoke it at any time before it is exercised by written notice to the Clerk of the Corporation. In addition, stockholders attending the Meeting may revoke their proxies at that time.

The representation in person or by proxy of at least a majority of the outstanding shares of Common Stock entitled to vote at the meeting is necessary to constitute a quorum for the transaction of business. Votes withheld from any nominee for election as director, abstentions and broker "non-votes" are counted as present or represented for purposes of determining the presence or absence of a quorum for the meeting. A "non-vote" occurs when a nominee holding shares for a beneficial owner votes on one proposal, but does not vote on another proposal because, in respect of such other proposal, the nominee does not have discretionary voting power and has not received instructions from the beneficial owner. An automated system administered by the Corporation's solicitation agent tabulates the votes. The vote on each matter submitted to stockholders is tabulated separately. Abstentions are included in the number of shares present or represented and voting on each matter. Broker "non-votes" are not so included.

The persons named as attorneys in the proxies are directors and/or officers of the Corporation. All properly executed proxies returned in time to be cast at the Meeting, if no contrary instruction is indicated, will be voted as stated below under "Election of Directors." In addition to the election of Class I Directors, the stockholders will consider and vote upon proposals to (i) approve an amendment to the 1968 Employee Stock Purchase Plan to increase the number of shares available for issuance thereunder, (ii) approve an amendment to the 1981 International Employee Stock Purchase Plan to increase the number of shares available for issuance thereunder; (iii) approve an amendment to the Corporation's Restated Articles of Organization to authorize the issuance of preferred stock and (iv) ratify the selection of auditors. Where a choice has been specified on the proxy with respect to these matters, the shares represented by the proxy will be voted in accordance with the specification and will be voted FOR if no specification is indicated. Directors are elected by a plurality of votes cast, the affirmative vote of two-thirds of the outstanding shares of Common Stock of the Corporation is required for approval of the amendment to the Restated Articles of Organization and the affirmative vote of a majority of the shares present or represented at the meeting and voting on such matter is required for approval of the other matters.

The Corporation knows of no other matter to be presented at the Meeting. If any other matter should be presented at the Meeting upon which a vote properly may be taken, shares represented by all proxies received by the Corporation will be voted with respect thereto in accordance with the judgment of the persons named as attorneys in the proxies.

ELECTION OF DIRECTORS

The Board of Directors of the Corporation is divided into three classes. Each class serves three years, with the terms of office of the respective classes expiring in successive years. The directors in Class II will be nominees for election to three-year terms at the 1994 Annual Meeting of Stockholders and the directors in Class III will be nominees for election to three-year terms at the 1995 Annual Meeting of Stockholders.

The present term of office for the directors in Class I ("Class I Directors") expires at the Meeting. Philip Caldwell was last elected at the Annual Meeting of Stockholders held November 1, 1990 and is a nominee for re-election to a three-year term as a Class I Director. Robert B. Palmer was elected to the Board on July 22, 1992 and Kathleen F. Feldstein was elected to the Board on June 17, 1993. Mr. Palmer and Dr. Feldstein are nominees for election for the first time to a three-year term as Class I Directors. If re-elected or elected, as the case may be, the Class I Director nominees will hold office until the Annual Meeting of Stockholders.

ers to be held in 1996 and until their successors have been duly elected and have qualified. Shares represented by all proxies received by the Board of Directors and not so marked as to withhold authority to vote for any individual nominee will be voted (unless one or more nominees are unable or unwilling to serve) for the election of all nominees for Class I Directors. The Board of Directors knows of no reason why any such nominee should be unable or unwilling to serve, but if such should be the case, proxies will be voted for the election of some other person or the Board of Directors will fix the number of directors at a lesser number.

Set forth below is information with respect to each nominee for a Class I Director to be elected at the Meeting and for each Class II Director and Class III Director. With the exception of Mr. Palmer, Dr. Feldstein and Mr. Staley, all of the directors were previously elected by the stockholders.

Nominees to Serve as Directors for a Three-Year Term Expiring at the 1996 Annual Meeting (Class I Directors)

PHILIP CALDWELL

Mr. Caldwell, age 73, has been Senior Managing Director of Lehman Brothers Inc. ("Lehman Brothers") since May 1985. He succeeded Mr. Henry Ford II as Chief Executive Officer of Ford Motor Company in 1979 and as Chairman in 1980. He retired as Chairman and Chief Executive Officer in 1985 and from the Board in 1990. He is a director of The Mexico Fund, Inc., Zurich Reinsurance Center Holdings, Inc., Zurich Holding Co. of America Inc., American Guarantee and Liability Insurance Co., and Russell Reynolds Associates, Inc. He is also a trustee of several cultural and educational organizations. He has served as a director of The Chase Manhattan Corporation and The Chase Manhattan Bank, N.A., Federated Department Stores, Inc., and the Kellogg Company, Inc. He has been a director of the Corporation since 1980 and is Chairman of its Audit Committee and a member of its Compensation and Stock Option Committee.

KATHLEEN F. FELDSTEIN

Dr. Feldstein, age 52, has been President of Economics Studies, Inc., a private economics consulting firm, since 1987. Dr. Feldstein is presently a director of Bank America Corporation, Conrail Corporation, John Hancock Mutual Life Insurance

Company and Kleinwort Benson Australian Income Fund, Inc. Dr. Feldstein was elected a director of the Corporation by the Board of Directors on June 17, 1993.

ROBERT B. PALMER

Mr. Palmer, age 53, has been President and Chief Executive Officer of the Corporation since October 1, 1992. Mr. Palmer joined the Corporation in 1985 and served as Vice President, Semiconductor and Interconnect Technology until 1990, and as Vice President, Manufacturing, Logistics and Component Engineering from 1990 to 1992. From 1983 to 1985, he was Executive Vice President of Semiconductor Operations at Mostek Corporation ("Mostek"), a subsidiary of United Technologies Corporation. Mr. Palmer was a co-founder of Mostek, where he held a series of senior management positions prior to its acquisition in 1980 by United Technologies Corporation. Mr. Palmer has been a director of the Corporation since July 1992.

Directors Serving a Term Expiring at the 1994 Annual Meeting (Class II Directors)

VERNON R. ALDEN

Mr. Alden, age 70, was Chairman of the Board and Executive Committee of The Boston Company, Inc., a financial services company, from 1969 to 1978. He was President of Ohio University from 1962 to 1969. Mr. Alden is also a director of Augat, Inc., Colgate-Palmolive Company, Intermet Corporation, McGraw-Hill, Inc. and Sonesta International Hotels Corporation. He is also a trustee of several cultural and educational organizations. He has been a director of the Corporation since 1959 and is a member of its Compensation and Stock Option Committee and Nominating Committee.

ROBERT R. EVERETT

Mr. Everett, age 72, is an engineering consultant. He retired as President of the Mitre Corporation, a federal contract research center, in 1986. Mr. Everett has been a director of the Corporation since 1986.

THOMAS L. PHILLIPS

Mr. Phillips, age 69, retired as Chairman of the Board and Chief Executive Officer of Raytheon Company ("Raytheon") in March 1991, having served as Chief Executive

Officer since 1968, and as Chairman of the Board since 1975. He has been a director of Raytheon since 1962. Mr. Phillips is also a director of the John Hancock Mutual Life Insurance Company, State Street Research and Management Co. and Knight-Ridder, Inc. Mr. Phillips has been a director of the Corporation since 1991. He is Chairman of the Corporation's Compensation and Stock Option Committee and a member of its Nominating Committee.

DELBERT C. STALEY

Mr. Staley, age 69, was Chairman, Chief Executive Officer and a director of NYNEX Corporation ("NYNEX") from 1983 until his retirement in September 1989. He continued serving as a director of NYNEX and served as Chairman of NYNEX International Management Committee from October 1989 to October 1991. Mr. Staley is a director of Allied Signal, Inc., Ball Corporation, The Bank of New York, The Bank of New York Company, Dean Foods Company, John Hancock Mutual Life Insurance Company and Polaroid Corporation. Mr. Staley was elected a director by the Board of Directors effective September 16, 1993.

Directors Serving a Term Expiring at the 1995 Annual Meeting (Class III Directors)

COLBY H. CHANDLER

Mr. Chandler, age 68, retired as the Chairman of the Board and Chief Executive Officer of Eastman Kodak Company ("Kodak") in May 1990. Prior to that time he had been Chief Executive Officer, Chairman of the Board and Chairman of the Executive Committee of Kodak since July 1983. He assumed the presidency of Kodak in January 1977. Mr. Chandler was a director of Kodak from 1974 to 1993. He is also a director of Citicorp, Ford Motor Company and J. C. Penney Company, Inc. Mr. Chandler has been a director of the Corporation since 1989 and is a member of its Audit Committee and Nominating Committee.

ARNAUD DE VITRY

Mr. de Vitry, age 67, is an engineering consultant. From 1980 to 1990, Mr. de Vitry was Chairman of the Board and Chief Executive Officer of Eureka SICAV, France, an investment company. He is a director of Ionics, Incorporated and Schlumberger Limited. Mr. de Vitry has been a director of the Corporation since 1957 and is Chairman of its Nominating Committee.

THOMAS P. GERRITY

Dr. Gerrity, age 52, has served as Dean of the Wharton School of the University of Pennsylvania since July 1990. From 1969 to 1989, Dr. Gerrity was chief executive officer of Index Group, Inc. ("Index"), an information technology consulting company he founded. In 1988, Index became part of Computer Sciences Corporation ("CSC") and Dr. Gerrity was subsequently appointed president of CSC's commercial professional services group, CSC Consulting. Dr. Gerrity is presently a director of the Federal National Mortgage Association and Sun Company, Inc. He has been a director of the Corporation since January 1992 and is a member of the Corporation's Compensation and Stock Option Committee and Nominating Committee.

Security Ownership of Directors and Executive Officers

Shown below is certain information as of August 1, 1993 with respect to beneficial ownership of shares of the Corporation's Common Stock by each director (including the three nominees for Class I Directors and including Mr. Staley, who has been elected a Class II director effective September 16, 1993), by each executive officer named in the Summary Compensation Table set forth on page 12 and by all directors and executive officers as a group. Unless otherwise indicated, the named person or members of the group possess sole voting and investment power with respect to the shares.

<u>Beneficial Owner</u>	<u>Shares Beneficially Owned</u>
Vernon R. Alden	56,064(1) (2)
Philip Caldwell	6,200(1)
Colby H. Chandler	4,016(3)
Colby H. Chandler	8,000(4)
Arnaud de Vitry	1,587(3)
Arnaud de Vitry	113,260(1) (5)
Kathleen F. Feldstein	1,000
Robert R. Everett	6,300(1)
Robert R. Everett	1,502(3)
Thomas P. Gerrity	8,000(6)
William H. McLean	7,400(1)
Robert B. Palmer	390,144(7)
Thomas L. Phillips	7,000(8)
Delbert C. Staley	1,000

Beneficial OwnerShares Beneficially Owned

Winston R. Hindle	150,669(9)
Richard Poulsen	35,025(10)
William M. Steul	26,976(11)
William D. Strecker	65,146(12)
All directors and executive officers as a group (32 persons)	1,411,124(13) 7,105(3)

(1) Includes 5,000 shares which the director has the right to acquire by exercise of a stock option granted pursuant to the Corporation's 1990 Stock Option Plan for Nonemployee Directors ("Nonemployee Directors Plan").

(2) Includes 22,944 shares held by Mr. Alden's wife, as to which shares Mr. Alden disclaims beneficial ownership.

(3) Represents Common Stock units under the directors' deferred compensation plan described on page 11. Under the plan, nonemployee directors may elect to defer receipt of all or a portion of their compensation in the form of Common Stock units. Common Stock units carry no voting rights.

(4) Includes 3,000 shares which Mr. Chandler has the right to acquire by exercise of a stock option granted pursuant to the Corporation's Nonemployee Directors Plan.

(5) Includes 104,660 shares held by Mr. de Vitry's wife, as to which shares Mr. de Vitry disclaims beneficial ownership.

(6) Includes 1,000 shares which Dr. Gerrity has the right to acquire by exercise of a stock option granted pursuant to the Corporation's Nonemployee Directors Plan.

(7) Includes 378,300 shares which Mr. Palmer has the right to acquire by exercise of stock options, 355,200 of which are subject to restrictions on disposition which lapse over time. Also includes 8,000 shares awarded as restricted stock under the Corporation's 1990 Equity Plan.

(8) Includes 2,000 shares which Mr. Phillips has the right to acquire by exercise of a stock option granted pursuant to the Corporation's Nonemployee Directors Plan.

(9) Includes 46,000 shares which Mr. Hindle has the right to acquire by exercise of stock options, 19,840 of which are subject to restrictions on disposition which lapse over time. Also includes 11,000 shares held by Mr. Hindle's wife, as to which shares Mr. Hindle disclaims beneficial ownership.

(10) Includes 33,800 shares which Mr. Poulsen has the right to acquire by exercise of stock options, 24,850 of which are subject to restrictions on disposition which lapse over time. As of the beginning of fiscal year 1994, Mr. Poulsen, an officer of the Corporation, is no longer an executive officer of the Corporation.

(11) Includes 25,860 shares which Mr. Steul has the right to acquire by exercise of stock options, 19,770 of which are subject to restrictions on disposition which lapse over time.

(12) Includes 54,800 shares which Mr. Strecker has the right to acquire by exercise of stock options, 42,500 of which are subject to restrictions on disposition which lapse over time. Also includes 1,631 shares held by Mr. Strecker's wife, as to which shares Mr. Strecker disclaims beneficial ownership. In addition, includes 8,000 shares awarded as restricted stock under the Corporation's 1990 Equity Plan.

(13) The group is comprised of the individuals named in the Summary Compensation Table on page 12, those persons who were directors and executive officers of the Corporation on August 1, 1993 and Mr. Staley, elected a director effective September 16, 1993. Includes 1,083,145 shares which the directors and executive officers as a group have the right to acquire by exercise of stock options granted under the Corporation's stock plans, 892,635 of which are subject to restrictions on disposition which lapse over time. In addition, includes 141,141 shares held by family members of officers or directors, as to which shares the applicable officer or director disclaims beneficial ownership. Also includes a total of 71,000 shares awarded as restricted stock under the Corporation's 1990 Equity Plan. These 1,411,124 shares represent approximately 1% of the Corporation's issued and outstanding Common Stock, assuming exercise of the stock options.

No director or executive officer owns more than 1% of the Common Stock.

Based on a review of the forms and written representations received by the Corporation pursuant to Section 16(a) of the Securities Exchange Act of 1934, the Corporation believes that during the period June 28, 1992 through July 3, 1993, the directors and executive officers complied with all applicable Section 16 filing requirements except that a report for Donald P. Zereski, a former Vice President, was filed one month late with respect to a transfer which occurred after he left the Corporation, and a report for William D. Strecker, a Vice President, was filed one month late with respect to a transaction completed by his wife.

Security Ownership of Certain Beneficial Owners

The following table sets forth information as of the most recent practicable date as to the group, who to the knowledge of management, beneficially owned more than 5% of the shares of Common Stock of the Corporation.

<u>Name and Address of Beneficial Owner</u>	<u>Amount and Nature of Beneficial Ownership</u>	<u>Percent of Class</u>
The Capital Group, Inc. 33 South Hope Street Los Angeles, California 90071	6,922,720 (1)	5.4%

(1) The Capital Group, Inc. disclaims beneficial ownership of all of such shares. Certain operating subsidiaries of The Capital Group, Inc. exercised investment discretion over various institutional accounts which held as of December 31, 1992, 6,922,720 shares of the Corporation's Common Stock. Capital Guardian Trust Company, a bank, and one of such operating companies, exercised investment discretion over 1,024,830 of said shares. Capital Research and Management Company, a registered investment adviser, and Capital International Limited, Capital International, S.A. and Capital International K.K., other operating subsidiaries, had investment discretion with respect to 5,584,090, 29,600, 277,600, and 6,600 of the above shares, respectively.

Certain Relationships and Related Transactions

As previously noted, Philip Caldwell is Senior Managing Director of Lehman Brothers, one of the Corporation's investment bankers. Lehman Brothers performs financial and investment banking services for the Corporation for which it receives usual and customary compensation. Mr. Caldwell's son-in-law is a middle management employee of the Corporation and receives the usual and customary compensation for the position he serves.

In fiscal year 1993, in connection with his offer of employment, the Corporation loaned Enrico Pesatori, Vice President, \$150,000 for the purchase of a principal residence in connection with his relocation to the Boston area. If Mr. Pesatori were no longer to be employed by the Corporation, such loan would bear interest at the minimum rate necessary to avoid imposition of interest income under the United States Internal Revenue Code of 1986, as amended. The loan is secured by a second mortgage. One fifth of the original principal amount of the loan will be forgiven on each anniversary date of the loan if Mr. Pesatori is still employed by the Corporation on each such date.

In fiscal year 1993, in order to provide John E. Klein, Vice President, with pension benefits equivalent to those he would have received from his prior employer had he remained so employed, the Corporation agreed to purchase two annuities, each with a single sum present value of \$250,000 and payable to Mr. Klein on his 57th birthday.

Committees of the Board

The Board of Directors has an Audit Committee, a Compensation and Stock Option Committee and a Nominating Committee. The Audit Committee selects the independent auditors to be employed by the Corporation, subject to ratification by the Corporation's stockholders, reviews generally the internal and external audit plans and the results thereof, and reviews generally the Corporation's internal accounting controls with the internal and external auditors. The members of the Audit Committee are Mr. Caldwell, Chairman, and Messrs. Chandler and McLean.

The Compensation and Stock Option Committee reviews and recommends to the Board the compensation of directors, reviews the compensation of senior management and reviews and recommends to the Board the adoption of any compensation plans in which directors and officers are eligible to participate. The Committee also administers and interprets the Corporation's stock plans and cash incentive plan, and, subject to the provisions of the plans, selects the employees or classes of employees who are to participate in such plans and determines the terms of their participation. The members of the Compensation and Stock Option Committee are Mr. Phillips, Chairman, and Messrs. Alden, Caldwell and Gerrity.

The Nominating Committee is responsible for recommending nominees to the Board of Directors. The members of the Nominating Committee are Mr. de Vitry, Chairman, and Messrs. Alden, Chandler, Gerrity, McLean and Phillips. The Nominating Committee will consider highly qualified candidates proposed in writing by stockholders. Stockholders who wish to propose a nomination should submit the person's name and background information to the Clerk of the Corporation.

The Board of Directors held twelve meetings during the fiscal year ended July 3, 1993, the Audit Committee met five times, the Compensation and Stock Option Committee met seven times and the Nominating Committee met three times. All directors attended more than 75% of the total number of meetings of the Board and the committees on which they serve.

Compensation of Directors

Each director who is not also an employee of the Corporation received a retainer of \$25,000 (or ratable portion thereof) for his or her services during the fiscal year ended July 3,

1993, plus \$1,000 for each Board meeting and each committee meeting attended. Directors are also reimbursed for out-of-pocket expenses incurred in attending Board and committee meetings.

Directors may defer all or any part of their retainer or meeting fees pursuant to a deferred compensation plan. Pursuant to the plan, nonemployee directors of the Corporation may elect to defer receipt of all or a specified portion of their compensation in the form of cash, with an interest rate related to Treasury bills, or in the form of units, the value of each unit initially being equal to the fair market value of one share of the Common Stock of the Corporation on the date the compensation being deferred would otherwise be payable. The plan provides that compensation deferred under the plan, whether in the form of cash or units, will be paid out in cash after termination of service as a director. Directors may elect that compensation so deferred be paid out in a lump sum or in up to ten annual installments. Payment of compensation deferred under the plan commences in January of the year following the year in which service as a director terminates.

Pursuant to a retirement plan for nonemployee directors adopted in May 1987, each nonemployee director of the Corporation on the date of adoption of the plan, and every other nonemployee director who is 70 years of age or older and who has completed at least five years of service on the Board, is entitled upon termination of service to an annualized benefit for life which is equal to the annual retainer for nonemployee directors in effect on the date of termination of service. The plan also provides for coordinated disability benefits for all nonemployee directors equal to the annual retainer in effect on the date of total disability.

Each nonemployee director of the Corporation also participates in the 1990 Stock Option Plan for Nonemployee Directors ("Nonemployee Directors Plan"), which provides for a one-time grant of an option to purchase 5,000 shares of the Corporation's Common Stock at 100% of the fair market value of the stock on the date of grant. Eligibility for and the grant of options under the Nonemployee Directors Plan is automatic in nature, occurring as of the date of commencement of service as a nonemployee director. The options become exercisable at the rate of 20% per year beginning on the first anniversary of the date the director begins service, with credit given for all past service by directors who were serving as of the date of approval of the Nonemployee Directors Plan. The options expire ten years from the date of grant, unless terminated earlier in accordance with the terms of the Plan. The Nonemployee Directors Plan authorizes the issuance of a maximum of 100,000 shares of Common Stock, and will terminate on December 31, 2000.

Executive Compensation

Summary Compensation Table

The Summary Compensation Table shows compensation information for the Chief Executive Officer and the four other most highly compensated executive officers for services rendered in all capacities during the three fiscal years most recently ended.

Name and Principal Position		Year	Annual Compensation		Long-Term Compensation			
			Salary (\$)(1)	Bonus (\$)	Other Annual Compensation (\$)(2)	Awards		All Other Compensation (\$)(2)(4)
						Restricted Stock Awards (\$)(3)	Stock Options (#)	
Robert B. Palmer President and Chief Executive Officer(5)		1993	\$738,469(5)	\$ 0	\$ 0	\$ 0	345,000	\$ 9,000
Winston R. Hindle, Jr. Vice President		1993	458,662	0	0	0	5,000	27,000
		1992	455,008	0		0	20,000(6)	
		1991	455,008	0		0	4,000	
Richard Poulsen Vice President		1993	392,662	0	139,135(7)	0	12,000	16,500
		1992	298,856	0		0	30,000(6)	
		1991	284,188	0		0	5,000	
William D. Strecker Vice President		1993	357,704	60,000	0	0	29,000	13,500
		1992	305,019	0		446,000	30,000(6)	
		1991	281,941	0		0	7,000	
William M. Steul Vice President		1993	296,617	0	0	0	10,000	8,400
		1992	202,429	0		21,131	23,000(8)	
		1991	182,000	0		0	3,000	

(1) Reflects salary paid during the 53-week fiscal year ended July 3, 1993.

(2) In accordance with transitional provisions of the Securities and Exchange Commission's ("SEC") rules on executive compensation disclosure, amounts of Other Annual Compensation and All Other Compensation, if any, have not been included for fiscal years 1992 and 1991.

(3) Amount shown for Mr. Strecker represents the dollar value on date of grant of 8,000 shares of restricted stock awarded to Mr. Strecker during fiscal year 1992. The value of these shares at July 2, 1993, the last business day of the fiscal year, was \$327,000. The amount shown for Mr. Steul represents the dollar value on date of grant of 350 shares of restricted stock

awarded to Mr. Steul in fiscal year 1992. The restrictions on these shares lapsed over a period of one year. Mr. Steul held no shares of restricted stock at the end of fiscal year 1993. If the Corporation were to begin to pay cash dividends on its Common Stock, holders of restricted stock would receive cash dividends on such shares. The amount ultimately realized by any named executive officer in respect of restricted stock depends upon the value of the Corporation's Common Stock when the executive officer sells the shares, which can only occur after the restrictions lapse.

(4) Consists of cash received, at the rate of \$3.00 per unexercised option share, in exchange for cancellation of stock options granted during fiscal year 1988 at an exercise price of \$153.00 per share.

(5) Mr. Palmer was elected President and Chief Executive Officer of the Corporation effective October 1, 1992. Salary reflected in the table includes compensation paid to Mr. Palmer in all capacities during fiscal year 1993.

(6) Represents options which may not be exercised unless and until the Corporation's stock price averages at least \$100 over 90 consecutive trading days.

(7) Represents customary one-time relocation and allowance payments to executives who are temporarily located outside their home country.

(8) Includes an option for 20,000 shares which may not be exercised unless and until the Corporation's stock price averages at least \$100 over 90 consecutive trading days.

Option/SAR Grants in Last Fiscal Year

The following table shows information regarding grants of stock options during the fiscal year ended July 3, 1993 to the named executive officers. The Corporation did not grant any stock appreciation rights in fiscal year 1993.

Name	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term (2) (3)	
	Options/SARS Granted (#) (1)	% of Total Options/SARS Granted to Employees in Fiscal Year	Exercise or Base Price (\$/Sh) (1)	Expiration Date	5% (\$)	10% (\$)
Robert B. Palmer	65,000	1.7%	\$40.875	10/20/02	\$1,724,445	\$ 4,401,930
	200,000	5.4	46.250	6/16/03	6,003,714	15,325,469
	80,000	2.1	41.437	9/15/03	2,151,575	5,492,250
Winston R. Hindle, Jr. ..	5,000	.1	40.875	10/20/02	132,650	338,610
Richard Poulsen	12,000	.3	40.875	10/20/02	318,359	812,664
William D. Strecker	4,000	1.1	40.875	10/20/02	106,120	270,888
	25,000	7	41.437	9/15/03	672,367	1,716,328
William M. Steul	10,000	.3	40.875	10/20/02	265,299	677,220
All Stockholders(3)					3.63 billion	9.27 billion

(1) Stock options were granted under the Corporation's 1990 Equity Plan at an exercise price equal to the fair market value of the Corporation's Common Stock on the date of grant. The options are currently outstanding restricted stock options with a term of ten years and 90 days and with restrictions lapsing ratably over five years from date of grant.

(2) Amounts reported in these columns represent amounts that may be realized upon exercise of the options immediately prior to the expiration of their term assuming the specified compounded rates of appreciation on the Corporation's Common Stock over the term of the options. These numbers are calculated based on rules promulgated by the Securities and Exchange Commission and do not reflect the Corporation's estimates of future stock price growth. Actual gains, if any, on stock option exercises and Common Stock holdings are dependent on the timing of such exercise and sale of the shares and the future performance of the Corporation's Common Stock. There can be no assurances that the rates of appreciation assumed in this table can be achieved or that the amounts reflected will be received by the individuals.

(3) The amounts shown as potential realizable values for all stockholders represent the corresponding increases from July 2, 1993, the last business day of the fiscal year, in the market value of 134,992,254 shares of the Corporation's Common Stock outstanding on such date.

Aggregated Option/SAR Exercises in Last Fiscal Year and FY-End Option/SAR Values

The following table summarizes for each of the named executive officers the number of stock options, if any, exercised during the fiscal year ended July 3, 1993, the aggregate dollar value realized upon exercise, the total number of unexercised options held at July 3, 1993, and the aggregate dollar value of in-the-money, unexercised options held at July 3, 1993. None of the named executive officers exercised or held any SARs. Value realized upon exercise is the difference between the fair market value of the underlying stock on the exercise date and the exercise price of the option. Value of unexercised, in-the-money options at fiscal year-end is the difference between the exercise price and the fair market value of the underlying stock on July 2, 1993, the last business day of the fiscal year. The closing price of the Corporation's Common Stock on the New York Stock Exchange on such date was \$40.875.

Name	Number of Shares Underlying Options/SARs Exercised (#)	Value Realized (\$)(1)	Number of Unexercised Options/SARs at FY-End (#)		Value of Unexercised In-The-Money Options/SARs at FY-End (\$)(3)	
			Exercisable	Restricted/Unexercisable (2)	Exercisable	Restricted/Unexercisable (2)
Robert B. Palmer	0	\$ 0	23,100	395,200	\$ 2,850	\$ 1,425
Winston R. Hindle, Jr.	5,000	69,450	26,160	39,840	70,500	17,925
Richard Poulsen	600	7,620	8,950	54,850	12,438	9,188
William D. Strecker	0	0	12,300	72,500	12,225	8,963
William M. Steul	0	0	6,090	39,770	8,460	4,815

(1) Amounts disclosed in this column do not necessarily reflect amounts received by the named executive officers but are calculated based on the difference between the fair market value of the Corporation's Common Stock on the date of exercise and the exercise price of the options. Named executive officers will receive cash only if and when they sell the Common Stock issued upon exercise of the options and the amount of cash received by such individuals is dependent on the price of the Corporation's Common Stock at the time of such sale.

(2) A portion of these options represent immediately exercisable restricted stock options, with restrictions on disposition of the underlying shares lapsing ratably over periods of five to

ten years from the date of grant. The number of underlying shares subject to such options for the named executive officers is as follows: Mr. Palmer, 355,200; Mr. Hindle, 19,840; Mr. Poulsen, 24,850; Mr. Strecker, 42,500 and Mr. Steul, 19,770. The remaining options, granted during fiscal year 1992, become exercisable at the rate of 20% per year but may not be exercised unless and until the Corporation's stock price averages at least \$100 over 90 consecutive trading days.

(3) These values have not been and may never be realized. Actual gains, if any, on exercise will depend on the value of the Common Stock on the date of sale of the shares.

Pension Plans

The Corporation and its subsidiaries have pension plans covering substantially all of their employees. Benefits under the Corporation's defined benefit pension plan (the "Pension Plan") for its U.S. employees are based upon the employee's earnings during service with the Corporation and are payable after retirement in the form of annuities or lump sum benefits. The annual amount payable upon retirement at age 65 is, in general, 1.5% of the aggregate amount of the participant's compensation earned on and after July 1, 1989. Those persons who were active participants on July 1, 1989, or who later become active participants credited with prior service, are also eligible to receive 1.5% of the average of the participant's annual compensation between July 1, 1984 and July 1, 1989, multiplied by the number of years of accredited service prior to July 1, 1989. For purposes of calculating a participant's pension benefit, annual compensation for plan years commencing after December 31, 1988 is limited to \$200,000, subject to adjustment to reflect cost of living increases. A participant's annual pension may not exceed the lesser of the maximum allowable dollar limit (\$115,641 for fiscal 1993), or 100% of the participant's average compensation for the participant's three highest paid consecutive years of service with the Corporation.

The Digital Equipment Corporation Restoration Pension Plan (the "Restoration Plan"), adopted effective as of May 1, 1992, compensates those participants under the Pension Plan whose benefits are reduced due to legislative and regulatory limitations. The Restoration Plan provides additional retirement compensation equal to the difference between the benefit a participant would receive under the Pension Plan without the legislative and regulatory limitations and the benefit actually payable to the participant under the Pension Plan.

Estimated annual retirement benefits payable as a straight life annuity under the Pension Plan and Restoration Plan at age 65 based on projected compensation and continued

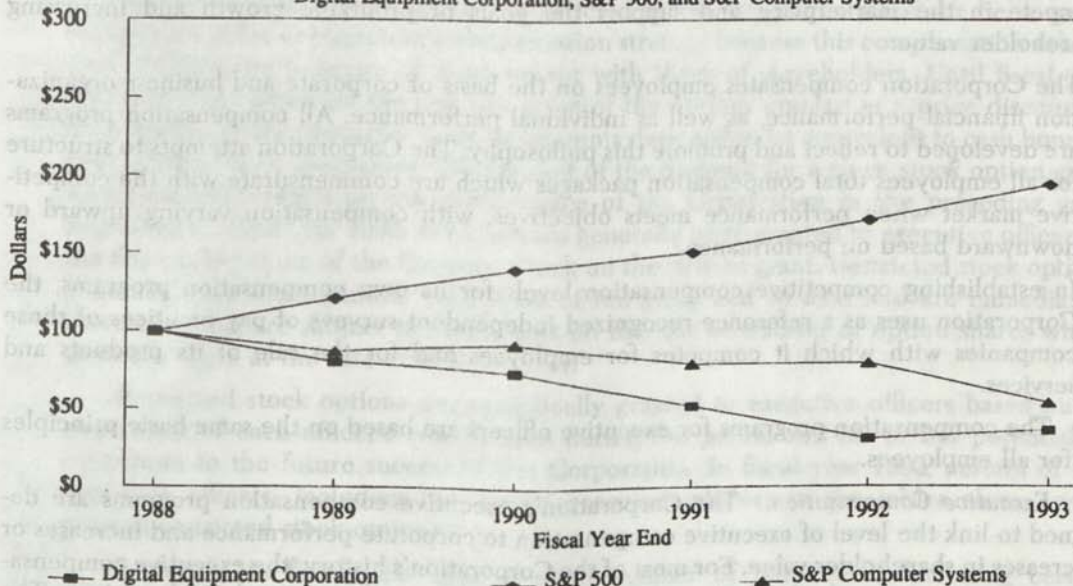
employment for the following individuals would be: Mr. Palmer, \$194,641; Mr. Hindle, \$209,314; Mr. Poulsen, \$123,424; Mr. Strecker, \$168,613; and Mr. Steul, \$122,674.

Stock Price Performance Graph

The following graph compares the five-year return for the Corporation's Common Stock against the Standard & Poor's ("S&P") 500 Stock Index and a peer group composed of companies in the S&P Computer Systems Index. The graph assumes \$100 was invested on July 2, 1988 in the Corporation's Common Stock and \$100 was invested at that time in each of the S&P indexes. The comparative data assumes that dividends, if any, were reinvested.

Comparison of Five Year Cumulative Total Return

Digital Equipment Corporation, S&P 500, and S&P Computer Systems



COMPENSATION AND STOCK OPTION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

The Compensation and Stock Option Committee (the "Committee") of the Board of Directors is composed of four independent non-employee directors. The Committee is responsible for approving executive officer compensation and for administering the cash incentive and equity participation plans that govern the variable compensation paid to all senior management of the Corporation. The following report describes the Corporation's executive compensation practices and the actions of the Committee regarding compensation paid to executive officers during fiscal year 1993.

Corporate Philosophy on Compensation. Taking into account the Corporation's operating results and financial condition, the Corporation's philosophy on compensation is to compensate all employees equitably, competitively and based on performance. The Corporation bases this philosophy on its need to attract, motivate and retain an outstanding workforce in order to compete in the marketplace and support the goals of profitable growth and increasing shareholder value.

- The Corporation compensates employees on the basis of corporate and business organization financial performance, as well as individual performance. All compensation programs are developed to reflect and promote this philosophy. The Corporation attempts to structure for all employees total compensation packages which are commensurate with the competitive market when performance meets objectives, with compensation varying upward or downward based on performance.
- In establishing competitive compensation levels for its own compensation programs, the Corporation uses as a reference recognized independent surveys of pay practices of those companies with which it competes for employees and for the sale of its products and services.

The compensation programs for executive officers are based on the same basic principles as for all employees.

Executive Compensation. The Corporation's executive compensation programs are designed to link the level of executive compensation to corporate performance and increases or decreases in shareholder value. For most of the Corporation's history, the executive compensation package consisted of only two elements: base salary and restricted stock options. The Corporation recently introduced a cash incentive plan which is designed to increase focus on the profitability of the Corporation and on the performance of the business organizations or functions for which the executive officers are responsible.

During fiscal year 1993, the Committee reviewed information prepared for the Corporation by an outside consultant who analyzed the total compensation of executive officers relative to the compensation of comparable executives of large and competitor companies. The Committee concluded that the Corporation's executive compensation practices are comparable to the practices of other large and competitor companies. The Committee also noted that the Corporation's executive compensation programs should continue to emphasize cash incentives and equity participation to increase the variability of executive pay and to align further the interests of management and the shareholders.

Base Salaries. Base salary levels are determined relative to external market and competitor practices and internal scope and impact of the job. The Committee reviews salaries of executive officers annually and, if appropriate, salaries are changed based upon corporate, business organization and individual performance, in accordance with guidelines established for all employees within a particular country.

Equity Participation Programs. Restricted stock options continue to be a major component of the Corporation's compensation strategy because this compensation vehicle closely aligns the interests of management with those of shareholders. Until fiscal year 1989, the Committee set the exercise price of the options granted at a price discounted from the then current market value by amounts designed to be equivalent to cash bonuses paid at other large companies. The amount of the discount for a given stock option grant was established based on the performance of the Corporation in the preceding year. Beginning in fiscal year 1990, stock options generally were granted to executive officers at the fair market value of the Common Stock on the date of grant. Restricted stock options generally have been granted for a term of ten years and 90 days and are immediately exercisable but are subject to restrictions on the sale or transfer of option shares which generally lapse at the rate of 20% per year.

Restricted stock options are periodically granted to executive officers based on an assessment of each officer's contribution during the period and his or her potential to contribute to the future success of the Corporation. In fiscal year 1993, certain of the executive officers, including the named executive officers in the tables above, were granted restricted stock options.

Beginning in fiscal year 1991, a small number of individuals, including certain executive officers, received restricted stock awards in recognition of outstanding performance. Restricted stock awards also have been used, and may continue to be used, to attract

and retain certain key individuals. No individual who was an executive officer during fiscal year 1993 received a restricted stock award during the year.

Cash Incentive Plan. The Corporation introduced a cash incentive plan for the first time in fiscal year 1993. The purpose of this plan is to reward participants, including executive officers, relative to corporate, organizational and individual performance for any given year. The program for fiscal year 1993 provided that the award of bonuses was contingent on the achievement of corporate-wide financial objectives and of performance targets established for the business organization or function for which the executive officer was responsible. Because financial objectives and performance targets were not achieved, the Corporation did not fund the cash incentive plan in fiscal year 1993. No awards were made under the plan to individuals who were executive officers during fiscal year 1993. However, in recognition of outstanding performance, a cash award was made to William D. Strecker, the Corporation's Vice President of Engineering and Chief Technical Officer. This award, noted in the Summary Compensation Table on page 12 above, was made in recognition of Mr. Strecker's contribution to the Corporation's product and technology strategy which resulted in reductions as well as efficiencies in the Corporation's research and engineering spending.

Chief Executive Officer Compensation. In determining Mr. Palmer's fiscal year 1993 pay and the structure of his total compensation package, the Committee considered the circumstances of the Corporation as it attempted to return to profitable growth after several years of declining operating performance and reduction in shareholder value. The Committee also considered the necessity for strong effective leadership and a motivated management team in structuring a total compensation package for the Chief Executive Officer. The Committee believes that Mr. Palmer's compensation package should provide significant incentive to increase shareholder value.

Therefore, in fiscal year 1993 the Committee awarded to Mr. Palmer three restricted stock options to purchase a total of 345,000 shares of the Corporation's Common Stock, each at an exercise price equal to the fair market value of the Common Stock on the date of grant and with restrictions on disposition or transfer of option shares lapsing at the rate of 20% per year. These grants will provide significant compensation for Mr. Palmer in the event the Corporation's future performance results in an increase in shareholder value.

At the time of his appointment as President and Chief Executive Officer, the Board of Directors established Mr. Palmer's annual base salary at \$750,000. Mr. Palmer also participates in the cash incentive plan but did not receive an award under the plan for fiscal year 1993. The

Corporation did not fund the plan because the financial objectives and performance targets for fiscal year 1993, established prior to Mr. Palmer taking office, were not achieved. The Committee reviewed Mr. Palmer's compensation at the end of fiscal year 1993 and determined that due to Mr. Palmer's efforts and achievements since taking office, an increase in annual base salary to \$900,000 was appropriate, effective as of the beginning of fiscal year 1994.

Compensation and Stock Option Committee:

Thomas L. Phillips, Chairman

Vernon R. Alden

Philip Caldwell

Thomas P. Gerrity

Compensation Committee Interlocks and Insider Participation

As previously noted, Philip Caldwell is a Senior Managing Director of Lehman Brothers, one of the Corporation's investment bankers. Lehman Brothers performs financial and investment banking services for the Corporation for which it receives usual and customary compensation. Mr. Caldwell's son-in-law is a middle management employee of the Corporation and receives the usual and customary compensation for the position he serves.

PROPOSAL TO AMEND THE 1968 EMPLOYEE STOCK PURCHASE PLAN TO INCREASE THE NUMBER OF SHARES AVAILABLE FOR ISSUANCE

On June 17, 1993, the Board of Directors amended the 1968 Employee Stock Purchase Plan (the "Employee Plan") to increase the number of shares subject thereto from 33,500,000 to 38,800,000. The amendment will become effective only upon approval by the stockholders. This increase in shares is needed to enable the Corporation to continue operating the Employee Plan for the benefit of eligible employees.

The Board of Directors recommends a vote **FOR** approving the amendment to the Employee Plan.

Description of the 1968 Employee Stock Purchase Plan

In 1968 the Board of Directors and the stockholders adopted the Employee Plan for substantially all employees of the Corporation and its participating subsidiaries, other than directors of the Corporation. At August 1, 1993, approximately 52,600 employees were eligible to participate in the Employee Plan, and approximately 27,000 employees were participating.

The Employee Plan currently authorizes the issuance of a maximum of 33,500,000 shares of Common Stock. The Employee Plan permits employees to purchase shares of the Corporation's Common Stock twice yearly through accumulated payroll deductions, up to a maximum of 10% of regular base pay, and after November 1, 1993 (assuming prior receipt of a favorable private letter ruling from the Internal Revenue Service), up to a maximum of 10% of total compensation. The six-month periods June 1 to November 30 and December 1 to May 31 are the payment periods ("Payment Period") during which payroll deductions are accumulated under the Employee Plan. The price at which shares are purchased is an amount equal to 85% of the fair market value of the stock on the first or last business day of the applicable six-month Payment Period, whichever is lower.

The Board of Directors may terminate or amend the Employee Plan, provided that no amendment shall, without stockholder approval, increase the number of shares of Common Stock to be offered under the Plan or change the class of employees eligible to participate in the Plan.

During the period June 28, 1992 through July 3, 1993, executive officers of the Corporation purchased shares under the Employee Plan as follows: Mr. Strecker, 680 shares; Mr. Steul, 716 shares; all current executive officers as a group, 6,285 shares; and all employees as a group (excluding current and named executive officers but including current officers who are not executive officers), 4,285,442 shares.

At August 1, 1993, 31,159,670 shares had been purchased by employees under the Employee Plan and 2,340,330 shares remained available.

Tax Aspects under the U.S. Internal Revenue Code

Generally, the following tax consequences under the United States Internal Revenue Code of 1986, as amended (the "Code"), are applicable to shares purchased under the Employee Plan:

1. No taxable income will be realized by the employee at the time of the purchase of the shares.
2. If the employee disposes of the shares two years or more after the date of the beginning of the Payment Period when the employee acquired the shares, then the employee at that time will recognize as taxable compensation income an amount equal to the lesser of:
 - (a) the excess of the fair market value of the shares on the date of such disposition over the price at which the shares are purchased, or
 - (b) 15% of the fair market value of the shares at the beginning of the Payment Period.

In addition, the employee may recognize a long-term capital gain or loss in an amount equal to the difference between the amount realized upon the sale of the shares and the basis of the shares (i.e., the purchase price plus the amount, if any, taxed as compensation income).

3. If the employee disposes of the shares within two years after the date of the beginning of the Payment Period when the employee acquired the shares, the employee at that time will recognize taxable compensation income equal to the fair market value of the shares on the date of purchase (the last business day of the applicable Payment Period) less the amount paid for the shares. In addition, the employee will recognize a capital gain or loss in an amount equal to the difference between the amount realized upon the sale of the shares and the basis of the shares. If the employee holds the stock for more than one year, this gain or loss will be a long-term capital gain or loss.

4. The Corporation will be entitled to a deduction for federal income tax purposes in an amount equal to the amount which is considered ordinary compensation income if the employee disposes of the shares within two years after the date of the beginning of the Payment Period when the employee acquired the shares.

PROPOSAL TO AMEND THE 1981 INTERNATIONAL EMPLOYEE STOCK PURCHASE PLAN TO INCREASE THE NUMBER OF SHARES AVAILABLE FOR ISSUANCE

On June 17, 1993, the Board of Directors amended the 1981 International Employee Stock Purchase Plan (the "International Plan") to increase the number of shares subject thereto from 5,900,000 to 10,100,000. The amendment will become effective only upon approval by the stockholders. This increase in shares is needed to enable the Corporation to continue operating the International Plan for the benefit of eligible employees.

The Board of Directors recommends a vote **FOR** approving the amendment to the International Plan.

Description of the 1981 International Employee Stock Purchase Plan

In 1981 the Board of Directors and the stockholders adopted the International Plan. The International Plan currently authorizes the issuance of a maximum of 5,900,000 shares of Common Stock. At August 1, 1993, approximately 34,100 employees were eligible to participate in the International Plan, and approximately 13,600 employees were participating.

The provisions of the International Plan are currently substantially the same as the Employee Plan described above. The International Plan was adopted in order to extend the benefits of the Employee Plan to employees (other than directors of the Corporation) of

selected non-U.S. subsidiaries of the Corporation or branches thereof. The International Plan is not intended to be a tax-qualified plan under the Code.

The Board of Directors may terminate or amend the International Plan, provided that no amendment shall, without stockholder approval, increase the number of shares of Common Stock to be offered under the Plan or change the class of employees eligible to participate in the Plan.

During the period June 28, 1992 through July 3, 1993, Mr. Poulsen purchased 818 shares under the International Plan, and all employees as a group (excluding current and named executive officers but including current officers who are not executive officers) purchased a total of 2,112,029 shares.

At August 1, 1993, 5,668,544 shares had been purchased under the International Plan and 231,456 shares remained available.

Employees participating in the International Plan will be subject to taxation in accordance with the laws of the countries where they are resident or employed. Accordingly, the tax consequences applicable to employees will vary depending on the country. Because the International Plan is not a U.S. tax-qualified plan, employees of participating foreign subsidiaries who are U.S. citizens or resident aliens also recognize taxable compensation income under the Code, but may be entitled, with certain limitations, to a U.S. foreign tax credit equal to the taxes paid to foreign countries in respect of the shares.

PROPOSAL TO AMEND THE CORPORATION'S RESTATED ARTICLES OF ORGANIZATION TO AUTHORIZE THE ISSUANCE OF PREFERRED STOCK

The Board of Directors has unanimously voted to recommend to the stockholders of the Corporation for their approval a proposal to amend Articles 3 and 4 of the Corporation's Restated Articles of Organization (the "Restated Articles") to authorize the issuance of up to 25,000,000 shares of preferred stock, \$1.00 par value (the "Preferred Stock"), for the reasons discussed below. A copy of the proposed amendment to Article 4 setting forth the amended Article 4 in its entirety is attached as Exhibit A and incorporated herein by reference.

The Board of Directors recommends a vote **FOR** the proposal to amend the Corporation's Restated Articles of Organization to authorize the issuance of Preferred Stock.

Description of Proposal

Article 3 of the Restated Articles currently provides for the issuance of up to 450,000,000 shares of Common Stock, \$1.00 par value. The proposed amendment to Articles 3 and 4 of the

Restated Articles would authorize the issuance of 25,000,000 shares of Preferred Stock which may be issued upon authority of the Board of Directors.

Under the proposed Restated Articles, the Board can authorize the issuance, at any time or from time to time, of one or more series of Preferred Stock without further stockholder approval. In addition, the Board will determine all designations, preferences and limitations of such stock, including but not limited to, the designation of series and numbers of shares; the dividend rights, if any; the redemption provisions, if any; the rights upon liquidation, dissolution or winding up of the Corporation, if any; the conversion or exchange rights, if any; the sinking fund provisions, if any; the voting rights, if any, provided that the holders of shares of Preferred Stock will not be entitled to more than one vote per share when voting as a class with the holders of shares of Common Stock; and the other preferences, powers, qualifications, special or relative rights and privileges and limitations or restrictions of such preferences or rights, if any. No holders of shares of the capital stock of the Corporation have any preemptive rights to acquire any securities of the Corporation.

Many of the large industrial corporations in the United States, including those within the Dow Jones Industrial Average, have the ability to issue some type of preferred stock without further stockholder approval. The Board and management of the Corporation believe that amending the Restated Articles to permit the Board to authorize the issuance of Preferred Stock provides flexibility for potential future financing needs. Although the Corporation is not currently considering the issuance of Preferred Stock for such financing purposes and has no present intention to issue any series of Preferred Stock, the Board and management believe the Corporation should have the flexibility to issue preferred stock, along with its ability to issue debt and additional shares of Common Stock.

The Corporation also could issue Preferred Stock for other corporate purposes, such as to implement equity alliances or to make acquisitions, although no issuances for such purposes are presently contemplated. If the amendment to the Corporation's Restated Articles is approved, the Board will be able to specify the precise characteristics of the Preferred Stock to be issued, depending on then current market conditions and the nature of specific transactions.

Even though voting rights of Preferred Stock are limited as described above, the issuance of Preferred Stock could be used to discourage attempts to acquire control of the Corporation. Neither the Board nor management is considering the use of Preferred Stock for such purposes and they are not aware of any present effort to accumulate the Corporation's securities for the purpose of gaining control of the Corporation. The Board and management represent that they

will not issue, without prior stockholder approval, Preferred Stock for an anti-takeover purpose, including without limitation, to implement any stockholders' rights plan or with features intended to make an attempted acquisition of the Corporation more difficult or costly. No Preferred Stock will be issued to any individual or group for the purpose of creating a block of voting power to support management on a controversial issue. The Board and management believe that, as proposed, the authorization of Preferred Stock is in the best interest of the stockholders and the Corporation.

RATIFICATION OF SELECTION OF AUDITORS

The Audit Committee of the Board of Directors has selected the firm of Coopers & Lybrand, independent accountants, to serve as auditors for the fiscal year ending July 2, 1994, subject to ratification by the stockholders. Coopers & Lybrand has served as the Corporation's auditors since its organization. The Board of Directors recommends a vote **FOR** ratification of this selection. It is expected that a member of the firm of Coopers & Lybrand will be present at the Meeting, will have an opportunity to make a statement if so desired and will be available to respond to appropriate questions.

EXPENSES AND SOLICITATION

The cost of solicitation of proxies will be borne by the Corporation. In addition to soliciting stockholders through its regular employees, the Corporation will request banks and brokers to solicit customers of theirs who have shares of Common Stock of the Corporation registered in the name of a nominee. The Corporation will reimburse such banks and brokers for their reasonable out-of-pocket costs, at the rates suggested by the New York Stock Exchange. Solicitation by officers and employees of the Corporation may also be made of some stockholders in person, or by mail, telephone or telegraph, following the original solicitation. Georgeson & Company Inc. has been retained by the Corporation to assist with the solicitation of proxies at a cost to the Corporation estimated not to exceed \$20,000.

STOCKHOLDER PROPOSALS FOR NEXT ANNUAL MEETING

Proposals of stockholders intended for inclusion in the proxy statement to be mailed to all stockholders entitled to vote at the 1994 Annual Meeting of Stockholders of the Corporation must be received at the Corporation's principal executive offices not later than May 16, 1994. In order to curtail controversy as to the date on which a proposal was received, proponents should submit their proposals by Certified Mail — Return Receipt Requested.

September 14, 1993

EXHIBIT A

The following is a statement of the designations, preferences, voting powers, qualifications, and special or relative rights or privileges in respect of each class of authorized capital stock of the Corporation.

A. COMMON STOCK.

1. *General.* There shall be one class of common stock of the Corporation (the "Common Stock"). The voting, dividend and liquidation rights of the holders of the Common Stock are subject to and qualified by the rights of the holders of outstanding shares of Preferred Stock of any class or series as may be designated herein or by the Board of Directors of the Corporation in accordance with the provisions hereof.

2. *Voting.* The holders of the Common Stock are entitled to one vote for each share held at all meetings of stockholders (and written actions in lieu of meetings). There shall be no cumulative voting.

3. *Dividends.* Dividends may be declared and paid on the Common Stock from funds lawfully available therefor as and when determined by the Board of Directors and subject to any preferential dividend rights of any then outstanding Preferred Stock.

4. *Liquidation.* Upon the dissolution or liquidation of the Corporation, whether voluntary or involuntary, holders of Common Stock will be entitled to receive all assets of the Corporation available for distribution to its stockholders, subject to any preferential and participation rights of any then outstanding Preferred Stock.

B. PREFERRED STOCK.

The preferred stock (the "Preferred Stock") may be issued in one or more series at such time or times and for such consideration or considerations as the Board of Directors of the Corporation may determine. Each series of the Preferred Stock shall be designated so as to distinguish the shares thereof from the shares of all other series and classes of the stock of the Corporation. Except as to the relative preferences, powers, qualifications, rights and privileges referred to below in this Part B, in respect of any or all of which there may be variations between different series, all shares of the Preferred Stock shall be identical. Different series of the Preferred Stock shall not be construed to constitute different classes of shares for the purpose of voting by classes.

Subject to limitations prescribed by law or by these Restated Articles of Organization, as amended, the Board of Directors is expressly authorized to provide by adopting a vote or votes, a certificate of which shall be filed in accordance with the Business Corporation Law of

The Commonwealth of Massachusetts, for the issuance of the Preferred Stock in one or more series, each such series to have such number of shares, designations, preferences, voting powers, qualifications, and special or relative rights or privileges as shall be stated in the vote or votes establishing such series. The authority of the Board of Directors with respect to each such series shall include (without limitation of the foregoing) the right to determine and fix:

(1) the distinguishing designation of such series and the number of shares to constitute such series;

(2) the rate at which dividends, if any, on the shares of such series shall be declared and paid, or set aside for payment, whether dividends at the rate so determined shall be cumulative, noncumulative or partially cumulative and whether the shares of such series shall be entitled to any participating or other dividends in addition to dividends at the rate so determined, and if so on what terms;

(3) the right, if any, of the Corporation to redeem shares of such series and, if redeemable, the price, terms and manner of such redemption;

(4) the special and relative rights and preferences, if any, and the amount or amounts per share, which the shares of such series shall be entitled to receive upon any voluntary or involuntary liquidation, dissolution or winding up of the Corporation;

(5) the terms and conditions, if any, upon which shares of such series shall be convertible into, or exchangeable for, shares of any other class or classes or any other series of the same or any other class or classes of stock of the Corporation, including the price or prices or the rate or rates of conversion or exchange and the terms of adjustment, if any;

(6) the obligation, if any, of the Corporation to retire or purchase shares of such series pursuant to a sinking fund or fund of a similar nature or otherwise, and the terms and conditions of such obligation;

(7) the voting rights, if any, of shares of such series; provided, however, that the holders of shares of Preferred Stock will not be entitled to more than one vote per share when voting as a class with the holders of shares of Common Stock;

(8) the limitations, if any, on the issuance of additional shares of such series or any shares of any other series of the Preferred Stock; and

(9) such other preferences, powers, qualifications, and special or relative rights and privileges as shall be stated in the vote or votes providing for the establishment of such series of Preferred Stock.



September 14, 1994

Dear Fellow Stockholder:

You are cordially invited to attend our Annual Meeting of Stockholders, which will be held this year on Thursday, November 10, 1994, at 11:00 A.M., at the World Trade Center, Commonwealth Pier, 164 Northern Avenue, Boston, Massachusetts.

The notice of meeting and proxy statement that follow describe the business to be conducted at the meeting. We also will give a presentation on the current status of our business.

Whether or not you plan to attend the meeting in person, it is important that your shares be represented and voted. After reading the enclosed Notice of Annual Meeting and Proxy Statement, I urge you to complete, sign, date and return your proxy ballot in the envelope provided. If the address on the accompanying material is incorrect, please advise our Investor Services Department in writing at 111 Powdermill Road, Maynard, Massachusetts 01754.

For the Board of Directors,

ROBERT B. PALMER
President and Chief Executive Officer

DIGITAL EQUIPMENT CORPORATION, 146 MAIN STREET, MAYNARD, MASSACHUSETTS 01754

YOUR VOTE IS IMPORTANT.
PLEASE SIGN, DATE AND RETURN YOUR PROXY.

DIGITAL EQUIPMENT CORPORATION

NOTICE OF 1994 ANNUAL MEETING

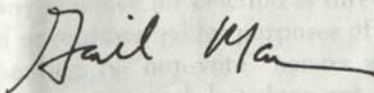
To the Stockholders of DIGITAL EQUIPMENT CORPORATION:

Notice is hereby given that the Annual Meeting of Stockholders of Digital Equipment Corporation, a Massachusetts corporation, will be held on Thursday, November 10, 1994, at 11:00 A.M., at the World Trade Center, Commonwealth Pier, 164 Northern Avenue, Boston, Massachusetts, for the following purposes:

1. To elect four members to the Board of Directors to serve for a three-year term as Class II Directors.
2. To approve an amendment to the 1968 Employee Stock Purchase Plan to increase the number of shares subject thereto by 5,000,000 shares.
3. To approve an amendment to the 1981 International Employee Stock Purchase Plan to increase the number of shares subject thereto by 3,500,000 shares.
4. To ratify the selection of the firm of Coopers & Lybrand L.L.P. as auditors for the fiscal year ending July 1, 1995.
5. To transact such other business as may properly come before the meeting.

Stockholders entitled to notice of and to vote at the meeting shall be determined as of the close of business on September 12, 1994, the record date fixed by the Board of Directors for such purpose.

By Order of the Board of Directors,



GAIL S. MANN, Clerk

September 14, 1994

Stockholders are requested to sign the enclosed proxy card and return it promptly in the enclosed postage paid envelope to Digital Equipment Corporation, P.O. Box 1006, New York, New York 10269.

PROXY STATEMENT

INTRODUCTION

Proxies in the form enclosed with this proxy statement are solicited by the Board of Directors of Digital Equipment Corporation (the "Corporation") for use at the 1994 Annual Meeting of Stockholders (the "Meeting").

An Annual Report to Stockholders, containing financial statements for the fiscal year ended July 2, 1994, has been sent to all stockholders entitled to vote. This proxy statement and form of proxy were first sent to stockholders on or about the date of the accompanying Notice of 1994 Annual Meeting.

Only common stockholders of record as of the close of business on September 12, 1994, will be entitled to vote at the Meeting and any adjournments thereof. As of that date, 142,777,178 shares of Common Stock of the Corporation were issued and outstanding. Each share outstanding as of the record date will be entitled to one vote, and stockholders may vote in person or by proxy. Execution of a proxy will not in any way affect a stockholder's right to attend the meeting and vote in person. Any stockholder giving a proxy has the right to revoke it at any time before it is exercised by written notice to the Clerk of the Corporation. In addition, stockholders attending the Meeting may revoke their proxies at that time.

The representation in person or by proxy of at least a majority of the outstanding shares of Common Stock entitled to vote at the meeting is necessary to constitute a quorum for the transaction of business. Votes withheld from any nominee for election as director, abstentions and broker "non-votes" are counted as present or represented for purposes of determining the presence or absence of a quorum for the meeting. A "non-vote" occurs when a nominee holding shares for a beneficial owner votes on one proposal, but does not vote on another proposal because, in respect of such other proposal, the nominee does not have discretionary voting power and has not received instructions from the beneficial owner. An automated system administered by the Corporation's solicitation agent tabulates the votes. The vote on each matter submitted to stockholders is tabulated separately. Abstentions are included in the number of shares present or represented and voting on each matter. Broker "non-votes" are not so included.

The persons named as attorneys in the proxies are directors and/or officers of the Corporation. All properly executed proxies returned in time to be cast at the Meeting, if no contrary instruction is indicated, will be voted as stated below under "Election of Directors." In addition to the election of Class II Directors, the stockholders will consider and vote upon proposals to (i) approve an amendment to the 1968 Employee Stock Purchase Plan to increase the number of shares available for issuance thereunder, (ii) approve an amendment to the 1981 International Employee Stock Purchase Plan to increase the number of shares available for issuance thereunder, and (iii) ratify the selection of auditors. Where a choice has been specified on the proxy with respect to these matters, the shares represented by the proxy will be voted in accordance with the specification and will be voted FOR if no specification is indicated. Directors are elected by a plurality of votes cast and the affirmative vote of a majority of the shares present or represented at the meeting and voting on such matter is required for approval of the other matters.

The Corporation knows of no other matter to be presented at the Meeting. If any other matter should be presented at the Meeting upon which a vote properly may be taken, shares represented by all proxies received by the Corporation will be voted with respect thereto in accordance with the judgment of the persons named as attorneys in the proxies.

ELECTION OF DIRECTORS

The Board of Directors of the Corporation is divided into three classes. Each class serves three years, with the terms of office of the respective classes expiring in successive years. The directors in Class III will be nominees for election to three-year terms at the 1995 Annual Meeting of Stockholders and the directors in Class I will be nominees for election to three-year terms at the 1996 Annual Meeting of Stockholders.

The present term of office for the directors in Class II ("Class II Directors") expires at the Meeting. Vernon R. Alden, Robert R. Everett and Thomas L. Phillips were each elected at the Annual Meeting of Stockholders held November 7, 1991, and are nominees for re-election to a three-year term as Class II Directors. Delbert C. Staley was elected to the Board effective September 16, 1993 and is a nominee for election for the first time to a three-year term as a Class II Director. If re-elected or elected, as the case may be, the Class II Director nominees will hold office until the Annual Meeting of Stockholders to be held in 1997 and until their successors have been duly elected and have qualified. Shares represented by all proxies received by the Board of Directors and not so marked as to withhold authority to vote for any individual nominee will be voted (unless one or more nominees are unable or unwilling to

serve) for the election of all nominees for Class II Directors. The Board of Directors knows of no reason why any such nominee should be unable or unwilling to serve, but if such should be the case, proxies will be voted for the election of some other person or the Board of Directors will fix the number of directors at a lesser number.

Set forth below is information with respect to each nominee for a Class II Director to be elected at the Meeting and for each Class I Director and Class III Director. With the exception of Mr. Staley, all of the directors were previously elected by the stockholders.

Nominees to Serve as Directors for a Three-Year Term Expiring at the 1997 Annual Meeting (Class II Directors)

VERNON R. ALDEN

Mr. Alden, age 71, was Chairman of the Board and Executive Committee of The Boston Company, Inc., a financial services company, from 1969 to 1978. He was President of Ohio University from 1962 to 1969. Mr. Alden is also a director of Augat, Inc., Colgate-Palmolive Company, Internet Corporation and Sonesta International Hotels Corporation. He is also a trustee of several cultural and educational organizations. He has been a director of the Corporation since 1959 and is a member of its Audit Committee and Nominating Committee.

ROBERT R. EVERETT

Mr. Everett, age 73, is an engineering consultant. He retired as President of the Mitre Corporation, a federal contract research center, in 1986. Mr. Everett has been a director of the Corporation since 1986 and is a member of its Compensation and Stock Option Committee.

THOMAS L. PHILLIPS

Mr. Phillips, age 70, retired as Chairman of the Board and Chief Executive Officer of Raytheon Company ("Raytheon") in March 1991, having served as Chief Executive Officer since 1968, and as Chairman of the Board since 1975. He has been a director of Raytheon since 1962. Mr. Phillips is also a director of The John Hancock Mutual Life Insurance Company, SRA International, Inc., State Street Research and Management Co. and Knight-Ridder, Inc. Mr. Phillips has been a director of the Corporation since 1991. He is Chairman of the Corporation's Compensation and Stock Option Committee and is a member of its Nominating Committee.

DELBERT C. STALEY

Mr. Staley, age 70, was Chairman, Chief Executive Officer and a director of NYNEX Corporation ("NYNEX") from 1983 until his retirement in September 1989. He continued serving as a director of NYNEX and served as Chairman of NYNEX International Management Committee from October 1989 to October 1991. Mr. Staley is a director of Allied Signal, Inc., Ball Corporation, The Bank of New York, The Bank of New York Company, Dean Foods Company, The John Hancock Mutual Life Insurance Company and Polaroid Corporation. He was elected a director of the Corporation on September 16, 1993 and is a member of its Compensation and Stock Option Committee.

Directors Serving a Term Expiring at the 1995 Annual Meeting (Class III Directors)

COLBY H. CHANDLER

Mr. Chandler, age 69, retired as Chairman of the Board and Chief Executive Officer of Eastman Kodak Company ("Kodak") in May 1990. Prior to that time he had been Chief Executive Officer, Chairman of the Board and Chairman of the Executive Committee of Kodak since July 1983. He assumed the presidency of Kodak in January 1977. Mr. Chandler was a director of Kodak from 1974 to 1993. He is also a director of Citicorp, Ford Motor Company and J. C. Penney Company, Inc. Mr. Chandler has been a director of the Corporation since 1989 and is a member of its Audit Committee and Nominating Committee.

ARNAUD DE VITRY

Mr. de Vitry, age 68, is an engineering consultant. From 1980 to 1990, Mr. de Vitry was Chairman of the Board and Chief Executive Officer of Eureka SICAV, France, an investment company. He is a director of Ionics, Incorporated and Schlumberger Limited. Mr. de Vitry has been a director of the Corporation since 1957 and is Chairman of its Nominating Committee.

THOMAS P. GERRITY

Dr. Gerrity, age 53, has served as Dean of the Wharton School of the University of Pennsylvania since July 1990. From 1969 to 1989, Dr. Gerrity was chief executive officer of Index Group, Inc. ("Index"), an information technology consulting company he founded. In 1988, Index became part of Computer Sciences Corporation

("CSC") and Dr. Gerrity was subsequently appointed president of CSC's commercial professional services group, CSC Consulting. Dr. Gerrity is presently a director of the Federal National Mortgage Association, Reliance Group Holdings, Inc. and Sun Company, Inc. He has been a director of the Corporation since 1992, and is a member of the Corporation's Compensation and Stock Option Committee.

Directors Serving a Term Expiring at the 1996 Annual Meeting (Class I Directors)

PHILIP CALDWELL

Mr. Caldwell, age 74, has been Senior Managing Director of Lehman Brothers Inc. ("Lehman Brothers") since May 1985. He succeeded Mr. Henry Ford II as Chief Executive Officer of Ford Motor Company in 1979 and as Chairman in 1980. He retired as Chairman and Chief Executive Officer in 1985 and from the Board in 1990. He is a director of The Mexico Fund, Inc., Zurich Reinsurance Center Holdings, Inc., Zurich Holding Co. of America Inc., American Guarantee and Liability Insurance Co., Lehman Brothers, CASTECH Aluminum Group Inc. and Russell Reynolds Associates, Inc. He is also a trustee of several cultural and educational organizations. He has served as a Director of The Chase Manhattan Corporation and The Chase Manhattan Bank, N.A., Federated Department Stores, Inc., and the Kellogg Company, Inc. He has been a Director of the Corporation since 1980 and is Chairman of its Audit Committee.

KATHLEEN F. FELDSTEIN

Dr. Feldstein, age 53, has been President of Economics Studies, Inc., a private economics consulting firm since 1987. Dr. Feldstein is presently a director of Bank America Corporation, Conrail Corporation and The John Hancock Mutual Life Insurance Company. Dr. Feldstein has been a director of the Corporation since 1993 and is a member of its Audit Committee.

ROBERT B. PALMER

Mr. Palmer, age 54, has been President and Chief Executive Officer of the Corporation since October 1, 1992. Mr. Palmer joined the Corporation in 1985 and served as Vice President, Semiconductor and Interconnect Technology until 1990, and as Vice President, Manufacturing, Logistics and Component Engineering from 1990 to 1992. From 1983 to 1985, he was Executive Vice President of Semiconductor Operations at Mostek Corporation ("Mostek"), a subsidiary of United Technologies Corporation.

Mr. Palmer was a co-founder of Mostek, where he held a series of senior management positions prior to its acquisition in 1980 by United Technologies Corporation. Mr. Palmer has been a director of the Corporation since 1992.

Security Ownership of Directors and Executive Officers

Shown below is certain information as of August 9, 1994, with respect to beneficial ownership of shares of the Corporation's Common Stock and of Depositary Shares, each representing one-fourth of a share of the Corporation's Series A 8% Cumulative Preferred Stock (the "Depositary Shares"), by each director (including the four nominees for Class II Directors), by each executive officer named in the Summary Compensation Table set forth on page 11 and by all directors and executive officers as a group. Unless otherwise indicated, the named person or members of the group possess sole voting and investment power with respect to the shares.

<u>Beneficial Owner</u>	<u>Shares Beneficially Owned</u>
Vernon R. Alden	50,944(1)(2)
Philip Caldwell	4,000(3)
Colby H. Chandler	6,200(1)
Arnaud de Vitry	5,480(4)
Kathleen F. Feldstein	9,000(5)
Robert R. Everett	2,903(4)
Thomas P. Gerrity	113,260(1)(6)
Robert B. Palmer	2,000(7)
Thomas L. Phillips	6,300(1)
Delbert C. Staley	1,502(4)
Gresham T. Brebach, Jr.	9,000(8)
Charles F. Christ	390,144(9)
Edward E. Lucente	8,000(10)
Enrico Pesatori	3,000(11)
William D. Strecker	0(12)
All directors and executive officers as a group (22 persons)	44,000(13)
	0(14)
	48,696(15)
	64,595(16)
	943,074(17)

(1) Includes 5,000 shares of Common Stock which the director has the right to acquire by exercise of a stock option granted pursuant to the Corporation's 1990 Stock Option Plan for Nonemployee Directors ("Nonemployee Directors Plan").

(2) Includes 22,253 shares of Common Stock held by Mr. Alden's wife, as to which shares Mr. Alden disclaims beneficial ownership.

(3) Represents 4,000 Depositary Shares. These Depositary Shares represent less than 1% of the Corporation's issued and outstanding Depositary Shares and Preferred Stock.

(4) Represents Common Stock units under the directors' deferred compensation plan described on page 10. Under the plan, nonemployee directors may elect to defer receipt of all or a portion of their compensation in the form of Common Stock units. Common Stock units carry no voting rights.

(5) Includes 4,000 shares of Common Stock which Mr. Chandler has the right to acquire by exercise of a stock option granted pursuant to the Corporation's Nonemployee Directors Plan.

(6) Includes 104,660 shares of Common Stock held by Mr. de Vitry's wife, as to which shares Mr. de Vitry disclaims beneficial ownership.

(7) Includes 1,000 shares of Common Stock which Dr. Feldstein has the right to acquire by exercise of a stock option granted pursuant to the Corporation's Nonemployee Directors Plan.

(8) Includes 2,000 shares of Common Stock which Dr. Gerrity has the right to acquire by exercise of a stock option granted pursuant to the Corporation's Nonemployee Directors Plan.

(9) Includes 378,300 shares of Common Stock which Mr. Palmer has the right to acquire by exercise of stock options, 283,550 of which are subject to restrictions on disposition which lapse over time. Also includes 8,000 shares awarded as restricted stock under the Corporation's 1990 Equity Plan.

(10) Includes 3,000 shares of Common Stock which Mr. Phillips has the right to acquire by exercise of a stock option granted pursuant to the Corporation's Nonemployee Directors Plan.

(11) Includes 1,000 shares of Common Stock which Mr. Staley will have the right to acquire on September 16, 1994 by exercise of a stock option granted pursuant to the Corporation's Nonemployee Directors Plan.

(12) Mr. Brebach resigned as an officer and employee of the Corporation on August 8, 1994.

(13) Consists of 44,000 shares of Common Stock which Mr. Christ has the right to acquire by exercise of stock options, 27,200 of which are subject to restrictions on disposition which lapse over time.

(14) Mr. Lucente resigned as an officer and employee of the Corporation on April 29, 1994.

(15) Includes 30,000 shares of Common Stock which Mr. Pesatori has the right to acquire by exercise of stock options, 24,000 of which are subject to restrictions on disposition which lapse over time. Also includes 18,000 shares of Common Stock awarded as restricted stock under the Corporation's 1990 Equity Plan.

(16) Includes 53,000 shares of Common Stock which Mr. Strecker has the right to acquire by exercise of stock options, 32,950 of which are subject to restrictions on disposition which lapse over time. Also includes 2,185 shares of Common Stock held by Mr. Strecker's wife, as to which shares Mr. Strecker disclaims beneficial ownership. In addition, includes 8,000 shares awarded as restricted stock under the Corporation's 1990 Equity Plan.

(17) The group is comprised of the executive officers named in the Summary Compensation Table on Page 11 and those persons who were directors and executive officers of the Corporation on August 9, 1994. Includes 693,264 shares of Common Stock which the directors and executive officers as a group have the right to acquire by exercise of stock options granted under the Corporation's stock plans, 473,590 of which are subject to restrictions on disposition which lapse over time. In addition, includes 129,854 shares held by family members of officers or directors, as to which shares the applicable officer or director disclaims beneficial ownership. Also includes 53,149 shares awarded as restricted stock under the Corporation's 1990 Equity Plan. Excludes 4,000 Depositary Shares held by such directors and executive officers. The 943,074 shares held by all directors and executive officers as a group would represent approximately 0.7% of the Corporation's issued and outstanding Common Stock, assuming exercise of the stock options.

Based on a review of the forms and written representations received by the Corporation pursuant to Section 16(a) of the Securities Exchange Act of 1934, the Corporation believes that during the period July 4, 1993 through July 2, 1994, the directors and executive officers complied with all applicable Section 16 filing requirements except that reports were inadvertently filed late for (i) Vernon R. Alden, a Director, with respect to his purchase of 4,000

Depository Shares and (ii) John J. Rando, a Vice President of the Corporation, with respect to his sale of 341 shares of Common Stock.

Certain Relationships and Related Transactions

As previously noted, Philip Caldwell is Senior Managing Director and a director of Lehman Brothers, one of the Corporation's investment bankers. Lehman Brothers performs financial and investment banking services for the Corporation for which it receives usual and customary compensation. Mr. Caldwell's son-in-law is a middle management employee of the Corporation and receives the usual and customary compensation for the position he serves.

Committees of the Board

The Board of Directors has an Audit Committee, a Compensation and Stock Option Committee and a Nominating Committee. The Audit Committee selects the independent auditors to be employed by the Corporation, subject to ratification by the Corporation's stockholders, reviews generally the internal and external audit plans and the results thereof, and reviews generally the Corporation's internal controls with the internal and external auditors. The members of the Audit Committee are Mr. Caldwell, Chairman, and Mr. Alden, Mr. Chandler and Dr. Feldstein.

The Compensation and Stock Option Committee reviews and recommends to the Board the compensation of directors, reviews the compensation of senior management and reviews and recommends to the Board the adoption of any compensation plans in which directors and officers are eligible to participate. The Committee also administers and interprets the Corporation's stock plans and, subject to the provisions of the plans, selects the employees who are to participate in such plans and determines the terms of their participation. The members of the Compensation and Stock Option Committee are Mr. Phillips, Chairman, and Mr. Everett, Dr. Gerrity and Mr. Staley.

The Nominating Committee is responsible for nominations to the Board of Directors. The members of the Nominating Committee are Mr. de Vitry, Chairman, and Messrs. Alden, Chandler, and Phillips. The Nominating Committee will consider highly qualified candidates proposed in writing by stockholders. Stockholders who wish to propose a nomination should submit the person's name and background information to the Clerk of the Corporation.

The Board of Directors held nine meetings during the fiscal year ended July 2, 1994, the Audit Committee met five times, the Compensation and Stock Option Committee met three times and the Nominating Committee met three times. All directors attended more than 75% of the total number of meetings of the Board and the committees on which they serve.

Compensation of Directors

Each director who is not also an employee of the Corporation received a retainer of \$25,000 (or ratable portion thereof) for his or her services during the fiscal year ended July 2, 1994, plus \$1,000 for each Board meeting and each committee meeting attended. Directors are also reimbursed for out-of-pocket expenses incurred in attending Board and committee meetings.

Directors may defer all or any part of their retainer or meeting fees pursuant to a deferred compensation plan. Pursuant to the plan, nonemployee directors of the Corporation may elect to defer receipt of all or a specified portion of their compensation in the form of cash, with an interest rate related to Treasury bills, or in the form of units, the value of each unit initially being equal to the fair market value of one share of the Common Stock of the Corporation on the date the compensation being deferred would otherwise be payable. The plan provides that compensation deferred under the plan, whether in the form of cash or units, will be paid out in cash after termination of service as a director. Directors may elect that compensation so deferred be paid out in a lump sum or in up to ten annual installments. Payment of compensation deferred under the plan commences in January of the year following the year in which service as a director terminates.

Pursuant to a retirement plan for nonemployee directors adopted in May 1987, each nonemployee director of the Corporation on the date of adoption of the plan, and every other nonemployee director who is 70 years of age or older and who has completed at least five years of service on the Board, is entitled upon termination of service to an annualized benefit for life which is equal to the annual retainer for nonemployee directors in effect on the date of termination of service. The plan also provides for coordinated disability benefits for all nonemployee directors equal to the annual retainer in effect on the date of total disability.

Each nonemployee director of the Corporation also participates in the 1990 Stock Option Plan for Nonemployee Directors ("Nonemployee Directors Plan"), which provides for a one-time grant of an option to purchase 5,000 shares of the Corporation's Common Stock at a price per share equal to 100% of the fair market value of the stock on the date of grant. Eligibility for and the grant of options under the Nonemployee Directors Plan is automatic in nature, occurring as of the date of commencement of service as a nonemployee director. The options become exercisable at the rate of 20% per year beginning on the first anniversary of the date the director begins service, with credit given for all past service by directors who were serving as of the date of approval of the Nonemployee Directors Plan. The options expire ten years from the date of grant, unless terminated earlier in accordance with the terms of the Plan. The

Nonemployee Directors Plan authorizes the issuance of a maximum of 100,000 shares of Common Stock, and will terminate on December 31, 2000.

Executive Compensation

Summary Compensation Table

The Summary Compensation Table shows compensation information for the Chief Executive Officer, the four other most highly compensated executive officers for the fiscal year ended July 2, 1994, and Edward E. Lucente, who resigned as an executive officer and employee of the Corporation on April 29, 1994.

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation		
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Awards		All Other Compensation (\$)
				(2)	Restricted Stock Awards (\$)	Stock Options (#)	(4)
Robert B. Palmer	1994	\$900,016	\$ 0	\$ 0	\$ 0	120,000	\$ 0
President and Chief Executive Officer	1993	738,469 (5)	0	0	0	345,000	9,000
	1992						
Gresham T. Brebach, Jr.	1994	700,003	200,000 (1)	78,225	0	40,000	0
Vice President (6)	1993	134,616	200,000 (1)	0	425,000	30,000	0
	1992	—	—	—	—	—	—
Charles F. Christ	1994	315,016	0	0	0	60,000	0
Vice President	1993	306,654	0	106,259	0	30,000	0
	1992	288,860	0	0	0	30,000 (7)	0
Enrico Pesatori	1994	569,242	0	116,899	195,620	75,000	0
Vice President (6)	1993	228,468	100,000 (1)	86,913	350,000	30,000	0
	1992	—	—	—	—	—	—
William D. Strecker	1994	427,891	0	0	0	50,000	0
Vice President	1993	357,704	60,000	0	0	29,000	13,500
	1992	305,019	0	0	446,000	30,000 (7)	0
Edward E. Lucente	1994	553,235	0	91,191	0	0	282,502
Vice President (6)	1993	138,118	0	0	410,620	40,000	0
	1992	—	—	—	—	—	—

(1) The Corporation agreed to pay the stated amounts to Messrs. Brebach and Pesatori as an inducement for their commencing employment with the Corporation. See "Employment Arrangements" and "Compensation and Stock Option Committee Report on Executive Compensation".

(2) Represents customary one-time relocation and allowance payments to executives joining the Corporation. Mr. Pesatori's compensation for the fiscal year ended July 2, 1994 includes 20% of the original principal amount of a \$150,000 relocation loan from the Corporation, and for each fiscal year, accrued interest, which amounts were forgiven. Mr. Brebach's compensation for fiscal year 1994 includes accrued unpaid interest on relocation loans from the Corporation, which loans have been repaid in full.

(3) The amount shown for Mr. Pesatori for fiscal year 1994 represents the dollar value on the date of grant of 10,000 shares of restricted Common Stock awarded to Mr. Pesatori during fiscal year 1994. The restrictions with respect to 50% of these shares lapse on December 16, 1994, and the remaining restrictions lapse on December 16, 1995. The value of these shares at July 1, 1994, the last business day of the fiscal year, was \$190,000. Amounts shown for Messrs. Brebach, Pesatori and Lucente for fiscal year 1993 represent the dollar value on the date of grant of 10,000 shares of restricted Common Stock awarded to each of such individuals during fiscal year 1993. The value of each of these 10,000 share grants at July 1, 1994, the last business day of the fiscal year, was \$190,000. Upon the resignation of each of Messrs. Brebach and Lucente as officers and employees of the Corporation on April 29, 1994 and August 8, 1994, respectively, the 7,000 shares of restricted Common Stock then held by each of them were forfeited. The amount shown for Mr. Strecker represents the dollar value on date of grant of 8,000 shares of restricted Common Stock awarded to Mr. Strecker during fiscal year 1992. The value of these shares at July 1, 1994, the last business day of the fiscal year, was \$152,000. Messrs. Brebach, Pesatori and Strecker held 7,000, 18,000 and 8,000 shares of restricted Common Stock, respectively, at the end of fiscal year 1994. As noted above, Mr. Brebach forfeited all of such shares of restricted Common Stock upon his resignation on August 8, 1994. If the Corporation were to begin to pay dividends on its Common Stock, holders of restricted Common Stock would receive cash dividends on the shares of restricted Common Stock held by them. The amount ultimately realized by any named executive officer in respect of restricted Common Stock depends upon the value of the Corporation's Common Stock when the executive officer sells the shares, which can only occur after the restrictions lapse.

(4) With respect to Messrs. Palmer and Strecker, consists of cash received at the rate of \$3.00 per unexercised option share in exchange for cancellation of stock options granted during fiscal year 1988 at an exercise price of \$153.00 per share. With respect to Mr. Lucente, represents severance payments paid to Mr. Lucente during fiscal year 1994. See "Employment Arrangements".

(5) Mr. Palmer was elected President and Chief Executive Officer of the Corporation effective October 1, 1992. Salary reflected in the table includes compensation paid to Mr. Palmer in all capacities during fiscal year 1993.

(6) Messrs. Brebach, Pesatori and Lucente joined the Corporation on April 26, 1993, March 12, 1993 and April 15, 1993, respectively. Mr. Brebach resigned as an officer and employee of the Corporation on August 8, 1994 and all of his stock options were canceled at that time. Mr. Lucente resigned as an officer and employee of the Corporation on April 29, 1994 and all of his stock options were canceled at that time. See "Employment Arrangements".

(7) These options may not be exercised unless and until the Corporation's stock price averages at least \$100 over 90 consecutive trading days.

Option/SAR Grants In Last Fiscal Year

The following table shows information regarding grants of stock options during the fiscal year ended July 2, 1994 to the named executive officers. The Corporation did not grant any stock appreciation rights during fiscal year 1994.

Name	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term (2)	
	Options/ SARs Granted (#) (1)	% of Total Options/SAR's Granted to Employees in Fiscal Year	Exercise or Base Price (\$/Sh) (1)	Expiration Date	5% (\$)	10% (\$)
Robert B. Palmer.....	120,000	3.7%	\$19.562	9/13/04	\$ 1,522,571	\$ 3,886,000
Gresham T. Brebach, Jr. ..	40,000 (4)	1.2	19.562	9/13/04	507,524	1,295,333
Charles F. Christ.....	60,000	1.9	19.562	9/13/04	761,286	1,943,000
Enrico Pesatori	75,000	2.3	19.562	9/13/04	951,607	2,428,750
William D. Strecker	50,000	1.6	19.562	9/13/04	951,607	2,428,750
Edward E. Lucente.....	0 (4)	—	—	—	—	—
All Stockholders(3)					1.89 billion	4.69 billion

(1) Stock options were granted under the Corporation's 1990 Equity Plan at an exercise price equal to the fair market value of the Corporation's Common Stock on the date of grant.

The options have a term of ten years and 90 days and become exercisable ratably over three years from date of grant.

(2) Amounts reported in these columns represent amounts that may be realized upon exercise of the options immediately prior to the expiration of their term assuming the specified compounded rates of appreciation on the Corporation's Common Stock over the term of the options. These numbers are calculated based on rules promulgated by the Securities and Exchange Commission and do not reflect the Corporation's estimates of future stock price growth. Actual gains, if any, on stock option exercises and Common Stock holdings are dependent on the timing of such exercise and sale of the shares and the future performance of the Corporation's Common Stock. There can be no assurances that the rates of appreciation assumed in this table can be achieved or that the amounts reflected will be received by the individuals.

(3) The amounts shown as potential realizable values for all stockholders represent the corresponding increases from July 1, 1994, the last business day of the fiscal year, in the market value of 142,287,078 shares of the Corporation's Common Stock outstanding on such date.

(4) Mr. Brebach resigned as an officer and employee of the Corporation on August 8, 1994, and all of the stock options granted to him during fiscal year 1994 were canceled at that time. Mr. Lucente resigned as an officer and employee of the Corporation on April 29, 1994.

Aggregated Option/SAR Exercises in Last Fiscal Year and FY-End Option/SAR Values

The following table summarizes for each of the named executive officers the number of stock options, if any, exercised during the fiscal year ended July 2, 1994, the aggregate dollar value realized upon exercise and the total number of unexercised options held at July 2, 1994. None of the named executive officers held any in-the-money, unexercised options or SARs at July 2, 1994, and none of the named executive officers exercised or held any SARs during the year. The closing price of the Corporation's Common Stock on the New York Stock Exchange on July 1, 1994, the last business day of the fiscal year, was \$19.00.

Name	Number of Shares Underlying Options/SARs Exercised (#)	Value Realized (\$)	Number of Unexercised Options/SARs at FY-End (#)		Value of Unexercised In-the-Money Options/SARs at FY-End (\$) (2)	
			Exercisable	Restricted/Unexercisable (1)	Exercisable	Restricted/Unexercisable
Robert B. Palmer	0	\$0	72,750	538,300	—	—
Gresham T. Brebach, Jr.(3)	0	0	6,000	64,000	—	—
Charles F. Christ	0	0	13,200	134,000	—	—
Enrico Pesatori	0	0	6,000	99,000	—	—
William D. Strecker	0	0	14,550	133,000	—	—
Edward E. Lucente(4)	0	0	0	0	—	—

(1) A portion of these options represent immediately exercisable restricted stock options, with restrictions on disposition of the underlying shares lapsing ratably over periods of three to ten years from date of grant. The number of underlying shares subject to such options for the named executive officers is as follows: Mr. Palmer, 378,300; Mr. Brebach, 30,000; Mr. Christ, 44,000; Mr. Pesatori, 30,000 and Mr. Strecker, 53,000. 40,000, 30,000 and 30,000 of the remaining options held by Mr. Palmer, Mr. Christ and Mr. Strecker, respectively, were granted during fiscal year 1992 and become exercisable at the rate of 20% per year but may not be exercised unless and until the Corporation's stock price averages at least \$100 over 90 consecutive trading days. The remaining options held by Messrs. Palmer, Brebach, Christ, Pesatori and Strecker were granted during fiscal year 1994 and become exercisable ratably over three years.

(2) None of the currently exercisable stock options held by any of the named executive officers is in-the-money.

(3) Upon Mr. Brebach's resignation as an employee and officer of the Corporation on August 8, 1994, all of his then outstanding stock options were canceled.

(4) Upon Mr. Lucente's resignation as an employee and officer of the Corporation on April 29, 1994, all of his then outstanding stock options were canceled.

Pension Plans

The Corporation and its subsidiaries have pension plans covering substantially all of their employees. Benefits under the Corporation's defined benefit pension plan (the "Pension Plan") for its U.S. employees are based upon the employee's earnings during service with the Corporation and are payable after retirement in the form of annuities or lump sum benefits. The annual amount payable upon retirement at age 65 is, in general, 1.5% of the aggregate amount of the participant's compensation earned on and after July 1, 1989. Those persons who were active participants on July 1, 1989, or who later become active participants credited with prior service, are also eligible to receive 1.5% of the average of the participant's annual compensation between July 1, 1984 and July 1, 1989, multiplied by the number of years of accredited service prior to July 1, 1989. For purposes of calculating a participant's pension benefit, annual compensation is currently limited to \$150,000, subject to adjustment to reflect cost of living increases. A participant's annual pension may not exceed the lesser of the maximum allowable dollar limit, or 100% of the participant's average compensation for the participant's three highest paid consecutive years of service with the Corporation.

The Digital Equipment Corporation Restoration Pension Plan (the "Restoration Plan"), adopted effective as of May 1, 1992, compensates the Corporation's employees for reductions in the benefits calculated under the Pension Plan due to legislative and regulatory limitations. The Restoration Plan provides additional retirement compensation equal to the difference between the benefit a participant would receive under the Pension Plan without the legislative and regulatory limitations and the benefit actually payable to the participant under the Pension Plan.

Estimated annual retirement benefits payable as a straight life annuity under the Pension Plan and Restoration Plan at age 65 based on projected compensation and continued employment for the following individuals would be: Mr. Palmer, \$194,641; Mr. Christ, \$75,549; Mr. Pesatori, \$114,260; and Mr. Strecker \$168,342. Messrs. Lucente and Brebach resigned as officers and employees of the Corporation prior to the time any of their retirement benefits vested, and therefore, neither would receive any retirement benefits under the Pension Plan or Restoration Plan.

Employment Arrangements

In connection with his offer of employment, the Corporation (i) agreed to pay Mr. Pesatori a base salary of \$550,000 a year, which has subsequently been increased to \$650,000 in recognition of his assumption of additional responsibilities (see "Compensation and Stock Option Committee Report on Executive Compensation"); (ii) awarded Mr. Pesatori 10,000 shares of restricted Common Stock with restrictions on disposition lapsing over five years, and granted him a restricted stock option with respect to 30,000 shares of Common Stock at an exercise price of \$35.00 per share, with restrictions lapsing ratably over five years and (iii) loaned Mr. Pesatori \$150,000 for the purchase of a principal residence in connection with his relocation to the Boston area. If Mr. Pesatori were no longer to be employed by the Corporation, such loan would bear interest at the minimum rate necessary to avoid imposition of interest income under the United States Internal Revenue Code of 1986, as amended. The loan is secured by a subordinated second mortgage. One-fifth of the original principal amount of the loan was forgiven on February 3, 1994, and an additional one-fifth of the original principal amount of the loan will be forgiven on each anniversary thereof if Mr. Pesatori is still employed by the Corporation on each such date. In the event Mr. Pesatori's employment is terminated without cause within the first four years of his employment with the Corporation, he would receive his then current salary for twenty-four months unless he were to accept employment with a competitor of the Corporation.

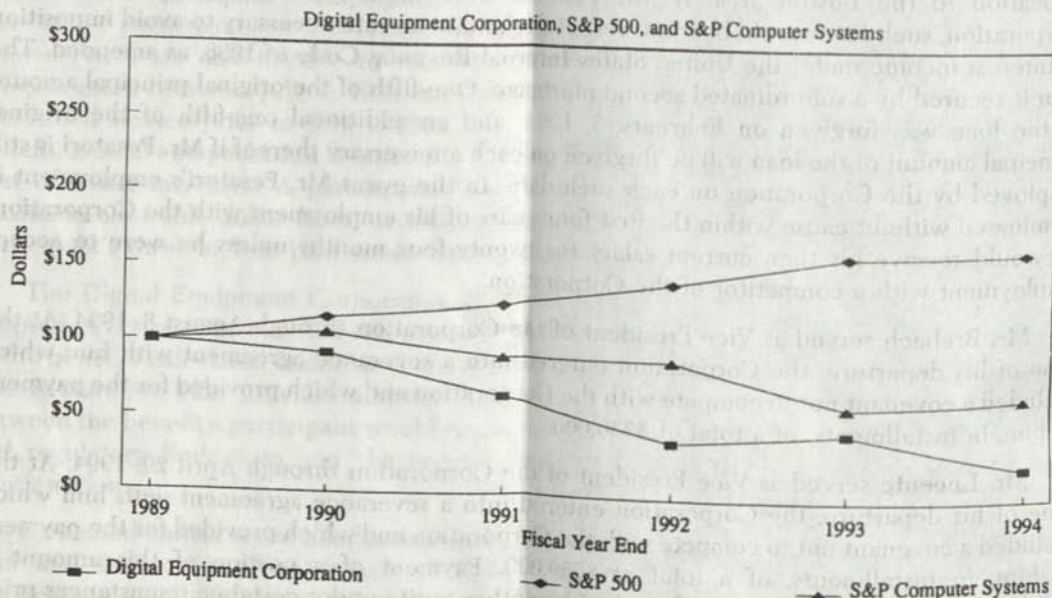
Mr. Brebach served as Vice President of the Corporation through August 8, 1994. At the time of his departure, the Corporation entered into a severance agreement with him which included a covenant not to compete with the Corporation and which provided for the payment to him, in installments, of a total of \$350,000.

Mr. Lucente served as Vice President of the Corporation through April 29, 1994. At the time of his departure, the Corporation entered into a severance agreement with him which included a covenant not to compete with the Corporation and which provided for the payment to him, in installments, of a total of \$650,000. Payment of a portion of this amount is conditioned on his not being employed with another entity under certain circumstances prior to February 1995.

Stock Price Performance Graph

The following graph compares the five-year return for the Corporation's Common Stock against the Standard & Poor's ("S&P") 500 Stock Index and the S&P Computer Systems Index. The graph assumes \$100 was invested on July 1, 1989 in the Corporation's Common Stock and \$100 was invested at that time in each of the S&P indexes. The comparative data assumes that all dividends, if any, were reinvested.

Comparison of Five Year Cumulative Total Return



COMPENSATION AND STOCK OPTION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

The Compensation and Stock Option Committee (the "Committee") of the Board of Directors is composed of four independent non-employee directors. The Committee is responsible for approving executive officer compensation and for administering the cash incentive and equity participation plans that govern the variable compensation paid to all senior management of the Corporation. The following report describes the Corporation's executive compensation practices and the actions of the Committee regarding compensation paid to executive officers during fiscal year 1994.

The Corporation's executive compensation programs are designed to link the level of executive compensation to corporate and individual performance and increases in shareholder value. In addition, these programs are intended to motivate executives to improve the Corporation's financial performance and to make executives accountable for the performance of the business units or functions for which they are responsible. It is also a goal of these programs to attract and retain talented executives.

The Corporation's disappointing operating results during and for fiscal year 1994 significantly influenced the Committee's decisions regarding the level and the components of executive compensation. The Committee's compensation decisions and awards in fiscal year 1994 generally were weighted toward vehicles which would provide incentives for executives to improve the Corporation's financial performance and link the level of executive compensation to increases in shareholder value. As in past years, the Committee reviewed the total compensation of executive officers relative to the compensation of executives of large and competitor companies, including companies in the Standard & Poor's Computer Systems Index, others in the Corporation's industry and select cross-industry "Fortune 100" companies, all of which shall be referred to as the "Comparison Group". The Committee also reviewed the executive officer's performance and the performance of the business unit or function for which such officer was responsible.

The Corporation's standard executive compensation package consists of three elements: base salary, cash incentives and stock options. The Committee attempts to combine these three elements to address the following objectives.

- attract and retain talented individuals by paying them a competitive base salary;
- reward targeted and superior corporate, organizational and individual performance through cash incentives;

- motivate and encourage performance that increases shareholder value and contributes to the future success of the Corporation through grants of stock options.

Base Salaries. Base salary levels are determined relative to external market and Comparison Group practices, the internal scope and impact of the job, the overall performance of the Corporation and the performance of the business unit or function for which the executive officer is responsible. Actual 1994 salaries varied considerably among the executive officers depending upon responsibilities, market dynamics, past performance, attainment of individual and business performance goals and tenure.

In April 1994, Enrico Pesatori accepted the additional responsibility of managing the Corporation's systems business while retaining responsibility for the Corporation's personal computer business, for which his annual base salary was increased to \$650,000. In June 1994, Charles F. Christ, formerly Vice President of the Corporation's Storage Business Unit, agreed to assume increased management responsibility for the newly formed Components Division of the Corporation. In recognition of Mr. Christ's expanded role and responsibilities, his annual base salary was increased to \$425,000. William D. Strecker's annual base salary was increased to \$450,000 in December 1993 in recognition of his responsibilities as the Chief Technical Officer of the Corporation.

Cash Incentives. The Corporation introduced a cash incentive plan for the first time in fiscal year 1993. The purpose of this plan is to reward participants, including executive officers, relative to corporate, organizational and individual performance for any given year. The program for fiscal year 1994 provided that the cash awards were contingent on the achievement of corporate-wide financial objectives related to earnings per share, as well as performance targets established for the business organization or function for which the executive officer was responsible. Because the corporate-wide financial objectives were not achieved, the Corporation did not fund the cash incentive plan in fiscal year 1994.

As part of his initial offer of employment and as an inducement for him to join the Corporation, the Corporation agreed to pay Gresham T. Brebach, Jr. \$200,000 in cash in addition to his base salary for his services during each of fiscal years 1993 and 1994. These payments are reflected in the Summary Compensation Table above.

Equity Participation Plans. Stock options continue to be a major component of the Corporation's compensation strategy because this compensation vehicle closely aligns the interests of management with those of shareholders. Stock options are periodically

granted to executive officers based on an assessment of each officer's potential to contribute to the future success of the Corporation and relative to practices of companies in the Comparison Group. Based on this review, during fiscal year 1994 the Corporation granted fair market value options that become exercisable ratably over three years, with a term of 10 years and 90 days.

The Corporation periodically awards a small number of individuals, including certain executive officers, restricted stock in recognition of outstanding performance. Restricted stock awards also have been used and may continue to be used to attract and retain certain key individuals. As reflected in the Summary Compensation Table above, Mr. Pesatori received a restricted stock award for 10,000 shares of Common Stock in recognition of his performance as Vice President and General Manager of the Personal Computer Business Unit. Under Mr. Pesatori's stewardship, revenues from the Corporation's personal computer business nearly doubled from fiscal year 1993 to fiscal year 1994.

Chief Executive Compensation. Mr. Palmer's annual base salary for fiscal year 1994, which was determined shortly before the commencement of the fiscal year, was not further adjusted and remains at \$900,000 due to the Corporation's disappointing financial performance in fiscal year 1994. Mr. Palmer also participates in the cash incentive plan but did not receive an award under the plan for fiscal year 1994 because the corporate-wide financial objectives under the plan for fiscal year 1994 were not achieved.

The Committee believes that the total compensation package for the Chief Executive Officer should provide significant incentives to improve corporate performance and increase shareholder value. In June 1994 the Committee awarded Mr. Palmer a stock option to purchase 120,000 shares of the Corporation's Common Stock, at an exercise price equal to the fair market value of the Common Stock on the date of grant and exercisable ratably over three years. In determining the size and vesting schedule of this grant, the Committee considered the challenges facing the Corporation as it seeks to restore profitability as well as the practices of companies within the Comparison Group. The Committee also reviewed the size and terms of Mr. Palmer's stock option grant with an outside consultant.

The Committee believes that Mr. Palmer's total compensation is appropriate, taking into account the significance of his responsibilities, the performance of the Corporation and relative to chief executive officers of companies within the Comparison Group.

Compensation Deductibility. Internal Revenue Code section 162(m) imposes a limit on tax deductions for annual compensation in excess of one million dollars paid to any of the five

most highly compensated executive officers of a corporation. This provision excludes certain forms of "performance based compensation" from the compensation taken into account for purposes of that limit. The Committee will assess the impact of this provision on its compensation practices and will determine what action, if any, is appropriate.

Compensation and Stock Option Committee:

Thomas L. Phillips, Chairman

Robert R. Everett

Thomas P. Gerrity

Delbert C. Staley

**PROPOSAL TO AMEND THE 1968 EMPLOYEE STOCK PURCHASE PLAN
TO INCREASE THE NUMBER OF SHARES AVAILABLE FOR ISSUANCE**

On June 16, 1994, the Board of Directors amended the 1968 Employee Stock Purchase Plan (the "Employee Plan") to increase the number of shares subject thereto by 5,000,000 shares. The amendment will become effective only upon approval by the stockholders. This increase in shares is needed to enable the Corporation to continue operating the Employee Plan for the benefit of eligible employees.

The Board of Directors recommends a vote FOR approving the amendment to the Employee Plan.

Description of the 1968 Employee Stock Purchase Plan

In 1968 the Board of Directors and the stockholders adopted the Employee Plan for substantially all employees of the Corporation and its participating subsidiaries, other than directors of the Corporation. Since adoption of the Employee Plan, a total of 38,800,000 shares have been authorized for issuance thereunder. At August 1, 1994, approximately 45,300 employees were eligible to participate in the Employee Plan, and approximately 23,500 employees were participating.

The Employee Plan permits employees to purchase shares of the Corporation's Common Stock twice yearly through accumulated payroll deductions, up to a maximum of 10% of total compensation. The six-month periods June 1 to November 30 and December 1 to May 31 are the payment periods ("Payment Period") during which payroll deductions are accumulated under the Employee Plan. The price at which shares are purchased is an amount equal to 85%

of the fair market value of the stock on the first or last business day of the applicable six-month Payment Period, whichever is lower.

The Board of Directors may terminate or amend the Employee Plan, provided that no amendment shall, without stockholder approval, increase the number of shares of Common Stock to be offered under the Plan or change the class of employees eligible to participate in the Plan.

During the period July 4, 1993 through July 2, 1994, executive officers of the Corporation purchased shares under the Employee Plan as follows: Mr. Pesatori, 696 shares; Mr. Strecker, 696 shares; all current executive officers as a group, 5,284 shares; and all employees as a group (excluding current and named executive officers but including current officers who are not executive officers), 4,710,465 shares.

At August 1, 1994, 35,875,419 shares had been purchased by employees under the Employee Plan and 2,924,581 shares remained available.

Tax Aspects under the U.S. Internal Revenue Code

Generally, the following tax consequences under the United States Internal Revenue Code of 1986, as amended (the "Code"), are applicable to shares purchased under the Employee Plan:

1. No taxable income will be realized by the employee at the time of the purchase of the shares.
2. If the employee disposes of the shares two years or more after the date of the beginning of the Payment Period when the employee acquired the shares, then the employee at that time will recognize as taxable compensation income an amount equal to the lesser of:

(a) the excess of the fair market value of the shares on the date of such disposition over the price at which the shares were purchased, or

(b) 15% of the fair market value of the shares at the beginning of the Payment Period.

In addition, the employee may recognize a long-term capital gain or loss in an amount equal to the difference between the amount realized upon the sale of the shares and the

basis of the shares (i.e., the purchase price plus the amount, if any, taxed as compensation income).

3. If the employee disposes of the shares within two years after the date of the beginning of the Payment Period when the employee acquired the shares, the employee at that time will recognize taxable compensation income equal to the fair market value of the shares on the date of purchase (the last business day of the applicable Payment Period) less the amount paid for the shares. In addition, the employee will recognize a capital gain or loss in an amount equal to the difference between the amount realized upon the sale of the shares and the basis of the shares (i.e., in this case, the purchase price plus the amount taxed as compensation income). If the employee holds the shares for more than one year, this gain or loss will be a long-term capital gain or loss.

4. The Corporation will be entitled to a deduction for federal income tax purposes in an amount equal to the amount which is considered ordinary compensation income if the employee disposes of the shares within two years after the date of the beginning of the Payment Period when the employee acquired the shares.

PROPOSAL TO AMEND THE 1981 INTERNATIONAL EMPLOYEE STOCK PURCHASE PLAN TO INCREASE THE NUMBER OF SHARES AVAILABLE FOR ISSUANCE

On June 16, 1994, the Board of Directors amended the 1981 International Employee Stock Purchase Plan (the "International Plan") to increase the number of shares subject thereto by 3,500,000 shares. The amendment will become effective only upon approval by the stockholders. This increase in shares is needed to enable the Corporation to continue operating the International Plan for the benefit of eligible employees.

The Board of Directors recommends a vote FOR approving the amendment to the International Plan.

Description of the 1981 International Employee Stock Purchase Plan

In 1981, the Board of Directors and the stockholders adopted the International Plan. Since adoption of the International Plan, a total of 10,100,000 shares have been authorized for issuance thereunder. At August 1, 1994, approximately 31,100 employees were eligible to participate in the International Plan, and approximately 12,400 employees were participating.

The provisions of the International Plan are currently substantially the same as the Employee Plan described above. The International Plan was adopted in order to extend the benefits of the Employee Plan to employees (other than directors of the Corporation) of selected non-U.S. subsidiaries of the Corporation or branches thereof. The International Plan is not intended to be a tax-qualified plan under the Code.

The Board of Directors may terminate or amend the International Plan, provided that no amendment shall, without stockholder approval, increase the number of shares of Common Stock to be offered under the Plan or change the class of employees eligible to participate in the Plan.

During the period July 4, 1993 through July 2, 1994, no executive officers purchased shares under the International Plan and all employees as a group (excluding current and named executive officers but including current officers who are not executive officers) purchased a total of 2,223,023 shares under the International Plan.

At August 1, 1994, 7,891,567 shares had been purchased under the International Plan and 2,208,433 shares remained available.

Employees participating in the International Plan will be subject to taxation in accordance with the laws of the countries where they are resident or employed. Accordingly, the tax consequences applicable to employees will vary depending on the country. Because the International Plan is not a U.S. tax-qualified plan, employees of participating foreign subsidiaries who are U.S. citizens or resident aliens also recognize taxable compensation income under the Code, but may be entitled, with certain limitations, to a U.S. foreign tax credit equal to the taxes paid to foreign countries in respect of the shares.

RATIFICATION OF SELECTION OF AUDITORS

The Audit Committee of the Board of Directors has selected the firm of Coopers & Lybrand L.L.P., independent accountants, to serve as auditors for the fiscal year ending July 1, 1995, subject to ratification by the stockholders. Coopers & Lybrand L.L.P. has served as the Corporation's auditors since the organization of the Corporation. The Board of Directors recommends a vote FOR ratification of this selection. It is expected that a member of the firm of Coopers & Lybrand L.L.P. will be present at the Meeting, will have an opportunity to make a statement if so desired and will be available to respond to appropriate questions.

EXPENSES AND SOLICITATION

The cost of solicitation of proxies will be borne by the Corporation. In addition to soliciting stockholders through its regular employees, the Corporation will request banks and brokers to solicit customers of theirs who have shares of Common Stock of the Corporation registered in the name of a nominee. The Corporation will reimburse such banks and brokers for their reasonable out-of-pocket costs, at the rates suggested by the New York Stock Exchange. Solicitation by officers and employees of the Corporation may also be made of some stockholders in person, or by mail, telephone or telegraph, following the original solicitation. Georgeson & Company Inc. has been retained by the Corporation to assist with the solicitation of proxies at a cost to the Corporation estimated not to exceed \$15,000.

STOCKHOLDER PROPOSALS FOR NEXT ANNUAL MEETING

Proposals of stockholders intended for inclusion in the proxy statement to be mailed to all stockholders entitled to vote at the 1995 Annual Meeting of Stockholders of the Corporation must be received at the Corporation's principal executive offices not later than May 16, 1995. In order to curtail controversy as to the date on which a proposal was received by the Corporation, proponents should submit their proposals by Certified Mail — Return Receipt Requested.

September 14, 1994

digital

DIGITAL EQUIPMENT CORPORATION

NOTICE OF 1995 ANNUAL MEETING

Dear Fellow Stockholder:

September 18, 1995

You are cordially invited to attend our Annual Meeting of Stockholders, which will be held this year on Thursday, November 9, 1995, at 11:00 A.M., at the World Trade Center, Commonwealth Pier, 164 Northern Avenue, Boston, Massachusetts.

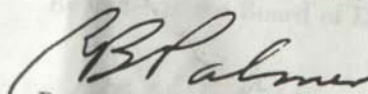
We are very pleased that Frank P. Doyle, an Executive Vice President at General Electric Company, became a member of our Board on August 24, 1995.

Philip Caldwell will be retiring from the Board of Directors on November 9, 1995. We are extremely grateful to him for his many contributions to Digital during his 15 years of service as a Director and we will miss his participation on the Board.

The notice of meeting and proxy statement that follow describe the business to be conducted at the meeting. We also will give a presentation on the current status of our business.

Whether or not you plan to attend the meeting in person, it is important that your shares be represented and voted. After reading the enclosed Notice of Annual Meeting and Proxy Statement, I urge you to complete, sign, date and return your proxy ballot in the envelope provided. If the address on the accompanying material is incorrect, please advise our Investor Services Department in writing at 111 Powdermill Road, Maynard, Massachusetts 01754.

For the Board of Directors,



ROBERT B. PALMER

Chairman of the Board, President and
Chief Executive Officer

DIGITAL EQUIPMENT CORPORATION, 111 POWDERMILL ROAD, MAYNARD, MASSACHUSETTS 01754

**YOUR VOTE IS IMPORTANT.
PLEASE SIGN, DATE AND RETURN YOUR PROXY**

DIGITAL EQUIPMENT CORPORATION

NOTICE OF 1995 ANNUAL MEETING

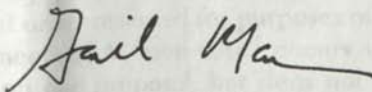
To the Stockholders of DIGITAL EQUIPMENT CORPORATION:

Notice is hereby given that the Annual Meeting of Stockholders of Digital Equipment Corporation, a Massachusetts corporation, will be held on Thursday, November 9, 1995, at 11:00 A.M., at the World Trade Center, Commonwealth Pier, 164 Northern Avenue, Boston, Massachusetts, for the following purposes:

1. To elect three members to the Board of Directors to serve for a three-year term as Class III Directors.
2. To consider and act upon a proposal to approve the 1995 Equity Plan.
3. To consider and act upon a proposal to approve the 1995 Stock Option Plan for Nonemployee Directors.
4. To ratify the selection of the firm of Coopers & Lybrand L.L.P. as auditors for the fiscal year ending June 29, 1996.
5. To consider and act upon a stockholder proposal relating to declassification of the Board of Directors.
6. To transact such other business as may properly come before the meeting.

Stockholders entitled to notice of and to vote at the meeting shall be determined as of the close of business on September 11, 1995, the record date fixed by the Board of Directors for such purpose.

By Order of the Board of Directors,



GAIL S. MANN, Clerk

September 18, 1995

STOCKHOLDERS ARE REQUESTED TO SIGN THE ENCLOSED PROXY CARD AND RETURN IT PROMPTLY IN THE ENCLOSED POSTAGE PAID ENVELOPE TO DIGITAL EQUIPMENT CORPORATION, P.O. BOX 1006, NEW YORK, NEW YORK 10269.

PROXY STATEMENT

INTRODUCTION

Proxies in the form enclosed with this proxy statement are solicited by the Board of Directors of Digital Equipment Corporation (the "Corporation") for use at the 1995 Annual Meeting of Stockholders (the "Meeting").

An Annual Report to Stockholders, containing financial statements for the fiscal year ended July 1, 1995, has been sent to all stockholders entitled to vote. This proxy statement and form of proxy were first sent to stockholders on or about the date of the accompanying Notice of 1995 Annual Meeting.

Only common stockholders of record as of the close of business on September 11, 1995 will be entitled to vote at the Meeting and any adjournments thereof. As of that date, 150,443,245 shares of Common Stock of the Corporation were issued and outstanding. Each share outstanding as of the record date will be entitled to one vote, and stockholders may vote in person or by proxy. Execution of a proxy will not in any way affect a stockholder's right to attend the meeting and vote in person. Any stockholder giving a proxy has the right to revoke it at any time before it is exercised by written notice to the Clerk of the Corporation. In addition, stockholders attending the Meeting may revoke their proxies at that time.

The representation in person or by proxy of at least a majority of the outstanding shares of Common Stock entitled to vote at the meeting is necessary to constitute a quorum for the transaction of business. Votes withheld from any nominee for election as director, abstentions and broker "non-votes" are counted as present or represented for purposes of determining the presence or absence of a quorum for the meeting. A "non-vote" occurs when a nominee holding shares for a beneficial owner votes on one proposal, but does not vote on another proposal because, in respect of such other proposal, the nominee does not have discretionary voting power and has not received instructions from the beneficial owner. An automated system administered by the Corporation's solicitation agent tabulates the votes. The vote on each matter submitted to stockholders is tabulated separately. Abstentions are included in the number of shares present or represented and voting on each matter. Broker "non-votes" are not so included.

The persons named as attorneys in the proxies are directors and/or officers of the Corporation. All properly executed proxies returned in time to be cast at the Meeting, if no contrary instruction is indicated, will be voted as stated below under "Election of Directors." In addition to the election of Class III Directors, the stockholders will consider and vote upon proposals to (i) approve the 1995 Equity Plan; (ii) approve the 1995 Stock Option Plan for Nonemployee Directors; and (iii) ratify the selection of auditors. Where a choice has been specified on the proxy with respect to these matters, the shares represented by the proxy will be voted in accordance with the specification and will be voted FOR if no specification is indicated. Directors are elected by a plurality of votes cast and the affirmative vote of a majority of the shares present or represented at the Meeting and voting on such matter is required for approval of these other matters.

The stockholders will also consider and act upon a stockholder proposal relating to declassification of the Board of Directors. The Board of Directors recommends a vote against this proposal. Where a choice has been specified on the proxy with respect to the stockholder proposal, the shares represented by the proxy will be voted in accordance with the specification and will be voted AGAINST if no specification is indicated. The affirmative vote of a majority of the shares present or represented at the Meeting and voting on such matter is required for approval of this stockholder proposal.

The Corporation knows of no other matter to be presented at the Meeting. If any other matter should be presented at the Meeting upon which a vote properly may be taken, shares represented by all proxies received by the Corporation will be voted with respect thereto in accordance with the judgment of the persons named as attorneys in the proxies.

ELECTION OF DIRECTORS

The Board of Directors of the Corporation is divided into three classes. Each class serves three years, with the terms of office of the respective classes expiring in successive years. The directors in Class I will be nominees for election to three-year terms at the 1996 Annual Meeting of Stockholders and the directors in Class II will be nominees for election to three-year terms at the 1997 Annual Meeting of Stockholders.

The present term of office for the directors in Class III ("Class III Directors") expires at the Meeting. Colby H. Chandler, Arnaud de Vitry and Thomas P. Gerrity were each elected at the Annual Meeting of Stockholders held November 5, 1992, and are nominees for re-election to a three-year term as Class III Directors. If re-elected, the Class III Director nominees will

hold office until the Annual Meeting of Stockholders to be held in 1998 and until their successors have been duly elected and have qualified. Shares represented by all proxies received by the Board of Directors and not so marked as to withhold authority to vote for any individual nominee will be voted (unless one or more nominees is unable or unwilling to serve) for the election of all nominees for Class III Directors. The Board of Directors knows of no reason why any such nominee should be unable or unwilling to serve, but if such should be the case, proxies will be voted for the election of some other person or the Board of Directors will fix the number of directors at a lesser number.

Set forth below is information with respect to each nominee for a Class III Director to be elected at the Meeting and for each Class I Director and Class II Director. With the exception of Frank P. Doyle, all of the directors were previously elected by the stockholders.

Nominees to Serve as Directors for a Three-Year Term Expiring at the 1998 Annual Meeting (Class III Directors)

COLBY H. CHANDLER

Mr. Chandler, age 70, retired as Chairman of the Board and Chief Executive Officer of Eastman Kodak Company ("Kodak") in May 1990. Prior to that time he had been Chief Executive Officer, Chairman of the Board and Chairman of the Executive Committee of Kodak since July 1983. He assumed the presidency of Kodak in January 1977. Mr. Chandler was a director of Kodak from 1974 to 1993. He is also a director of Citicorp, Ford Motor Company and J. C. Penney Company, Inc. Mr. Chandler has been a director of the Corporation since 1989 and is a member of the Audit Committee and Nominating Committee.

ARNAUD DE VITRY

Mr. de Vitry, age 69, is an engineering consultant. From 1980 to 1990, Mr. de Vitry was Chairman of the Board and Chief Executive Officer of Eureka SICAV, France, an investment company. He is a director of Ionics, Incorporated. Mr. de Vitry has been a director of the Corporation since 1957 and is Chairman of the Nominating Committee.

THOMAS P. GERRITY

Dr. Gerrity, age 54, has served as Dean of the Wharton School of the University of Pennsylvania since July 1990. From 1969 to 1989, Dr. Gerrity was chief executive

officer of Index Group, Inc. ("Index"), an information technology consulting company he founded. In 1988, Index became part of Computer Sciences Corporation ("CSC") and Dr. Gerrity was subsequently appointed president of CSC's commercial professional services group, CSC Consulting. Dr. Gerrity is presently a director of the Federal National Mortgage Association, Melville Corporation, Reliance Group Holdings, Inc. and Sun Company, Inc. He has been a director of the Corporation since 1992, and is a member of the Compensation and Stock Option Committee and Strategic Direction Committee.

Directors Serving a Term Expiring at the 1996 Annual Meeting (Class I Directors)

FRANK P. DOYLE

Mr. Doyle, age 64, has been an Executive Vice President of General Electric Company and a member of its corporate executive office since July 1992 and was a Senior Vice President from 1981 to July 1992. He is a director of the Paine Webber Group Inc. Mr. Doyle was elected a director of the Corporation on August 24, 1995.

KATHLEEN F. FELDSTEIN

Dr. Feldstein, age 54, has been President of Economics Studies, Inc., an economics consulting firm, since 1987. Dr. Feldstein is presently a director of Bank America Corporation, Conrail Corporation and The John Hancock Mutual Life Insurance Company. Dr. Feldstein has been a director of the Corporation since 1993 and is a member of its Audit Committee.

ROBERT B. PALMER

Mr. Palmer, age 55, has been President and Chief Executive Officer of the Corporation since October 1992, and Chairman of the Board since May 1995. Mr. Palmer joined the Corporation in 1985 and served as Vice President, Semiconductor and Interconnect Technology until 1990, and as Vice President, Manufacturing, Logistics and Component Engineering from 1990 to 1992. From 1983 to 1985, he was Executive Vice President of Semiconductor Operations at Mostek Corporation ("Mostek"), a subsidiary of United Technologies Corporation. Mr. Palmer was a co-founder of Mostek, where he held a series of senior management positions prior to its acquisition in 1980 by United Technologies Corporation. Mr. Palmer has been a director of the Corporation since 1992 and is Chairman of the Strategic Direction Committee.

Directors Serving a Term Expiring at the 1997 Annual Meeting (Class II Directors)

VERNON R. ALDEN

Mr. Alden, age 72, was Chairman of the Board and Executive Committee of The Boston Company, Inc., a financial services company, from 1969 to 1978. He was President of Ohio University from 1962 to 1969. Mr. Alden is a director of Augat, Inc., Colgate-Palmolive Company, Internet Corporation and Sonesta International Hotels Corporation. He is also a trustee of several cultural and educational organizations. He has been a director of the Corporation since 1959 and is a member of the Audit Committee and Nominating Committee.

ROBERT R. EVERETT

Mr. Everett, age 74, is an engineering consultant. He retired as President of the Mitre Corporation, a federal contract research center, in 1986. Mr. Everett has been a director of the Corporation since 1986 and is a member of the Compensation and Stock Option Committee and Strategic Direction Committee.

THOMAS L. PHILLIPS

Mr. Phillips, age 71, retired as Chairman of the Board and Chief Executive Officer of Raytheon Company ("Raytheon") in March 1991, having served as Chief Executive Officer since 1968, and as Chairman of the Board since 1975. He has been a director of Raytheon since 1962. Mr. Phillips is also a director of The John Hancock Mutual Life Insurance Company, SRA International, Inc., State Street Research and Management Co. and Knight-Ridder, Inc. Mr. Phillips has been a director of the Corporation since 1991. He is Chairman of the Compensation and Stock Option Committee and is a member of the Nominating Committee.

DELBERT C. STALEY

Mr. Staley, age 71, was Chairman, Chief Executive Officer and a director of NYNEX Corporation ("NYNEX") from 1983 until his retirement in September 1989. He continued serving as a director of NYNEX and served as Chairman of NYNEX International Management Committee until October 1991. Mr. Staley is a director of The John Hancock Mutual Life Insurance Company and Polaroid Corporation. Mr. Staley has been a director of the Corporation since September 1993 and is a member of the Compensation and Stock Option Committee and Strategic Direction Committee.

Security Ownership of Directors and Executive Officers

Shown below is certain information as of August 14, 1995, with respect to beneficial ownership of shares of the Corporation's Common Stock and of Depositary Shares, each representing one-fourth of a share of the Corporation's Series A 8% Cumulative Preferred Stock (the "Depositary Shares"), by each director (including the three nominees for Class III Directors), by each executive officer named in the Summary Compensation Table set forth on page 12 and by all directors and executive officers as a group. Unless otherwise indicated, the named person or members of the group possess sole voting and investment power with respect to the shares.

<u>Beneficial Owner</u>	<u>Shares Beneficially Owned</u>
Vernon R. Alden	49,502 (1) (2)
Philip Caldwell	4,000 (3)
	6,200 (1)
Colby H. Chandler	6,706 (4)
	10,000 (1)
	4,254 (4)
Arnaud de Vitry	113,260 (1) (5)
Frank P. Doyle	0 (6)
Robert R. Everett	6,300 (1)
	1,502 (4)
Kathleen F. Feldstein	3,000 (7)
Thomas P. Gerrity	15,000 (8)
Robert B. Palmer	439,119 (9)
Thomas L. Phillips	9,000 (10)
Delbert C. Staley	4,000 (11)
Charles F. Christ	70,975 (12)
Enrico Pesatori	53,250 (13)
John J. Rando	47,722 (14)
William D. Strecker	77,845 (15)
All directors and executive officers as a group (21 persons)	1,057,443 (16)

(1) Includes 5,000 shares of Common Stock which the director has the right to acquire by exercise of a stock option granted pursuant to the Corporation's 1990 Stock Option Plan for Nonemployee Directors ("1990 Nonemployee Directors Plan").

(2) Includes 22,873 shares of Common Stock held by Mr. Alden's wife, as to which shares Mr. Alden disclaims beneficial ownership.

(3) Represents 4,000 Depositary Shares. These Depositary Shares represent less than 1% of the Corporation's issued and outstanding Depositary Shares and Preferred Stock.

(4) Represents Common Stock units under the directors' deferred compensation plan described on pages 10 and 11. Under the plan, nonemployee directors may elect to defer receipt of all or a portion of their compensation in the form of Common Stock units. Common Stock units carry no voting rights.

(5) Includes 104,660 shares of Common Stock held by Mr. de Vitry's wife, as to which shares Mr. de Vitry disclaims beneficial ownership.

(6) Mr. Doyle was elected a Director of the Corporation on August 24, 1995.

(7) Includes 2,000 shares of Common Stock which Dr. Feldstein has the right to acquire by exercise of a stock option granted pursuant to the Corporation's 1990 Nonemployee Directors Plan.

(8) Includes 3,000 shares of Common Stock which Dr. Gerrity has the right to acquire by exercise of a stock option granted pursuant to the Corporation's 1990 Nonemployee Directors Plan.

(9) Includes 417,900 shares of Common Stock which Mr. Palmer has the right to acquire by exercise of stock options, 199,050 of which are subject to restrictions on disposition which lapse over time. Also includes 13,375 shares awarded as restricted stock under the Corporation's 1990 Equity Plan.

(10) Includes 4,000 shares of Common Stock which Mr. Phillips has the right to acquire by exercise of a stock option granted pursuant to the Corporation's 1990 Nonemployee Directors Plan.

(11) Includes 2,000 shares of Common Stock which Mr. Staley has the right to acquire by exercise of a stock option granted pursuant to the Corporation's 1990 Nonemployee Directors Plan.

(12) Consists of 63,800 shares of Common Stock which Mr. Christ has the right to acquire by exercise of stock options, 36,800 of which are subject to restrictions on disposition which lapse over time. Also includes 7,125 shares of Common Stock awarded as restricted stock under the Corporation's 1990 Equity Plan.

(13) Includes 37,750 shares of Common Stock which Mr. Pesatori has the right to acquire by exercise of stock options, 18,000 of which are subject to restrictions on disposition which

lapse over time. Also includes 15,500 shares of Common Stock awarded as restricted stock under the Corporation's 1990 Equity Plan.

(14) Includes 42,875 shares of Common Stock which Mr. Rando has the right to acquire by exercise of stock options, 13,505 of which are subject to restrictions on disposition which lapse over time. Also includes 3,375 shares of Common Stock awarded as restricted stock under the Corporation's 1990 Equity Plan.

(15) Includes 68,000 shares of Common Stock which Mr. Strecker has the right to acquire by exercise of stock options, 22,450 of which are subject to restrictions on disposition which lapse over time. Also includes 2,185 shares of Common Stock held by Mr. Strecker's wife, as to which shares Mr. Strecker disclaims beneficial ownership. In addition, includes 6,250 shares awarded as restricted stock under the Corporation's 1990 Equity Plan.

(16) The group is comprised of the executive officers named in the Summary Compensation Table on page 12 and those persons who were directors and executive officers of the Corporation on August 14, 1995 and Mr. Doyle, who was elected a director of the Corporation on August 24, 1995. Mr. Doyle did not beneficially own any shares of the Corporation's Common Stock nor any rights to acquire such stock by exercise of stock options on either August 14, 1995 or August 24, 1995. Includes 754,775 shares of Common Stock which the directors and executive officers as a group have the right to acquire by exercise of stock options granted under the Corporation's stock plans, 321,825 of which are subject to restrictions on disposition which lapse over time. In addition, includes 130,474 shares held by family members of officers or directors, as to which shares the applicable officer or director disclaims beneficial ownership. Also includes 64,375 shares awarded as restricted stock under the Corporation's 1990 Equity Plan. Excludes 4,000 Depositary Shares held by such directors and executive officers. The 1,057,443 shares held by all directors and executive officers as a group would represent approximately .7% of the Corporation's issued and outstanding Common Stock, assuming exercise of the stock options.

Security Ownership of Certain Beneficial Owners

The following table sets forth as of the recent most practicable date as to the group, who to the knowledge of management, beneficially owned more than 5% of the shares of Common Stock of the Corporation.

<u>Name and Address of Beneficial Owner</u>	<u>Amount and Nature of Beneficial Ownership</u>	<u>Percent of Class</u>
FMR Corp. 82 Devonshire Street Boston, Massachusetts 02109	18,673,510 (1) (2)	13.08% (2)

(1) FMR Corp. disclaims beneficial ownership of 132,400 of such shares held by Fidelity International Limited ("FIL"). Prior to June 30, 1980, FIL was a majority-owned subsidiary of FMR Corp. On that date, the shares of FIL held by Fidelity were distributed as a dividend to the shareholders of FMR Corp. FIL currently operates as an entity independent of FMR Corp.

(2) Represents the number of shares beneficially owned and the percent of class as of December 31, 1994.

Certain Relationships and Related Transactions

Philip Caldwell, who is retiring from the Board of Directors on November 9, 1995, is Senior Managing Director of Lehman Brothers, one of the Corporation's investment bankers. Lehman Brothers performs financial and investment banking services for the Corporation for which it receives usual and customary compensation. Mr. Caldwell's son-in-law is a middle management employee of the Corporation and receives the usual and customary compensation for the position he serves.

Committees of the Board

The Board of Directors has an Audit Committee, a Compensation and Stock Option Committee, a Nominating Committee and a Strategic Direction Committee. The Audit Committee selects the independent auditors to be employed by the Corporation, subject to ratification by the Corporation's stockholders, reviews generally the internal and external audit plans and the results thereof, and reviews generally the Corporation's internal controls with the internal and external auditors. The members of the Audit Committee are Mr. Caldwell, Chairman, and Mr. Alden, Mr. Chandler and Dr. Feldstein.

The Compensation and Stock Option Committee reviews and recommends to the Board the compensation of directors, reviews the compensation of senior management and reviews and recommends to the Board the adoption of any compensation plans in which directors and officers are eligible to participate. The Committee also administers and interprets the Corporation's stock plans and, subject to the provisions of the plans, selects the employees who are to participate in such plans and determines the terms of their participation. The members of the Compensation and Stock Option Committee are Mr. Phillips, Chairman, and Mr. Everett, Dr. Gerrity and Mr. Staley.

The Nominating Committee is responsible for nominations to the Board of Directors. The members of the Nominating Committee are Mr. de Vitry, Chairman, and Messrs. Alden, Chandler, and Phillips. The Nominating Committee will consider highly qualified candidates proposed in writing by stockholders. Stockholders who wish to propose a nomination should submit the person's name and background information to the Clerk of the Corporation.

The Strategic Direction Committee reviews and makes recommendations to the Board on alternative strategic initiatives for the Corporation, taking into account competitive and industry factors, technical developments, corporate goals and the corporate resources necessary to implement alternative initiatives. The members of the Strategic Direction Committee are Mr. Palmer, Chairman, and Mr. Everett, Dr. Gerrity and Mr. Staley.

The Board of Directors held twelve meetings during the fiscal year ended July 1, 1995, the Audit Committee met five times, the Compensation and Stock Option Committee met six times, the Nominating Committee met two times and the Strategic Direction Committee met two times. All directors attended more than 75% of the total number of meetings of the Board and the committees on which they serve.

Compensation of Directors

Each director who is not also an employee of the Corporation received a retainer of \$25,000 for his or her services during the fiscal year ended July 1, 1995, plus \$1,000 for each Board meeting and each committee meeting attended. Directors are also reimbursed for out-of-pocket expenses incurred in attending Board and committee meetings.

Directors may defer all or any part of their retainer or meeting fees pursuant to a deferred compensation plan. Pursuant to the plan, nonemployee directors of the Corporation may elect to defer receipt of all or a specified portion of their compensation in the form of cash, with an interest rate related to Treasury bills, or in the form of units, the value of each unit initially

being equal to the fair market value of one share of the Common Stock of the Corporation on the date the compensation being deferred would otherwise be payable. The plan provides that compensation deferred under the plan, whether in the form of cash or units, will be paid out in cash after termination of service as a director. Directors may elect that compensation so deferred be paid out in a lump sum or in up to ten annual installments. Payment of compensation deferred under the plan commences in January of the year following the year in which service as a director terminates.

Pursuant to a retirement plan for nonemployee directors adopted in May 1987, each nonemployee director of the Corporation on the date of adoption of the plan, and every other nonemployee director who is 70 years of age or older and who has completed at least five years of service on the Board is entitled upon termination of service to an annualized benefit for life which is equal to the annual retainer for nonemployee directors in effect on the date of termination of service. The plan also provides for coordinated disability benefits for all nonemployee directors equal to the annual retainer in effect on the date of total disability. Effective upon and subject to adoption of the 1995 Stock Option Plan for Nonemployee Directors described below, only those individuals who commenced service as a director prior to January 1, 1995 will be entitled to participate and receive benefits under this Plan.

Each nonemployee director of the Corporation also participates in the 1990 Stock Option Plan for Nonemployee Directors ("1990 Nonemployee Directors Plan"), which provides for a one-time grant of an option to purchase 5,000 shares of the Corporation's Common Stock at a price per share equal to 100% of the fair market value of the stock on the date of grant. Eligibility for and the grant of options under the 1990 Nonemployee Directors Plan is automatic in nature, occurring as of the date of commencement of service as a nonemployee director. The options become exercisable at the rate of 20% per year beginning on the first anniversary of the date the director begins service, with credit given for all past service by directors who were serving as of the date of approval of the 1990 Nonemployee Directors Plan. The options expire ten years from the date of grant, unless terminated earlier in accordance with the terms of the Plan. The 1990 Nonemployee Directors Plan authorizes the issuance of a maximum of 100,000 shares of Common Stock.

Upon approval by the stockholders, the 1995 Stock Option Plan for Nonemployee Directors (the "1995 Nonemployee Directors Plan") will replace the 1990 Nonemployee Directors Plan. Upon such approval, the 1995 Nonemployee Director Plan provides that annually, on the date of the Annual Meeting of Stockholders, (i) each director who commenced service as a director of the Corporation prior to January 1, 1995 and whose service as a

director will continue after such Annual Meeting, would receive an option to purchase 1,000 shares of the Corporation's Common Stock at a price equal to 100% of the fair market value of the Corporation's Common Stock on the date of grant and (ii) any director who commences service as a director of the Corporation after January 1, 1995 and whose service as a director will continue after such Annual Meeting would receive an option to purchase 2,500 shares of the Corporation's Common Stock at a price equal to 100% of the fair market value of the Corporation's Common Stock on the date of grant. The options become exercisable at the rate of 33% on the first and second anniversaries of the date of grant and 34% on the third anniversary of the date of grant. See "Proposal to Approve the 1995 Stock Option Plan for Nonemployee Directors."

Each nonemployee director of the Corporation also participates in the 1995 Stock Option Plan for Nonemployee Directors ("1995 Nonemployee Director Plan") which provides for a one-time grant of an option for purchasing 2,500 shares of the Corporation's Common Stock at a price per share equal to 100% of the fair market value of the stock on the date of grant. Eligibility for and the grant of options under the 1995 Nonemployee Director Plan is automatic in a grant occurring as of the third anniversary of a director's becoming a director. The options become exercisable at the rate of 33% for each year beginning on the third anniversary of the date the director began service, with credit given for all past service by directors who were serving as of the date of approval of the 1995 Nonemployee Director Plan. If the options expire ten years from the date of grant, unless terminated earlier in accordance with the terms of the Plan. The 1995 Nonemployee Director Plan authorizes the granting of a maximum of 100,000 shares of Common Stock.

Upon approval by the stockholders in 1995, the 1995 Stock Option Plan for Nonemployee Directors (the "1995 Nonemployee Director Plan") will replace the 1990 Nonemployee Director Plan. Upon such approval, the 1995 Nonemployee Director Plan provides that annually, on the date of the Annual Meeting of stockholders, (i) each director who commences service as a director of the Corporation prior to January 1, 1995 and whose service as a

EXECUTIVE COMPENSATION

Summary Compensation Table

The Summary Compensation Table shows compensation for the Chief Executive Officer and the four other most highly compensated executive officers for the fiscal year ended July 1, 1995.

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation Awards		
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)(4)	Restricted Stock Awards (\$)	Stock Options (#)	All Other Compensation (\$)(6)
Robert B. Palmer..... Chairman of the Board, President, Chief Executive Officer(1)	1995	\$900,016	\$375,000(3)	\$ 0	\$399,609(5)	300,000	\$ 0
	1994	900,016	0	0	0	120,000	0
	1993	738,469(1)	0	0	0	345,000	9,000
Charles F. Christ..... Vice President	1995	425,006	175,000(3)	0	338,859(5)	135,000(7)	0
	1994	315,016	0	0	0	60,000	0
	1993	306,654	0	106,259	0	30,000	0
Enrico Pesatori	1995	650,000	220,000(3)	31,919	191,813(5)	150,000(7)	0
	1994	569,242	0	116,899	195,620(9)	75,000	0
	1993	228,468(2)	100,000(8)	86,913	350,000(9)	30,000	0
John J. Rando	1995	348,089	175,000(3)	0	143,859(5)	125,000(7)	0
	1994	259,052	0	0	0	50,000	0
	1993	173,274	40,000	0	0	19,250	0
William D. Strecker ..	1995	450,008	110,000(3)	0	95,906(5)	60,000(7)	0
	1994	427,891	0	0	0	50,000	0
	1993	357,704	60,000	0	0	29,000	13,500

(1) Mr. Palmer was elected President and Chief Executive Officer of the Corporation effective October 1, 1992. Salary reflected in the table includes compensation paid to Mr. Palmer in all capacities during fiscal year 1993.

(2) Mr. Pesatori joined the Corporation in March 1993. Mr. Pesatori's reported salary for fiscal year 1993 reflects the salary earned during the portion of such fiscal year that he was employed by the Corporation.

(3) Represents a cash bonus earned by such individual in fiscal year 1995 and paid during the first quarter of fiscal year 1996.

(4) Represents customary one-time relocation and allowance payments to executives joining the Corporation. Mr. Pesatori's compensation for each of the fiscal years ended July 1,

1995 and July 2, 1994 includes 20% of the original principal amount of a \$150,000 loan from the Corporation, and for each fiscal year, accrued interest, which amounts were forgiven.

(5) Represents the dollar value on August 14, 1995, the award date, of an award to such individual of restricted Common Stock (i) in recognition of the significant effort expended during fiscal year 1995 to improve the Corporation's financial performance and (ii) to provide an additional incentive for such executive officer to remain with the Corporation. On such date, the fair market value of the Common Stock was \$42.625. Each of Messrs. Palmer, Christ, Pesatori, Rando and Strecker were granted 9,375, 3,375, 4,500, 3,375 and 2,250 shares of restricted Common Stock, respectively. Restrictions with respect to 50% of these shares will lapse on February 14, 1996 and the remaining restrictions will lapse on February 14, 1997. In the case of Mr. Christ, also represents the dollar value on October 7, 1994, the award date, of an award of 7,500 shares of restricted Common Stock. On such date, the fair market value of the Common Stock was \$26.00. Restrictions with respect to 50% of these shares lapsed on April 7, 1995 and the remaining restrictions will lapse on October 7, 1995. Mr. Christ actually held 3,750 shares of restricted stock at the end of fiscal year 1995. The value of these shares at June 30, 1995, the last business day of the fiscal year, was \$152,344. If the Corporation were to begin to pay dividends on its Common Stock, holders of restricted Common Stock would receive cash dividends on the shares of restricted Common Stock held by them. The amount ultimately realized by any named executive officer in respect of restricted Common Stock depends upon the value of the Corporation's Common Stock when the executive officer sells the shares, which can only occur after the restrictions lapse.

(6) With respect to Messrs. Palmer and Strecker, consists of cash received at the rate of \$3.00 per unexercised option share in exchange for cancellation of stock options granted during fiscal year 1988 at an exercise price of \$153.00 per share.

(7) Shortly after the end of the fiscal year, on August 14, 1995, each of Messrs. Christ, Pesatori, Rando and Strecker were granted options to purchase 125,000, 150,000, 125,000 and 60,000 shares, respectively, of the Corporation's Common Stock. See "Option/SAR Grants in Last Fiscal Year."

(8) The Corporation agreed to pay this amount to Mr. Pesatori as an inducement for his commencing employment with the Corporation. See "Employment Arrangements."

(9) The amount shown for Mr. Pesatori for fiscal year 1994 represents the dollar value on the date of grant of 10,000 shares of restricted Common Stock awarded to Mr. Pesatori during fiscal year 1994. The restrictions with respect to 50% of these shares lapsed December 16, 1994 and the remaining restrictions will lapse on December 16, 1995. The amount shown for

Mr. Pesatori for fiscal year 1993 represents the dollar value on the date of grant of 10,000 shares of restricted Common Stock awarded to Mr. Pesatori during fiscal year 1993. Mr. Pesatori actually held 11,000 shares of restricted stock at the end of fiscal year 1995. The value of these shares at June 30, 1995, the last business day of the fiscal year, was \$446,875. If the Corporation were to begin to pay dividends on its Common Stock, holders of restricted Common Stock would receive cash dividends on the shares of restricted Common Stock held by them. The amount ultimately realized by any named executive officer in respect of restricted Common Stock depends upon the value of the Corporation's Common Stock when the executive officer sells the shares, which can only occur after the restrictions lapse.

Option/SAR Grants in Last Fiscal Year

The following table shows information regarding grants of stock options during the fiscal year ended July 1, 1995 to the named executive officers and also includes grants of stock options to the named executive officers on August 14, 1995. The Corporation did not grant any stock appreciation rights during fiscal year 1995 nor during the period from the end of such fiscal year through August 14, 1995.

Name	Individual Grants			Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term (2) (3)	
	Options/SARs Granted	% of Total Options/SARs Granted to Employees(5)	Exercise or Base Price (\$/Sh)		5% (\$)	10% (\$)
Robert B. Palmer	300,000(1)	4.2	\$48.187	8/20/05	\$ 9,376,361	\$ 23,930,921
Charles F. Christ	10,000(1)	0.1	26.00	1/5/05	168,638	430,409
	125,000(4)	1.7	42.625	8/14/05	3,350,829	8,491,659
Enrico Pesatori	150,000(4)	2.1	42.625	8/14/05	4,020,995	10,189,991
John J. Rando	125,000(4)	1.7	42.625	8/14/05	3,350,829	8,491,659
William D. Strecker	60,000(4)	0.8	42.625	8/14/05	1,608,398	4,075,996
All Stockholders(3)					5.6 billion	12.8 billion

(1) Stock option granted under the Corporation's 1990 Equity Plan at an exercise price equal to the fair market value of the Corporation's Common Stock on the date of grant. The option has a term of ten years and 90 days and becomes exercisable ratably over three years from date of grant.

(2) Amounts reported in these columns represent amounts that may be realized upon exercise of the options immediately prior to the expiration of their term assuming the specified compounded rates of appreciation on the Corporation's Common Stock over the term of the options. These numbers are calculated based on rules promulgated by the Securities and Exchange Commission and do not reflect the Corporation's estimates of future stock price growth. Actual gains, if any, on stock option exercises and Common Stock holdings are dependent on the timing of such exercise and sale of the shares and the future performance of the Corporation's Common Stock. There can be no assurances that the rates of appreciation assumed in this table can be achieved or that the amounts reflected will be received by the individuals.

(3) The amounts shown as potential realizable values for all stockholders represent the corresponding increases from June 30, 1995, the last business day of the fiscal year, in the market value of 149,777,573 shares of the Corporation's Common Stock outstanding on such date.

(4) Represents stock options granted to each of Messrs. Christ, Pesatori, Rando and Strecker on August 14, 1995 under the Corporation's 1990 Equity Plan at exercise prices equal to the fair market value of the Corporation's Common Stock on the date of grant. These options each have a term of ten years and become exercisable ratably over three years from the date of grant.

(5) Reflects percentage of total options granted to all employees from July 3, 1994 through August 14, 1995.

Aggregated Option/SAR Exercises in Last Fiscal Year and FY-End Option/SAR Values

The following table summarizes for each of the named executive officers the number of stock options, if any, exercised during the fiscal year ended July 1, 1995, the aggregate dollar value realized upon exercise, and the dollar value of in-the-money, unexercised options held at July 1, 1995. None of the named executive officers hold any SARs. Value realized upon exercise is the difference between the fair market value of the underlying stock on the exercise date and the exercise price of the option. The value of unexercised, in-the-money options at fiscal year-end is the difference between the exercise price and the fair market value of the underlying stock on June 30, 1995, the last business day of the fiscal year. The closing price of the Corporation's Common Stock on the New York Stock Exchange on such date was \$40.625.

Name	Number of Shares Underlying Options/SARs Exercised (#)	Value Realized (\$)	Number of Unexercised Options/SARs at FY-End (#)		Value of Unexercised In-the-Money Options/SARs at FY-End (\$)	
			Exercisable	Restricted/Unexercisable (1)	Exercisable	Restricted/Unexercisable
Robert B. Palmer	0	\$ 0	205,600	632,700	\$837,495	\$1,693,547
Charles F. Christ	0	0	44,200	99,800(2)	423,297	992,983(2)
Enrico Pesatori	12,000	120,324	24,750	68,250(2)	521,309	1,058,416(2)
John J. Rando	0	0	28,990	47,385(2)	350,970	705,611(2)
William D. Strecker	0	0	44,100	87,400(2)	350,240	706,286(2)

(1) A portion of these options represent immediately exercisable restricted stock options, with restrictions on disposition of the underlying shares lapsing ratably over periods of three to ten years from date of grant. The number of underlying shares subject to such options on July 1, 1995 for the named executive officers is as follows: Mr. Palmer, 212,300; Mr. Christ, 19,600; Mr. Pesatori, 18,000; Mr. Rando, 13,885 and Mr. Strecker, 23,900. 40,000, 30,000 and 30,000 of the remaining options held by Messrs. Palmer, Christ and Strecker, respectively, were granted during fiscal year 1992 and become exercisable at the rate of 20% per year but may not be exercised unless and until the Corporation's stock price averages at least \$100 over 90 consecutive trading days. The remaining options held by Messrs. Palmer, Christ, Pesatori, Rando and Strecker were granted during fiscal years 1994 and 1995 and become exercisable ratably over three years.

(2) Does not include options granted to such executive officers on August 14, 1995. See "Summary Compensation Table" and "Option/SAR Grants in Last Fiscal Year."

Pension Plans

The Corporation and its subsidiaries have pension plans covering substantially all of their employees. Benefits under the Corporation's defined benefit pension plan (the "Pension Plan") for its U.S. employees are based upon the employee's earnings during service with the Corporation and are payable after retirement in the form of annuities or lump sum benefits. The annual amount payable upon retirement at age 65 is, in general, 1.5% of the aggregate amount of the participant's compensation earned on and after July 1, 1989. Those persons who were active participants on July 1, 1989, or who later become active participants credited with prior service, are also eligible to receive 1.5% of the average of the participant's annual compensation between July 1, 1984 and July 1, 1989, multiplied by the number of years of accredited service prior to July 1, 1989. For purposes of calculating a participant's pension

benefit, annual compensation is currently limited to \$150,000, subject to adjustment to reflect cost of living increases. A participant's annual pension may not exceed the lesser of the maximum allowable dollar limit, or 100% of the participant's average compensation for the participant's three highest paid consecutive years of service with the Corporation.

The Digital Equipment Corporation Restoration Pension Plan (the "Restoration Plan"), adopted effective as of May 1, 1992, compensates the Corporation's employees for reductions in the benefits calculated under the Pension Plan due to legislative and regulatory limitations. The Restoration Plan, which is a non-qualified plan under the Internal Revenue Code of 1986, as amended, and which is unfunded, provides additional retirement compensation equal to the difference between the benefit a participant would receive under the Pension Plan without the legislative and regulatory limitations and the benefit actually payable to the participant under the Pension Plan.

Estimated annual retirement benefits payable as a straight life annuity under the Pension Plan and Restoration Plan at age 65 based on projected compensation and continued employment for the following individuals would be: Mr. Palmer, \$194,641; Mr. Christ, \$75,549; Mr. Pesatori, \$114,260; Mr. Rando, \$196,200; and Mr. Strecker, \$183,394.

Employment Arrangements

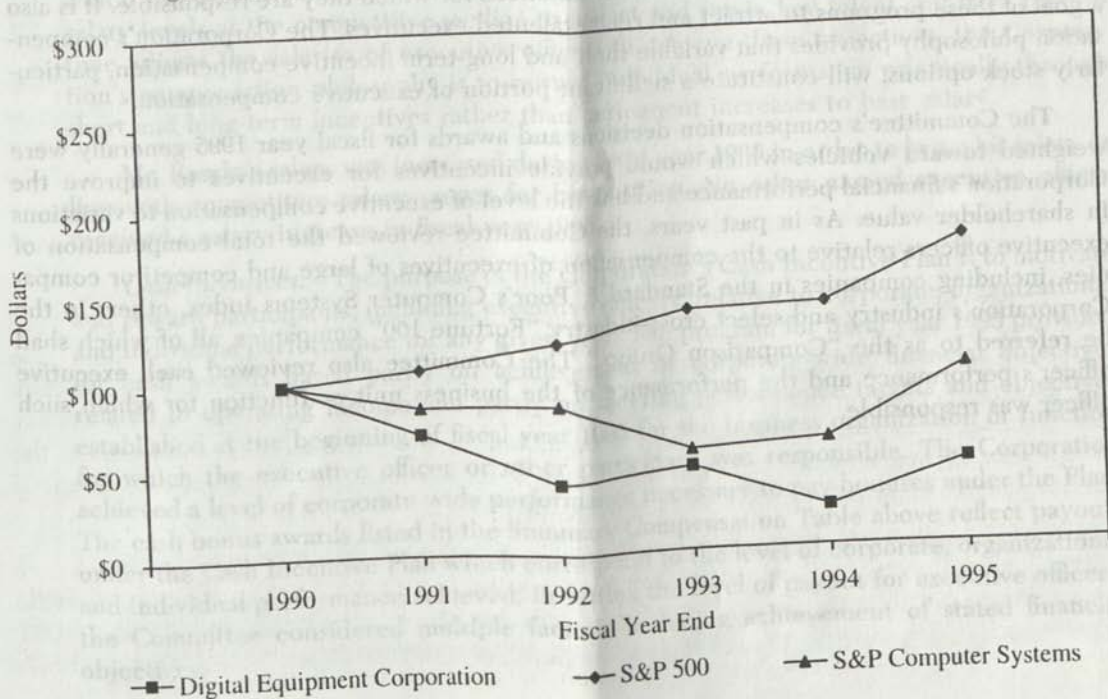
In connection with his offer of employment in 1993, the Corporation (i) agreed to pay Mr. Pesatori a base salary of \$550,000 a year, which was subsequently increased to \$650,000 in recognition of his assumption of additional responsibilities; (ii) awarded Mr. Pesatori 10,000 shares of restricted Common Stock with restrictions on disposition lapsing over five years and granted him a restricted stock option with respect to 30,000 shares of Common Stock at an exercise price of \$35.00 per share, with restrictions lapsing ratably over five years, (iii) agreed to pay Mr. Pesatori a guaranteed bonus of \$100,000 at the end of fiscal 1993 as an inducement for his commencing employment with the Corporation; and (iv) loaned Mr. Pesatori \$150,000 for the purchase of a principal residence in connection with his relocation to the Boston area. If Mr. Pesatori were no longer to be employed by the Corporation, such loan would bear interest at the minimum rate necessary to avoid imposition of interest income under the United States Internal Revenue Code of 1986, as amended. The loan is secured by a subordinated second mortgage. One-fifth of the original principal amount of the loan was forgiven on each of February 3, 1994 and February 3, 1995, and an additional one-fifth of the original principal amount of the loan will be forgiven on each anniversary thereof if Mr. Pesatori is still employed by the Corporation on each such date. In the event Mr. Pesatori's

employment is terminated without cause within the first four years of his employment with the Corporation, he would receive his then current salary for twenty-four months unless he were to accept employment with a competitor of the Corporation.

Stock Price Performance Graph

The following graph compares the five-year return for the Corporation's Common Stock against the Standard & Poor's ("S&P") 500 Stock Index and the S&P Computer Systems Index. The graph assumes \$100 was invested on June 30, 1990 in the Corporation's Common Stock and \$100 was invested at that time in each of the S&P indexes. The comparative data assumes that all dividends, if any, were reinvested.

Comparison of Five Year Cumulative Total Return
Digital Equipment Corporation, S&P 500, and S&P Computer Systems



COMPENSATION AND STOCK OPTION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

The Compensation and Stock Option Committee (the "Committee") of the Board of Directors is composed of four independent non-employee directors. The Committee is responsible for approving executive officer compensation and for administering the cash incentive and equity participation plans that govern the variable compensation paid to senior management of the Corporation. The following report describes the Corporation's executive compensation practices and the actions of the Committee regarding compensation paid to executive officers for fiscal year 1995.

The Corporation's executive compensation programs are designed to link the level of executive compensation to corporate, organizational and individual performance, and to variations in shareholder value. In addition, these programs are intended to motivate executives to improve the Corporation's financial performance and to make executives accountable for the performance of the business units or functions for which they are responsible. It is also a goal of these programs to attract and retain talented executives. The Corporation's compensation philosophy provides that variable short and long-term incentive compensation, particularly stock options, will constitute a significant portion of executive compensation.

The Committee's compensation decisions and awards for fiscal year 1995 generally were weighted toward vehicles which would provide incentives for executives to improve the Corporation's financial performance and link the level of executive compensation to variations in shareholder value. As in past years, the Committee reviewed the total compensation of executive officers relative to the compensation of executives of large and competitor companies, including companies in the Standard & Poor's Computer Systems Index, others in the Corporation's industry and select cross-industry "Fortune 100" companies, all of which shall be referred to as the "Comparison Group." The Committee also reviewed each executive officer's performance and the performance of the business unit or function for which such officer was responsible.

The Corporation's standard executive compensation program consists of three major elements: base salary, short-term cash and other incentives and long-term incentives in the form of fair market value stock options. The Committee combines these elements to address the following objectives:

- attract and retain talented executives by paying them a competitive base salary;
- reward targeted and superior corporate, organizational and individual performance through cash and other short-term incentives;
- motivate and encourage performance that increases shareholder value and contributes to the future success of the Corporation through grants of stock options.

Base Salaries. Base salary levels are determined relative to external market and Comparison Group practices, the internal scope and impact of the job, the overall performance of the Corporation and the performance of the business unit or function for which the executive officer is responsible. Whereas the Corporation strives to set base salary levels at the competitive median to attract and retain key talent and from time to time adjusts the salaries of executive officers to achieve these objectives, the Corporation's compensation philosophy is to reward individual performance principally through short and long-term incentives rather than permanent increases to base salary.

Mr. Rando's salary was increased during fiscal year 1995 in order to bring his salary in line with competitive salary ranges for his position. No other named executive officer received a salary increase in fiscal year 1995.

Cash Incentives. The purpose of the Corporation's Cash Incentive Plan is to motivate and reward participants, including executive officers, relative to corporate, organizational and individual performance for any given year. The program for fiscal year 1995 provided for cash awards based partly on achievement of corporate-wide financial objectives related to operating income and partly on meeting performance targets and objectives established at the beginning of fiscal year 1995 for the business organization or function for which the executive officer or other participant was responsible. The Corporation achieved a level of corporate-wide performance necessary to pay bonuses under the Plan. The cash bonus awards listed in the Summary Compensation Table above reflect payouts under the Cash Incentive Plan which correspond to the level of corporate, organizational and individual performance achieved. In setting the level of payout for executive officers, the Committee considered multiple factors, including achievement of stated financial objectives.

Equity Participation Plans. Stock options continue to be a major component of the Corporation's compensation strategy because this compensation vehicle closely aligns the interests of management with those of stockholders. Stock options are periodically granted to executive officers based on an assessment of each officer's potential to contribute to the future success of the Corporation and relative to practices of companies in the Comparison Group. In determining the size and vesting schedules of these grants, the Committee considered the challenges facing the Corporation as it implements its restructuring plan and improves financial performance, as well as the practices of companies in the Comparison Group. Consistent with its articulated compensation philosophy, shortly after the end of the fiscal year, the Corporation granted to all executive officers, including each of the named executive officers, incentive and non-qualified stock options, with a ten-year term, that become exercisable ratably over three years at an exercise price equal to the fair market value of the Common Stock on the date of grant.

The Corporation periodically awards a small number of individuals, including certain executive officers, restricted stock in recognition of outstanding performance. Restricted stock awards also have been used and may continue to be used to attract and retain certain key individuals. Executive officers, including the named executive officers as reflected and described in the Summary Compensation Table and footnotes above, received restricted stock awards after the close of the fiscal year, in recognition of the significant individual and team effort expended by each such executive officer to improve the Corporation's financial performance and to provide additional incentive for such executive officer to remain with the Corporation.

Chief Executive Compensation. Mr. Palmer's annual base salary for fiscal year 1995 remained at \$900,000. As noted in the Summary Compensation Table, Mr. Palmer also participates in the Cash Incentive Plan and received a cash award under the plan. In addition, Mr. Palmer received a restricted stock award after the close of the fiscal year, as reflected in the Summary Compensation Table, in recognition of his personal effort in leading the Corporation's management team in their efforts to improve the Corporation's financial performance and in setting a direction for the future.

The Committee believes that the total compensation package for the Chief Executive Officer should provide significant incentives to improve corporate performance and increase shareholder value. Accordingly, coincident with his election as Chairman in May 1995, Mr. Palmer was awarded a stock option to purchase 300,000 shares of the Corporation's

Common Stock, at an exercise price equal to the fair market value of the Common Stock on the date of grant and exercisable ratably over three years. In determining the size and vesting schedule of Mr. Palmer's grant, the Committee considered the challenges facing the Chief Executive Officer as he leads the Corporation and its management team in their efforts to achieve sustainable improved financial performance. The Committee also considered the practices of companies in the Comparison Group.

The Committee periodically reviews Mr. Palmer's total compensation, as well as the components thereof, with an outside compensation consultant. The Committee believes that Mr. Palmer's total compensation is appropriate, taking into account the significance of his responsibilities, the performance of the Corporation and the compensation of chief executive officers of companies within the Comparison Group.

Compensation Deductibility. The Committee has reviewed the potential consequences for the Corporation of Internal Revenue Code section 162(m), which imposes a limit on tax deductions for annual compensation in excess of one million dollars paid to any of the five most highly compensated executive officers of a corporation. This provision excludes certain forms of "performance-based compensation" from the compensation taken into account for purposes of that limit, such as the value of stock options and restricted stock awards granted under the Corporation's 1990 Equity Plan, or, if approved by the stockholders, the proposed 1995 Equity Plan. Payments under the Corporation's Cash Incentive Plan are not so excluded. Section 162(m) had no impact on the Corporation's consolidated results of operations for fiscal year 1995. The Committee will continue to monitor the impact of this provision on the Corporation.

Compensation and Stock Option Committee:

Thomas L. Phillips, Chairman

Robert R. Everett

Thomas P. Gerrity

Delbert C. Staley

PROPOSAL TO APPROVE THE 1995 EQUITY PLAN

On August 24, 1995, the Board of Directors adopted the Digital Equipment Corporation 1995 Equity Plan (the "1995 Plan"), subject to stockholder approval. Upon approval by the stockholders, the 1995 Plan will replace the Corporation's 1990 Equity Plan as the Corporation's principal equity incentive plan for key employees of the Corporation and its subsidiaries.

The 1990 Plan is scheduled to expire December 31, 1995. The 1995 Plan is intended to advance the interests of the Corporation and its stockholders by providing equity-based incentives to better align the interests of key employees with those of stockholders, and to attract, retain and motivate such employees.

The 1995 Plan authorizes the grant of awards from the date of its adoption by the Board of Directors until December 31, 1998, subject to approval of the 1995 Plan by the stockholders prior to August 24, 1996.

Description of Proposed Plan

The following summary description is qualified in its entirety by reference to the full text of the 1995 Plan, which is attached to this Proxy Statement as Exhibit A.

Available Shares

Subject to adjustment for stock dividends, stock splits and similar events, the maximum number of shares of the Corporation's Common Stock available for grants of awards under the 1995 Plan will be (i) until June 29, 1996, the maximum number of shares available for issuance under the Corporation's 1990 Equity Plan (the "1990 Plan") as of the date of approval of the 1995 Plan by the Corporation's stockholders, plus any shares of Stock subject to Awards under the 1990 Equity Plan that expire unexercised or are forfeited, terminated, canceled (in whole or in part), or in any other manner not issued to an Employee at any time ("Carryover Shares") and (ii) for each fiscal year subsequent to the fiscal year ending June 29, 1996, but prior to the beginning of the fiscal year commencing on June 28, 1998, the Carryover Shares, plus 2% of the issued shares of the Corporation's Common Stock (including treasury shares) as of the first day of such fiscal year, plus any Stock tendered to the Corporation as full or partial payment for the exercise of any option under the 1990 Plan or the Plan and the payment of any withholding taxes arising therefrom. As of August 14, 1995, under the 1990 Plan, there were 2,755,823 shares available for additional grants of awards, 13,260,406 shares subject to outstanding options, and 805,710 shares of restricted stock outstanding. On such date, the fair market value of the Common Stock was \$42.625 per share. No more than 5,000,000 shares of Stock shall cumulatively be available for the issuance of ISOs (as defined below) under the Plan, nor shall more than 1,000,000 shares of Stock be cumulatively available for grant pursuant to Restricted Stock Awards, Unrestricted Stock Awards and Stock Unit Awards (as defined below). As of August 14, 1995, 2% of the issued shares of the Corporation's Common Stock equaled 3,015,084 shares. No employee may be granted, during any fiscal year commencing July 2, 1995, awards under the 1995 Plan relating to, in the aggregate, more than 1,000,000 shares of Common Stock.

Under the 1995 Plan, all shares of Common Stock available for grants of awards in any fiscal year (or portion thereof) that are not used in the grant of awards in such fiscal year will be available for use in subsequent years. Shares subject to any unexercised or undistributed portion of any terminated, expired or forfeited award also will be available for future award under the 1995 Plan.

Administration

The 1995 Plan will be administered by the Compensation and Stock Option Committee of the Board of Directors (the "Committee") consisting of not fewer than two members of the Board of Directors, none of whom is an employee of the Corporation. Subject to the terms of the 1995 Plan, the Committee will have the authority to establish rules for the administration of the Plan; to select the employees to whom awards are granted; to determine the type of awards to be granted and the number of shares covered by such awards; to set the terms and conditions of such awards; and to determine whether any option granted shall be an incentive stock option ("ISO") or a non-qualified stock option ("NQO"). The Committee's authority to take certain actions under the 1995 Plan will include authority to accelerate payment or vesting under, or waive the restrictions applicable to, any 1995 Plan award. The Board of Directors may also establish a committee of one or more members of the Corporation's Board of Directors who are also officers of the Corporation for the purposes of administering grants of awards under the 1995 Plan to employees who are not subject to the provisions of Section 16 of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

Eligibility

Employees, including officers, of the Corporation or any of its subsidiaries are eligible to receive awards under the 1995 Plan. Directors who are also employees are eligible to receive awards if they are not members of the Committee. Awards may be granted to the same employee on more than one occasion.

Stock Options

The 1995 Plan permits the granting of stock options that qualify as ISOs under the Code and those that do not so qualify, NQOs. The exercise price of each option is determined by the Committee, but cannot be less than the fair market value of the stock on the date of grant. The Committee has the discretion to establish as the grant date of an option the date on which Committee action approving the option is taken, or any later date specified by the Committee.

Options may be exercised by payment in full of the purchase price in cash, or by delivery of an assignment to the Corporation of the proceeds from the sale of Common Stock acquired upon exercise together with an authorization to the broker or selling agent to pay that amount to the Corporation. At the discretion of the Committee, the exercise price of options may be paid in whole or in part by the tendering of unrestricted shares of Common Stock of the Corporation having a fair market value on the exercise date equal to the exercise price.

The Committee will determine at what time or times options may be exercised, the term of each option, provided that the term may not exceed ten years, and the restrictions, if any, applicable to options or the shares of Common Stock subject to such options.

Stock Appreciation Rights

The 1995 Plan authorizes the grant of stock appreciation rights ("SARs") which entitle the recipient upon exercise to receive with respect to each share of Common Stock to which the SAR relates, an amount, in cash or restricted or unrestricted Common Stock, or a combination thereof (at the Committee's discretion) equal to the appreciation, if any, in the fair market value per share of the Corporation's Common Stock from the date of grant of the SAR to the date of its payment or settlement. The award price is determined by the Committee and cannot be less than the fair market value per share of the Corporation's Common Stock on the date the SAR is granted.

Restricted Stock and Unrestricted Stock

The 1995 Plan authorizes the Committee to award to recipients shares of Common Stock subject to restrictions ("Restricted Stock Awards"), as well as shares of Common Stock which are free from any restrictions ("Unrestricted Stock Awards"). Common Stock issued pursuant to such awards may be acquired without payment to the Corporation, consistent with applicable state law. Holders of Restricted Stock Awards are entitled to vote and receive dividends, if any, with respect to any shares of restricted stock.

Restricted Stock Awards entitle the recipient to acquire shares of restricted stock subject to restrictions against disposition and such other restrictions, conditions and contingencies as determined by the Committee. In the event of termination of employment for reasons other than death, disability or retirement (unless otherwise provided by the Committee or in the award instrument), the shares of restricted stock as to which the restrictions have not lapsed shall be forfeited to the Corporation.

The Committee may provide that the Common Stock deliverable or issuable pursuant to any award granted under the 1995 Plan will be restricted.

Stock Unit Awards

The 1995 Plan authorizes the grant of awards which entitle the recipient to receive, without payment, stock units in the form of phantom shares of stock ("Stock Unit Awards"). The stock units are valued at the Committee's discretion in whole or in part by reference to the fair market value of the Corporation's Common Stock. The Committee will determine the terms and conditions applicable to Stock Unit Awards, including any applicable restrictions, conditions or contingencies, which may be related to individual, corporate or other categories of performance. Stock Unit Awards are payable in shares of Common Stock or cash, or any combination thereof, at the discretion of the Committee. An employee who receives a Stock Unit Award may be given rights to dividend equivalents, payable in cash, stock, or additional stock units, subject to any conditions the Committee may impose.

Performance Criteria

In its discretion, the Committee may grant Awards contingent on the satisfaction of performance criteria, consistent with Section 162(m) of the Code, based on levels of revenue, operating income, profit after tax, earnings per share, cash flow, return on equity or return on assets. In addition, the Committee may also grant Awards contingent on the satisfaction of other performance criteria established in its discretion.

General

Except as otherwise determined by the Committee or as otherwise provided in the applicable award instrument, unexercised awards or awards subject to restrictions or conditions which have not lapsed or been satisfied shall be forfeited under the 1995 Plan upon termination of employment for reasons or conditions other than death, permanent disability or retirement.

The 1995 Plan provides that the Committee, in its sole discretion, upon the request of a recipient of an award, may defer the date of payment of cash or stock under such award. In the event of stock dividends, stock splits and similar events, the Committee will make appropriate adjustments to the maximum number of shares of Common Stock that may be delivered under the 1995 Plan, the maximum number of shares that may be issued for certain types of awards,

the number of shares covered by outstanding awards, and the grant, purchase or exercise price with respect to any award.

The Committee may also make appropriate adjustments to take into account material changes in law or accounting matters or certain other corporate changes or events. The Board of Directors may make appropriate adjustments to take into account a change in control of the Corporation.

The Board of Directors may at any time terminate the 1995 Plan or suspend the grant of awards under the 1995 Plan. The Board may amend the 1995 Plan or any outstanding award at any time for any lawful purpose, provided that no amendment, without the approval of the Corporation's stockholders, can increase the maximum number of shares that may be issued under the 1995 Plan or issued in the aggregate pursuant to certain kinds of awards, and no amendment, without stockholder approval (where such approval would be necessary to satisfy applicable securities or tax law or stock exchange rules), can extend the period during which awards may be granted or change the group of persons eligible to receive awards under the 1995 Plan.

Tax Aspects Under the U.S. Internal Revenue Code

Incentive Stock Options. Generally, no taxable income is recognized by the optionee upon the grant or exercise of an ISO if certain requirements are met. However, the exercise of an ISO may result in alternative minimum tax liability for the optionee. If no disposition of shares issued to an optionee pursuant to the exercise of an ISO is made by the optionee within two years from the date of grant or within one year after the date of exercise, then upon sale of such shares, any amount realized in excess of the exercise price (the amount paid for the shares) will be taxed to the optionee as a long-term capital gain and any loss sustained will be a long-term capital loss, and no deduction will be allowed to the Corporation for Federal income tax purposes.

If shares of Common Stock acquired upon the exercise of an ISO are disposed of prior to the expiration of the two-year and one-year holding periods described above (a "disqualifying disposition"), generally the optionee will recognize ordinary income in the year of disposition in an amount equal to the excess (if any) of the fair market value of the shares on the date of exercise (or, if less, the amount realized on an arms-length sale of such shares) over the exercise price thereof, and the Corporation will be entitled to a corresponding deduction. Any gain realized from the sale of shares in excess of the amount taxed as ordinary income will be taxed as capital gain and will not be deductible by the Corporation.

Generally, an ISO will not be eligible for the tax treatment described above if either the required holding periods or certain other requirements are not met. For example, if an ISO is exercised more than three months following termination of employment (one year following termination of employment by reason of permanent and total disability), except in certain cases where the ISO is exercised after the death of the optionee, then it will no longer qualify for the tax treatment described above and the option is treated as a non-qualified option.

Non-Qualified Options. No taxable income is recognized by the optionee at the time a NQO is granted under the 1995 Plan. Generally, on the date of exercise of a NQO, ordinary income is recognized by the optionee in an amount equal to the difference between the exercise price and the fair market value of the shares on the date of exercise, and the Corporation receives a tax deduction for the same amount. Upon disposition of the shares acquired, an optionee generally recognizes the appreciation or depreciation on the shares after the date of exercise as either short-term or long-term capital gain or loss depending on how long the shares have been held.

If restricted stock is received upon exercise of an option or stock appreciation right, the income and the deduction, if any, associated with such award may be deferred in accordance with the rules described below for restricted stock.

Stock Appreciation Rights. No income will be realized by an optionee in connection with the grant of a stock appreciation right. When the stock appreciation right is exercised, the optionee will generally be required to include as taxable ordinary income in the year of such exercise an amount equal to the amount of cash received and the fair market value of any stock received. The Corporation will generally be entitled to a deduction equal to the amount includable as ordinary income by such optionee.

Restricted Stock. A recipient of restricted stock generally will be subject to tax at ordinary income rates on the excess of the fair market value of the stock (measured at the time the stock is either transferable or is no longer subject to forfeiture) over the amount, if any, paid for such stock. However, a recipient who elects under Section 83(b) of the Code within 30 days of the date of issuance of the restricted stock to be taxed at the time of issuance of the restricted stock will recognize ordinary income on the date of issuance equal to the fair market value of the shares of restricted stock at that time (measured as if the shares were unrestricted and could be sold immediately), minus any amount paid for such stock. If the shares subject to such election are forfeited, the recipient will be entitled to a capital loss for tax purposes only for the amount paid for the forfeited shares, not the amount recognized as ordinary income as a result of the Section 83(b) election. The holding period to determine whether the recipient

has long-term or short-term capital gain or loss upon sale of shares begins when the forfeiture period expires (or upon issuance of the shares, if the recipient elected immediate recognition of income under Section 83(b)).

Unrestricted Stock; Stock Units. A recipient of unrestricted stock or stock units will generally be subject to tax at ordinary income rates on any cash received and on the fair market value of any Common Stock issued pursuant to such an award, and the Corporation will generally be entitled to a deduction equal to the amount of ordinary income realized by the recipient. Any cash received and the fair market value of any Common Stock received will generally be included in income (and a corresponding deduction will generally be available to the Corporation) at time of receipt. The capital gain or loss holding period for any Common Stock distributed under an award will begin when the recipient recognizes ordinary income in respect of that distribution.

Performance Criteria. Section 162(m) of the Code limits otherwise allowable tax deductions for annual compensation (including compensation attributable to Awards) in excess of one million dollars paid to any of the five most highly compensated executives of the Corporation unless that compensation is determined with reference to performance criteria consistent with that section. Awards granted to such executives that are not based on performance criteria consistent with Section 162(m) of the Code generally will not result in a tax deduction for the Corporation. However, given the Corporation's total operating revenues and expenses, as well as the amount of the Corporation's net operating loss carryforwards, any inability to take such a deduction is not currently expected to have a material impact on the Corporation's consolidated results of operations.

The Board of Directors recommends a vote **FOR** approving the 1995 Plan.

PROPOSAL TO APPROVE THE 1995 STOCK OPTION PLAN FOR NONEMPLOYEE DIRECTORS

On August 24, 1995, the Board of Directors adopted the 1995 Stock Option Plan for Nonemployee Directors (the "1995 Nonemployee Directors Plan"), effective upon and subject to stockholder approval. The Plan is intended to more closely align the interests of the Corporation's nonemployee directors with those of stockholders, by increasing the stock component of the directors' compensation package. Upon approval by the stockholders the 1995 Nonemployee Directors Plan will replace the 1990 Nonemployee Directors Plan.

Description of the 1995 Nonemployee Directors Plan

The following summary description is qualified in its entirety by reference to the full text of the 1995 Nonemployee Directors Plan, which is attached to this Proxy Statement as Exhibit B.

The Compensation and Stock Option Committee of the Board of Directors (the "Committee") has the authority to administer, interpret and make determinations under the 1995 Nonemployee Directors Plan. Eligibility for and the grant of options under the 1995 Nonemployee Directors Plan is automatic in nature. Each eligible nonemployee director who joins the Board on or after January 1, 1995 will receive annually an option to purchase the same fixed number (2,500) of shares under the 1995 Nonemployee Directors Plan and each eligible nonemployee director who served on the Board prior to January 1, 1995, will receive annually an option to purchase the same fixed number (1,000) of shares under the 1995 Nonemployee Directors Plan. Therefore, the Committee will not have any discretion with respect to the amount of or the terms of any individual grant under the 1995 Nonemployee Directors Plan.

Upon approval of the 1995 Nonemployee Directors Plan by the Corporation's stockholders, 50,000 shares of the Corporation's Common Stock, plus the number of shares of Common Stock available for issuance under the Corporation's 1990 Nonemployee Directors Plan on the date of approval of the 1995 Nonemployee Directors Plan by the Corporation's stockholders, will be available for issuance under the 1995 Nonemployee Directors Plan, subject to automatic adjustment in the event of a stock dividend, stock split or similar events. If any options granted under the 1990 Nonemployee Directors Plan or the 1995 Nonemployee Directors Plan expire or terminate without exercise, in whole or in part, the shares reserved therefor will revert to the option pool to be available under the Plan. As of August 24, 1995, options to purchase 55,000 shares of Common Stock were outstanding under the 1990 Nonemployee Directors Plan and 45,000 shares were available for issuance.

The exercise price of an option will be 100% of the fair market value per share of Common Stock of the Corporation on the date the option is granted, payable by (i) delivery of cash, bankdraft, money order or check to the order of the Corporation, (ii) by delivery of shares of Common Stock of the Corporation owned by the nonemployee director which have a fair market value equal to the exercise price of the option being exercised, (iii) if permitted by applicable law, through the delivery of an assignment to the Corporation of a sufficient amount of the proceeds from the sale of Common Stock acquired upon exercise to pay for all of the Common Stock so acquired and an authorization to the broker or selling agent to pay that to the Corporation, or (iv) by any combination of these methods.

Options granted to nonemployee directors ("Participants") under the 1995 Nonemployee Directors Plan will become exercisable at the rate of 33% on the first and second anniversaries of the date of grant and 34% on the third anniversary of the date of grant. Options will be granted annually on the date of the Corporation's Annual Meeting of Stockholders to each director whose service will continue after such meeting. Options granted under the 1995 Nonemployee Directors Plan will expire ten years from the date of grant, unless terminated earlier in accordance with the 1995 Nonemployee Directors Plan. However, any option granted to a Participant who ceases to be a director of the Corporation because of death will expire one year from the date of the Participant's death.

If a Participant ceases to be a member of the Board because of permanent disability or death or by reason of retirement from the Board of Directors so long as such Participant is at least 70 years of age and has completed at least five years of service as a Director at the time of such retirement, his or her option will become immediately exercisable in full. If a Participant ceases to be a member of the Board after his or her option becomes exercisable, the option will remain exercisable in accordance with its terms. If a Participant ceases to be a member of the Board for any reason other than those described above prior to the time his or her option becomes fully exercisable, the option will terminate with respect to the shares as to which the option is not then exercisable.

The Board of Directors may amend, modify or terminate the 1995 Nonemployee Directors Plan at any time, subject to certain restrictions described in the Plan, and provided that prior approval by the stockholders of the Corporation must be obtained to increase the number of shares available for grant. If required by law, prior stockholder approval must be obtained to (i) change the eligibility requirements under the 1995 Nonemployee Directors Plan, (ii) increase the number of shares subject to any option, (iii) change the purchase price of the shares subject to any option, (iv) extend the period during which options may be granted, (v) materially increase the benefits to Participants or (vi) cause Rule 16b-3 under the Securities Exchange Act of 1934, as amended, to become inapplicable under the Plan. In addition, the provisions of the 1995 Nonemployee Director Plan specified in Rule 16b-3(c)(2)(ii)(A) under the 1934 Act may not be amended more than once every six months, other than to comport with changes in the Code, the Employee Retirement Income Security Act of 1974, as amended, or the rules thereunder. The 1995 Nonemployee Directors Plan will terminate on December 31, 2000, unless terminated earlier by the Board of Directors.

Tax Aspects under the U.S. Internal Revenue Code

No taxable income will be recognized by a Participant at the time the option is granted. Generally, at exercise, ordinary income will be recognized by the Participant in an amount equal to the difference between the option exercise price and the fair market value of the shares on the date of exercise, and the Corporation will receive a tax deduction for the same amount. At disposition, appreciation or depreciation after the date of exercise will be treated as either short-term or long-term capital gain or loss depending on how long the shares have been held.

The Board of Directors recommends a vote **FOR** approving the 1995 Nonemployee Directors Plan.

RATIFICATION OF SELECTION OF AUDITORS

The Audit Committee of the Board of Directors has selected the firm of Coopers & Lybrand L.L.P., independent accountants, to serve as auditors for the fiscal year ending June 29, 1996, subject to ratification by the stockholders. Coopers & Lybrand L.L.P. has served as the Corporation's auditors since the organization of the Corporation. The Board of Directors recommends a vote **FOR** ratification of this selection. It is expected that a member of the firm of Coopers & Lybrand L.L.P. will be present at the Meeting, will have an opportunity to make a statement if so desired and will be available to respond to appropriate questions.

STOCKHOLDER PROPOSAL REGARDING THE ELECTION OF DIRECTORS BY CLASSES

Kenneth Steiner, 14 Stoner Avenue, Great Neck, New York 11021, the owner of 100 shares of Common Stock, has notified the Corporation of his intention to introduce the proposal set forth below for consideration and action by the stockholders at the Annual Meeting. Mr. Steiner's proposed resolution and supporting statement, for which the Board of Directors and the Corporation accept no responsibility, are set forth below. The Board of Directors opposes this proposal for the reasons stated after such proposal.

"RESOLVED, that the stockholders of the Company request that the Board of Directors take the necessary steps, in accordance with state law, to declassify the Board of Directors so that all directors are elected annually, such declassification to be effected in a manner that does not affect the unexpired terms of directors previously elected."

Supporting Statement

"The election of directors is the primary avenue for stockholders to influence corporate governance policies and to hold management accountable for implementation of those policies. I believe that the classification of the Board of Directors, which results in only a portion of the Board being elected annually, is not in the best interests of the Company and its stockholders.

The Board of Directors of the Company is divided into three classes serving staggered three-year terms. I believe that the Company's classified Board of Directors maintains the incumbency of the current Board and therefore of current management, which in turn limits management's accountability to stockholders.

The elimination of the Company's classified Board would require each new director to stand for election annually and allow stockholders an opportunity to register their views on the performance of the Board collectively and each director individually. I believe this is one of the best methods available to stockholders to insure that the Company will be managed in a manner that is in the best interests of the stockholders.

I am a founding member of the Investors Rights Association of America and I believe that concerns expressed by companies with classified boards that the annual election of all directors could leave companies without experienced directors in the event that all incumbents are voted out by stockholders, are unfounded. In my view, in the unlikely event that stockholders vote to replace all directors, this decision would express stockholder dissatisfaction with the incumbent directors and reflect the need for change.

I URGE YOUR SUPPORT, VOTE FOR THIS RESOLUTION."

The Board of Directors recommends that the stockholders vote AGAINST this proposal for the following reasons:

In 1990, pursuant to legislation enacted in Massachusetts, the Board of Directors of the Corporation was classified into three classes of directors, with the terms of office of the respective classes expiring in successive years. This legislation, entitled "An Act to Provide Protection to Massachusetts Corporations" (the "Act"), provides that publicly-held corporations organized under Massachusetts law are required to have a classified board of directors consisting of three classes as nearly equal in size as possible. The stated purpose of this legislation is to provide protection to Massachusetts corporations, including their stockholders,

employees, suppliers and customers and the communities in which the corporations' facilities are located.

The Board of Directors believes that its classified Board serves the Corporation and its stockholders well and is consistent with the public policy articulated by the Commonwealth of Massachusetts, the state in which the Corporation is organized. The Board does not believe that directors elected for staggered terms are any less accountable to stockholders than they would be if elected annually, since the same standards of performance apply regardless of the term of service. Moreover, it believes that a classified board enhances the likelihood of continuity and stability in the conduct of Board business since generally two-thirds of the Directors will have had prior experience and familiarity with the business of the Corporation. The Board believes that this contributes to more effective long-term strategic planning.

The classified Board is intended to encourage persons who may seek to acquire control of the Corporation to initiate such action through negotiations with the Board. At least two meetings of stockholders generally would be required to replace a majority of the Board. By reducing the threat of an abrupt change in the composition of the entire Board, classification of directors would give the Board sufficient time to review any takeover proposal, study appropriate alternatives and achieve the best result for stockholders. The Board believes that although a classified Board enhances the ability to negotiate favorable terms with a proponent of an unsolicited proposal, it does not necessarily discourage takeover offers.

The Act provides that a corporation may elect to be exempt from its classified Board provisions by a vote of the directors, or by a vote of the holders of two-thirds of the outstanding voting stock. Therefore, the adoption of this proposal would not in itself eliminate the classified Board, but would only amount to an advisory recommendation to the Board that it take the necessary steps to achieve that outcome.

For the reasons stated above, the Board of Directors recommends a vote AGAINST this proposal.

EXPENSES AND SOLICITATION

The cost of solicitation of proxies will be borne by the Corporation. In addition to soliciting stockholders through its regular employees, the Corporation will request banks and brokers to solicit customers of theirs who have shares of Common Stock of the Corporation registered in the name of a nominee. The Corporation will reimburse such banks and brokers for their reasonable out-of-pocket costs, at the rates suggested by the New York Stock Exchange. Solicitation by officers and employees of the Corporation may also be made of some

stockholders in person, or by mail, telephone or telegraph, following the original solicitation. Georgeson & Company Inc. has been retained by the Corporation to assist with the solicitation of proxies at a cost to the Corporation estimated not to exceed \$20,000.

STOCKHOLDER PROPOSALS FOR NEXT ANNUAL MEETING

Proposals of stockholders intended for inclusion in the proxy statement to be mailed to all stockholders entitled to vote at the 1996 Annual Meeting of Stockholders of the Corporation must be received at the Corporation's principal executive offices not later than May 20, 1996. In order to curtail controversy as to the date on which a proposal was received by the Corporation, proponents should submit their proposals by Certified Mail — Return Receipt Requested.

September 18, 1995

EXHIBIT A

DIGITAL EQUIPMENT CORPORATION 1995 EQUITY PLAN

Section 1 — Purpose

The Digital Equipment Corporation 1995 Equity Plan (the "Plan") is intended to advance the interests of Digital Equipment Corporation ("Corporation") and its stockholders by providing equity-based incentives to better align the interests of key employees with those of stockholders, and to attract, retain and motivate such employees.

Section 2 — Administration

The Plan shall be administered by a committee appointed by the Board of Directors of the Corporation (the "Committee"), which shall consist of not fewer than two members of the Corporation's Board of Directors. All members of the Committee must be "disinterested administrators" within the meaning of Rule 16b-3 or any successor provision ("Rule 16b-3") under the Securities Exchange Act of 1934, as amended (the "1934 Act") and "outside directors" within the meaning of Section 162(m) or any successor provision of the Internal Revenue Code of 1986, as amended (the "Code"), if required for compliance with Rule 16b-3 or Section 162(m) of the Code, as the case may be. Any authority or power granted in the Plan to the Committee shall also be deemed to be granted to the Board of Directors, and any action permitted to be taken or determination permitted to be made by the Committee may also be taken or made by the Board of Directors; provided, however, that to the extent required by Rule 16b-3 and/or Section 162(m) of the Code with respect to specific grants of Awards, such power or authority shall only reside in and such actions or determinations shall only be made by an administrator or administrators in compliance with Rule 16b-3 or Section 162(m) of the Code, as the case may be. The Board of Directors may also establish a committee of one or more members of the Corporation's Board of Directors who are also officers of the Corporation for the purposes of administering grants of Awards under the Plan to Employees who are not subject to the provisions of Section 16 of the 1934 Act. If such a committee is established, it shall have all the power and authority of the Committee under the Plan with respect to such Awards.

Subject to the provisions of the Plan, the Committee shall have the authority to select the Employees who are eligible to participate in the Plan, to determine the Awards to be granted to each Employee, to determine the time or times when Awards shall be exercisable or when

restrictions, conditions and contingencies shall lapse, to establish any other restrictions, conditions and contingencies on Awards in addition to those prescribed by the Plan and to determine whether any Option granted shall be an ISO or a Non-Qualified Option. The Committee shall also prescribe the form of agreements or other instruments under the Plan and the legends, if any, to be affixed to the certificates representing shares of Stock to be issued.

The Committee shall have full authority to interpret the Plan, to grant waivers of Plan restrictions, to amend the provisions of Award instruments and to adopt such rules, regulations and guidelines for carrying out the Plan as it may deem necessary or proper, all of which powers shall be executed in the best interests of the Corporation and in keeping with the purposes of the Plan. Such powers shall include, but shall not be limited to, the power to modify or amend the Plan and to adopt such procedures, subplans and the like as may be necessary to comply with provisions of the laws of other countries in which the Corporation or any subsidiary of the Corporation may operate in order to assure the viability of Awards granted under the Plan and to enable Employees employed in such other countries to receive advantages and benefits under the Plan and consistent with such laws.

The determinations of the Committee in the administration of the Plan shall be final and conclusive unless otherwise determined by the Board of Directors.

Section 3 — Shares of Stock Subject to the Plan

(a) *Shares Available for Issuance.* The shares of stock available for issuance under the Plan shall be authorized but unissued shares of the Corporation's Common Stock or previously issued shares of the Corporation's Common Stock reacquired by the Corporation in any manner and held in its treasury ("Stock"). No fractional shares of Stock shall be delivered under the Plan.

(b) *Maximum Number of Shares Available for Issuance.* Subject to adjustment as provided in Section 7.7 below, the maximum number of shares of Stock available for the grant of Awards under the Plan from the date of its adoption by the Board of Directors until June 29, 1996, shall be the maximum number of shares of Stock available for issuance under the Corporation's 1990 Equity Plan (the "1990 Plan") as of the date of approval of the Plan by the Corporation's stockholders, plus any shares of Stock subject to Awards under the 1990 Plan that expire unexercised or are forfeited, terminated, cancelled (in whole or in part) or in any other manner are not issued to an Employee at any time. Subject to adjustment as provided in Section 7.7 below, the maximum number of shares of Stock available for the grant of Awards

under the Plan for each fiscal year subsequent to the fiscal year ending on June 29, 1996, but prior to the beginning of the fiscal year commencing on June 28, 1998, shall be two percent (2%) of the total number of issued shares of the Corporation's Common Stock (including treasury shares) as of the first day of such fiscal year. Such maximum number of shares shall be increased in any fiscal year by the number of shares of Stock available for the grant of Awards hereunder in the previous fiscal year or years but not covered by Awards granted hereunder in such fiscal year or years since the adoption of the Plan, plus any shares of Stock subject to Awards under the 1990 Plan or the Plan that expire unexercised or are forfeited, terminated, cancelled (in whole or in part), or in any other manner are not issued to an Employee, plus any shares of Stock tendered to the Corporation as full or partial payment for the exercise of any Option under the 1990 Plan or the Plan and the payment of any withholding taxes arising therefrom.

(c) *Limitations on Issuance.* Notwithstanding any other provision of the Plan, in no event shall more than 5,000,000 shares of Stock be cumulatively available for the issuance of Stock pursuant to ISO's granted under the Plan, nor shall more than 1,000,000 shares of Stock be cumulatively available for grant pursuant to Restricted Stock Awards, Unrestricted Stock Awards and Stock Unit Awards. Notwithstanding any other provision of the Plan, no Employee may be granted in any fiscal year beginning with the fiscal year commencing July 2, 1995, in the aggregate, Awards relating to, in the aggregate, more than one million (1,000,000) shares of Stock. In all events, determinations under the preceding sentence shall be made in a manner that is consistent with Section 162(m) of the Code and the regulations promulgated thereunder.

(d) *Dividends.* Notwithstanding the foregoing, any dividend or dividend equivalent paid or credited to an Employee in shares of Stock or Stock Units pursuant to Sections 5.4(b) or 5.5 below shall not be subtracted from the maximum number of shares available for the grant of Awards under the Plan or the cumulative aggregate number of shares available for grant pursuant to Restricted Stock Awards, Unrestricted Stock Awards and Stock Unit Awards.

(e) *Expiration, Forfeiture, Cancellation or Settlement in Cash.* Shares of Stock subject to Awards that expire unexercised or are forfeited, terminated, canceled (in whole or in part), or in any other manner are not issued to an Employee (including shares of Stock that are not issued to an Employee pursuant to Awards settled in cash in lieu thereof), shall become available immediately for the future grant of Awards under the Plan.

Section 4 — Eligibility

Awards may be granted under the Plan only to Employees of the Corporation or of a subsidiary of the Corporation. The term "Employees" shall include officers as well as all other employees of the Corporation or of a subsidiary of the Corporation. Members of the Committee and members of the Board of Directors who are not Employees of the Corporation or of a subsidiary of the Corporation shall not be eligible to participate in the Plan. Awards may be granted to the same Employee on more than one occasion.

Section 5 — Types of Awards

5.1 Authority.

The Committee shall have the authority to grant Awards singly, in combination or in tandem. The term "Awards" includes options, stock appreciation rights, awards of Stock of the Corporation and awards of stock units or phantom shares of stock, all on the terms and conditions hereinafter established.

5.2 Options.

(a) *Definition of Options.* An "Option" is an Award entitling the recipient upon exercise of the Option to purchase Stock at a specified price for a specified period of time. Both "incentive stock options" ("ISO's"), as defined in Section 422 of the Code, or any successor provision, and Options that are not incentive stock options ("Non-Qualified Options"), may be granted under the Plan. Instruments evidencing ISO's shall contain such terms and conditions as are required under applicable provisions of the Code.

(b) *Exercise Price.* The Committee shall determine the exercise price of an Option which shall not be less than 100% of the Fair Market Value per share of the Stock on the date the Option is granted. For purposes of the Plan, "Fair Market Value" of a share of Stock on a given date will be the average of the high and low selling prices of the Corporation's Common Stock in the New York Stock Exchange Composite Transactions Index on such date, or if not a business day, as of the last business day for which prices are available prior to such date.

(c) *Duration of Options.* The Committee shall determine the latest date on which an Option may be exercised which shall be no later than the date that is ten years after the date the Option was granted.

(d) *Exercise of Options.* Subject to the applicability of Section 7.3 below, an Option shall become exercisable at such time or times, and on such conditions, as the Committee may

specify. The Committee may at any time accelerate the time at which all or any part of an Option may be exercised.

An Employee electing to exercise an Option shall give written or electronic notice to the Corporation or its agent of the election and of the number of shares of Stock that the Employee elects to acquire, accompanied by any documents or instruments required by the Corporation or its agent and payment in full for the Stock purchased, together with provision for the amount of any taxes due in respect of the sale and issue thereof.

(e) *Payment for Stock.* Stock purchased by an Employee upon exercise of an Option may be paid for in any legal manner so specified by the Committee, including the following methods, which may be used in combination if specified by the Committee:

(1) In cash or by check, bank draft or money order payable to the order of the Corporation.

(2) If permitted by applicable law, through the delivery of an assignment to the Corporation of a sufficient amount of the proceeds from the sale of unrestricted Stock acquired upon exercise to pay for all of the Stock so acquired and any tax withholding obligation resulting from such exercise; and an authorization to the broker or selling agent to pay that amount to the Corporation.

(3) Through the delivery of an amount of previously acquired shares of unrestricted Stock having in the aggregate a Fair Market Value equal to the exercise price, provided that such method is consistent with applicable tax laws, policies and eligibility criteria established by the Committee. Employees may further apply the Stock acquired upon such exercise to satisfy the exercise price for additional Stock.

With respect to ISO's, acceptable methods of payment for stock upon exercise of an Option shall be set forth in the Award instrument granting the applicable ISO.

(f) *Special Rules for ISO's.* The aggregate Fair Market Value (determined as of the date of grant) of the shares of Stock covered by ISO's granted under this Plan or any other equity plan of the Corporation and its subsidiaries, that becomes exercisable for the first time by the Employee in any calendar year shall not exceed \$100,000. Nothing in this special rule shall be construed as limiting the exercisability of any Option unless the Committee provides for a limitation at the time of grant.

5.3 Stock Appreciation Rights.

(a) *Description of Stock Appreciation Rights.* A "Stock Appreciation Right" ("SAR") is an Award entitling the recipient upon exercise of the Right to receive an amount, in cash or Stock, or a combination thereof (at the Committee's discretion), equal to the appreciation, if any, in the Fair Market Value of a share of the Corporation's Common Stock from the date of the grant of the SAR to the date of its payment or settlement.

(b) *Other Terms and Conditions of Stock Appreciation Rights.* The Award price per SAR shall not be less than the Fair Market Value of a share of the Corporation's Common Stock on the date the SAR is granted. An Employee electing to exercise a Stock Appreciation Right must give written or electronic notice to the Corporation or its agent of the election, accompanied by any documents or instruments required by the Corporation or its agent, together with provision for the amount of any taxes due with respect thereto.

5.4 Restricted and Unrestricted Stock.

(a) *Definition of Restricted Stock Awards.* A "Restricted Stock Award" entitles the recipient to acquire shares of Restricted Stock subject to such restrictions, conditions and contingencies as may be determined by the Committee in its sole discretion.

(b) *Rights as a Stockholder.* At the discretion of the Committee, an Employee who receives Restricted Stock will have all the rights of a stockholder with respect to the Restricted Stock, including voting and dividend rights, subject to the restrictions described in paragraph (c) below and any other restrictions, conditions and contingencies imposed by the Committee at the time of grant. The Committee may require that dividends be paid in additional shares of Restricted Stock or in Stock Units.

(c) *Restrictions and Obligations of Resale.* "Restricted Stock" is Stock subject to restrictions against disposition as specified by the Committee in the Award instrument and may not be sold, transferred, or otherwise disposed of, and shall not be pledged or otherwise hypothecated, except as provided in the Award instrument. Except as otherwise provided in the Award instrument, in the event of termination of employment for any reason other than as specified in Section 6.1 or 6.2, Restricted Stock shall be forfeited to the Corporation, except that it shall be offered for resale to the Corporation at its original acquisition price if the Restricted Stock was issued for monetary consideration.

(d) *Other Awards Settled with Restricted Stock.* The Committee may, at the time any Award described in this Section 5 is granted, provide that any or all of the Stock delivered or issuable pursuant to the Award will be Restricted Stock.

(e) *Unrestricted Stock Awards.* The Committee may, in its sole discretion, award to any eligible Employee unrestricted shares of Stock under the Plan ("Unrestricted Stock Award"). Any Employee who receives an Unrestricted Stock Award will have all the rights of a stockholder, including voting and dividend rights.

(f) *Price of Restricted and Unrestricted Stock.* Grants of Restricted Stock and Unrestricted Stock shall be made at such purchase price as the Committee shall determine in its sole discretion, and may be issued for no monetary consideration, subject to applicable state law.

5.5 Stock Units.

(a) A "Stock Unit Award" entitles the recipient to receive, without payment, "Stock Units" in the form of phantom shares of stock which are valued at the Committee's discretion in whole or in part by reference to, or otherwise based on, the Fair Market Value of the Corporation's Common Stock.

(b) An Employee who receives Stock Units may be given rights to dividend equivalents, subject to any conditions imposed by the Committee at the time of grant. The Committee may provide that any such dividend equivalents be paid in cash, in shares of stock or in additional Stock Units.

5.6 Performance Criteria.

The Committee in its discretion may grant Awards contingent on satisfaction of performance criteria established by the Committee consistent with Section 162(m) of the Code. Such performance criteria shall be based on level of revenue, operating income, profit after tax, earnings per share, cash flow, return on equity or return on assets. The Committee may select one criterion or multiple criteria, and the measurement may be based on Corporation or business unit performance, or on comparative performance with that of other companies or units thereof.

The Committee in its discretion may also grant Awards contingent on satisfaction of performance criteria other than those specified in the paragraph above.

Section 6 — Termination of Employment

6.1 Death or Disability of Employee.

Unless otherwise specified in the Award instrument, if an Employee (i) dies while employed by the Corporation or any subsidiary of the Corporation (or upon the death of an Employee after termination of employment), or (ii) ceases to be employed by the Corporation or any subsidiary by reason of his or her permanent and total disability ("Disability"), as determined by the Committee, the following rules shall apply:

(a) Each Option and Stock Appreciation Right held by the Employee immediately prior to his or her death shall become fully exercisable and may be exercised only until one year after his or her death (whether or not this period ends after expiration of the exercise period specified in the Award instrument, but in the case of an ISO, in no event later than the expiration of the ISO under its original terms) by the Employee's executor or administrator, or if not so exercised, by the legatees or distributees of his or her estate or by such other person or persons to whom the Employee's rights under such Option or Stock Appreciation Right shall pass by will or by the applicable laws of descent and distribution.

(b) Each Option and Stock Appreciation Right held by the Employee when his or her employment ends due to Disability shall become fully exercisable and shall continue to be exercisable in accordance with the terms set forth in the Award instrument relating to such Award.

(c) Each share of Restricted Stock and each Stock Unit covered by an Award held by the Employee immediately prior to his or her death or Disability will immediately become free of all restrictions, conditions and contingencies thereon.

6.2 Retirement.

If an Employee ceases to be employed by the Corporation or any subsidiary of the Corporation by reason of his or her retirement at or after age 55, the Employee's rights with respect to Awards held by him or her as of such retirement date shall be as set forth in the Award instrument relating to each such Award. Retirement, including early retirement, under any pension plan of the Corporation or any subsidiary of the Corporation shall not by itself constitute retirement for purposes of the Plan.

6.3 Termination of Employment.

Unless otherwise provided in the Award instrument, if an Employee ceases to be employed by the Corporation or any subsidiary of the Corporation for any reason other than the reasons specified in Sections 6.1 and 6.2 above, the following rules shall apply:

(a) Each Option and Stock Appreciation Right held by the Employee that is unexercised when his or her employment ends shall expire upon such termination of employment.

(b) Each share of Restricted Stock held by the Employee on which all restrictions, conditions and contingencies have not lapsed shall be forfeited or offered for resale to the Corporation in accordance with Section 5.4 above, and each Stock Unit as to which all restrictions, conditions and contingencies have not lapsed or been performed shall be forfeited.

6.4 Committee Determinations.

Any question as to whether there has been a retirement, Disability or termination of employment shall be determined by the Committee, and its determination of such question shall be final.

Section 7 — General Provisions

7.1 Term and Amendment.

Unless earlier terminated by the Board of Directors, the Plan shall terminate on December 31, 1998, and no Awards shall be granted under the Plan after such date; provided, however, that Awards payable or requiring exercise which are granted on or before this date shall remain payable or exercisable in accordance with their respective terms after the termination of the Plan; and provided, further that the authority of the Committee to take actions with respect to any such Awards as contemplated herein shall extend beyond termination of the Plan.

The Board of Directors may at any time terminate the Plan or suspend the grant of Awards under the Plan. The Board of Directors may at any time amend the Plan or any outstanding Award for any lawful purpose; provided, that no amendment, without the approval of the Corporation's stockholders, shall increase the maximum number of shares of Stock that may be issued under the Plan or issued in the aggregate pursuant to the certain Awards listed in Section 3 above (except as permitted by the last paragraph of Section 3 above and Section 7.7

below); and provided, further, that no amendment, without the approval of the Corporation's stockholders (where such approval is necessary to satisfy then-applicable requirements of federal securities laws, the Code or rules of any stock exchange on which the Corporation's Common Stock is listed), shall extend the period during which Awards may be granted under the Plan or amend the eligibility provisions of Section 4 above.

7.2 Non-Transferability of Awards.

(a) Except to the extent permitted by Rule 16b-3 and as otherwise provided in the Award instrument, no Award (other than Stock or cash transferred to an Employee under the Plan without restrictions) may be transferred other than by will or by the laws of descent and distribution, and during an Employee's lifetime an Award requiring exercise may be exercised only by him or her (or in the event of incapacity, the person or persons properly appointed to act on his or her behalf).

(b) Notwithstanding anything contained herein to the contrary, in the event an Employee terminates his or her employment to assume a position with a governmental, charitable or educational institution, the Committee, in its sole discretion and provided such arrangement is in accordance with applicable law, may authorize a third party, including but not limited to a "blind" trust, acceptable to the applicable governmental, charitable or educational institution, the Employee and the Committee, to act on behalf and for the benefit of such Employee with respect to any Awards.

7.3 Documentation of Awards.

Awards shall be evidenced by written instruments which shall describe the Award and the terms and conditions thereof. The granting of an Award may be subject to, and conditioned upon, the Employee's execution of any Award instrument required by the Committee. Each Award instrument shall contain such provisions as the Committee shall determine in its sole discretion. The instruments may be in the form of agreements to be executed by both the Employee and the Corporation or certificates, letters or similar instruments, which need not be executed by the Employee but acceptance of which will evidence agreement to the terms of the Award.

7.4 Rights as a Stockholder.

Except as specifically provided in the Plan, the receipt of an Award will not give an Employee rights as a stockholder; the Employee will obtain such rights, subject to any limitations imposed by the Plan or the Award instrument, upon actual receipt of Stock.

7.5 Tax Withholding.

The Corporation will withhold from any cash payment made pursuant to an Award an amount sufficient to satisfy all federal, state and local withholding tax requirements (the "withholding tax requirements").

In the case of an Award delivered in Stock, the Committee will have the right to require that the Employee or other appropriate person remit to the Corporation an amount sufficient to satisfy the withholding tax requirements or make other arrangements satisfactory to the Committee with regard to such requirements prior to the event giving rise to such withholding tax requirement. If and to the extent that withholding is required, the Committee may permit the Employee or other appropriate person to elect, at the time and in the manner as the Committee provides, to have the Corporation hold back from the Stock to be delivered, or to deliver to the Corporation, Stock having a value calculated to satisfy the withholding tax requirements.

7.6 Deferral of Payments.

The Committee may, in its sole discretion, either in the terms of an Award instrument or upon the request of an Employee holding an Award, defer the date on which any payment of cash or Stock under such an Award shall be made. The Committee may also establish rules and procedures for the crediting of interest on deferred cash payments and dividends or dividend equivalents for deferred payments denominated in Stock or Stock Units. Any deferral, whether requested by the Employee or specified in the Award instrument or otherwise by the Committee, may be subject to forfeiture in accordance with terms established by the Committee.

7.7 Adjustments in the Event of Certain Transactions.

(a) In the event of a stock dividend, stock split or combination of shares, recapitalization or other change in the Corporation's capitalization, or other distribution with respect to holders of the Corporation's Common Stock other than normal cash dividends, the Committee shall make appropriate adjustments to the maximum number of shares of Stock that may be

delivered under the Plan and to the maximum number of shares of Stock that may be issued pursuant to certain Awards, all as set forth in Section 3 above.

(b) In any event referred to in paragraph (a), the Committee shall also make any appropriate adjustments to the number and kind of shares of Stock subject to Awards then outstanding or subsequently granted, any exercise or purchase prices relating to Awards and any other provisions of Awards affected by such change. The Committee may also make adjustments to take into account material changes in law or in accounting practices or principles, mergers, consolidations, acquisitions, dispositions, repurchases or similar corporate transactions, or any other event, if it is determined by the Committee that adjustments are appropriate to avoid distortion in the operation of the Plan.

(c) Any adjustments made pursuant to paragraphs (a) or (b) with respect to ISO's shall be made only after the Committee, after consulting with the Corporation's counsel, determines whether such adjustments would constitute a "modification" of the ISO's (as that term is defined in Section 422 of the Code) or would otherwise cause any adverse tax consequences for the holders of the ISO's. If the Committee determines that such adjustments to be made with respect to ISO's would constitute a modification of the ISO's, it may refrain from making such adjustments.

7.8 Employment Rights.

Neither the adoption of the Plan nor the grant of Awards shall confer upon any person any right to continued employment with the Corporation or any subsidiary of the Corporation or affect in any way the right of the Corporation or any subsidiary of the Corporation to terminate an employment relationship at any time. Except as specifically provided by the Committee, the Corporation shall not be liable for the loss of existing or potential profit in Awards granted under the Plan in the event of termination of an employment relationship even if the termination is in violation of an obligation of the Corporation or any subsidiary of the Corporation to the Employee.

7.9 Change in Control.

(a) In order to maintain Employees' rights in the event of any Change in Control of the Corporation, the Board of Directors (as constituted on the date the Award is granted or as constituted immediately prior to the Change in Control) may, in its sole discretion, as to any Award, either on the date an Award is granted or any time thereafter, take any one or more of the following actions:

(1) Provide for the acceleration of any time periods relating to the exercise or realization of or lapse of restrictions, conditions and contingencies under any Award so that the Award may be exercised or realized in full on or before a date fixed by the Board of Directors.

(2) Provide for the purchase of any Award, upon the Employee's request, for an amount of cash equal to the amount that could have been obtained upon the exercise of the Award or realization of the Employee's rights thereunder had the Award been currently exercisable or payable.

(3) Make such adjustment to any Award then outstanding as the Board of Directors deems appropriate to reflect the Change in Control.

(4) Cause any Award then outstanding to be assumed, or new rights substituted therefor, by the acquiring or surviving corporation after the Change in Control.

Subject to this Section 7.9, the Committee may, in its discretion, include further provisions and limitations relating to the Change in Control in any Award instrument as it may deem equitable and in the best interests of the Corporation.

(b) A "Change in Control" is defined to mean any of the following events:

(1) The acquisition by any person (including a group, within the meaning of Sections 13(d)(3) or 14(d)(2) of the 1934 Act), other than the Corporation or any subsidiary of the Corporation, of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the 1934 Act) of 20% or more of the combined voting power of the Corporation's outstanding voting securities.

(2) The first purchase under a tender offer or exchange offer, other than an offer by the Corporation or any subsidiary of the Corporation, pursuant to which shares of the Corporation's Common Stock have been purchased.

(3) During any period of two consecutive years, individuals who at the beginning of such period constitute the Board of Directors of the Corporation cease for any reason (other than death or disability) to constitute at least a majority thereof, unless the election or the nomination for election by stockholders of the Corporation of each new Director was approved by a vote of at least two-thirds of the Directors then still in office who were Directors at the beginning of the period.

(4) Approval by stockholders of the Corporation of a merger, consolidation, liquidation or dissolution of the Corporation, or the sale of all or substantially all of the assets of the Corporation.

7.10 Approvals.

Anything in the Plan to the contrary notwithstanding, the effectiveness of the Plan and of the grant of all Awards is subject to, and the Plan and the Awards granted under it shall be of no force and effect unless and until, and no Awards granted shall in any way vest or become exercisable, unless and until the Plan is approved by the affirmative vote of a majority of the shares of the Corporation's Common Stock present in person or by proxy and entitled to vote at a meeting of stockholders at which the Plan is presented for approval. The date the Plan is approved by the stockholders of the Corporation shall be the Effective Date of the Plan. The Effective Date must occur within one year after approval of the Plan by the Board of Directors. Any grant of an Award prior to the approval by the stockholders of the Corporation shall be void if such approval is not obtained. The Corporation's obligation to sell and deliver shares of Stock under the Plan is subject to the approval of any governmental authority required in connection with the authorization, issuance or sale of the Stock.

7.11 Successors and Assigns.

The Plan shall be binding upon all successors and assigns of an Employee receiving an Award under the Plan, including, without limitation, the estate of any such Employee and the executors, administrators or trustees of such estate, and any receiver, trustee in bankruptcy or representative of the creditors of any such Employee.

7.12 1990 Plan.

Upon approval of the Plan by the Corporation's stockholders, the authority to grant additional Awards under the Corporation's 1990 Plan shall expire. Awards granted pursuant to the 1990 Plan shall remain outstanding and exercisable and subject to the Award instruments relating thereto, or in accordance with such other terms and conditions as the Committee shall determine.

7.13 Governing Law.

The Plan and all determinations made and related actions taken by the Committee or the Board of Directors, to the extent not otherwise governed by the Code or the securities laws of

the United States, shall be governed by the laws of the Commonwealth of Massachusetts and shall be construed accordingly.

7.14 Definitions.

As used in the Plan, the following terms shall have the following meanings:

<u>Term</u>	<u>Section in Which Term is Defined</u>
"Awards"	Section 5.1
"Change in Control"	Section 7.9(b)
"Code"	Section 2
"Committee"	Section 2
"Corporation"	Section 1
"Disability"	Section 6.1
"Employee"	Section 4
"Fair Market Value"	Section 5.2(b)
"ISO"	Section 5.2(a)
"1990 Plan"	Section 3(b)
"1934 Act"	Section 2
"Non-Qualified Option"	Section 5.2(a)
"Option"	Section 5.2(a)
"Plan"	Section 1
"Restricted Stock"	Section 5.4(c)
"Restricted Stock Award"	Section 5.4(a)
"Rule 16b-3"	Section 2
"SAR"	Section 5.3(a)
"Stock"	Section 3(a)
"Stock Appreciation Right"	Section 5.3(a)
"Stock Units"	Section 5.5(a)
"Stock Unit Award"	Section 5.5(a)
"Unrestricted Stock Award"	Section 5.4(e)

EXHIBIT B

DIGITAL EQUIPMENT CORPORATION 1995 STOCK OPTION PLAN FOR NONEMPLOYEE DIRECTORS

Section 1 — Purpose

The purpose of the 1995 Stock Option Plan for Nonemployee Directors (the "Plan") is to increase the proprietary interest of nonemployee members of the Board of Directors in the continued success of Digital Equipment Corporation (the "Corporation") and to provide them with an incentive to continue to serve as directors.

Section 2 — Administration

The Plan shall be administered by the Compensation and Stock Option Committee of the Board of Directors of the Corporation, or any successor committee thereto. The Committee shall have responsibility finally and conclusively to interpret the provisions of the Plan and to decide all questions of fact arising in its application. No member of the Committee shall be liable for any action or determination made in good faith with respect to the Plan.

Section 3 — Type of Options

Options granted pursuant to the Plan shall be nonstatutory options which are not intended to meet the requirements of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

Section 4 — Eligibility

Directors of the Corporation who are not employees of the Corporation or any subsidiary or affiliate thereof ("Nonemployee Directors") shall be eligible to participate in the Plan. Each Nonemployee Director to whom options are granted hereunder shall be a participant ("Participant") under the Plan. Nonemployee Directors who were serving as directors of the Corporation on January 1, 1995 are referred to herein as "Existing Nonemployee Directors." Nonemployee Directors who commence service as directors of the Corporation after January 1, 1995 are referred to herein as "New Nonemployee Directors."

Section 5 — Stock Available under the Plan

Subject to adjustment as provided in Section 9 below, an aggregate of 50,000 shares of the Corporation's Common Stock, plus the number of shares of Common Stock available for issuance under the Corporation's 1990 Stock Option Plan for Nonemployee Directors as of the date of approval of the Plan by the Corporation's stockholders, shall be available for issuance pursuant to the provisions of the Plan. Such shares may be authorized and unissued shares or may be shares issued and thereafter acquired by the Corporation. If an option granted under the Plan or under the 1990 Plan shall expire or terminate for any reason without having been exercised in whole or in part, the unpurchased shares subject to such option shall again be available for subsequent option grants under the Plan.

Section 6 — Automatic Grant of Options

(a) Each year, on the date of the Corporation's Annual Meeting of Stockholders, each Existing Nonemployee Director who continues in office after said Annual Meeting, shall receive automatically and without further action by the Board of Directors or the Committee, a grant of an option to purchase 1,000 shares of Common Stock of the Corporation in accordance with the provisions of Section 7, and subject to adjustment as provided in Section 9.

(b) Each year, on the date of the Corporation's Annual Meeting of Stockholders, each New Nonemployee Director who continues in office after said Annual Meeting, shall receive automatically and without further action by the Board of Directors or the Committee, a grant of an option to purchase 2,500 shares of Common Stock of the Corporation in accordance with the provisions of Section 7, and subject to adjustment as provided in Section 9.

Section 7 — Terms and Conditions of Options

7.1 Exercise of Options.

(a) Each option granted under the Plan shall be exercisable at the rate of 33% on the first and second anniversaries of the date such option was granted and 34% on the third anniversary of the date such option was granted, subject to the provisions of Section 8 hereof.

(b) Notwithstanding the provisions of paragraph (a) above, an option granted to any Participant shall become immediately exercisable in full upon the first to occur of:

(1) The death of any Participant, in which case the option may be exercised by the Participant's executor or administrator, or if not so exercised, by the legatees or distribu-

tees of his or her estate or by such other person or persons to whom the Participant's rights under the option shall pass by will or by the applicable laws of descent and distribution;

(2) Such time as the Participant ceases to be a director of the Corporation by reason of his or her permanent disability; or

(3) Such time as the Participant retires from the Board of Directors so long as he or she is at least 70 years of age and has completed at least five years of service as a Director at the time of such retirement.

(c) In the event that the Participant ceases to be a director of the Corporation for any reason other than those specified in paragraph (b) above prior to the time a Participant's option becomes fully exercisable, the option will terminate with respect to the shares as to which the option is not then exercisable and all rights of the Participant to such shares shall terminate without further obligation on the part of the Corporation.

(d) In the event that the Participant ceases to be a director of the Corporation after his or her option has become exercisable in whole or in part, such option shall remain exercisable in whole or in part, as the case may be, in accordance with the terms hereof.

(e) Options granted under the Plan shall expire ten years from the date on which the option is granted, unless terminated earlier in accordance with the Plan; provided, however, that in the event a Participant ceases to be a director of the Corporation by reason of death, including without limitation in the event that a Participant dies after ceasing to be a director of the Corporation by reason of disability or retirement, any option granted to such Participant hereunder shall expire one year from the date of the Participant's death (whether or not this period ends after expiration of the exercise period).

7.2 Exercise Price.

The exercise price of an option shall be 100% of the fair market value per share of Common Stock of the Corporation on the date the option is granted. For purposes of the Plan, "fair market value" of a share of stock on any date shall mean the average of the high and low selling prices of the Corporation's Common Stock on the New York Stock Exchange Composite Transactions Index as of the date of grant, or if the date of grant is not a business day, as of the last business day for which prices are available prior to the date of grant.

7.3 Payment of Exercise Price.

(a) Subject to the terms and conditions of the Plan and the documentation of the options pursuant to Section 7.5 hereof, an option granted hereunder shall, to the extent then exercisable, be exercisable in whole or in part by giving written notice to the Corporation stating the number of shares with respect to which the option is being exercised, accompanied by payment in full for such shares; provided, however, that there shall be no such exercise at any one time as to fewer than one hundred (100) shares or all of the remaining shares then purchasable by the person or persons exercising the option, if fewer than one hundred (100) shares.

(b) Options granted under the Plan may be paid for by (i) delivery of cash, bank draft, money order or a check to the order of the Corporation in an amount equal to the exercise price of such options, (ii) by delivery to the Corporation of shares of Common Stock of the Corporation already owned by the Participant having a fair market value equal in amount to the exercise price of the option being exercised, provided that such method is consistent with applicable tax laws, (iii) if permitted by applicable law, through the delivery of an assignment to the Corporation of a sufficient amount of the proceeds from the sale of Common Stock of the Corporation acquired upon exercise to pay for all of the Common Stock so acquired and an authorization to the broker or selling agent to pay that to the Corporation, or (iv) by any combination of such methods of payment.

7.4 Rights as a Stockholder.

Except as specifically provided by the Plan, the grant of an option will not give a Participant rights as a stockholder; the Participant will obtain such rights, subject to any limitations imposed by the Plan, upon actual receipt of Common Stock of the Corporation.

7.5 Documentation of Option Grants.

Option grants shall be evidenced by written instruments prescribed by the Committee from time to time. The instruments may be in the form of agreements to be executed by both the Participant and the Corporation or certificates, letters or similar instruments, which need not be executed by the Participant but acceptance of which will evidence agreement to the terms of the grant.

7.6 Nontransferability of Options.

No option granted under the Plan shall be assignable or transferable by the Participant to whom it is granted, either voluntarily or by operation of law, except by will or the laws of descent and distribution. During the life of the Participant, the option shall be exercisable only by such person (or in the event of incapacity, by the person or persons properly appointed to act on his or her behalf).

7.7 Approvals.

The effectiveness of the Plan and of the grant of all options is subject to the approval of the Plan by the affirmative vote of a majority of the shares of the Corporation's Common Stock present in person or by proxy and entitled to vote at a meeting of the stockholders at which the Plan is presented for approval. Notwithstanding anything to the contrary in the Plan, no Options granted hereunder shall become exercisable until such approval has been received.

The Corporation's obligation to sell and deliver shares of stock under the Plan is subject to the approval of any governmental authority required in connection with the authorization, issuance or sale of the stock.

Section 8 — Regulatory Compliance and Listing

(a) The issuance or delivery of any shares of stock subject to exercisable Options hereunder may be postponed by the Committee for such period as may be required to comply with any applicable requirements under the Federal securities laws, any applicable listing requirements of any national securities exchange or any requirements under any law or regulation applicable to the issuance or delivery of such shares. The Corporation shall not be obligated to issue or deliver any such shares if the issuance or delivery thereof would constitute a violation of any provision of any law or of any regulation of any governmental authority or any national securities exchange.

(b) Should any provision of this Plan require modification or be unnecessary to comply with the requirements of Section 16 of and Rule 16b-3 under the Securities Exchange Act of 1934, as amended ("1934 Act"), the Committee may waive such provision and/or amend this Plan to add to or modify the provisions hereof accordingly.

(c) It is the Corporation's intent that the Plan comply in all respects with Rule 16b-3 of the 1934 Act (or any successor or amended provisions thereof) and any applicable Securities

and Exchange Commission interpretations thereof. If any provision of this Plan is deemed not to be in compliance with Rule 16b-3, the provision shall be null and void.

Section 9 — Adjustment in Event of Changes in Capitalization

In the event of a stock dividend, stock split or combination of shares, recapitalization or other change in the Corporation's capitalization, or other distribution with respect to holders of the Corporation's Common Stock other than normal cash dividends, automatic adjustment shall be made in the number and kind of shares as to which outstanding options or portions thereof then unexercised shall be exercisable and in the available shares set forth in Section 5 hereof, to the end that the proportionate interest of the option holder shall be maintained as before the occurrence of such event. Such adjustment in outstanding options shall be made without change in the total price applicable to the unexercised portion of such options and with a corresponding adjustment in the option price per share. Automatic adjustment shall also be made in the number and kind of shares subject to options subsequently granted under the Plan.

Section 10 — No Right to Reelection

Nothing in the Plan shall be deemed to create any obligation on the part of the Board of Directors or standing Committee thereof to nominate any Nonemployee Director for reelection by the Corporation's stockholders, nor confer upon any Nonemployee Director the right to remain a member of the Board of Directors for any period of time, or at any particular rate of compensation.

Section 11 — Amendment and Termination

(a) The Board of Directors shall have the right to amend, modify or terminate the Plan at any time and from time to time; provided, however, that unless required by law, no such amendment or modification shall (a) affect any right or obligation with respect to any grant theretofore made; or (b) unless previously approved by the stockholders, increase the number of shares of Common Stock available for grants as provided in Section 5 hereof (as adjusted pursuant to Section 9 hereof). In addition, no such amendment shall, unless previously approved by the stockholders (where such approval is necessary to satisfy then applicable requirements of federal securities laws, the Code or rules of any stock exchange on which the Corporation's Common Stock is listed), (i) in any manner affect the eligibility requirements set forth in Section 4 hereof, (ii) except to the extent provided for in Section 9 hereof, increase the number of shares of Common Stock subject to any option, (iii) except to the

extent provided for in Section 9 hereof, change the purchase price of the shares of Common Stock subject to any option, (iv) extend the period during which options may be granted under the Plan, (v) materially increase the benefits to Participants under the Plan, (vi) in any manner cause Rule 16b-3 under the 1934 Act (or any successor provision thereof) to become inapplicable to this Plan; and provided further that, except to the extent permitted by Rule 16b-3, the provisions of this Plan specified in Rule 16b-3(c)(2)(ii)(A) (or any successor or amended provision thereof) under the 1934 Act (including without limitation, provisions of eligibility, amount, price and timing of awards) may not be amended more than once every six months, other than to comport with changes in the Code, the Employee Retirement Income Security Act of 1974, as amended, or the rules thereunder.

(b) Unless earlier terminated by the Board of Directors, the Plan shall terminate on December 31, 2000; provided, however, that options which are granted on or before this date shall remain exercisable in accordance with their respective terms after the termination of the Plan.

Section 12 — 1990 Plan

Upon approval of the Plan by the Corporation's stockholders, the authority to grant options under the 1990 Stock Option Plan for Nonemployee Directors shall expire. Options granted pursuant to the 1990 Stock Option Plan for Nonemployee Directors shall remain outstanding and exercisable and subject to the option agreement related thereto, or in accordance with such other terms and conditions as the Committee shall determine.

Section 13 — Governing Law

The Plan shall be governed by and construed in accordance with the laws of the Commonwealth of Massachusetts.

digital

DIGITAL EQUIPMENT CORPORATION

NOTICE OF 1996 ANNUAL MEETING

September 19, 1996

Dear Fellow Stockholder:

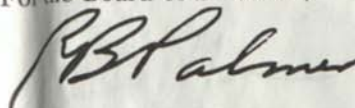
You are cordially invited to attend our Annual Meeting of Stockholders, which will be held this year on Thursday, November 14, 1996, at 11:00 A.M., at the World Trade Center, Commonwealth Pier, 164 Northern Avenue, Boston, Massachusetts.

Robert Everett will be retiring from the Board of Directors on November 14, 1996. We are extremely grateful to him for his many contributions to Digital during his ten years of service as a Director and we will miss his involvement with the Board.

The notice of meeting and proxy statement that follow describe the business to be conducted at the meeting. We also will give a presentation on the current status of our business.

Whether or not you plan to attend the meeting in person, it is important that your shares be represented and voted. After reading the enclosed Notice of Annual Meeting and Proxy Statement, I urge you to complete, sign, date and return your proxy ballot in the envelope provided. If the address on the accompanying material is incorrect, please advise our Investor Services Department in writing at 111 Powdermill Road, Maynard, Massachusetts 01754.

For the Board of Directors,



ROBERT B. PALMER
Chairman of the Board, President and
Chief Executive Officer

DIGITAL EQUIPMENT CORPORATION, 111 POWDERMILL ROAD, MAYNARD, MASSACHUSETTS 01754

YOUR VOTE IS IMPORTANT.
PLEASE SIGN, DATE AND RETURN YOUR PROXY

DIGITAL EQUIPMENT CORPORATION

NOTICE OF 1996 ANNUAL MEETING

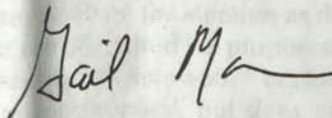
To the Stockholders of DIGITAL EQUIPMENT CORPORATION:

Notice is hereby given that the Annual Meeting of Stockholders of Digital Equipment Corporation, a Massachusetts corporation, will be held on Thursday, November 14, 1996, at 11:00 A.M., at the World Trade Center, Commonwealth Pier, 164 Northern Avenue, Boston, Massachusetts, for the following purposes:

1. To elect three members to the Board of Directors to serve for a three-year term as Class I Directors.
2. To approve an amendment to the 1968 Employee Stock Purchase Plan to increase the number of shares subject thereto by 5,000,000 shares.
3. To approve an amendment to the 1981 International Employee Stock Purchase Plan to increase the number of shares subject thereto by 2,500,000 shares.
4. To ratify the selection of the firm of Coopers & Lybrand L.L.P. as auditors for the fiscal year ending June 28, 1997.
5. To transact such other business as may properly come before the meeting.

Stockholders entitled to notice of and to vote at the meeting shall be determined as of the close of business on September 16, 1996, the record date fixed by the Board of Directors for such purpose.

By Order of the Board of Directors,



GAIL S. MANN, Clerk

September 19, 1996

STOCKHOLDERS ARE REQUESTED TO SIGN THE ENCLOSED PROXY CARD AND RETURN IT PROMPTLY IN THE ENCLOSED POSTAGE PAID ENVELOPE TO DIGITAL EQUIPMENT CORPORATION, P.O. BOX 1006 NEW YORK, NEW YORK 10269.

PROXY STATEMENT

INTRODUCTION

Proxies in the form enclosed with this proxy statement are solicited by the Board of Directors of Digital Equipment Corporation (the "Corporation") for use at the 1996 Annual Meeting of Stockholders (the "Meeting").

An Annual Report to Stockholders, containing financial statements for the fiscal year ended June 29, 1996, has been sent to all stockholders entitled to vote. This proxy statement and form of proxy were first sent to stockholders on or about the date of the accompanying Notice of 1996 Annual Meeting.

Only common stockholders of record as of the close of business on September 16, 1996 will be entitled to vote at the Meeting and any adjournments thereof. As of that date, 154,324,142 shares of Common Stock of the Corporation (excluding treasury shares) were issued and outstanding. Each share outstanding as of the record date will be entitled to one vote, and stockholders may vote in person or by proxy. Execution of a proxy will not in any way affect a stockholder's right to attend the meeting and vote in person. Any stockholder giving a proxy has the right to revoke it at any time before it is exercised by written notice to the Clerk of the Corporation. In addition, stockholders attending the Meeting may revoke their proxies at that time.

The representation in person or by proxy of at least a majority of the outstanding shares of Common Stock entitled to vote at the meeting is necessary to constitute a quorum for the transaction of business. Votes withheld from any nominee for election as director, abstentions and broker "non-votes" are counted as present or represented for purposes of determining the presence or absence of a quorum for the meeting. A "non-vote" occurs when a nominee holding shares for a beneficial owner votes on one proposal, but does not vote on another proposal because, in respect of such other proposal, the nominee does not have discretionary voting power and has not received instructions from the beneficial owner. An automated system administered by the Corporation's solicitation agent tabulates the votes. The vote on each matter submitted to stockholders is tabulated separately. Abstentions are included in the number of shares present or represented and voting on each matter. Broker "non-votes" are not so included.

The persons named as attorneys in the proxies are directors and/or officers of the Corporation. All properly executed proxies returned in time to be cast at the Meeting, if no contrary instruction is indicated, will be voted as stated below under "Election of Directors." In addition to the election of Class I Directors, the stockholders will consider and vote upon proposals to (i) approve an amendment to the 1968 Employee Stock Purchase Plan to increase the number of shares available for issuance thereunder; (ii) approve an amendment to the 1981 International Employee Stock Purchase Plan to increase the number of shares available for issuance thereunder; and (iii) ratify the selection of auditors. Where a choice has been specified on the proxy with respect to these matters, the shares represented by the proxy will be voted in accordance with the specification and will be voted FOR if no specification is indicated. Directors are elected by a plurality of votes cast and the affirmative vote of a majority of the shares present or represented at the Meeting and voting on such other matters is required for approval of those matters.

The Corporation knows of no other matter to be presented at the Meeting. If any other matter should be presented at the Meeting upon which a vote properly may be taken, shares represented by all proxies received by the Corporation will be voted with respect thereto in accordance with the judgment of the persons named as attorneys in the proxies.

ELECTION OF DIRECTORS

The Board of Directors of the Corporation is divided into three classes. Each class serves three years, with the terms of office of the respective classes expiring in successive years. The directors in Class II will be nominees for election to three-year terms at the 1997 Annual Meeting of Stockholders and the directors in Class III will be nominees for election to three-year terms at the 1998 Annual Meeting of Stockholders.

The present term of office for the directors in Class I ("Class I Directors") expires at the Meeting. Kathleen F. Feldstein and Robert B. Palmer were each elected at the Annual Meeting of Stockholders held November 4, 1993, and are nominees for re-election to a three-year term as Class I Directors. Frank P. Doyle was elected to the Board on August 24, 1995 and is a nominee for election for the first time to a three-year term as a Class I Director. If re-elected or elected, as the case may be, the Class I Director nominees will hold office until the Annual Meeting of Stockholders to be held in 1999 and until their successors have been duly elected and have qualified. Shares represented by all proxies received by the Board of Directors and not so marked as to withhold authority to vote for any individual nominee will be voted (unless one or more nominees is unable or unwilling to serve) for the election of all nominees

for Class I Directors. The Board of Directors knows of no reason why any such nominee should be unable or unwilling to serve, but if such should be the case, proxies will be voted for the election of some other person or the Board of Directors will fix the number of directors at a lesser number.

Set forth below is information with respect to each nominee for a Class I Director to be elected at the Meeting and for each Class II Director and Class III Director whose term of office continues after the Meeting. With the exception of Frank P. Doyle, all of the directors were previously elected by the stockholders.

Nominees to Serve as Directors for a Three-Year Term Expiring at the 1999 Annual Meeting (Class I Directors)

FRANK P. DOYLE

Mr. Doyle, age 65, retired in December 1995 as an Executive Vice President of General Electric Company ("GE"). Mr. Doyle had been an Executive Vice President of GE and a member of its corporate executive office since July 1992 and was a Senior Vice President from 1981 to July 1992. He is a director of the Paine Webber Group Inc., Roadway Express, Inc., and Educational Testing Service. Mr. Doyle was elected a director of the Corporation in August 1995 and is a member of the Audit Committee and the Strategic Direction Committee.

KATHLEEN F. FELDSTEIN

Dr. Feldstein, age 55, has been President of Economics Studies, Inc., an economics consulting firm, since 1987. Dr. Feldstein is presently a director of Bank America Corporation, Conrail Corporation and The John Hancock Mutual Life Insurance Company. Dr. Feldstein has been a director of the Corporation since 1993 and is a member of the Audit Committee.

ROBERT B. PALMER

Mr. Palmer, age 56, has been President and Chief Executive Officer of the Corporation since October 1992, and Chairman of the Board since May 1995. Mr. Palmer joined the Corporation in 1985 and served as Vice President, Semiconductor and Interconnect Technology until 1990, and as Vice President, Manufacturing, Logistics and Component Engineering from 1990 to 1992. From 1983 to 1985, he was Executive

Vice President of Semiconductor Operations at Mostek Corporation ("Mostek"), a subsidiary of United Technologies Corporation. Mr. Palmer was a co-founder of Mostek, where he held a series of senior management positions prior to its acquisition in 1980 by United Technologies Corporation. Mr. Palmer is a director of AlliedSignal Inc. Mr. Palmer has been a director of the Corporation since 1992 and is Chairman of the Strategic Direction Committee.

Directors Serving a Term Expiring at the 1997 Annual Meeting (Class II Directors)

VERNON R. ALDEN

Mr. Alden, age 73, was Chairman of the Board and Executive Committee of The Boston Company, Inc., a financial services company, from 1969 to 1978. He was President of Ohio University from 1962 to 1969. Mr. Alden is a director of Augat, Inc., Colgate-Palmolive Company, Intermet Corporation and Sonesta International Hotels Corporation. He is also a trustee of several cultural and educational organizations. He has been a director of the Corporation since 1959 and is a member of the Audit Committee and Nominating Committee.

THOMAS L. PHILLIPS

Mr. Phillips, age 72, retired as Chairman of the Board and Chief Executive Officer of Raytheon Company ("Raytheon") in March 1991, having served as Chief Executive Officer since 1968, and as Chairman of the Board since 1975. He has been a director of Raytheon since 1962. Mr. Phillips is also a director of SRA International, Inc., State Street Research and Management Co. and Knight-Ridder, Inc. Mr. Phillips has been a director of the Corporation since 1991. He is Chairman of the Compensation and Management Development Committee and is a member of the Nominating Committee.

DELBERT C. STALEY

Mr. Staley, age 72, was Chairman, Chief Executive Officer and a director of NYNEX Corporation ("NYNEX") from 1983 until his retirement in September 1989. He continued serving as a director of NYNEX and served as Chairman of NYNEX International Management Committee until October 1991. Mr. Staley is a director of Polaroid Corporation and SRA International, Inc., and is Chairman of Alcatel Network Systems Inc. Mr. Staley has been a director of the Corporation since 1993 and is

a member of the Compensation and Management Development Committee and Strategic Direction Committee.

Directors for a Three-Year Term Expiring at the 1998 Annual Meeting (Class III Directors)

COLBY H. CHANDLER

Mr. Chandler, age 71, retired as Chairman of the Board and Chief Executive Officer of Eastman Kodak Company ("Kodak") in May 1990. Prior to that time he had been Chief Executive Officer, Chairman of the Board and Chairman of the Executive Committee of Kodak since July 1983. He assumed the presidency of Kodak in January 1977. Mr. Chandler was a director of Kodak from 1974 to 1993. He is also a director of J. C. Penney Company, Inc. Mr. Chandler has been a director of the Corporation since 1989. He is Chairman of the Audit Committee and a member of the Nominating Committee.

ARNAUD DE VITRY

Mr. de Vitry, age 70, is an engineering consultant. From 1980 to 1990, Mr. de Vitry was Chairman of the Board and Chief Executive Officer of Eureka SICAV, France, an investment company. He is a director of Ionics, Incorporated. Mr. de Vitry has been a director of the Corporation since 1957 and is Chairman of the Nominating Committee.

THOMAS P. GERRITY

Dr. Gerrity, age 55, has served as Dean of the Wharton School of the University of Pennsylvania since July 1990. From 1969 to 1989, Dr. Gerrity was chief executive officer of Index Group, Inc. ("Index"), an information technology consulting company he founded. In 1988, Index became part of Computer Sciences Corporation ("CSC") and Dr. Gerrity was subsequently appointed president of CSC's commercial professional services group, CSC Consulting. Dr. Gerrity is presently a director of the Federal National Mortgage Association, Melville Corporation, Reliance Group Holdings, Inc. and Sun Company, Inc. He has been a director of the Corporation since 1992, and is a member of the Compensation and Management Development Committee and Strategic Direction Committee.

Security Ownership of Directors and Executive Officers

Shown below is certain information as of August 14, 1996, with respect to beneficial ownership of shares of the Corporation's Common Stock and of Depositary Shares, each representing one-fourth of a share of the Corporation's Series A 8 7/8% Cumulative Preferred Stock (the "Depositary Shares"), by each director (including the three nominees for Class I Directors), by each executive officer named in the Summary Compensation Table set forth on page 12 and by all directors and executive officers as a group. Unless otherwise indicated, the named person or members of the group possess sole voting and investment power with respect to the shares.

<u>Beneficial Owner</u>	<u>Shares Beneficially Owned</u>
Vernon R. Alden	48,126 (1) (2)
	4,000 (3)
Colby H. Chandler	10,000 (1)
	5,137 (4)
Arnaud de Vitry	113,260 (1) (5)
Frank P. Doyle	1,000 (6)
Robert R. Everett	6,300 (1)
	1,502 (4)
Kathleen F. Feldstein	4,000 (7)
Thomas P. Gerrity	16,000 (8)
Robert B. Palmer	577,719 (9)
Thomas L. Phillips	10,000 (1)
Delbert C. Staley	5,000 (7)
Charles F. Christ	111,617 (10)
Enrico Pesatori	102,429 (11)
John J. Rando	89,472 (12)
William D. Strecker	94,935 (13)
All directors and executive officers as a group (18 persons) ..	1,495,793 (14)

(1) Includes 5,000 shares of Common Stock which the director has the right to acquire by exercise of a stock option granted pursuant to the Corporation's 1990 Stock Option Plan for Nonemployee Directors ("1990 Nonemployee Directors Plan").

(2) Includes 22,357 shares of Common Stock held by Mr. Alden's wife, as to which shares Mr. Alden disclaims beneficial ownership.

(3) Represents 4,000 Depositary Shares. These Depositary Shares represent less than 1% of the Corporation's issued and outstanding Depositary Shares and Preferred Stock.

(4) Represents Common Stock units under the directors' deferred compensation plan described on pages 10 and 11. Under the plan, nonemployee directors may elect to defer receipt of all or a portion of their compensation in the form of Common Stock units. Common Stock units carry no voting rights.

(5) Includes 104,660 shares of Common Stock held by Mr. de Vitry's wife, as to which shares Mr. de Vitry disclaims beneficial ownership.

(6) Represents 1,000 shares of Common Stock which Mr. Doyle has the right to acquire by exercise of a stock option granted pursuant to the Corporation's 1990 Nonemployee Directors Plan.

(7) Includes 3,000 shares of Common Stock which the director has the right to acquire by exercise of a stock option granted pursuant to the Corporation's 1990 Nonemployee Directors Plan.

(8) Includes 4,000 shares of Common Stock which Dr. Gerrity has the right to acquire by exercise of a stock option granted pursuant to the Corporation's 1990 Nonemployee Directors Plan.

(9) Includes 554,700 shares of Common Stock which Mr. Palmer has the right to acquire by exercise of stock options, 127,800 of which are subject to restrictions on disposition which lapse over time. Also includes 8,687 shares awarded as restricted stock under the Corporation's 1990 Equity Plan that remain subject to restrictions on disposition which lapse over time. Does not include 8,000 shares awarded as restricted stock under the Corporation's 1995 Equity Plan on August 21, 1996.

(10) Includes 107,350 shares of Common Stock which Mr. Christ has the right to acquire by exercise of stock options, 13,000 of which are subject to restrictions on disposition which lapse over time. Also includes 1,687 shares of Common Stock awarded as restricted stock under the Corporation's 1990 Equity Plan that remain subject to restrictions on disposition which lapse over time.

(11) Includes 99,000 shares of Common Stock which Mr. Pesatori has the right to acquire by exercise of stock options. Mr. Pesatori resigned as an officer and employee of the Corporation in July 1996. See "Employment Arrangements."

(12) Includes 83,565 shares of Common Stock which Mr. Rando has the right to acquire by exercise of stock options, 8,650 of which are subject to restrictions on disposition which lapse over time. Also includes 1,687 shares awarded as restricted stock under the Corporation's 1990 Equity Plan that remain subject to restrictions on disposition which lapse over time.

(13) Includes 84,800 shares of Common Stock which Mr. Strecker has the right to acquire by exercise of stock options, 13,200 of which are subject to restrictions on disposition which lapse over time. Also includes 1,866 shares of Common Stock held by Mr. Strecker's wife, 125 of which are subject to restrictions on disposition which lapse over time, and 1,734 shares of Common Stock which Mr. Strecker's wife has the right to acquire by exercise of stock options, as to all of which shares Mr. Strecker disclaims beneficial ownership. In addition, includes 5,125 shares awarded to Mr. Strecker as restricted stock under the Corporation's 1990 Equity Plan that remain subject to restrictions on disposition which lapse over time.

(14) The group is comprised of the executive officers named in the Summary Compensation Table on page 12 and those persons who were directors and executive officers of the Corporation on August 14, 1996. Includes 1,133,655 shares of Common Stock which the directors and executive officers as a group have the right to acquire by exercise of stock options granted under the Corporation's stock plans, 186,290 of which are subject to restrictions on disposition which lapse over time. In addition, includes 130,631 shares held by family members of officers or directors, as to which shares the applicable officer or director disclaims beneficial ownership. Also includes 22,083 shares awarded as restricted stock under the Corporation's 1990 Equity Plan and 1995 Equity Plan that remain subject to restrictions on disposition that lapse over time. Excludes 4,000 Depositary Shares held by such directors and executive officers. The 1,495,793 shares held by all directors and executive officers as a group would represent less than 1% of the Corporation's issued and outstanding Common Stock, assuming exercise of the stock options.

Section 16(a) Beneficial Ownership Reporting Compliance

Based on a review of the forms and written representations received by the Corporation pursuant to Section 16(a) of the Securities Exchange Act of 1934, the Corporation believes that during the period July 2, 1995 through June 29, 1996, the directors and executive officers complied with all applicable Section 16 filing requirements except that a report for William D. Strecker, a Vice President, was filed four months late with respect to an award of restricted stock to his wife.

Security Ownership of Certain Beneficial Owners

The following table sets forth information as of the recent most practicable date as to the group, who to the knowledge of management, beneficially owned more than 5% of the shares of Common Stock of the Corporation.

<u>Name and Address of Beneficial Owner</u>	<u>Amount and Nature of Beneficial Ownership</u>	<u>Percent of Class</u>
FMR Corp. 82 Devonshire Street Boston, Massachusetts 02109	10,820,185(1)(2)	7.04%(2)

(1) FMR Corp. disclaims beneficial ownership of 12,200 of such shares held by Fidelity International Limited ("FIL"). Prior to June 30, 1980, FIL was a majority-owned subsidiary of FMR Corp. On that date, the shares of FIL held by Fidelity were distributed as a dividend to the shareholders of FMR Corp. FIL currently operates as an entity independent of FMR Corp.

(2) Information obtained from Amendment No. 3 to Schedule 13G filed by FMR Corp. with the Securities and Exchange Commission on or about July 10, 1996.

Committees of the Board

The Board of Directors has an Audit Committee, a Compensation and Management Development Committee (formerly, the Compensation and Stock Option Committee), a Nominating Committee and a Strategic Direction Committee. The Audit Committee selects the independent auditors to be employed by the Corporation, subject to ratification by the Corporation's stockholders, reviews generally the internal and external audit plans and the results thereof, and reviews generally the Corporation's internal controls with the internal and external auditors. The members of the Audit Committee are Mr. Chandler, Chairman, and Messrs. Alden and Doyle and Dr. Feldstein.

The Compensation and Management Development Committee reviews and recommends to the Board the compensation of directors, reviews the compensation of senior management and reviews and recommends to the Board the adoption of any compensation plans in which directors and officers are eligible to participate. The Committee also administers and interprets the Corporation's stock plans and, subject to the provisions of the plans, selects the employees who are to participate in such plans and determines the terms of their participation. The

members of the Compensation and Management Development Committee are Mr. Phillips, Chairman, and Mr. Everett, Dr. Gerrity and Mr. Staley.

The Nominating Committee is responsible for nominations to the Board of Directors. The members of the Nominating Committee are Mr. de Vitry, Chairman, and Messrs. Alden, Chandler, and Phillips. The Nominating Committee will consider highly qualified candidates proposed in writing by stockholders. Stockholders who wish to propose a nomination should submit the person's name and background information to the Clerk of the Corporation.

The Strategic Direction Committee reviews and makes recommendations to the Board on alternative strategic initiatives for the Corporation, taking into account competitive and industry factors, technical developments, corporate goals and the corporate resources necessary to implement alternative initiatives. The members of the Strategic Direction Committee are Mr. Palmer, Chairman, and Messrs. Doyle and Everett, Dr. Gerrity and Mr. Staley.

The Board of Directors held ten meetings during the fiscal year ended June 29, 1996, the Audit Committee met five times, the Compensation and Management Development Committee met six times, the Nominating Committee met two times and the Strategic Direction Committee met two times. All directors attended more than 75% of the total number of meetings of the Board and the committees on which they serve.

Compensation of Directors

Each director who is not also an employee of the Corporation received a retainer of \$25,000 for his or her services during the fiscal year ended June 29, 1996, plus \$1,000 for each Board meeting and each committee meeting attended. Directors are also reimbursed for out-of-pocket expenses incurred in attending Board and committee meetings.

Directors may defer all or any part of their retainer or meeting fees pursuant to a deferred compensation plan. Pursuant to the plan, nonemployee directors of the Corporation may elect to defer receipt of all or a specified portion of their compensation in the form of cash, with an interest rate related to the ten-year U.S. Government Rate, or in the form of units, the value of each unit initially being equal to the average fair market value of one share of the Common Stock of the Corporation on the ten trading days preceding the date the compensation being deferred would otherwise be payable. The plan provides that compensation deferred under the plan, whether in the form of cash or units, will be paid out in cash after a deferral period of at least three years. Directors may elect that compensation so deferred be paid out in a lump

sum or in up to fifteen annual installments. Payment of compensation deferred under the plan commences in January of the year following the last year of the deferral period.

Pursuant to a retirement plan for nonemployee directors adopted in May 1987, each nonemployee director of the Corporation on the date of adoption of the plan, and every other nonemployee director who is 70 years of age or older, who has completed at least five years of service on the Board and who commenced service as a director prior to January 1, 1995, is entitled upon termination of service to an annualized benefit for life which is equal to the annual retainer for nonemployee directors in effect on the date of termination of service. The plan also provides for coordinated disability benefits for all participating nonemployee directors equal to the annual retainer in effect on the date of total disability.

Each nonemployee director of the Corporation also participates in the 1995 Stock Option Plan for Nonemployee Directors (the "1995 Nonemployee Directors Plan"). The 1995 Nonemployee Directors Plan provides that annually, on the date of the Annual Meeting of Stockholders, (i) each director who commenced service as a director of the Corporation prior to January 1, 1995 and whose service as a director will continue after such Annual Meeting, receives an option to purchase 1,000 shares of the Corporation's Common Stock at a price equal to 100% of the fair market value of the Corporation's Common Stock on the date of grant and (ii) any director who commenced service as a director of the Corporation after January 1, 1995 and whose service as a director will continue after such Annual Meeting receives an option to purchase 2,500 shares of the Corporation's Common Stock at a price equal to 100% of the fair market value of the Corporation's Common Stock on the date of grant. The options become exercisable at the rate of 33% on the first and second anniversaries of the date of grant and 34% on the third anniversary of the date of grant. The options expire ten years from the date of grant, unless terminated earlier in accordance with the terms of the Plan.

EXECUTIVE COMPENSATION

Summary Compensation Table

The Summary Compensation Table shows compensation for the Chief Executive Officer and the four other most highly compensated executive officers for the fiscal year ended June 29, 1996. Enrico Pesatori resigned as an executive officer and employee of the Corporation in July 1996.

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation Awards		
		Salary (\$)	Bonus (\$)(1)	Other Annual Compensation (\$)(2)	Restricted Stock Awards (\$)	Stock Options (#)	All Other Compensation (\$)(4)
Robert B. Palmer.....	1996	\$900,016	\$ 0	\$ 0	\$302,000(7)	185,000(6)	\$24,923
Chairman of the	1995	900,016	375,000	0	399,609(3)	300,000	0
Board, President,	1994	900,016	0	0	0	120,000	0
Chief Executive Officer							
Charles F. Christ.....	1996	425,006	0	0	0	65,000(6)	9,750
Vice President	1995	425,006	175,000	0	338,859(3)	135,000(5)	0
	1994	315,016	0	0	0	60,000	0
Enrico Pesatori	1996	650,000	0	31,919	0	0	0
Vice President	1995	650,000	220,000	31,919	191,813(3)	150,000(5)	0
	1994	569,242	0	116,899	195,620(8)	75,000	0
John J. Rando.....	1996	400,960	0	0	0	65,000(6)	10,907
Vice President	1995	348,089	175,000	0	143,859(3)	125,000(5)	0
	1994	259,052	0	0	0	50,000	0
William D. Strecker ..	1996	450,008	0	0	0	65,000(6)	10,617
Vice President	1995	450,008	110,000	0	95,906(3)	60,000(5)	0
	1994	427,891	0	0	0	50,000	0

(1) Represents a cash bonus earned by such individual in fiscal year 1995 and paid during the first quarter of fiscal year 1996.

(2) Represents customary one-time relocation and allowance payments to executives joining the Corporation. Mr. Pesatori's compensation for each of the fiscal years ended June 29, 1996, July 1, 1995 and July 2, 1994 includes 20% of the original principal amount of a

\$150,000 loan from the Corporation, and for each fiscal year, accrued interest, which amounts were forgiven.

(3) Represents the dollar value on August 14, 1995, the award date, of an award to such individual of restricted Common Stock. On such date, the fair market value of the Common Stock was \$42,625. Each of Messrs. Palmer, Christ, Pesatori, Rando and Strecker were granted 9,375, 3,375, 4,500, 3,375 and 2,250 shares of restricted Common Stock, respectively. Restrictions with respect to 50% of these shares lapsed on February 14, 1996 and the remaining restrictions will lapse on February 14, 1997 except with respect to 2,250 of the shares of restricted stock awarded to Mr. Pesatori, all of which were canceled upon his resignation as an officer and employee of the Corporation in July 1996. In the case of Mr. Christ, also represents the dollar value on October 7, 1994, the award date, of an award of 7,500 shares of restricted Common Stock. On such date, the fair market value of the Common Stock was \$26.00. Restrictions with respect to 50% of these shares lapsed on April 7, 1995 and the remaining restrictions lapsed on October 7, 1995. If the Corporation were to begin to pay dividends on its Common Stock, holders of restricted Common Stock would receive cash dividends on the shares of restricted Common Stock held by them. The amount ultimately realized by any named executive officer in respect of restricted Common Stock depends upon the value of the Corporation's Common Stock when the executive officer sells the shares, which can only occur after the restrictions lapse. At the end of fiscal year 1996, each of Messrs. Palmer, Christ, Pesatori, Rando and Strecker held 8,687, 1,687, 6,250, 1,687 and 5,125 shares of restricted stock, respectively. The value of the restricted shares held by each of Messrs. Palmer, Christ, Pesatori, Rando and Strecker at June 28, 1996, the last business day of the fiscal year, was, as of such date, \$396,887, \$77,075, \$285,547, \$77,075 and \$234,148, respectively.

(4) Represents matching contributions by the Corporation under its Savings and Investment Plan ("SAVE Plan") for each executive officer as follows: Mr. Palmer, \$2,423, Mr. Christ, \$2,247, Mr. Rando, \$2,397, and Mr. Strecker, \$2,417, and under its SAVE Restoration Plan for each executive officer as follows: Mr. Palmer, \$2,500, Mr. Christ, \$7,503, Mr. Rando, \$8,510, and Mr. Strecker, \$8,200. Mr. Pesatori did not participate in the SAVE Plan.

(5) Includes a stock option to purchase shares of the Corporation's Common Stock granted to the named executive officer in August 1995.

(6) Reflects a stock option to purchase shares of the Corporation's Common Stock granted on August 21, 1996, shortly after the end of fiscal year 1996, to each of Messrs. Palmer, Christ, Rando and Strecker.

(7) Represents the dollar value on August 21, 1996, the award date, of an award to Mr. Palmer of 8,000 shares of restricted Common Stock. On such date, the fair market value of the Common Stock was \$37.75. Restrictions with respect to 50% of these shares will lapse on February 21, 1997 and the remaining restrictions will lapse on February 21, 1998. If the Corporation were to begin to pay dividends on its Common Stock, holders of restricted Common Stock would receive cash dividends on the shares of restricted Common Stock held by them. The amount ultimately realized by Mr. Palmer in respect of restricted Common Stock depends upon the value of the Corporation's Common Stock when Mr. Palmer sells the shares, which can only occur after the restrictions lapse.

(8) The amount shown for Mr. Pesatori for fiscal year 1994 represents the dollar value on the date of grant of 10,000 shares of restricted Common Stock awarded to Mr. Pesatori during fiscal year 1994. The restrictions with respect to 50% of these shares lapsed on December 16, 1994 and the remaining restrictions lapsed on December 16, 1995. Mr. Pesatori did not hold any of these shares at the end of fiscal year 1996.

Option/SAR Grants in Last Fiscal Year

The following table shows information regarding grants of stock options during the fiscal year ended June 29, 1996 to the named executive officers. The table also includes grants of stock options to the named executive officers on August 21, 1996, and in May 1995 with respect to Mr. Palmer. Mr. Pesatori resigned as an executive officer of the Corporation in July 1996, and therefore, did not receive any stock options on August 21, 1996. The Corporation did not grant any stock appreciation rights during fiscal year 1996 nor during the period from the end of such fiscal year through August 21, 1996.

Name	Individual Grants		Exercise or Base Price (\$/Sh)	Expiration Date	Grant Date Value
	Options/SARs Granted	% of Total Options/SARs Granted to Employees (1)			Grant Date Present Value (\$) (2)
Robert B. Palmer	185,000 (3)	2.8%	\$37.75	8/21/06	\$2,421,296
	300,000 (4)	4.6	48.187	8/20/05	5,032,882
Charles F. Christ	65,000 (3)	1.0	37.75	8/21/06	850,726
	125,000 (5)	1.9	42.625	8/14/05	1,854,983
Enrico Pesatori (6)	0	—	37.75	—	—
	150,000 (5)	2.3	42.625	8/14/05	2,225,980
John D. Rando	65,000 (3)	1.0	37.75	8/21/06	850,726
	125,000 (5)	1.9	42.625	8/14/05	1,854,983
William D. Strecker	65,000 (3)	1.0	37.75	8/21/06	850,726
	60,000 (5)	0.9	42.625	8/14/05	890,392

(1) Reflects percentage of total options granted to all employees from May 20, 1995 through August 21, 1996.

(2) The Grant Date Present Values shown were determined using a Black-Scholes pricing model with the following assumptions and adjustments: stock price volatility of 35%, an interest rate of 6.3% representing the interest rate on a U.S. Treasury security on the dates of grant with a maturity date corresponding to that of the option term; and an assumed 3.6-year option term. The Corporation's use of this model should not be construed as an endorsement of its accuracy. Whether the model's assumptions will prove to be accurate cannot be known at the date of grant. The ultimate value of the options, if any, will depend on the future value of the Corporation's common stock, which cannot be forecast with reasonable accuracy, and on the holder's investment decisions.

(3) Includes incentive and non-qualified stock options granted to Mr. Palmer and non-qualified stock options granted to each of Messrs. Christ, Rando and Strecker on August 21, 1996, shortly after the end of fiscal year, under the Corporation's 1995 Equity Plan, at exercise prices equal to the fair market value of the Corporation's Common Stock on the date of grant. The options have a term of ten years and become exercisable ratably over three years from the date of grant.

(4) Represents a non-qualified stock option granted to Mr. Palmer in May 1995 under the Corporation's 1990 Equity Plan at an exercise price equal to the fair market value of the Corporation's Common Stock on the date of grant. The option has a term of ten years and 90 days and becomes exercisable ratably over three years from the date of grant.

(5) Includes incentive and non-qualified stock options granted to each of Messrs. Christ, Pesatori, Rando and Strecker on August 14, 1995 under the Corporation's 1990 Equity Plan at exercise prices equal to the fair market value of the Corporation's Common Stock on the date of grant. The options each have a term of ten years and become exercisable ratably over three years from the date of grant.

(6) Mr. Pesatori resigned as an officer and employee of the Corporation in July 1996.

(1) Reflects percentage of total options granted to all employees from May 20, 1995 through August 31, 1996.

(2) The Grant Date Present Value shown are determined using a Black-Scholes pricing model with the following assumptions and adjustments: stock price volatility of 35% (an interest rate of 6.5% representing the interest rate on a U.S. Treasury security on the date of grant with a maturity date corresponding to that of the option term; and an assumed 2.0-year option term. The Corporation's use of this model should not be construed as an endorsement of the accuracy. Whether the model's assumptions will prove to be accurate cannot be known at the date of grant. The ultimate value of the stock, if any, will depend on the future value of the Corporation's common stock, which cannot be forecasted with reasonable accuracy, and on the holder's investment decisions.

Aggregated Option/SAR Exercises in Last Fiscal Year and FY-End Option/SAR Values

The following table summarizes for each of the named executive officers the number of stock options exercised during the fiscal year ended June 29, 1996, the aggregate dollar value realized upon exercise, and the dollar value of in-the-money, unexercised options held at June 29, 1996. None of the named executive officers hold any SARs. Value realized upon exercise is the difference between the fair market value of the underlying stock on the exercise date and the exercise price of the option. The value of unexercised, in-the-money options at fiscal year-end is the difference between the exercise price and the fair market value of the underlying stock on June 28, 1996, the last business day of the fiscal year. The closing price of the Corporation's Common Stock on the New York Stock Exchange on such date was \$45.6875.

Name	Shares Acquired on Exercise (#) (2)	Value Realized (\$)	Number of Securities Underlying Unexercised Options/SARs at FY-End (#) (1)		Value of Unexercised In-the-Money Options/ SARs at FY-End (\$)	
			Exercisable	Restricted/ Unexercisable (1)	Exercisable	Restricted/ Unexercisable
Robert B. Palmer ...	1,800	\$ 63,675	413,650	422,850	\$2,460,851	\$1,327,061
Charles F. Christ....	20,800	632,222	53,100	195,100	699,997	1,618,667
Enrico Pesatori (3) ..	18,000	612,037	37,500	187,500	887,078	1,253,825
John J. Rando	17,060	881,428	33,285	151,030	480,586	859,956
William D. Strecker	20,820	686,233	50,150	121,850	506,378	678,089

(1) A portion of these options represent immediately exercisable restricted stock options, with restrictions on disposition of the underlying shares lapsing ratably over periods of three to ten years from date of grant. The number of underlying shares subject to such options on June 29, 1996 for the named executive officers was as follows: Mr. Palmer, 127,800; Mr. Christ, 13,000; Mr. Rando, 8,650 and Mr. Strecker, 13,200. 40,000, 30,000 and 30,000 of the remaining options held by Messrs. Palmer, Christ and Strecker, respectively, were granted during fiscal year 1992, expire in March 1997, and become exercisable at the rate of 20% per year but may not be exercised unless and until the Corporation's stock price averages at least \$100 over 90 consecutive trading days. The remaining options held by Messrs. Palmer, Christ, Pesatori, Rando and Strecker were granted during fiscal years 1994, 1995 and 1996 and become exercisable ratably over three years. Does not include options granted to such executive officers on August 21, 1996. See "Summary Compensation Table" and "Option/SAR Grants in Last Fiscal Year."

(2) In the case of Mr. Strecker, includes 1,320 shares acquired by Mr. Strecker's wife on exercise of stock options held by her.

(3) Mr. Pesatori resigned as an officer and employee of the Corporation in July 1996.

Pension Plans

The Corporation and its subsidiaries have pension plans covering substantially all of their employees. Effective March 1, 1996, the Corporation's defined benefit pension plan (the "Prior Pension Plan") for its U.S. employees was amended and renamed the Cash Account Pension Plan (the "New Pension Plan").

Under the Prior Pension Plan, benefits were based upon the employee's earnings during service with the Corporation and were payable after retirement in the form of annuities or a lump sum benefit and the annual amount payable upon retirement at age 65 was, in general, 1.5% of the aggregate amount of the participant's eligible compensation earned on and after July 1, 1989. Those persons who were active participants under the Prior Pension Plan on July 1, 1989, or who later become active participants and were credited with prior service, were also eligible to receive 1.5% of the average of the participant's annual compensation between July 1, 1984 and July 1, 1989, multiplied by the number of years of accredited service prior to July 1, 1989.

Under the New Pension Plan, benefits for U.S. employees are based upon the employee's eligible earnings during service with the Corporation, and are credited quarterly by the Corporation at the rate of 4% of the employee's total eligible pay for that quarter, plus interest. The accumulated, vested account balance is payable in one lump sum or in monthly payments, as elected by the participant, upon the employee's retirement or termination of employment with the Corporation. The opening account balance under the New Pension Plan for employees who were participants under the Prior Pension Plan on February 29, 1996 was determined by calculating the highest of (a) the lump sum value of the benefit that would have been payable under the Prior Pension Plan as of February 29, 1996, (b) the lump sum value of the benefit that would have been payable under the Prior Pension Plan but using average pay for the five-year period ending June 30, 1995, in place of average pay during all years of employment with the Corporation, or (c) a percentage factor (between 4.5% and 7.0%) times years of service times base pay as of December 18, 1995. The New Pension Plan continues the Prior Pension Plan formula for five years for all employees who on February 29, 1996 had reached age 50 and had completed at least five years of vesting service, or who were age 60 or older. At the earlier of March 31, 2001 or the employee's date of termination, his or

her benefit will be the greater of the value of the benefit accrued under the Prior Pension Plan's formula or the employee's then current account balance under the New Pension Plan. A participant is 100% vested in his or her benefit after completing five years of vesting service with the Corporation. For purposes of calculating a participant's pension benefit under either the Prior Pension Plan or the New Pension Plan, annual compensation is currently limited to \$150,000, subject to adjustment to reflect cost of living increases, pursuant to the Internal Revenue Code of 1986, as amended (the "Code").

The Digital Equipment Corporation Restoration Pension Plan (the "Restoration Plan"), adopted effective as of May 1, 1992 (amended and renamed the Digital Equipment Corporation Cash Account Pension Plan effective as of March 1, 1996), compensates the Corporation's employees for reductions in the benefits calculated under either the Prior or the New Pension Plan, as the case may be, due to legislative and regulatory limitations. The Restoration Plan, which is a non-qualified plan under the Code, and which is unfunded, provides additional retirement compensation equal to the difference between the benefit a participant would receive under either Pension Plan without the legislative and regulatory limitations and the benefit actually payable to the participant under either Pension Plan.

Estimated annual retirement benefits payable as a straight life annuity under the New Pension Plan and Restoration Plan at age 65 based on projected compensation and continued employment for the following individuals would be: Mr. Palmer, \$185,496; Mr. Christ, \$63,996; Mr. Rando, \$239,568; and Mr. Strecker, \$191,052. Mr. Pesatori resigned as an officer and employee of the Corporation in July 1996 prior to the time any of his retirement benefits under the Prior or New Pension Plan (and respective Restoration Plans) vested.

In addition, the Corporation has a Savings and Investment Plan ("SAVE Plan") which allows eligible U.S. employees to defer up to 12% (14% as of June 30, 1996) of their eligible compensation on a tax-deferred basis into a tax exempt trust pursuant to rules set forth in the Code. Beginning in fiscal year 1996, the Corporation makes a matching contribution to the trust for the benefit of each participant in the SAVE Plan at the rate equal to the lesser of (a) 33-1/3% of such employee's contributions or (b) 2% of such employee's annual eligible compensation (subject to Code limitations). The employee accounts are invested by the plan trustee in up to nine investment alternatives, as directed by the employee. Annual employee pre-tax deferrals are currently limited to \$9,500 for the 1996 calendar year.

The Digital Equipment Corporation SAVE Restoration Plan was adopted effective on July 1, 1995. The SAVE Restoration Plan, which is a non-qualified plan under the Code and is unfunded, allows any SAVE Plan participant whose annual eligible compensation is at least \$150,000 (subject to adjustment to reflect cost of living increases) and who defers the

maximum amount of his or her eligible compensation under the SAVE Plan for the year to receive a credit equal to 2% of the amount by which such employee's eligible compensation for that year exceeds \$150,000 (as adjusted), resulting in a total matching contribution equal to what would have otherwise been provided under the SAVE Plan but for legislative and regulatory limitations. See "Summary Compensation Table."

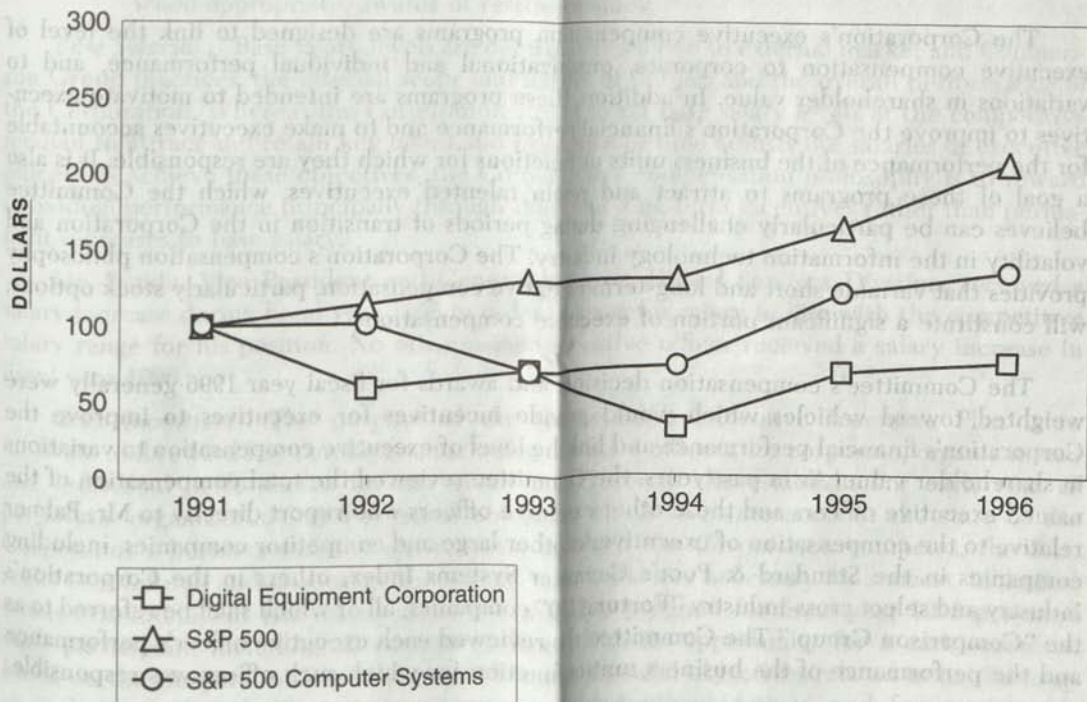
Employment Arrangements

Mr. Pesatori resigned as an employee and Vice President of the Corporation in July 1996. Pursuant to his offer of employment in 1993, Mr. Pesatori is entitled to receive his base salary on the date of termination for twenty-four months, unless he accepts employment with a competitor of the Corporation. Accordingly, the Corporation has entered into a severance agreement with Mr. Pesatori which provides for payment to him, in monthly installments, of up to a total of \$1,300,000 plus continued benefits for Mr. Pesatori and his dependents for so long as such severance payments continue.

Stock Price Performance Graph

The following graph compares the five-year return for the Corporation's Common Stock against the Standard & Poor's ("S&P") 500 Stock Index and the S&P Computer Systems Index. The graph assumes \$100 was invested on June 28, 1991 in the Corporation's Common Stock and \$100 was invested at that time in each of the S&P indexes. The comparative data assumes that all dividends, if any, were reinvested.

Comparison of Five Year Cumulative Total Return
Digital Equipment Corporation, S&P 500, and S&P Computer Systems



COMPENSATION AND MANAGEMENT DEVELOPMENT COMMITTEE REPORT ON EXECUTIVE COMPENSATION

The Compensation and Management Development Committee (the "Committee") of the Board of Directors is composed of four independent non-employee directors. The Committee is responsible for approving executive officer compensation and for administering the cash incentive and equity participation plans that govern the variable compensation paid to senior management of the Corporation. The following report describes the Corporation's executive compensation practices and the actions of the Committee regarding compensation paid to executive officers for fiscal year 1996.

The Corporation's executive compensation programs are designed to link the level of executive compensation to corporate, organizational and individual performance, and to variations in shareholder value. In addition, these programs are intended to motivate executives to improve the Corporation's financial performance and to make executives accountable for the performance of the business units or functions for which they are responsible. It is also a goal of these programs to attract and retain talented executives, which the Committee believes can be particularly challenging during periods of transition in the Corporation and volatility in the information technology industry. The Corporation's compensation philosophy provides that variable short and long-term incentive compensation, particularly stock options, will constitute a significant portion of executive compensation.

The Committee's compensation decisions and awards for fiscal year 1996 generally were weighted toward vehicles which would provide incentives for executives to improve the Corporation's financial performance and link the level of executive compensation to variations in shareholder value. As in past years, the Committee reviewed the total compensation of the named executive officers and those other executive officers who report directly to Mr. Palmer relative to the compensation of executives of other large and competitor companies, including companies in the Standard & Poor's Computer Systems Index, others in the Corporation's industry and select cross-industry "Fortune 100" companies, all of which shall be referred to as the "Comparison Group." The Committee also reviewed each executive officer's performance and the performance of the business unit or function for which such officer was responsible.

The Corporation's standard executive compensation program consists of three major elements: base salary, short-term cash and long-term incentives principally in the form of fair market value stock options. The Committee combines these elements to address the following objectives:

- attract and retain talented executives by paying them a competitive base salary;
- reward targeted and superior corporate, organizational and individual performance through cash incentives;
- motivate and encourage performance that increases shareholder value and contributes to the future success of the Corporation through grants of stock options and, when appropriate, awards of restricted stock.

Base Salaries. Base salary levels are determined relative to external market and Comparison Group practices, the internal scope and impact of the job and the overall performance of the Corporation. Whereas the Corporation strives to set base salary levels at the competitive median to attract and retain key talent and from time to time adjusts the salaries of executive officers to achieve these objectives, the Corporation's compensation philosophy is to reward individual performance principally through short and long-term incentives rather than permanent increases to base salary.

Mr. Rando, Vice President and General Manager, Digital Services Division, received a salary increase during fiscal year 1996 in order to bring his salary in line with the competitive salary range for his position. No other named executive officer received a salary increase in fiscal year 1996.

Cash Incentives. The purpose of the Corporation's Executive Incentive Plan is to motivate and reward key employees, including executive officers, for corporate, organizational and individual performance for any given year. Through the establishment each year of corporate, organizational and personal objectives which take into account the state of the Corporation's business and the environment in which the Corporation competes, the Plan seeks to reinforce and encourage the management behaviors necessary for success, including teamwork, intelligent risk-taking and leadership. The program for fiscal year 1996 provided each participant, including all executive officers, with an opportunity for a cash incentive based on the Corporation's achievement of certain financial objectives related to net income, on individual contribution to the Corporation's strategic objectives, and for participants affiliated with the Corporation's business units on achievement of performance targets established at the beginning of the year (including revenue, cash flow and net income) for the applicable business.

Although certain business units achieved their performance targets for the year, the Committee and the Chairman of the Board determined that it would not be appropriate to pay cash bonuses for fiscal 1996 under the Executive Incentive Plan, given the Corporation's consolidated net loss for the year. Accordingly, the executive officers did not receive any cash incentive payments for fiscal year 1996.

Equity Participation Plans. Stock options continue to be a major component of the Corporation's compensation strategy because this compensation vehicle closely aligns the interests of management with those of stockholders. Stock options are periodically granted to executive officers based on an assessment of each officer's potential to contribute to the future success of the Corporation and relative to practices of companies in the Comparison Group. In determining the size and vesting schedules of these grants, the Committee considered the continuing challenges facing the Corporation and its senior management team as the Corporation implements the additional restructuring actions planned at the end of the fiscal year and seeks to improve further its financial performance, as well as the practices of companies in the Comparison Group. Consistent with its articulated compensation philosophy, shortly after the end of the fiscal year, the Corporation granted to all executive officers, including each of the named executive officers with the exception of Mr. Pesatori, incentive and non-qualified stock options at an exercise price equal to the fair market value of the Common Stock on the date of grant. The options carry a ten-year term, and become exercisable ratably over three years and are reflected in the Summary Compensation Table.

Chief Executive Compensation. Mr. Palmer's annual base salary for fiscal year 1996 remained at the prior year's level of \$900,000. Consistent with the Corporation's compensation philosophy to reward individual performance principally through short and long-term incentives rather than permanent increases to salary, Mr. Palmer's base salary was not adjusted during the year. Mr. Palmer also participated in the Corporation's Executive Incentive Plan. Mr. Palmer's cash incentive opportunity under the Plan was based on the achievement of a corporate-wide net profit target established at the beginning of fiscal year 1996.

As noted above, the Corporation did not achieve its corporate-wide profitability target for fiscal year 1996. Accordingly, Mr. Palmer did not receive an award under the Executive Incentive Plan for fiscal year 1996. The Committee acknowledged, however, Mr. Palmer's considerable achievements for the Corporation in fiscal year 1996, including his leadership in furthering the Corporation's strategic alliances with several major software companies and in increasing market recognition of the Corporation's Alpha architecture and market acceptance of the Corporation's Alpha-based systems and servers. In recognition of his achievements, Mr.

Palmer received an award of restricted stock, as reflected in the Summary Compensation table above, shortly after the close of the fiscal year.

In August 1996, the Committee granted to Mr. Palmer incentive and non-qualified stock options to purchase a total of 185,000 shares of the Corporation's Common Stock, at an exercise price equal to the fair market value of the Common Stock on the date of grant. The options carry a term of ten years and are exercisable ratably over three years. In determining the size and vesting schedule of Mr. Palmer's stock option grant, the Committee considered Mr. Palmer's noted achievements, the challenges facing the Chief Executive Officer as he leads the Corporation through the next phase of its transformation and the practices of companies in the Comparison Group.

The Committee periodically reviews Mr. Palmer's total compensation, as well as the components thereof, with an outside compensation consultant. The Committee believes that Mr. Palmer's total compensation is appropriate, taking into account the significance of his responsibilities, the performance of the Corporation and the compensation of chief executive officers of companies within the Comparison Group.

Compensation Deductibility. The Committee has reviewed the potential consequences for the Corporation of Internal Revenue Code section 162(m), which imposes a limit on tax deductions for annual compensation in excess of one million dollars paid to any of the five most highly compensated executive officers of a corporation. This provision excludes certain forms of "performance-based compensation" from the compensation taken into account for purposes of that limit, such as the value of stock options granted under the Corporation's 1990 Equity Plan or the 1995 Equity Plan. Payments under the Corporation's Executive Incentive Plan are not so excluded; however, no cash compensation was paid thereunder to any executive officer for fiscal year 1996. Accordingly, Section 162(m) essentially had no impact on the Corporation's consolidated results of operations for fiscal year 1996. The Committee will continue to monitor the impact of this provision on the Corporation.

Compensation and Management Development Committee:

Thomas L. Phillips, Chairman
Robert R. Everett
Thomas P. Gerrity
Delbert C. Staley

PROPOSAL TO AMEND THE 1968 EMPLOYEE STOCK PURCHASE PLAN TO INCREASE THE NUMBER OF SHARES AVAILABLE FOR ISSUANCE

On June 20, 1996, the Board of Directors amended the 1968 Employee Stock Purchase Plan (the "Employee Plan") to increase the number of shares subject thereto by 5,000,000 shares. The amendment will become effective only upon approval by the stockholders. This increase in shares is needed to enable the Corporation to continue operating the Employee Plan for the benefit of eligible employees.

The Board of Directors recommends a vote FOR approving the amendment to the Employee Plan.

Description of the 1968 Employee Stock Purchase Plan

In 1968 the Board of Directors and the stockholders adopted the Employee Plan for substantially all employees of the Corporation and its participating subsidiaries, other than directors of the Corporation. Since adoption of the Employee Plan, a total of 43,800,000 shares have been authorized for issuance thereunder. At August 1, 1996, approximately 26,800 employees were eligible to participate in the Employee Plan, and approximately 15,450 employees were participating.

The Employee Plan permits employees to purchase shares of the Corporation's Common Stock twice yearly through accumulated payroll deductions, up to a maximum of 10% of total compensation. The six-month periods June 1 to November 30 and December 1 to May 31 are the payment periods ("Payment Period") during which payroll deductions are accumulated under the Employee Plan. The price at which shares are purchased is an amount equal to 85% of the fair market value of the stock on the first or last business day of the applicable six-month Payment Period, whichever is lower.

The Board of Directors may terminate or amend the Employee Plan, provided that no amendment shall, without stockholder approval, increase the number of shares of Common Stock to be offered under the Plan or change the class of employees eligible to participate in the Plan.

During the period July 2, 1995 through June 29, 1996, executive officers of the Corporation purchased shares under the Employee Plan as follows: Mr. Pesatori, 429 shares; Mr. Rando, 429 shares; all current executive officers as a group, 1,620 shares; and all employees as a group (excluding current and named executive officers but including current officers who are not executive officers), 2,061,374 shares.

At August 1, 1996, 41,797,758 shares had been purchased by employees under the Employee Plan and 2,002,242 shares remained available.

Tax Aspects under the U.S. Internal Revenue Code

Generally, the following tax consequences under the United States Internal Revenue Code of 1986, as amended (the "Code"), are applicable to shares purchased under the Employee Plan:

1. No taxable income will be realized by the employee at the time of the purchase of the shares.
2. If the employee disposes of the shares two years or more after the date of the beginning of the Payment Period when the employee acquired the shares, then the employee at that time will recognize as taxable compensation income an amount equal to the lesser of:
 - (a) the excess of the fair market value of the shares on the date of such disposition over the price at which the shares were purchased, or
 - (b) 15% of the fair market value of the shares at the beginning of the Payment Period.

In addition, the employee may recognize a long-term capital gain or loss in an amount equal to the difference between the amount realized upon the sale of the shares and the basis of the shares (i.e., the purchase price plus the amount, if any, taxed as compensation income).

3. If the employee disposes of the shares within two years after the date of the beginning of the Payment Period when the employee acquired the shares, the employee at that time will recognize taxable compensation income equal to the fair market value of the shares on the date of purchase (the last business day of the applicable Payment Period) less the amount paid for the shares. In addition, the employee will recognize a capital gain or loss in an amount equal to the difference between the amount realized upon the sale of the shares and the basis of the shares (i.e., in this case, the purchase price plus the amount taxed as compensation income.) If the employee holds the shares for more than one year, this gain or loss will be a long-term capital gain or loss.

4. The Corporation will be entitled to a deduction for federal income tax purposes in an amount equal to the amount which is considered ordinary compensation income if the employee disposes of the shares within two years of the beginning of the Payment Period when the employee acquired the shares.

PROPOSAL TO AMEND THE 1981 INTERNATIONAL EMPLOYEE STOCK PURCHASE PLAN TO INCREASE THE NUMBER OF SHARES AVAILABLE FOR ISSUANCE

On June 20, 1996, the Board of Directors amended the 1981 International Employee Stock Purchase Plan (the "International Plan") to increase the number of shares subject thereto by 2,500,000 shares. The amendment will become effective only upon approval by the stockholders. This increase in shares is needed to enable the Corporation to continue operating the International Plan for the benefit of eligible employees.

The Board of Directors recommends a vote FOR approving the amendment to the International Plan.

Description of the 1981 International Employee Stock Purchase Plan

In 1981, the Board of Directors and the stockholders adopted the International Plan. Since adoption of the International Plan, a total of 13,600,000 shares have been authorized for issuance thereunder. At August 1, 1996 approximately 24,950 employees were eligible to participate in the International Plan, and approximately 11,780 employees were participating.

The provisions of the International Plan are substantially the same as the Employee Plan described above. The International Plan was adopted in order to extend the benefits of the Employee Plan to employees of selected non-U.S. subsidiaries of the Corporation or branches thereof. The International Plan is not intended to be a tax-qualified plan under the Code.

The Board of Directors may terminate or amend the International Plan, provided that no amendment shall, without stockholder approval, increase the number of shares of Common Stock to be offered under the Plan or change the class of employees eligible to participate in the Plan.

During the period July 2, 1995 through June 29, 1996, no executive officers purchased shares under the International Plan and all employees as a group (excluding current and named executive officers but including current officers who are not executive officers) purchased a total of 1,278,322 shares under the International Plan.

At August 1, 1996, 11,395,698 shares had been purchased under the International Plan and 2,204,302 shares remained available.

Employees participating in the International Plan will be subject to taxation in accordance with the laws of the countries where they are resident or employed. Accordingly, the tax consequences applicable to employees will vary depending on the country. Because the

International Plan is not a U.S. tax-qualified plan, employees of participating foreign subsidiaries who are U.S. citizens or resident aliens also recognize taxable compensation income under the Code, but may be entitled, with certain limitations, to a U.S. foreign tax credit equal to the taxes paid to foreign countries in respect of the shares.

RATIFICATION OF SELECTION OF AUDITORS

The Audit Committee of the Board of Directors has selected the firm of Coopers & Lybrand L.L.P., independent accountants, to serve as auditors for the fiscal year ending June 28, 1997, subject to ratification by the stockholders. Coopers & Lybrand L.L.P. has served as the Corporation's auditors since the organization of the Corporation. The Board of Directors recommends a vote FOR ratification of this selection. It is expected that a member of the firm of Coopers & Lybrand L.L.P. will be present at the Meeting, will have an opportunity to make a statement if so desired and will be available to respond to appropriate questions.

EXPENSES AND SOLICITATION

The cost of solicitation of proxies will be borne by the Corporation. In addition to soliciting stockholders through its regular employees, the Corporation will request banks and brokers to solicit customers of theirs who have shares of Common Stock of the Corporation registered in the name of a nominee. The Corporation will reimburse such banks and brokers for their reasonable out-of-pocket costs, at the rates suggested by the New York Stock Exchange. Solicitation by officers and employees of the Corporation may also be made of some stockholders in person, or by mail, telephone or telegraph, following the original solicitation. Georgeson & Company Inc. has been retained by the Corporation to assist with the solicitation of proxies at a cost to the Corporation estimated not to exceed \$15,000.

STOCKHOLDER PROPOSALS FOR NEXT ANNUAL MEETING

Proposals of stockholders intended for inclusion in the proxy statement to be mailed to all stockholders entitled to vote at the 1997 Annual Meeting of Stockholders of the Corporation must be received at the Corporation's principal executive offices not later than May 22, 1997. In order to curtail controversy as to the date on which a proposal was received by the Corporation, proponents should submit their proposals by Certified Mail — Return Receipt Requested.

September 19, 1996

digital

DIGITAL EQUIPMENT CORPORATION
NOTICE OF 1997 ANNUAL MEETING

September 18, 1997

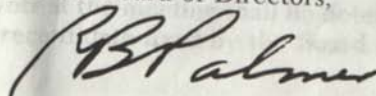
Dear Fellow Stockholder:

You are cordially invited to attend our Annual Meeting of Stockholders ("Meeting"), which will be held this year on Thursday, November 13, 1997, at 11:00 A.M., at the World Trade Center, Commonwealth Pier, 164 Northern Avenue, Boston, Massachusetts.

The notice of meeting and proxy statement that follow describe the business to be conducted at the meeting. We also will give a presentation on the current status of our business.

Whether or not you plan to attend the meeting in person, it is important that your shares be represented and voted. After reading the enclosed Notice of Annual Meeting and Proxy Statement, I urge you to complete, sign, date and return your proxy ballot in the envelope provided. If the address on the accompanying material is incorrect, please advise our Investor Services Department in writing at 111 Powdermill Road, Maynard, Massachusetts 01754.

For the Board of Directors,



ROBERT B. PALMER

Chairman of the Board, President and
Chief Executive Officer

DIGITAL EQUIPMENT CORPORATION, 111 POWDERMILL ROAD, MAYNARD, MASSACHUSETTS 01754

September 18, 1997

STOCKHOLDERS ARE REQUESTED TO RETURN IT PROMPTLY. YOUR VOTE IS IMPORTANT.
PLEASE SIGN, DATE AND RETURN YOUR PROXY

DIGITAL EQUIPMENT CORPORATION

NOTICE OF 1997 ANNUAL MEETING

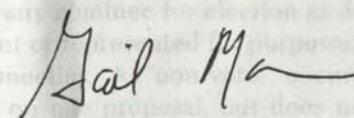
To the Stockholders of DIGITAL EQUIPMENT CORPORATION:

Notice is hereby given that the Annual Meeting of Stockholders ("Meeting") of Digital Equipment Corporation, a Massachusetts corporation, will be held on Thursday, November 13, 1997, at 11:00 A.M., at the World Trade Center, Commonwealth Pier, 164 Northern Avenue, Boston, Massachusetts, for the following purposes:

1. To elect three members to the Board of Directors to serve for a three-year term as Class II Directors.
2. To approve an amendment to the 1968 Employee Stock Purchase Plan to increase the number of shares subject thereto by 3,900,000 shares.
3. To approve an amendment to the 1981 International Employee Stock Purchase Plan to increase the number of shares subject thereto by 3,600,000 shares.
4. To ratify the selection of the firm of Coopers & Lybrand L.L.P. as auditors for the fiscal year ending June 27, 1998.
5. To consider and act upon the four stockholder proposals set forth in the Proxy Statement.
6. To transact such other business as may properly come before the meeting.

Stockholders entitled to notice of and to vote at the meeting shall be determined as of the close of business on September 15, 1997, the record date fixed by the Board of Directors for such purpose.

By Order of the Board of Directors,



GAIL S. MANN, Clerk

September 18, 1997

STOCKHOLDERS ARE REQUESTED TO SIGN THE ENCLOSED PROXY CARD AND RETURN IT PROMPTLY IN THE ENCLOSED POSTAGE PAID ENVELOPE TO DIGITAL EQUIPMENT CORPORATION, P.O. BOX 1006, NEW YORK, NEW YORK 10269.

PROXY STATEMENT

INTRODUCTION

Proxies in the form enclosed with this proxy statement are solicited by the Board of Directors of Digital Equipment Corporation (the "Corporation") for use at the 1997 Annual Meeting of Stockholders (the "Meeting").

An Annual Report to Stockholders, containing financial statements for the fiscal year ended June 28, 1997, has been sent to all stockholders entitled to vote. This proxy statement and form of proxy were first sent to stockholders on or about the date of the accompanying Notice of 1997 Annual Meeting.

Only common stockholders of record as of the close of business on September 15, 1997 will be entitled to vote at the Meeting and any adjournments thereof. As of that date, 147,773,294 shares of Common Stock of the Corporation (excluding treasury shares) were issued and outstanding. Each share outstanding as of the record date will be entitled to one vote, and stockholders may vote in person or by proxy. Execution of a proxy will not in any way affect a stockholder's right to attend the meeting and vote in person. Any stockholder giving a proxy has the right to revoke it at any time before it is exercised by written notice to the Clerk of the Corporation. In addition, stockholders attending the Meeting may revoke their proxies at that time.

The representation in person or by proxy of at least a majority of the outstanding shares of Common Stock entitled to vote at the meeting is necessary to constitute a quorum for the transaction of business. Votes withheld from any nominee for election as director, abstentions and broker "non-votes" are counted as present or represented for purposes of determining the presence or absence of a quorum for the meeting. A "non-vote" occurs when a nominee holding shares for a beneficial owner votes on one proposal, but does not vote on another proposal because, in respect of such other proposal, the nominee does not have discretionary voting power and has not received instructions from the beneficial owner. An automated system administered by the Corporation's solicitation agent tabulates the votes. The vote on each matter submitted to stockholders is tabulated separately. Abstentions are included in the number of shares present or represented and voting on each matter. Broker "non-votes" are not so included.

The persons named as attorneys in the proxies are directors and/or officers of the Corporation. All properly executed proxies returned in time to be cast at the Meeting, if no contrary instruction is indicated, will be voted as stated below under "Election of Directors." In addition to the election of Class II Directors, the stockholders will consider and vote upon proposals to (i) approve an amendment to the 1968 Employee Stock Purchase Plan to increase the number of shares available for issuance thereunder; (ii) approve an amendment to the 1981 International Employee Stock Purchase Plan to increase the number of shares available for issuance thereunder; and (iii) ratify the selection of auditors. Where a choice has been specified on the proxy with respect to these matters, the shares represented by the proxy will be voted in accordance with the specification and will be voted FOR if no specification is indicated. Directors are elected by a plurality of votes cast and the affirmative vote of a majority of the shares present or represented at the Meeting and voting on such other matters is required for approval of those matters.

The stockholders will also consider and act upon four stockholder proposals relating to (i) the declassification of the Board of Directors, (ii) the redemption of the Corporation's stockholder rights plan, (iii) the engagement of an investment banking firm to explore alternatives to enhance the value of the Corporation and (iv) the separation of the offices of President and Chairman of the Board of Directors. The Board of Directors recommends a vote against each of these proposals. Where a choice has been specified on the proxy with respect to any stockholder proposal, the shares represented by the proxy will be voted in accordance with the specification and will be voted AGAINST if no specification is indicated. The affirmative vote of a majority of the shares present or represented at the Meeting and voting on such matter is required for approval of each of these stockholder proposals.

The Corporation knows of no other matter to be presented at the Meeting. If any other matter should be presented at the Meeting upon which a vote properly may be taken, shares represented by all proxies received by the Corporation will be voted with respect thereto in accordance with the judgment of the persons named as attorneys in the proxies.

ELECTION OF DIRECTORS

The Board of Directors of the Corporation is divided into three classes. Each class serves three years, with the terms of office of the respective classes expiring in successive years. The directors in Class III will be nominees for election to three-year terms at the 1998 Annual Meeting of Stockholders and the directors in Class I will be nominees for election to three-year terms at the 1999 Annual Meeting of Stockholders.

The present term of office for the directors in Class II ("Class II Directors") expires at the Meeting. Vernon R. Alden, Thomas L. Phillips and Delbert C. Staley were each elected at the Annual Meeting of Stockholders held November 10, 1994, and are nominees for re-election to a three-year term as Class II Directors. If re-elected, the Class II Director nominees will be elected for a three-year term and until their successors have been duly elected and have qualified; however, pursuant to the Corporation's current Retirement Policy for Directors ("Policy"), each Class II Director would reach retirement age prior to the end of such three-year term. Under the Policy, Messrs. Alden and Staley would retire on the date of the Annual Meeting of Stockholders in 1998, and Mr. Phillips would retire on the date of the Annual Meeting of Stockholders in 1999.

Shares represented by all proxies received by the Board of Directors and not so marked as to withhold authority to vote for any individual nominee will be voted (unless one or more nominees is unable or unwilling to serve) for the election of all nominees for Class II Directors. The Board of Directors knows of no reason why any such nominee should be unable or unwilling to serve, but if such should be the case, proxies will be voted for the election of some other person or the Board of Directors will fix the number of directors at a lesser number.

Set forth below is information with respect to each nominee for Class II Director to be elected at the Meeting and for each Class I Director and Class III Director whose term of office continues after the Meeting.

Nominees to be Elected at the Meeting (Class II Directors)

VERNON R. ALDEN

Mr. Alden, age 74, was Chairman of the Board and Executive Committee of The Boston Company, Inc., a financial services company, from 1969 to 1978. He was President of Ohio University from 1962 to 1969. Mr. Alden is a director of Internet Corporation and Sonesta International Hotels Corporation. He is also a trustee of several cultural and educational organizations. He has been a director of the Corporation since 1959 and is a member of the Audit Committee and Nominating Committee.

THOMAS L. PHILLIPS

Mr. Phillips, age 73, retired as Chairman of the Board and Chief Executive Officer of Raytheon Company ("Raytheon") in March 1991, having served as Chief Executive Officer since 1968, and as Chairman of the Board since 1975. He has been a director of Raytheon since 1962. Mr. Phillips is also a director of SRA International, Inc., State Street Research and Management Co. and Knight-Ridder, Inc. Mr. Phillips has been a director of the Corporation since 1991. He is Chairman of the Compensation and Management Development Committee and is a member of the Nominating Committee.

DELBERT C. STALEY

Mr. Staley, age 73, was Chairman, Chief Executive Officer and a director of NYNEX Corporation ("NYNEX") from 1983 until his retirement in September 1989. He continued serving as a director of NYNEX and served as Chairman of NYNEX International Management Committee until October 1991. Mr. Staley is a director of Polaroid Corporation and SRA International, Inc., and is Chairman of Alcatel Network Systems Inc. Mr. Staley has been a director of the Corporation since 1993 and is a member of the Compensation and Management Development Committee and Strategic Direction Committee.

Directors Whose Term Expires at the 1998 Annual Meeting (Class III Directors)

COLBY H. CHANDLER

Mr. Chandler, age 72, retired as Chairman of the Board and Chief Executive Officer of Eastman Kodak Company ("Kodak") in May 1990. Prior to that time he had been Chief Executive Officer, Chairman of the Board and Chairman of the Executive Committee of Kodak since July 1983. He assumed the presidency of Kodak in January 1977. Mr. Chandler was a director of Kodak from 1974 to 1993. Mr. Chandler has been a director of the Corporation since 1989. He is Chairman of the Audit Committee and a member of the Nominating Committee.

ARNAUD DE VITRY

Mr. de Vitry, age 71, is an engineering consultant. From 1980 to 1990, Mr. de Vitry was Chairman of the Board and Chief Executive Officer of Eureka SICAV, France, an

investment company. He is a director of Ionics, Incorporated. Mr. de Vitry has been a director of the Corporation since 1957 and is Chairman of the Nominating Committee.

THOMAS P. GERRITY

Dr. Gerrity, age 56, has served as Dean of the Wharton School of the University of Pennsylvania since July 1990. From 1969 to 1989, Dr. Gerrity was chief executive officer of Index Group, Inc. ("Index"), an information technology consulting company he founded. In 1988, Index became part of Computer Sciences Corporation ("CSC") and Dr. Gerrity was subsequently appointed president of CSC's commercial professional services group, CSC Consulting. Dr. Gerrity is a director of Fannie Mae, CVS Corporation, Reliance Group Holdings, Inc., Sun Company, Inc. and Union Carbide Corporation. He has been a director of the Corporation since 1992, and is a member of the Compensation and Management Development Committee and Strategic Direction Committee.

Directors Whose Term Expires at the 1999 Annual Meeting (Class I Directors)

FRANK P. DOYLE

Mr. Doyle, age 66, retired in December 1995 as an Executive Vice President of General Electric Company ("GE"). Mr. Doyle had been an Executive Vice President of GE and a member of its corporate executive office since July 1992 and was a Senior Vice President from 1981 to July 1992. He is a director of the Paine Webber Group Inc., Roadway Express, Inc., and Educational Testing Service. Mr. Doyle has been a director of the Corporation since 1995 and is a member of the Audit Committee and Strategic Direction Committee.

KATHLEEN F. FELDSTEIN

Dr. Feldstein, age 56, has been President of Economics Studies, Inc., an economics consulting firm, since 1987. Dr. Feldstein is a director of Bank America Corporation, Conrail Corporation and The John Hancock Mutual Life Insurance Company. Dr. Feldstein has been a director of the Corporation since 1993 and is a member of the Audit Committee.

ROBERT B. PALMER

Mr. Palmer, age 57, has been President and Chief Executive Officer of the Corporation since October 1992, and Chairman of the Board since May 1995. Mr. Palmer joined the Corporation in 1985 and served as Vice President, Semiconductor and Interconnect Technology until 1990, and as Vice President, Manufacturing, Logistics and Component Engineering from 1990 to 1992. From 1983 to 1985, he was Executive Vice President of Semiconductor Operations at Mostek Corporation ("Mostek"), a subsidiary of United Technologies Corporation. Mr. Palmer was a co-founder of Mostek, where he held a series of senior management positions prior to its acquisition in 1980 by United Technologies Corporation. Mr. Palmer is a director of AlliedSignal Inc. Mr. Palmer has been a director of the Corporation since 1992 and is Chairman of the Strategic Direction Committee.

FRANK E. DOYLE

Mr. Doyle, age 60, retired in December 1993 as an Executive Vice President of General Electric Company ("GE"). Mr. Doyle had been an Executive Vice President of GE and a member of its corporate executive office since July 1992 and was a Senior Vice President from 1981 to July 1992. He is a director of the Home Depot Group Inc. Home Depot Group Inc. and Educational Testing Service. Mr. Doyle has been a director of the Corporation since 1990 and is a member of the Audit Committee and Strategic Direction Committee.

KATHLEEN J. FOLHEIM

Dr. Folheim, age 50, has been President of Economics Studies Inc., an economic consulting firm since 1987. Dr. Folheim is a director of Bank America Corporation, General Corporation and The John Hancock Mutual Life Insurance Company. Dr. Folheim has been a director of the Corporation since 1993 and has been a member of the Audit Committee.

Security Ownership of Directors and Executive Officers

Shown below is certain information as of August 1, 1997, with respect to beneficial ownership of shares of the Corporation's Common Stock and of Depositary Shares, each representing one-fourth of a share of the Corporation's Series A 8%% Cumulative Preferred Stock (the "Depositary Shares"), by each director (including the three nominees for Class II Directors), by each executive officer named in the Summary Compensation Table set forth on page 13 and by all directors and executive officers as a group. Unless otherwise indicated, the named person or members of the group possess sole voting and investment power with respect to the shares.

<u>Beneficial Owner</u>	<u>Shares Beneficially Owned</u>
Vernon R. Alden	48,459 (1) (2)
	4,000 (3)
Colby H. Chandler	10,333 (1)
	6,257 (4)
Arnaud de Vitry	113,593 (1) (5)
Frank P. Doyle	2,825 (6)
Kathleen F. Feldstein	5,333 (7)
Thomas P. Gerrity	17,333 (1)
Robert B. Palmer	776,045 (8)
Thomas L. Phillips	10,333 (1)
Delbert C. Staley	6,333 (7)
Bruce L. Clafflin	89,695 (9)
Harold D. Copperman	112,496 (10)
John J. Rando	149,048 (11)
William D. Strecker	141,651 (12)
All directors and executive officers as a group (18 persons) ..	1,908,531 (13)

(1) Includes 5,000 shares of Common Stock which the director has the right to acquire by exercise of a stock option granted pursuant to the Corporation's 1990 Stock Option Plan for Nonemployee Directors ("1990 Nonemployee Directors Plan") and 333 shares of Common Stock which the director has the right to acquire by exercise of a stock option granted pursuant to the Corporation's 1995 Stock Option Plan for Nonemployee Directors (the "1995 Nonemployee Directors Plan").

(2) Includes 22,357 shares of Common Stock held by Mr. Alden's wife, as to which shares Mr. Alden disclaims beneficial ownership.

(3) Represents 4,000 Depositary Shares. These Depositary Shares represent less than 1% of the Corporation's issued and outstanding Depositary Shares and Preferred Stock.

(4) Represents Common Stock units under the directors' deferred compensation plan described on page 11. Under the plan, nonemployee directors may elect to defer receipt of all or a portion of their compensation in the form of Common Stock units. Common Stock units carry no voting rights.

(5) Includes 104,660 shares of Common Stock held by Mr. de Vitry's wife, as to which shares Mr. de Vitry disclaims beneficial ownership.

(6) Represents 2,000 shares of Common Stock which Mr. Doyle has the right to acquire by exercise of a stock option granted pursuant to the Corporation's 1990 Nonemployee Directors Plan and 825 shares of Common Stock which the director has the right to acquire by exercise of a stock option granted pursuant to the Corporation's 1995 Nonemployee Directors Plan.

(7) Includes 4,000 shares of Common Stock which the director has the right to acquire by exercise of a stock option granted pursuant to the Corporation's 1990 Nonemployee Directors Plan and 333 shares of Common Stock which the director has the right to acquire by exercise of a stock option granted pursuant to the Corporation's 1995 Nonemployee Directors Plan.

(8) Includes 751,009 shares of Common Stock which Mr. Palmer has the right to acquire by exercise of stock options, 58,000 of which are subject to restrictions on disposition which lapse over time. Also includes 4,000 shares awarded as restricted stock under the Corporation's 1995 Equity Plan subject to restrictions on disposition which lapse over time.

(9) Includes 57,750 shares of Common Stock which Mr. Claflin has the right to acquire by exercise of stock options. Also includes 22,000 shares of Common Stock awarded as restricted stock under the Corporation's 1990 and 1995 Equity Plans subject to restrictions on disposition which lapse over time.

(10) Includes 101,054 shares of Common Stock which Mr. Copperman has the right to acquire by exercise of stock options. Also includes 10,000 shares of Common Stock awarded as restricted stock under the Corporation's 1995 Equity Plan subject to restrictions on disposition which lapse over time.

(11) Includes 146,000 shares of Common Stock which Mr. Rando has the right to acquire by exercise of stock options, 4,060 of which are subject to restrictions on disposition which lapse over time.

(12) Includes 138,550 shares of Common Stock which Mr. Strecker has the right to acquire by exercise of stock options, 6,600 of which are subject to restrictions on disposition which lapse over time. Also includes 1,691 shares of Common Stock held by Mr. Strecker's wife, as to which shares Mr. Strecker disclaims beneficial ownership.

(13) The group is comprised of the executive officers named in the Summary Compensation Table on page 13 and those persons who were directors and executive officers of the Corporation on August 1, 1997. Includes 1,528,804 shares of Common Stock which the directors and executive officers as a group have the right to acquire by exercise of stock options granted under the Corporation's stock plans, 78,430 of which are subject to restrictions on disposition which lapse over time. In addition, includes 129,472 shares held by family members of officers or directors, as to which shares the applicable officer or director disclaims beneficial ownership. Also includes 40,000 shares awarded as restricted stock under the Corporation's 1990 or 1995 Equity Plans subject to restrictions on disposition that lapse over time. Excludes 4,000 Depositary Shares held by such directors and executive officers. The 1,908,531 shares held by all directors and executive officers as a group would represent less than 1% of the Corporation's issued and outstanding Common Stock, assuming exercise of the stock options.

Section 16(a) Beneficial Ownership Reporting Compliance

Based on a review of the forms and written representations received by the Corporation pursuant to Section 16(a) of the Securities Exchange Act of 1934, the Corporation believes that during the period June 30, 1996 through June 28, 1997, the directors and executive officers complied with all applicable Section 16 filing requirements except that one report for Harold D. Copperman, a Senior Vice President, was filed three months late.

Meetings of the Board; Committees of the Board

During the fiscal year ended June 28, 1997, the Board of Directors met 12 times (including in-person and teleconference meetings), the Audit Committee met five times, the Compensation and Management Development Committee met five times, the Nominating Committee met one time and the Strategic Direction Committee met two times. All directors attended more than 75% of the total number of meetings of the Board and the committees on which

they serve. At least once each year, the Corporation's independent, unaffiliated directors ("Outside Directors") meet in Executive Session without the Chairman or any other member of management present. During these sessions, the Outside Directors review, among other things, the performance of the Chairman and Chief Executive Officer.

The Board of Directors has an Audit Committee, a Compensation and Management Development Committee, a Nominating Committee and a Strategic Direction Committee. Each of the Audit, Compensation and Management Development and Nominating Committees is comprised solely of Outside Directors. It is the Board's intention to continue this practice.

The Audit Committee selects the independent auditors to be employed by the Corporation, subject to ratification by the Corporation's stockholders, reviews generally the internal and external audit plans and the results thereof, and reviews generally the Corporation's internal controls with the internal and external auditors. The members of the Audit Committee are Mr. Chandler, Chairman, Messrs. Alden and Doyle and Dr. Feldstein.

The Compensation and Management Development Committee reviews the compensation of senior management, reviews and recommends to the Board the adoption of any compensation plans in which directors and officers are eligible to participate and reviews and recommends to the Board the compensation of directors. The Committee also administers and interprets the Corporation's stock plans and, subject to the provisions of the plans, selects the employees who are to participate in such plans and determines the terms of their participation. The members of the Compensation and Management Development Committee are Mr. Phillips, Chairman, Dr. Gerrity and Mr. Staley.

The Nominating Committee is responsible for nominations to the Board of Directors. The members of the Nominating Committee are Mr. de Vitry, Chairman, and Messrs. Alden, Chandler, and Phillips. The Nominating Committee will consider highly qualified candidates proposed in writing by stockholders. Stockholders who wish to propose a nomination should submit the person's name and background information to the Clerk of the Corporation.

The Strategic Direction Committee reviews and makes recommendations to the Board on alternative strategic initiatives for the Corporation, taking into account competitive and industry factors, technical developments, corporate goals and the corporate resources necessary to implement alternative initiatives. The members of the Strategic Direction Committee are Mr. Palmer, Chairman, and Mr. Doyle, Dr. Gerrity and Mr. Staley.

Compensation of Directors

Each director who is not also an employee of the Corporation received a retainer of \$25,000 for his or her services during the fiscal year ended June 28, 1997, plus \$1,000 for each Board meeting and each committee meeting attended. Directors are also reimbursed for out-of-pocket expenses incurred in attending Board and committee meetings.

Directors may defer all or any part of their retainer or meeting fees pursuant to a deferred compensation plan. Pursuant to the plan, nonemployee directors of the Corporation may elect to defer receipt of all or a specified portion of their compensation in the form of cash, with an interest rate related to the ten-year U.S. Government Rate, or in the form of units, the value of each unit initially being equal to the average fair market value of one share of the Common Stock of the Corporation on the ten trading days preceding the date the compensation being deferred would otherwise be payable. The plan provides that compensation deferred under the plan, whether in the form of cash or units, will be paid out in cash after a deferral period of at least three years. Directors may elect that compensation so deferred be paid out in a lump sum or in up to fifteen annual installments. Payment of compensation deferred under the plan commences in January of the year following the last year of the deferral period.

Pursuant to a retirement plan for nonemployee directors adopted in May 1987, each nonemployee director of the Corporation on the date of adoption of the plan, and every other nonemployee director who is 70 years of age or older, who has completed at least five years of service on the Board and who commenced service as a director prior to January 1, 1995, is entitled upon termination of service to an annualized benefit for life which is equal to the annual retainer for nonemployee directors in effect on the date of termination of service. The plan also provides for coordinated disability benefits for all participating nonemployee directors equal to the annual retainer in effect on the date of total disability. Effective on the date of the Meeting, eligibility is further limited to those directors who are age 65 or older on such date.

Each nonemployee director of the Corporation also participates in the 1995 Stock Option Plan for Nonemployee Directors (the "1995 Nonemployee Directors Plan"). The 1995 Nonemployee Directors Plan provides that annually, on the date of the Annual Meeting of Stockholders, (i) each director age 65 or older on the date of the Meeting, who commenced service as a director of the Corporation prior to January 1, 1995 and whose service as a director will continue, is to receive an option to purchase 3,500 shares of the Corporation's Common Stock at a price equal to the fair market value of the Corporation's Common Stock on the date of grant and (ii) each director who is under age 65 on the date of the Meeting or who

commenced service as a director of the Corporation after January 1, 1995 and whose service as a director will continue, is to receive an option to purchase 6,000 shares of the Corporation's Common Stock at a price equal to the fair market value of the Corporation's Common Stock on the date of grant. The options become exercisable at the rate of 33% on the first and second anniversaries of the date of grant and 34% on the third anniversary of the date of grant. The options expire ten years from the date of grant, unless terminated earlier in accordance with the terms of the Plan.

Notwithstanding the foregoing, the Board may, in its discretion, terminate the option at any time and without cause. The option shall be exercisable only for the shares of Common Stock of the Corporation which are owned by the Corporation and which are not subject to any other outstanding option or other equity-based compensation arrangement. The option shall be exercisable only for the shares of Common Stock of the Corporation which are owned by the Corporation and which are not subject to any other outstanding option or other equity-based compensation arrangement. The option shall be exercisable only for the shares of Common Stock of the Corporation which are owned by the Corporation and which are not subject to any other outstanding option or other equity-based compensation arrangement.

Each nonemployee director of the Corporation who has been elected to the Board of Directors shall be entitled to receive an option to purchase 6,000 shares of the Corporation's Common Stock at a price equal to the fair market value of the Corporation's Common Stock on the date of grant. The options become exercisable at the rate of 33% on the first and second anniversaries of the date of grant and 34% on the third anniversary of the date of grant. The options expire ten years from the date of grant, unless terminated earlier in accordance with the terms of the Plan.

EXECUTIVE COMPENSATION

Summary Compensation Table

The Summary Compensation Table shows compensation for the Chief Executive Officer and the four other most highly compensated executive officers for the fiscal year ended June 28, 1997.

Name and Principal Position	Year	Annual Compensation		Long-Term Compensation Awards			All Other Compensation (\$)(4)
		Salary (\$)	Bonus (\$)(1)	Other Annual Compensation (\$)(2)	Restricted Stock Awards (\$)(3)	Stock Options (#)	
Robert B. Palmer	1997	\$901,939	\$100,000	\$ 0	\$ 0(5)	185,000(8)	\$24,774
Chairman of the	1996	900,016	0	0	302,000(6)	185,000(9)	24,923
Board, President,	1995	900,016	375,000	0	399,609(7)	300,000	0
Chief Executive Officer							
Bruce L. Claflin	1997	393,274(13)	300,000	121,590	419,062(5)	65,000(8)(10)	2,000
Senior Vice President	1996(12)	—	—	—	—	—	—
	1995(12)	—	—	—	—	—	—
Harold D. Copperman ...	1997	465,394	50,000	8,197	481,405(5)	65,000(8)(10)	8,289
Senior Vice President	1996(12)	—	—	—	—	—	—
	1995(12)	—	—	—	—	—	—
John J. Rando	1997	465,394	170,000	0	83,124(5)	65,000(8)	10,728
Senior Vice President	1996	400,960	0	0	0	65,000(9)	10,907
	1995	348,089	175,000	0	143,859(7)	125,000(11)	0
William D. Strecker	1997	451,931	115,000	0	83,124(5)	50,000(8)	10,626
Vice President	1996	450,008	0	0	0	65,000(9)	10,617
	1995	450,008	110,000	0	95,906(7)	60,000(11)	0

(1) Represents a cash bonus earned by such individual in the applicable fiscal year and paid during the first quarter of the next fiscal year, unless the recipient has elected that payment thereof be deferred. See "Deferred Compensation Plan for Executives."

(2) Represents customary one-time relocation and allowance payments to executives joining the Corporation.

(3) If the Corporation were to begin to pay dividends on its Common Stock, holders of restricted Common Stock would receive cash dividends on the shares of restricted Common Stock held by them. The amount ultimately realized by any named executive officer in respect of restricted Common Stock depends upon the value of the Corporation's Common Stock when the executive officer sells the shares, which can only occur after the restrictions lapse.

(4) Represents matching contributions of \$3,000 by the Corporation under its Savings and Investment Plan ("SAVE Plan") for each of Messrs. Palmer, Copperman, Rando and Strecker, and of \$2,000 for Mr. Claflin, and under its SAVE Restoration Plan as follows: Mr. Palmer, \$21,774, Mr. Copperman, \$5,289, Mr. Rando, \$7,728, and Mr. Strecker, \$7,626.

(5) Represents the dollar value on September 17, 1996, the award date, of an award to each of Messrs. Claflin, Copperman, Rando and Strecker of shares of restricted Common Stock. The fair market value of a share of Common Stock on such date was \$41.562. Each of Messrs. Claflin, Copperman, Rando and Strecker were granted 1,000, 2,500, 2,000 and 2,000 shares of restricted Common Stock, respectively, on such date. Restrictions with respect to 50% of these shares lapsed on December 17, 1996 and the remaining restrictions lapsed on June 17, 1997. Also represents, in the case of each of Messrs. Claflin and Copperman, the dollar value on August 21, 1996, the award date, of an award of 10,000 shares of restricted Common Stock. On such date, the fair market value of the Common Stock was \$37.75. Restrictions with respect to 50% of these shares lapsed on August 21, 1997 and the remaining restrictions will lapse on August 21, 1998. At the end of fiscal year 1997, each of Messrs. Palmer, Claflin and Copperman held 4,000, 22,000 and 10,000 shares of restricted Common Stock, respectively, and neither Mr. Rando nor Mr. Strecker held any shares of restricted stock. The value of the restricted shares held by each of Messrs. Palmer, Claflin and Copperman at June 27, 1997, the last business day of the fiscal year, was, as of such date, \$145,000, \$797,500, and \$362,500, respectively. On such date, the fair market value of a share of Common Stock was \$36.25. See Footnote 6 below with respect to an award of restricted stock to Mr. Palmer in August 1996, which is reflected on the table as fiscal year 1996 compensation.

(6) Represents the dollar value on August 21, 1996, the award date, of an award to Mr. Palmer of 8,000 shares of restricted Common Stock. On such date, the fair market value of a share of Common Stock was \$37.75. Restrictions with respect to 50% of these shares lapsed on February 21, 1997 and the remaining restrictions will lapse on February 21, 1998.

(7) Represents the dollar value on August 14, 1995, the award date, of an award to such individual of restricted Common Stock. On such date, the fair market value of a share of Common Stock was \$42.625. Each of Messrs. Palmer, Rando and Strecker were granted 9,375, 3,375 and 2,250 shares of restricted Common Stock, respectively. Restrictions with respect to 50% of these shares lapsed on February 14, 1996 and the remaining restrictions lapsed on February 14, 1997.

(8) Reflects a stock option to purchase shares of the Corporation's Common Stock granted on August 20, 1997, shortly after the end of fiscal year 1997.

(9) Reflects a stock option to purchase shares of the Corporation's Common Stock granted on August 21, 1996, shortly after the end of fiscal year 1996.

(10) Does not include a stock option to purchase 100,000 and 140,000 shares of the Corporation's Common Stock granted to each of Messrs. Claflin and Copperman, respectively, on August 21, 1996.

(11) Reflects a stock option to purchase shares of the Corporation's Common Stock granted to the named executive officer in August 1995.

(12) Mr. Claflin, who joined the Corporation in 1995, and Mr. Copperman, who joined the Corporation in 1993, each became an executive officer of the Corporation during fiscal year 1997. Accordingly, only their compensation for fiscal year 1997 is reflected in the table.

(13) See "Employment Arrangements."

Option/SAR Grants in Last Fiscal Year

The following table shows information regarding grants of stock options during the fiscal year ended June 28, 1997 to the named executive officers. The table also includes grants of stock options to the named executive officers on August 20, 1997. The Corporation did not grant any stock appreciation rights during fiscal year 1997 nor during the period from the end of such fiscal year through August 20, 1997.

Name	Individual Grants			Grant Date Value	
	Options/SARs Granted	% of Total Options/SARs Granted to Employees (1)	Exercise or Base Price (\$/Sh)	Expiration Date	Grant Date Present Value (\$) (2)
Robert B. Palmer	185,000 (3)	2.5%	\$46.687	8/20/07	\$2,982,045
	185,000 (4)	2.5	37.75	8/21/06	2,421,296
Bruce L. Claflin	65,000 (3)	0.8	46.687	8/20/07	1,047,746
	100,000 (4)	1.4	37.75	8/21/06	1,308,809
Harold D. Copperman	65,000 (3)	0.8	46.687	8/20/07	1,047,746
	140,000 (4)	1.9	37.75	8/21/06	1,832,332
John D. Rando	65,000 (3)	0.8	46.687	8/20/07	1,047,746
	65,000 (4)	0.8	37.75	8/21/06	850,726
William D. Strecker	50,000 (3)	0.7	46.687	8/20/07	805,958
	65,000 (4)	0.8	37.75	8/21/06	850,726

(1) Reflects percentage of total options granted to all employees from June 30, 1996 through August 20, 1997.

(2) The Grant Date Present Values shown were determined using a Black-Scholes pricing model with the following assumptions and adjustments: stock price volatility of 35%, an interest rate of 6.3%, with respect to options granted in August 1996, and 6.1% with respect to options granted in August 1997, representing the interest rate on a U.S. Treasury security on the dates of grant with a maturity date corresponding to that of the option term; and an assumed 3.6-year option term. The Corporation's use of this model should not be construed as an endorsement of its accuracy. Whether the model's assumptions will prove to be accurate cannot be known at the date of grant. The ultimate value of the options, if any, will depend on the future value of the Corporation's Common Stock, which cannot be forecast with reasonable accuracy, and on the holders' investment decisions.

(3) Reflects stock options granted on August 20, 1997, shortly after the end of fiscal year 1997, under the Corporation's 1995 Equity Plan, at exercise prices equal to the fair market value of the Corporation's Common Stock on the date of grant. The options have a term of ten years and become exercisable ratably over three years from the date of grant.

(4) Reflects stock options granted on August 21, 1996, shortly after the end of fiscal year 1996, under the Corporation's 1995 Equity Plan, at exercise prices equal to the fair market value of the Corporation's Common Stock on the date of grant. The options have a term of ten years and become exercisable ratably over three years from the date of grant.

Aggregated Option/SAR Exercises in Last Fiscal Year and FY-End Option/SAR Values

The following table summarizes for each of the named executive officers the number of stock options exercised during the fiscal year ended June 28, 1997, the aggregate dollar value realized upon exercise, and the dollar value of in-the-money, unexercised options held at June 28, 1997. None of the named executive officers hold any SARs. Value realized upon exercise is the difference between the fair market value of the underlying stock on the exercise date and the exercise price of the option. The value of unexercised, in-the-money options at fiscal year-end is the difference between the exercise price and the fair market value of the underlying stock on June 27, 1997, the last business day of the fiscal year. The closing price of the Corporation's Common Stock on the New York Stock Exchange on such date was \$36.25.

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options/SARs at FY-End (#)		Value of Unexercised In-the-Money Options/SARs at FY-End (\$)	
			Exercisable	Restricted/Unexercisable(1)	Exercisable	Restricted/Unexercisable
Robert B. Palmer	0	\$ 0	621,500	358,000(2)	\$2,002,560	0
Bruce L. Claflin	0	0	24,750	150,250	0	0
Harold D. Copperman	14,854	315,506	21,454	195,454	22,114	247,371
John J. Rando	16,500	332,277	78,860	153,190(2)	283,696	0
William D. Strecker	0	0	90,700	111,800(2)	559,048	0

(1) Does not include options granted to any of the named executive officers on August 20, 1997. See "Summary Compensation Table" and "Option/SAR Grants in Last Fiscal Year."

(2) A portion of these options represent immediately exercisable options for restricted stock, with restrictions on disposition of the underlying shares lapsing ratably over periods of three to ten years from date of grant. The number of underlying shares subject to such options on June 28, 1997 for the named executive officers was as follows: Mr. Palmer, 71,000; Mr. Rando, 4,440 and Mr. Strecker, 6,600. The remaining options held by Messrs. Palmer, Rando and Strecker were granted during fiscal years 1995, 1996 and 1997 and become exercisable ratably over three years.

Pension Plans

The Corporation and its subsidiaries have pension plans covering substantially all of their employees. Effective March 1, 1996, the Corporation's defined benefit pension plan (the "Prior

Pension Plan") for its U.S. employees was amended and renamed the Cash Account Pension Plan (the "New Pension Plan").

Under the Prior Pension Plan, benefits were based upon the employee's earnings during service with the Corporation and were payable after retirement in the form of annuities or lump sum benefit and the annual amount payable upon retirement at age 65 was, in general, 1.5% of the aggregate amount of the participant's eligible compensation earned on and after July 1, 1989. Those persons who were active participants under the Prior Pension Plan on July 1, 1989, or who later become active participants and were credited with prior service, were also eligible to receive 1.5% of the average of the participant's annual compensation between July 1, 1984 and July 1, 1989, multiplied by the number of years of accredited service prior to July 1, 1989.

Under the New Pension Plan, benefits for U.S. employees are based upon the employee's eligible earnings during service with the Corporation, and are credited quarterly by the Corporation at the rate of 4% of the employee's total eligible pay for that quarter, plus interest. The accumulated, vested account balance is payable in one lump sum or in monthly payments, as elected by the participant, upon the employee's retirement or termination of employment with the Corporation. The New Pension Plan continues the Prior Pension Plan formula for five years for all employees who on February 29, 1996 had reached age 50 and had completed at least five years of vesting service, or who were age 60 or older. At the earlier of March 31, 2001 or the employee's date of termination, his or her benefit will be the greater of the value of the benefit accrued under the Prior Pension Plan's formula or the employee's then current account balance under the New Pension Plan. A participant is 100% vested in his or her benefit after completing five years of service with the Corporation. For purposes of calculating a participant's pension benefit under either the Prior Pension Plan or the New Pension Plan, annual compensation is currently limited to \$150,000, subject to adjustment to reflect cost of living increases, pursuant to the Internal Revenue Code of 1986, as amended (the "Code").

The Digital Equipment Corporation Restoration Pension Plan (the "Restoration Plan"), adopted effective as of May 1, 1992 (amended and renamed the Digital Equipment Corporation Cash Account Pension Restoration Plan effective as of March 1, 1996), compensates the Corporation's employees for reductions in the benefits calculated under either the Prior or the New Pension Plan, as the case may be, due to legislative and regulatory limitations. The Restoration Plan, which is a non-qualified plan under the Code, and which is unfunded, provides additional retirement compensation equal to the difference between the benefit a

participant would receive under either Pension Plan without the legislative and regulatory limitations and the benefit actually payable to the participant under either Pension Plan.

Estimated annual retirement benefits payable as a straight life annuity under the New Pension Plan and Restoration Plan at age 65 based on projected compensation and continued employment for the following individuals would be: Mr. Palmer, \$181,000; Mr. Claffin, \$86,000; Mr. Copperman, \$69,000; Mr. Rando, \$269,000; and Mr. Strecker, \$198,000.

In addition, the Corporation has a Savings and Investment Plan ("SAVE Plan") which allows eligible U.S. employees to defer up to 14% (15% as of July 1, 1997) of their eligible compensation on a tax-deferred basis into a tax exempt trust pursuant to rules set forth in the Code. The Corporation makes a matching contribution to the trust for the benefit of each participant in the SAVE Plan at a rate equal to the lesser of (a) 33⅓% of such employee's contributions or (b) 2% of such employee's annual eligible compensation (subject to Code limitations). The employee accounts are invested by the plan trustee in up to nine investment alternatives (which increased to ten on July 1, 1997), as directed by the employee. Annual employee pre-tax deferrals are currently limited to \$9,500 for the 1997 calendar year.

The Digital Equipment Corporation SAVE Restoration Plan was adopted effective July 1, 1995. The SAVE Restoration Plan, which is a non-qualified plan under the Code and is unfunded, allows any SAVE Plan participant whose annual eligible compensation is at least \$150,000 (subject to adjustment to reflect cost of living increases) and who defers the maximum amount of his or her eligible compensation under the SAVE Plan for the year, to receive a credit equal to 2% of the amount by which such employee's eligible compensation for that year exceeds \$150,000 (as adjusted), resulting in a total matching contribution equal to what would have otherwise been provided under the SAVE Plan but for legislative and regulatory limitations. See "Summary Compensation Table."

Deferred Compensation Plan for Executives

Executive officers may defer all or any part of their Executive Incentive Plan ("EIP") award pursuant to the Deferred Compensation Plan for Executives (the "Executive Plan"). Under the Executive Plan, participants may elect to defer all or a portion of their EIP award in the form of cash, with an interest rate related to the ten-year U.S. Government Rate, or in the form of units, the value of each unit initially being equal to the average fair market value of one share of the Common Stock of the Corporation on the ten trading days preceding the date the amount being deferred would otherwise be payable. The Executive Plan also provides that amounts deferred under the plan, whether in the form of cash or units, will be paid out in cash

after a deferral period of at least three years. Participants may elect that amounts so deferred be paid out in a lump sum or in up to fifteen annual installments. Payment of amounts deferred under the Executive Plan commences in January of the year following the last year of the deferral period.

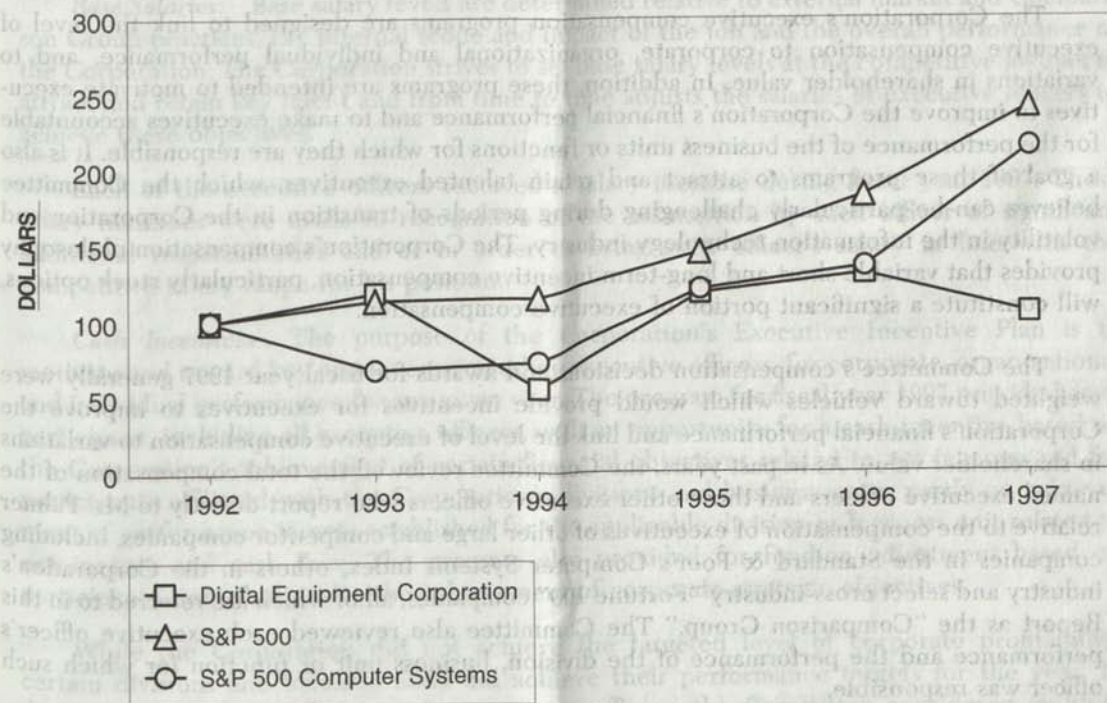
Employment Arrangements

In connection with his offer of employment in October 1995, the Corporation (i) agreed to pay Mr. Claflin a base salary of \$350,000 a year, which has subsequently been increased to \$500,000 in recognition of his assumption of additional responsibilities; (ii) awarded Mr. Claflin 20,000 shares of restricted Common Stock with restrictions on disposition lapsing at the rate of 40%, 30% and 30% on each anniversary of his date of hire; (iii) agreed to make certain cash payments to Mr. Claflin as reimbursement for the loss of a cash bonus from his former employer; (iv) awarded Mr. Claflin a non-qualified stock option to purchase 75,000 shares of the Corporation's Common Stock, vesting ratably over three years, at an exercise price equal to the fair market value of the Corporation's Common Stock on the date of grant; and (v) agreed to indemnify Mr. Claflin for liabilities and expenses incurred by him in connection with action by his former employer relating to the exercise by Mr. Claflin of certain stock options to purchase stock of such former employer. In addition, the Corporation agreed that in the event Mr. Claflin's employment is terminated without cause within the first two years of his employment with the Corporation, he would receive an amount equal to his then current annual base salary.

Stock Price Performance Graph

The following graph compares the five-year return for the Corporation's Common Stock against the Standard & Poor's ("S&P") 500 Stock Index and the S&P Computer Systems Index. The graph assumes \$100 was invested on June 27, 1992 in the Corporation's Common Stock and \$100 was invested at that time in each of the S&P indexes. The comparative data assumes that all dividends, if any, were reinvested.

Comparison of Five Year Cumulative Total Return
Digital Equipment Corporation, S&P 500, and S&P Computer Systems



COMPENSATION AND MANAGEMENT DEVELOPMENT COMMITTEE REPORT ON EXECUTIVE COMPENSATION

The Compensation and Management Development Committee (the "Committee") of the Board of Directors is comprised of three independent non-employee directors. The Committee is responsible for approving executive officer compensation and for administering the cash incentive and equity participation plans that govern the variable compensation paid to senior management of the Corporation. The following report describes the Corporation's executive compensation practices and the actions of the Committee regarding compensation paid to executive officers for fiscal year 1997.

The Corporation's executive compensation programs are designed to link the level of executive compensation to corporate, organizational and individual performance, and to variations in shareholder value. In addition, these programs are intended to motivate executives to improve the Corporation's financial performance and to make executives accountable for the performance of the business units or functions for which they are responsible. It is also a goal of these programs to attract and retain talented executives, which the Committee believes can be particularly challenging during periods of transition in the Corporation and volatility in the information technology industry. The Corporation's compensation philosophy provides that variable short and long-term incentive compensation, particularly stock options, will constitute a significant portion of executive compensation.

The Committee's compensation decisions and awards for fiscal year 1997 generally were weighted toward vehicles which would provide incentives for executives to improve the Corporation's financial performance and link the level of executive compensation to variations in shareholder value. As in past years, the Committee reviewed the total compensation of the named executive officers and those other executive officers who report directly to Mr. Palmer relative to the compensation of executives of other large and competitor companies, including companies in the Standard & Poor's Computer Systems Index, others in the Corporation's industry and select cross-industry "Fortune 100" companies, all of which are referred to in this Report as the "Comparison Group." The Committee also reviewed each executive officer's performance and the performance of the division, business unit or function for which such officer was responsible.

The Corporation's standard executive compensation program consists of three major elements: base salary, short-term cash incentives and long-term incentives principally in the

form of stock options. The Committee combines these elements to address the following objectives:

- attract and retain talented executives by paying them a competitive base salary;
- reward targeted and superior corporate, organizational and individual performance through cash incentives;
- motivate and encourage performance that increases shareholder value and contributes to the future success of the Corporation through grants of stock options and, when appropriate, awards of restricted stock.

Base Salaries. Base salary levels are determined relative to external market and Comparison Group practices, the internal scope and impact of the job and the overall performance of the Corporation. The Corporation strives to set base salary levels at the competitive median to attract and retain key talent and from time to time adjusts the salaries of executive officers to achieve these objectives.

Each of the executive officers received a salary increase during fiscal year 1997. These salary increases were made in recognition of the assumption by such officer of significant additional responsibilities and/or in order to bring such officer's salary in line with the competitive salary range for his position.

Cash Incentives. The purpose of the Corporation's Executive Incentive Plan is to motivate and reward key employees, including executive officers, for corporate, organizational and individual performance for any given year. The program for fiscal year 1997 provided each participant, including all executive officers, with an opportunity for a cash incentive based on the Corporation's achievement of certain financial objectives related to net income, and for participants affiliated with the Corporation's divisions and business units, partly on achievement of performance targets established for the applicable division or business unit related to net income and cash flow. The program also provided for funding adjustment based on participants' contributions to the achievement of corporate strategic objectives.

While the Corporation did not achieve the targeted level of corporate profitability, certain divisions and business units did achieve their performance targets for the year. In determining the level of payout for executive officers, the Committee considered multiple factors, including non-financial factors and achievement of strategic objectives, as well as achievement of stated financial objectives.

Equity Participation Plans. Stock options continue to be a major component of the Corporation's compensation strategy because this compensation vehicle closely aligns the interests of management with those of stockholders. Stock options are periodically granted to executive officers based on an assessment of each officer's potential to contribute to the future success of the Corporation and relative to practices of companies in the Comparison Group. In determining the size and vesting schedules of these grants, the Committee considered the continuing challenges facing the Corporation and its senior management team as the Corporation refines and implements its strategy within a new organizational structure and strives to improve its financial performance. Consistent with its articulated compensation philosophy, shortly after the end of the fiscal year, the Corporation granted to all executive officers, including each of the named executive officers, non-qualified stock options at an exercise price equal to the fair market value of the Common Stock on the date of grant. The options listed in the tables above carry a ten-year term, and become exercisable ratably over three years.

The Corporation from time to time grants awards of restricted stock to attract and retain key employees, including executive officers, or to recognize a key employee's contributions. Certain executive officers, including the named executive officers, received restricted stock awards in August and September 1996. These awards were granted to motivate and retain executives to successfully implement the restructuring plan approved at the end of fiscal year 1996 and to take concerted action to promote growth in key segments of the business.

Chief Executive Compensation. At the end of fiscal year 1997, Mr. Palmer's annual base salary was increased to \$950,000 from \$900,000. The Committee noted that Mr. Palmer's base salary had not been increased in four years and determined that such an increase was appropriate in order to bring Mr. Palmer's salary more in line with the competitive salary range for his position. In making this determination, the Committee reviewed information prepared by an outside compensation consultant who analyzed compensation relative to the compensation of chief executive officers of Comparison Group companies. Consistent with the Corporation's compensation philosophy to reward individual performance principally through short and long-term incentives, Mr. Palmer's compensation package is weighted more heavily toward variable and equity compensation, as described below, rather than base salary.

Mr. Palmer also participated in the Corporation's Executive Incentive Plan and his cash incentive opportunity under the Plan was based on the achievement of a corporate net income target. As noted above, the Corporation did not achieve its corporate profitability target for fiscal year 1997. The Committee acknowledged, however, Mr. Palmer's achievements during the fiscal year, including his development and implementation of a new organizational

structure and his leadership role in asserting and protecting the Corporation's intellectual property rights. In recognition of these accomplishments, the Committee awarded Mr. Palmer a cash incentive of \$100,000, as reflected in the Summary Compensation Table above.

In August 1997, the Committee granted to Mr. Palmer a non-qualified stock option to purchase a total of 185,000 shares of the Corporation's Common Stock, at an exercise price equal to the fair market value of the Common Stock on the date of grant. The option carries a term of ten years and is exercisable ratably over three years. In determining the size and vesting schedule of Mr. Palmer's stock option grant, the Committee considered Mr. Palmer's previously noted accomplishments, the challenges facing the chief executive officer of a dynamic information technology company and the practices of companies in the Comparison Group.

The Committee periodically reviews Mr. Palmer's total compensation, as well as the components thereof, with an outside compensation consultant. The Committee believes that Mr. Palmer's total compensation is appropriate, taking into account the significance of his responsibilities, the performance of the Corporation and the compensation of chief executive officers of companies within the Comparison Group.

Compensation Deductibility. The Committee has reviewed the potential consequences for the Corporation of Internal Revenue Code section 162(m), which imposes a limit on tax deductions for annual compensation in excess of one million dollars paid to any of the five most highly compensated executive officers of a corporation. This provision excludes certain forms of "performance-based compensation" from the compensation taken into account for purposes of that limit, such as the value of stock options and restricted stock awards granted under the Corporation's 1990 and 1995 Equity Plans. Payments under the Corporation's Executive Incentive Plan are not so excluded. Section 162(m) essentially had no impact on the Corporation's consolidated results of operations for fiscal year 1997. The Committee will continue to monitor the impact of this provision on the Corporation.

Compensation and Management Development Committee:

Thomas L. Phillips, Chairman

Thomas P. Gerrity

Delbert C. Staley

PROPOSAL TO AMEND THE 1968 EMPLOYEE STOCK PURCHASE PLAN TO INCREASE THE NUMBER OF SHARES AVAILABLE FOR ISSUANCE

On August 21, 1997, the Board of Directors amended the 1968 Employee Stock Purchase Plan (the "Employee Plan") to increase the number of shares subject thereto by 3,900,000 shares. The amendment will become effective only upon approval by the stockholders. This increase in shares is needed to enable the Corporation to continue operating the Employee Plan for the benefit of eligible employees.

The Board of Directors recommends a vote FOR approving the amendment to the Employee Plan.

Description of the 1968 Employee Stock Purchase Plan

In 1968 the Board of Directors and the stockholders adopted the Employee Plan for substantially all employees of the Corporation and its participating subsidiaries, other than directors of the Corporation. Since adoption of the Employee Plan, a total of 48,800,000 shares have been authorized for issuance thereunder. At August 1, 1997, approximately 25,800 employees were eligible to participate in the Employee Plan, and approximately 13,200 employees were participating.

The Employee Plan permits employees to purchase shares of the Corporation's Common Stock twice yearly through accumulated payroll deductions, up to a maximum of 10% of total compensation. The six-month periods June 1 to November 30 and December 1 to May 31 are the payment periods ("Payment Period") during which payroll deductions are accumulated under the Employee Plan. The price at which shares are purchased is an amount equal to 85% of the fair market value of the stock on the first or last business day of the applicable six-month Payment Period, whichever is lower.

The Board of Directors may terminate or amend the Employee Plan, provided that no amendment shall, without stockholder approval, increase the number of shares of Common Stock to be offered under the Plan or change the class of employees eligible to participate in the Plan.

During the period June 30, 1996 through June 28, 1997, the named executive officers of the Corporation purchased shares under the Employee Plan as follows: Mr. Claflin, 1,122 shares and Mr. Copperman, 635 shares; all current executive officers as a group, 4,760 shares; and all employees as a group (excluding current and named executive officers but including current officers who are not executive officers), 2,584,929 shares.

At August 1, 1997, 44,387,447 shares had been purchased by employees under the Employee Plan and 4,412,553 shares remained available.

Tax Aspects under the U.S. Internal Revenue Code

Generally, the following tax consequences under the United States Internal Revenue Code of 1986, as amended (the "Code"), are applicable to shares purchased under the Employee Plan:

1. No taxable income will be realized by the employee at the time of the purchase of the shares.

2. If the employee disposes of the shares two years or more after the date of the beginning of the Payment Period when the employee acquired the shares, then the employee at that time will recognize as taxable compensation income an amount equal to the lesser of:

- (a) the excess of the fair market value of the shares on the date of such disposition over the price at which the shares were purchased, or

- (b) 15% of the fair market value of the shares at the beginning of the Payment Period.

In addition, the employee may recognize a long-term capital gain or loss in an amount equal to the difference between the amount realized upon the sale of the shares and the basis of the shares (i.e., the purchase price plus the amount, if any, taxed as compensation income).

3. If the employee disposes of the shares within two years after the date of the beginning of the Payment Period when the employee acquired the shares, the employee at that time will recognize taxable compensation income equal to the fair market value of the shares on the date of purchase (the last business day of the applicable Payment Period) less the amount paid for the shares. In addition, the employee will recognize a capital gain or loss in an amount equal to the difference between the amount realized upon the sale of the shares and the basis of the shares (i.e., in this case, the purchase price plus the amount taxed as compensation income). If the employee holds the shares for more than one year, this gain or loss will be a long-term capital gain or loss and subject to a capital gains tax rate. If the shares are held for more than 18 months, the capital gains tax rate is reduced further.

4. The Corporation will be entitled to a deduction for federal income tax purposes in an amount equal to the amount which is considered ordinary compensation income if the employee disposes of the shares within two years of the beginning of the Payment Period when the employee acquired the shares.

PROPOSAL TO AMEND THE 1981 INTERNATIONAL EMPLOYEE STOCK PURCHASE PLAN TO INCREASE THE NUMBER OF SHARES AVAILABLE FOR ISSUANCE

On August 21, 1997, the Board of Directors amended the 1981 International Employee Stock Purchase Plan (the "International Plan") to increase the number of shares subject thereto by 3,600,000 shares. The amendment will become effective only upon approval by the stockholders. This increase in shares is needed to enable the Corporation to continue operating the International Plan for the benefit of eligible employees.

The Board of Directors recommends a vote FOR approving the amendment to the International Plan.

Description of the 1981 International Employee Stock Purchase Plan

In 1981, the Board of Directors and the stockholders adopted the International Plan. Since adoption of the International Plan, a total of 16,100,000 shares have been authorized for issuance thereunder. At August 1, 1997 approximately 24,100 employees were eligible to participate in the International Plan, and approximately 11,300 employees were participating.

The provisions of the International Plan are substantially the same as the Employee Plan described above. The International Plan was adopted in order to extend the benefits of the Employee Plan to employees of selected non-U.S. subsidiaries of the Corporation or branches thereof. The International Plan is not intended to be a tax-qualified plan under the Code.

The Board of Directors may terminate or amend the International Plan, provided that no amendment shall, without stockholder approval, increase the number of shares of Common Stock to be offered under the Plan or change the class of employees eligible to participate in the Plan.

During the period June 30, 1996 through June 28, 1997, no executive officers purchased shares under the International Plan and all employees as a group (excluding current and named executive officers but including current officers who are not executive officers) purchased a total of 1,855,717 shares under the International Plan.

At August 1, 1997, 13,251,415 shares had been purchased under the International Plan and 2,848,585 shares remained available.

Employees participating in the International Plan will be subject to taxation in accordance with the laws of the countries where they are resident or employed. Accordingly, the tax consequences applicable to employees will vary depending on the country. Because the International Plan is not a U.S. tax-qualified plan, employees of participating foreign subsidiaries who are U.S. citizens or resident aliens also recognize taxable compensation income under the Code, but may be entitled, with certain limitations, to a U.S. foreign tax credit equal to the taxes paid to foreign countries in respect of the shares.

RATIFICATION OF SELECTION OF AUDITORS

The Audit Committee of the Board of Directors has selected the firm of Coopers & Lybrand L.L.P., independent accountants, to serve as auditors for the fiscal year ending June 27, 1998, subject to ratification by the stockholders. Coopers & Lybrand L.L.P. has served as the Corporation's auditors since the organization of the Corporation. The Board of Directors recommends a vote FOR ratification of this selection. It is expected that a member of the firm of Coopers & Lybrand L.L.P. will be present at the Meeting, will have an opportunity to make a statement if so desired and will be available to respond to appropriate questions.

STOCKHOLDER PROPOSALS

1. Stockholder Proposal Regarding the Election of Directors by Classes

Kenneth Steiner, 14 Stoner Avenue, Great Neck, New York, 11021, the holder of 150 shares of Common Stock, has notified the Corporation of his intention to introduce the proposal set forth below for consideration and action by the stockholders at the Annual Meeting. Mr. Steiner's proposed resolution and supporting statement, for which the Board of Directors and the Corporation accept no responsibility, are set forth below. The Board of Directors opposes this proposal for the reasons stated after such proposal.

Eliminate Classified Board of Directors Resolution

"RESOLVED, that the stockholders of the company request that the Board of Directors take the necessary steps, in accordance with state law, to declassify the Board of Directors so

that all directors are elected annually, such declassification to be effected in a manner that does not affect the unexpired terms of directors previously elected."

Supporting Statement

The election of directors is the primary avenue for stockholders to influence corporate governance policies and to hold management accountable for implementation of those policies. I believe that the classification of the Board of Directors, which results in only a portion of the Board being elected annually, is not in the best interests of the Company and its stockholders.

The Board of Directors of the Company is divided into three classes serving staggered three-year terms. I believe that the Company's classified Board of Directors maintains the incumbency of the current Board and therefore of current management, which in turn limits management's accountability to stockholders.

The elimination of the Company's classified Board would require each new director to stand for election annually and allow stockholders an opportunity to register their views on the performance of the Board collectively and each director individually. I believe this is one of the best methods available to stockholders to insure that the Company will be managed in a manner that is in the best interests of the stockholders.

A classified board might also be seen as an impediment to a potential takeover of the company's stock at a premium price. With the inability to replace a majority of the board at one annual meeting, an outside suitor might be reluctant to make an offer in the first place.

I am a founding member of the Investors Rights Association of America and I believe that concerns expressed by companies with classified boards that the annual election of all directors could leave companies without experience [sic] directors in the event that all incumbents are voted out by stockholders, are unfounded. In my view, in the unlikely event that stockholders vote to replace all directors this decision would express stockholder dissatisfaction with the incumbent directors and reflect the need for change.

I URGE YOUR SUPPORT. VOTE FOR THIS RESOLUTION.

The Board of Directors recommends that the stockholders vote **AGAINST** this proposal for the following reasons:

In 1990, pursuant to legislation enacted in Massachusetts, the Board of Directors of the Corporation was classified into three classes of directors, with the terms of office of the

respective classes expiring in successive years. This legislation, entitled "An Act to Provide Protection to Massachusetts Corporations" (the "Act"), provides that publicly-held corporations organized under Massachusetts law are required to have a classified board of directors consisting of three classes as nearly equal in size as possible. The stated purpose of this legislation is to provide protection to Massachusetts corporations, including their stockholders, employees, suppliers and customers and the communities in which the corporations' facilities are located.

The Board of Directors believes that its classified Board serves the Corporation and its stockholders well and is consistent with the public policy articulated by the Commonwealth of Massachusetts, the state in which the Corporation is organized. The Board does not believe that directors elected for staggered terms are any less accountable to stockholders than they would be if elected annually, since the same standards of performance apply regardless of the term of service. Moreover, it believes that a classified board enhances the likelihood of continuity and stability in the conduct of Board business since generally two-thirds of the directors will have had prior experience and familiarity with the business of the Corporation. The Board believes that this contributes to more effective long-term strategic planning.

The classified Board is intended to encourage persons who may seek to acquire control of the Corporation to initiate such action through negotiations with the Board. At least two meetings of stockholders generally would be required to replace a majority of the Board. By reducing the threat of an abrupt change in the composition of the entire Board, classification of directors would give the Board sufficient time to review any takeover proposal, study appropriate alternatives and achieve the best result for stockholders. The Board believes that although a classified Board enhances the ability to negotiate favorable terms with a proponent of an unsolicited proposal, it does not necessarily discourage takeover offers.

The Act provides that a corporation may elect to be exempt from its classified Board provisions by a vote of the directors, or by a vote of the holders of two-thirds of the outstanding voting stock. Therefore, the adoption of this proposal would not in itself eliminate the classified Board, but would only amount to an advisory recommendation to the Board that it take the necessary steps to achieve that outcome.

The Board recognizes that an essentially identical proposal was submitted by the proponent in 1995. Although the proposal received the affirmative vote of a majority of the votes cast, it received the affirmative vote of only 38.2% of the then outstanding shares of common stock. The Board continues to believe that its classified Board of Directors is in the best interests of the Corporation and its stockholders.

For the reasons stated above, the Board of Directors recommends a vote AGAINST this proposal.

2. Stockholder Proposal Regarding Redemption of Stockholder Rights Plan

Glenn Freedman, 2 Spruce Street, Great Neck, New York, 11021, the owner of 150 shares of Common Stock, has notified the Corporation of his intention to introduce the proposal set forth below for consideration and action by the stockholders at the Annual Meeting. Mr. Freedman's proposed resolution and supporting statement, for which the Board of Directors and the Corporation accept no responsibility, are set forth below. The Board of Directors opposes this proposal for the reasons stated below.

Poison Pill Resolution

RESOLVED, that the shareholders recommend that our Board of Directors, at the earliest practical date, redeem or submit to a binding shareholder vote the corporation's "poison pill" share purchase rights plan.

Supporting Statement

The board of directors, unilaterally and without shareholder participation or approval, adopted a share purchase rights plan, more commonly known as a "poison pill." After carefully studying this issue, I have come to the conclusion that this Plan is detrimental to shareholders and should either be dismantled or put to a binding shareholder vote on its continued use.

From my homework on this issue, I've learned that poison pills may serve to harm shareholder value and entrench current management by deterring stock acquisition offers that are not favored by the board of directors. In my view management's failure to seek the input and approval of the company's owners on an action of such critical importance indicates that management is placing its interests above those of the shareholders.

The Securities and Exchange Commission has stated: "Tender offers can benefit shareholders by offering them an opportunity to sell their shares at a premium and by guarding against management entrenchment. However, because poison pills are intended to deter non-negotiated tender offers, and because they have this potential effect without shareholder consent, poison pill plans can effectively prevent shareholders from even considering the merits of a takeover that is opposed by the board." (SEC Release No. 34-23486 [July 31, 1986].)

Beyond the effect of poison pills on specific acquisition offers, however, I am convinced that the company's adoption of the Plan significantly reduces management's accountability to shareholders. Acquisition offers aside, the poison pill may simply relieve management from the task of striving for maximum shareholder value.

Again, I strongly feel that adoption of the Plan without shareholder consent was contrary to the long-term interests of all shareholders and offensive to the concepts of management accountability and corporate democracy. I urge you to vote for this proposal which recommends that the board redeem the Plan or submit it for shareholder approval.

The Board of Directors recommends that the stockholders vote AGAINST this proposal for the following reasons:

In 1989, the Board of Directors adopted a Stockholder Rights Plan (the "Rights Plan") pursuant to which the Corporation authorized the distribution of one Common Stock Purchase Right ("Right") for each share of outstanding common stock. The Board adopted the Rights Plan to guard against potential abuses during the takeover process and to ensure that all of the Corporation's stockholders are treated fairly and equally in the event of an unsolicited takeover of the Corporation.

The Board continues to believe, as it did when the Rights Plan was first adopted, that in the event of an unsolicited offer for control of the Corporation, the Rights Plan will allow the Board adequate time and flexibility to evaluate the adequacy of a potential offer, to develop alternatives which may better maximize stockholder value and to negotiate the highest possible price from a potential acquiror. Contrary to the proponent's assertions, the Rights Plan does not prevent unsolicited offers from occurring, nor prevent an acquisition at a price that is fair and equitable for all stockholders. Instead, the Rights Plan encourages a potential bidder to negotiate in good faith with the Board of Directors, which is in the best position to negotiate on behalf of all stockholders. Under the terms of the Rights Plan, the Board may redeem the Rights to facilitate an acquisition that it determines, in the exercise of its fiduciary responsibilities, adequately reflects the value of the Corporation and is in the best interests of all stockholders.

A number of companies with stockholder rights plans similar to the Rights Plan have received unsolicited takeover offers, and their boards have redeemed their rights after determining that the negotiated price adequately reflected the value of the company and that the acquisition was in the best interests of all stockholders. In fact, two independent studies, one conducted in 1988 by Georgeson & Company, a nationally recognized proxy solicitation

and investor relations firm, and the other conducted in 1993 and confirmed in 1995 by Robert Comment and G. William Schwert of the Bradley Policy Research Center, University of Rochester, found that companies with rights plans received higher takeover premiums than those companies without rights plans.

The Board believes the proponent's assertions that the Rights Plan reduces the accountability of management to the stockholders and relieves management from the task of striving for maximum stockholder value are unfounded. In deciding to adopt the Rights Plan, the Corporation's Board of Directors considered its fiduciary responsibilities carefully, sought and carefully weighed information and advice from experienced, independent legal and financial advisors, and drew on its collective experience with many other companies and its extensive knowledge of the Corporation's own business and circumstances. The Board continues to believe, as it did when the Rights Plan was adopted, that the Rights Plan is in the best interests of the Corporation and its stockholders in that it represents a reasonable and appropriate means of addressing and protecting against potentially abusive and coercive tactics associated with unsolicited takeover attempts.

For the reasons stated above, the Board of Directors recommends a vote AGAINST this proposal.

3. Stockholder Proposal Regarding the Engagement of an Investment Banker to Explore Alternatives to Enhance the Value of the Corporation

William Steiner, 4 Radcliff Drive, Great Neck, New York, 11024, the owner of 100 shares of Common Stock, has notified the Corporation of his intention to introduce the proposal set forth below for consideration and action by the stockholders at the Annual Meeting. Mr. Steiner's proposed resolution and supporting statement, for which the Board of Directors and the Corporation accept no responsibility, are set forth below. The Board of Directors opposes this proposal for the reasons stated after such proposal.

Sale or Merger of Company

Resolved: that the shareholders of the Company recommend and deem it desirable and in their best interest that the board of directors immediately engage the services of a nationally recognized investment banker to explore all alternatives to enhance the value of the Company. These alternatives should include, but not be limited to, the possible sale, merger or other transaction involving the Company. A specific view should be taken towards determining

whether a sale to the highest bidder would be appropriate. The company should issue a report to shareholders within 1 year.

Supporting Statement

In support of the above resolution, the proponent believes that in view of the unacceptable performance of the Company over the past five years, the deplorable stock price, and in my opinion, ineffective management, the board of directors should take immediate action to engage the services of an investment banker to explore all alternatives to enhance the value of the Company which should include actively exploring an outright sale.

Nell Minow, a highly acclaimed corporate governance specialist, and principal of the LENS Fund, which specializes in increasing the value of under-performing companies, has stated:

"Companies can only justify asking investors to take the risk of investing in equities by delivering a competitive rate of return on the invested capital. When a company's management and board cannot meet that goal, they owe it to their investors to submit themselves to an independent evaluation by an outside firm, to insure that all options are objectively evaluated.

If a company's performance lags over a sustained period, it is time for the shareholders to send a message of no confidence to the board, reminding them that they have to hold management — and themselves — to a higher standard."

I am a member of the Investors Rights Association of America and it is my opinion that the value of the Company can be enhanced if the above resolution is carried out and the shareholders would at long last be able to salvage meaningful monetary rewards for their patience and long suffering.

I URGE YOUR SUPPORT. VOTE FOR THIS RESOLUTION.

The Board of Directors recommends that the stockholders vote **AGAINST** this proposal for the following reasons:

The Board of Directors is cognizant of its fiduciary responsibilities and strives to discharge these responsibilities in a manner which the Board believes is in the best interests of the Corporation and its stockholders. The Board periodically reviews with management the Corporation's strategic and business plans. The Board, with input from management as appropriate, also regularly evaluates actions that may be taken to maximize shareholder value. To assist the Board in this regard, the Corporation maintains relationships with nationally

recognized investment banking firms and periodically seeks input from such firms and other advisors.

The Board believes that the Corporation can more effectively consider, and implement as appropriate, the suggestions of its external advisors when this process is conducted confidentially. In this way, ideas can be developed and debated without the fear of rumors or uninformed public discussion that could harmfully restrict the Board's options or disrupt the public market for the Corporation's stock. A published report of the sort suggested by the proponent would, in the Board's view, create uncertainty with customers, suppliers and employees, as well as stockholders, which could inhibit the Corporation's efforts to pursue successfully its strategic plan.

Accordingly, the Board of Directors does not believe that it is in the best interests of the Corporation or its stockholders to engage an investment banking firm at this time for the specific purpose of preparing a report to stockholders on alternatives to enhance the value of the Corporation, including a sale or merger of the Corporation.

For the reasons stated above, the Board of Directors recommends a vote AGAINST this proposal.

4. Stockholder Proposal Regarding Separating Offices of President and Chairman

The CWA/ITU Negotiated Pension Plan (the "Fund"), P.O. Box 2380, Colorado Springs, Colorado 80901, the owner of 48,000 shares of Common Stock, has notified the Corporation of its intention to introduce the proposal set forth below for consideration and action by the stockholders at the Annual Meeting. The Fund's proposed resolution and supporting statement, for which the Board of Directors and the Corporation accept no responsibility, are set forth below. The Board of Directors opposes this proposal for the reasons stated after such proposal.

Shareholder Proposal

Resolved that the shareholders request the Board of Directors of Digital Equipment Corporation ("DEC") to amend the By-Laws to require that the President and the Chairman of the Board shall not be the same person.

Statement of Support

The offices of Chairman of the Board, and President and Chief Executive Officer, are currently vested in the person of Robert B. Palmer. The CWA/ITU Negotiated Pension Plan believes that separation of these positions would be an important step toward improved corporate governance.

The two positions have distinct duties. The President is the Chief Executive Officer of DEC and, as such is responsible for the supervision and control of its business. In contrast, the Chairman of the Board is responsible for running the Board of Directors, which is primarily responsible for overseeing the performance of the President and other management personnel.

When the President is named as Chairman of the Board, the chief person to be overseen by the Board is placed in a position to control both the agenda of the Board and the flow of information that the Board receives. As a result, shareholders and financial analysts have a reduced degree of assurance that directors will be independent and effective, because there will be less assurance that directors will know when to ask questions, and what the right questions are.

Moreover, this is a time when it appears imperative that the Board ask questions with a view toward correcting the Corporation's dismal performance. An indication of that dismal performance lies in the fact that the price of DEC stock has declined from a high of \$76 per share in February of 1996 to a low of \$25 per share in April of 1997 (Value Line, April 25, 1997).

In this context, the New York Times reported on April 18, 1997, that the DEC Alpha microprocessor "is widely acknowledged as the fastest chip among its peers," but "Digital has failed to translate that selling point into leadership [in sales]." In fact, according to Business Week (Apr. 28, 1997), the Alpha chip "ranks dead last in market share with less than 1% of the \$18 billion microprocessor market, v.s. Intel's 92%."

Moreover, the New York Times article states that revenue from Alpha based products actually "declined 12 percent" during the third quarter at the same time that rival companies "reported double-digit growth in . . . selling to virtually the same customer base." The article adds, "Analysts said that Digital suffered from weak marketing compared with competitors."

The CWA/ITU Negotiated Pension Plan believes that a separation of the positions of Chairman and President could help DEC find answers to the salient questions that are raised in

the Business Week article: "How could a superior computer chip fail to catch on?" and why is the company "blowing it?"

The Board of Directors recommends that the stockholders vote AGAINST this proposal for the following reasons:

The Board of Directors believes that the interests of the Corporation and its stockholders are best served by having the Corporation's President and Chief Executive Officer serve as Chairman of the Board of Directors.

The proponent suggests that the independence of the Corporation's Board of Directors is compromised by having the President and Chief Executive Officer also serve as Chairman of the Board. The Board does not believe this to be the case, particularly given that eight of the nine current members of the Board are independent, unaffiliated directors, and three of the four committees of the Board — Compensation and Management Development ("CMDC"), Nominating and Audit — are comprised entirely of independent, unaffiliated directors. As noted in the CMDC's Report in this Proxy Statement, the independent CMDC reviews periodically the Chairman and Chief Executive Officer's compensation. In addition, the outside directors meet at least once each year without the Chairman or any member of management present, at which time the outside directors, among other things, review the performance of the Chairman.

The independent insight, advice and counsel that each outside Director contributes to the Corporation would not be enhanced by separating the office of Chairman and President. Each outside director is a full participant in major strategic and policy discussions. Contrary to the implications of the proposal, the Corporation's by-laws neither provide the Chairman with special oversight responsibilities, nor do they insulate an executive Chairman from Board oversight. The by-laws simply provide that the Chairman presides at meetings of the Board and stockholders.

The Board believes that the Corporation and its stockholders have benefited from the full-time attention of a Chairman who is also the President and Chief Executive Officer. The President and Chief Executive Officer, as the sole employee Director, is uniquely positioned to share with and prioritize for the Board those issues facing management and the Corporation that require the attention of the Board. Through a Chairman who is also President and Chief Executive Officer of the Corporation, the Board believes it not only is kept very well-informed about the Corporation and the information technology industry, but that it can more effectively hold management accountable.

Accordingly, the Board believes the existing structure supports the Board's exercise of its oversight responsibilities and does not compromise the independence of the Board of Directors.

For the reasons stated above, the Board of Directors recommends a vote AGAINST this proposal.

EXPENSES AND SOLICITATION

The cost of solicitation of proxies will be borne by the Corporation. In addition to soliciting stockholders through its regular employees, the Corporation will request banks and brokers to solicit customers of theirs who have shares of Common Stock of the Corporation registered in the name of a nominee. The Corporation will reimburse such banks and brokers for their reasonable out-of-pocket costs, at the rates suggested by the New York Stock Exchange. Solicitation by officers and employees of the Corporation may also be made of some stockholders in person, or by mail, telephone or facsimile, following the original solicitation. Georgeson & Company Inc. has been retained by the Corporation to assist with the solicitation of proxies at a cost to the Corporation estimated not to exceed \$20,000.

STOCKHOLDER PROPOSALS FOR NEXT ANNUAL MEETING

Proposals of stockholders intended for inclusion in the proxy statement to be mailed to all stockholders entitled to vote at the 1998 Annual Meeting of Stockholders of the Corporation must be received at the Corporation's principal executive offices not later than May 21, 1998. In order to curtail controversy as to the date on which a proposal was received by the Corporation, proponents should submit their proposals by Certified Mail — Return Receipt Requested.

September 18, 1997

FOR REFERENCE

Do Not Take From This Room

DIGITAL EQUIPMENT CORPORATION

146 Main Street

Maynard, Massachusetts 01754

NOTICE OF ANNUAL MEETING

To the Stockholders of DIGITAL EQUIPMENT CORPORATION:

Notice is hereby given that the Annual Meeting of Stockholders of Digital Equipment Corporation, a Massachusetts corporation, will be held on Tuesday, **October 30, 1973 at 11:00 A.M.**, in the Dorothy Quincy Suite, John Hancock Building, 180 Berkeley Street, Boston, Massachusetts 02116 for the following purposes:

1. To fix the number of and to elect a Board of Directors for the ensuing year.
2. To consider and act upon a proposal to approve an amendment to the 1968 Restricted Stock Purchase Plan to increase the number of shares subject thereto from 600,000 to 850,000.
3. To consider and act upon a proposal to approve an amendment to the Qualified Stock Option Plan to increase the number of shares subject thereto from 525,000 to 725,000.
4. To consider and act upon the matter of ratifying the selection of the firm of Coopers & Lybrand as auditor for the fiscal year ending June 29, 1974.
5. To transact such other business as may properly come before the meeting.

Stockholders entitled to notice of and to vote at the meeting shall be determined as of the close of business on September 14, 1973, the record date fixed by the Board of Directors for such purpose.

DIGITAL EQUIPMENT CORPORATION
CORPORATE LIBRARY ML-342
146 MAIN ST., MAYNARD, MA 01754

By Order of the Board of Directors

EDWARD A. SCHWARTZ, Clerk

September 24, 1973

Stockholders are requested to sign the enclosed proxy card and return it to The National Shawmut Bank of Boston, Att'n: Stock Transfer Dept., P.O. Box 2177, Boston, Massachusetts 02106 in the enclosed stamped envelope by return mail.

DIGITAL EQUIPMENT CORPORATION

1973 Annual Meeting

PROXY STATEMENT

Proxies in the form enclosed with this proxy statement are solicited by the management of Digital Equipment Corporation for use at the Annual Meeting of Stockholders to be held on October 30, 1973, at 11:00 A.M., in the Dorothy Quincy Suite, John Hancock Building, 180 Berkeley Street, Boston, Massachusetts 02116.

Only stockholders of record as of the close of business on September 14, 1973 will be entitled to vote at the meeting and any adjournment thereof. As of that date 11,837,034 shares of Common Stock of the Corporation were issued and outstanding. Each share outstanding as of the record date will be entitled to one vote, and stockholders may vote in person or by proxy. Execution of a proxy will not in any way affect a stockholder's right to attend the meeting and vote in person. Any stockholder giving a proxy has the right to revoke it at any time before it is exercised.

The persons named as attorneys in the proxies are directors of the Corporation. All properly executed proxies returned in time to be cast at the meeting will be voted and, with respect to the election of a Board of Directors, will be voted as stated below under "Election of Directors". Where a choice has been specified on the proxy with respect to the proposed amendment to the 1968 Restricted Stock Purchase Plan, the proposed amendment to the Qualified Stock Option Plan or the ratification of the selection of the auditor, the shares represented by the proxy will be voted in accordance with the specification, and will be voted FOR if no specification is indicated.

The management knows of no other matter to be presented at the meeting. If any other matter should be presented at the meeting upon which a vote properly may be taken, shares represented by all proxies received by the management will be voted with respect thereto in accordance with the judgment of the persons named as attorneys in the proxies.

An Annual Report to Stockholders, containing financial statements for the fiscal year ended June 30, 1973, has been mailed concurrently with this proxy statement to all stockholders entitled to vote.

ELECTION OF DIRECTORS

The directors of the Corporation are elected annually and hold office until the next annual meeting and until their successors shall have been elected and shall have qualified. Shares represented by all proxies received by the management and not so marked as to withhold authority to vote for directors will be voted (unless one or more nominees are unable or unwilling to serve) for fixing the number of directors for the ensuing year at seven and for the election of the nominees named on the next page. The management knows of no reason why any such nominee should be unable or unwilling to serve, but if such should be the case, proxies will be voted for the election of some other person, or for fixing the number of directors at a lesser number.

Nominee's Name and Year Nominee First Became Director	Positions Held With Digital Equipment Corporation	Principal Occupation or Employment	Shares of Common Stock Beneficially Owned at September 1, 1973
KENNETH H. OLSEN 1957	President and Director	President, Digital Equipment Corporation	926,296(1)
VERNON R. ALDEN 1959	Director	Chairman of the Board, The Boston Company, Inc. (managers of financial resources)	33,175
WILLIAM H. CONGLETON 1957	Director	General Partner, The Palmer Organization (venture capital investments)	41,830
ARNAUD DE VITRY 1957	Director	Chairman of the Board, Dunlop, S.A. France (manufacturers)	142,850(2)
GEORGES F. DORIOT 1972	Director	Chairman of the Board, American Research and Development Corporation (venture capital investments), a subsidiary of Textron Inc.	8,883(3)
WILLIAM H. McLEAN 1967	Director	President, Stevens Institute of Technology (education)	674(4)
DOROTHY E. ROWE 1962	Director	Senior Vice President, Treasurer and Secretary, American Research and Development Corporation (venture capital investments), a subsidiary of Textron Inc.	36,195

NOTE (1): The 926,296 shares are approximately 8% of the issued and outstanding Common Stock. At September 1, 1973 Stanley C. Olsen, Kenneth H. Olsen's brother and a Vice President of the Corporation, owned beneficially 179,392 shares of Common Stock of the Corporation, or approximately 1.5% of the issued and outstanding Common Stock.

NOTE (2): These shares are held by a financial institution in a fiduciary capacity for the benefit of Mr. de Vitry and members of his family. He disclaims beneficial ownership of 70,000 such shares.

NOTE (3): Includes 5,783 shares owned beneficially by Mr. Doriot's wife. Mr. Doriot disclaims beneficial ownership of said 5,783 shares.

NOTE (4): Includes 374 shares owned by Mr. McLean's children. Mr. McLean disclaims beneficial ownership of said 374 shares.

REMUNERATION AND OTHER INFORMATION

Information is set out below as to the direct remuneration paid by the Corporation for the fiscal year ended June 30, 1973 to each director and each of the three highest paid officers whose aggregate

direct remuneration for the year exceeded \$30,000 and to all directors and officers as a group, and as to the estimated annual retirement benefits of those persons:

Name of Individual or Identity of Group	Capacities in which Remuneration was Received	Aggregate Direct Remuneration	Estimated Annual Benefits Upon Retirement (1)
Kenneth H. Olsen	President and Director	\$ 90,000	\$ 45,076
Stanley C. Olsen	Vice President	\$ 60,010	\$ 29,968
Winston R. Hindle, Jr.	Vice President	\$ 60,010	\$ 29,935
All Officers and Directors as a Group (15 persons)		\$527,887	\$258,055

(1) These benefits are payable pursuant to the terms of the Corporation's Pension Plan, assuming continuance in the employ of the Company at present salary levels until retirement at age 65.

The following tabulation shows as to certain directors and officers and as to all directors and officers as a group (i) the amount of options granted since the beginning of the fifth previous full fiscal year, (ii) the amount of shares acquired since that date through the exercise of options granted since that date or prior thereto, (iii) the amount of shares sold during such period of the same class as those so acquired, and (iv) the amount of shares subject to all unexercised options held as of September 1, 1973.

	K. H. Olsen	S. C. Olsen	W. R. Hindle, Jr.	All directors and officers as a Group*
Common Stock				
Granted June 30, 1968 to date:				
Number of Shares	None	36,000	29,400	171,100
Average per share option price	—	\$ 5.46	\$10.96	\$16.37
Average per share market prices on dates of grant	—	\$55.85	\$59.76	\$61.92
Exercised June 30, 1968 to date:				
Number of shares	30,000	33,500	36,650	189,650
Aggregate option price of options exercised	\$380,010	\$161,500	\$194,100	\$1,491,805
Aggregate market value of shares on date options exercised	\$3,390,000	\$2,246,125	\$2,866,210	\$16,158,429
Sales June 30, 1968 to date:				
Number of shares	22,400	12,000	7,320	62,890
Unexercised at September 1, 1973:				
Number of shares	None	2,500	4,000	35,600
Average per share option price	—	\$14.00	\$48.22	\$54.83

In addition, during the period employees were granted options for 678,580 shares at an average price per share of \$29.82. The foregoing figures have been adjusted to reflect the 1969 3-for-1 stock split.

On September 14, 1973 the closing price of the Corporation's Common Stock on the New York Stock Exchange was \$92½ per share.

* Kenneth H. Olsen is the only director included in the Group.

PROPOSAL TO APPROVE AMENDMENT TO 1968 RESTRICTED STOCK PURCHASE PLAN

Description of the 1968 Restricted Stock Purchase Plan

In 1968 the Corporation adopted a Restricted Stock Purchase Plan (the "Restricted Plan"). This Plan was intended to provide a method whereby employees of the Corporation and its subsidiaries who are largely responsible for the management and growth of the business, and who are presently making and are expected to continue to make substantial contributions to the successful growth and development of the Corporation, may be offered incentives, in addition to those of current compensation, future pensions and such stock options as they have been or may be granted, thereby advancing the interests of the Corporation and its stockholders. The basic means whereby this was intended to be accomplished was by the sale of the Corporation's Common Stock to key employees of the Corporation and its subsidiaries at a price substantially below its market value, coupled with a prohibition against disposition of such stock and a requirement to resell such stock to the Corporation at its purchase price, such prohibition and requirement of resale to lapse from time to time as to portions of the shares purchased as the employee's service continues. The Restricted Plan provides for the issuance of shares of Common Stock to such employees for any lawful consideration as determined by the Corporation's Board of Directors.

Employees of the Corporation or of a subsidiary, including officers and consultants, who have not attained the age of 65 are eligible under the Restricted Plan. Directors are not eligible. Subject to the terms of the Restricted Plan, the Committee of the Board of Directors of the Corporation which administers and interprets the Restricted Plan has exclusive jurisdiction to select the employees to whom shares are sold, to determine the number of shares sold to any employee, the time or times when shares are to be sold and the prices at which shares are sold. Shares may be sold to the same employee on more than one occasion.

At present a total of 600,000 shares (subject to adjustments for stock dividends and recapitalization) in the aggregate may be sold under the Restricted Plan but not more than 60,000 shares to any one employee. At September 1, 1973, options for 398,585 shares had been exercised, at purchase prices ranging from \$4.00 to \$14.00, 161,430 shares were subject to outstanding options at purchase prices ranging from \$12.50 to \$20.25 per share with expiration dates ranging from November 11, 1973 to November 18, 1983 and 39,985 shares remained available for grant. Options may be granted to employees under the Restricted Plan from time to time through December 31, 1978, the termination date of the Plan.

Shares purchased under the Restricted Plan may not be sold or otherwise disposed of or pledged and in the event of termination of employment must be offered for purchase by the Corporation at the price at which they were purchased from the Corporation, except as follows:

(a) The obligation not to dispose or pledge shares and to resell shares to the Corporation will lapse as to 10% of the shares purchased at the end of each annual anniversary date following the date of purchase;

(b) The obligation to resell shares to the Corporation (but not the prohibition against disposition or pledge) will lapse as to any shares which have not theretofore become unrestricted

on the date on which an employee attains age 65, or on the date on which the employee retires with the consent of the Corporation, or on the date of the employee's death, or on the date the Corporation irrevocably waives the obligation, whichever is earlier;

(c) The restriction against disposition or pledge of the shares referred to in (b) above will lapse at the time the shares would become "unrestricted" pursuant to the time schedule referred to in (a) above or such other date or time schedule established by the Corporation;

(d) The price to be paid by the Corporation for shares subject to the obligation of resale is their purchase price;

(e) Notwithstanding the above, shares purchased under the Restricted Plan may be pledged to secure borrowing by an employee provided the amount of borrowing may not exceed such purchase price;

(f) Notwithstanding the above, shares purchased under the Restricted Plan are released from all restrictions if the fair market value of such shares is 125% or less of the purchase price thereof; and

(g) The obligation to resell to the Corporation the shares purchased under the Restricted Plan shall lapse if an employee shall have become obligated to sell shares to the Corporation and the Corporation shall not have exercised its right to purchase such shares within 40 days. Nothing, however, requires the Corporation to repurchase shares issued to employees under the Restricted Plan.

As authorized in the Restricted Plan, the Stock Option Plan Committee recently established for certain options a different time schedule for the lapse of restrictions. The restrictions under such schedule will lapse on the anniversary dates following the date of grant of such options rather than the date of purchase. The Committee presently expects that most future options granted under the Restricted Plan will have a similar time schedule for the lapsing of restrictions.

The Board of Directors of the Corporation may terminate, modify or suspend the Restricted Plan provided no modification shall, without stockholder approval, increase the maximum number of shares which may be sold under the Restricted Plan in the aggregate (other than changes resulting from stock dividends or recapitalization) or to any one person or extend the period during which shares may be issued under the Restricted Plan.

Federal Income Tax Consequences

A. *Options Exercised Before May 1, 1970.* Options granted under the Restricted Plan and exercised before May 1, 1970 under present federal income tax law and regulations generally will have the following tax consequences:

1. No taxable income was realized by the employee at the time the option was granted or exercised.
2. The employee will realize taxable compensation income at such time as the restrictions on the shares lapse or the shares are disposed of by the employee in an arm's length transaction (whichever event first occurs), in an amount equal to the lesser of:

(i) the difference between the purchase price and the fair market value of the shares (determined without regard to the restrictions) at the time of purchase by the employee, or

(ii) the difference between the purchase price and the fair market value of the shares at the time of lapse of the restrictions or, in case of earlier disposition, the consideration received on disposition.

3. The employee's basis for the shares will be their purchase price plus the amount taxed to him as compensation income.

4. With certain possible exceptions, the Corporation will be entitled to a deduction for compensation paid at the same time and in the same amount as compensation income is realized by employees.

B. Options Exercised On And After May 1, 1970. Options granted under the Restricted Plan and exercised on and after May 1, 1970 are subject to the provisions of Section 83 of the Internal Revenue Code, as added by the Tax Reform Act of 1969.

1. With certain exceptions specified in Section 83(i), options granted under the Restricted Plan and exercised on or after May 1, 1970 for shares which are not transferable or are subject to a substantial risk of forfeiture generally will have the following federal income tax consequences:

(i) No taxable income will be realized by the employee at the time the option is granted or exercised, provided, however, the employee may, at his election, include in his gross income in the taxable year in which the option is exercised, the difference between the purchase price and the fair market value of the shares at the time of exercise (determined without regard to the restrictions). In the event such an election is made, the employee will receive no deduction if the shares are later repurchased by the Corporation in accordance with the terms of the Restricted Plan.

(ii) In the absence of the election mentioned in the preceding paragraph, the employee will realize taxable compensation income at such time as the employee's interest in the shares is transferable or is not subject to a substantial risk of forfeiture, whichever occurs earlier, in an amount equal to the difference between the purchase price and the fair market value of the shares at such time.

(iii) The employee's basis for the shares will be their purchase price, plus the amount taxed to him as compensation income.

(iv) With certain possible exceptions, the Corporation will be entitled to a deduction for compensation paid in the same amount as compensation income realized by the employees.

2. Options granted under the Restricted Plan and exercised for shares which are transferable or are not subject to a substantial risk of forfeiture generally will have the following federal income tax consequences:

(i) No taxable income will be realized by the employee at the time the option is granted.

(ii) The employee will realize compensation taxable as ordinary income at such time as the employee exercises the option in an amount equal to the difference between the purchase price and the fair market value of the shares at the time of exercise.

(iii) The employee's basis for the shares will be their purchase price, plus the amount taxed to him as compensation income.

(iv) With certain possible exceptions, the Corporation will be entitled to a deduction for compensation paid in the same amount as compensation income realized by the employees.

The Proposed Amendment to the 1968 Restricted Stock Purchase Plan

On August 20, 1973 the Board of Directors amended the Restricted Plan to increase the maximum number of shares available for issuance from 600,000 shares to 850,000 shares (subject to adjustments for stock dividends or recapitalization). The amendment will become effective only upon approval by stockholders representing a majority of the outstanding shares of Common Stock of the Company.

The closing price of the Corporation's Common Stock on the New York Stock Exchange on September 14, 1973 was \$92½ per share.

Information as to options granted under the Restricted Plan and under other plans to certain directors and officers and to all officers and directors as a group is set forth above under the caption "Remuneration and Other Information."

The directors recommend a vote for adopting the amendment to the Restricted Plan.

PROPOSAL TO APPROVE AMENDMENT TO QUALIFIED STOCK OPTION PLAN

Description of Qualified Stock Option Plan

In 1965 the Corporation adopted a Qualified Stock Option Plan which provides for the granting of options to purchase Common Stock of the Corporation to key employees of the Corporation. The purpose of adopting the Qualified Plan was to promote incentive on the part of key employees, to provide substantial inducement for them to remain with the Corporation or its subsidiaries and to serve as an attractive consideration in obtaining valuable new personnel.

Under the Qualified Plan options can be granted only to key employees who, in the opinion of the Committee of the Board of Directors of the Corporation which administers and interprets the Qualified Plan, have important responsibilities with respect to the management, growth or protection of the business of the Corporation or its related corporations. None of the present Directors of the Corporation are eligible to receive options under the Plan. There is no minimum or maximum number of shares which can be optioned to any one person.

The Qualified Plan provides that the purchase price per share of the stock covered by each option is to be not less than 100% of the fair market value of the stock at the time of the granting of the option, the full option price being payable in cash upon any exercise of the option. Each option outstanding provides for a term of five years and that in the event of termination of employment of the optionee otherwise than by death or retirement, such option shall terminate. Options granted before October 27, 1970 become exercisable on a cumulative basis as to 50% of the shares covered by the option eighteen months after issuance and 100% after three years. Options granted after October 27, 1970 may be exercised as to 25% of the shares subject to the grant one year after grant date, 50% after two years, 75% after three years and after four years may be exercised as to all shares subject to the grant. The option agreements provide that no option is exercisable while there is outstanding any previously granted option at a higher price.

The Qualified Plan presently provides for granting of options for 525,000 shares of Common Stock. At September 1, 1973, options for 259,368 shares had been exercised, 194,077 shares were subject to outstanding options at an average purchase price per share of \$74.40 with expiration dates from April 17, 1974 to August 19, 1978, and 71,555 shares remained available for grant. Options may be granted to employees under the Qualified Plan from time to time through March 9, 1975, the termination date of the Plan.

The Board of Directors of the Corporation may terminate, modify or suspend the Qualified Plan provided no modification shall, without stockholder approval, increase the maximum number of shares subject thereto (other than changes resulting from stock dividends or recapitalizations), change the description of the class of employees entitled to receive options, or extend the period under which options may be granted.

Federal Income Tax Consequences — Options granted under the Qualified Plan are intended to be “qualified stock options” under Section 422 of the Internal Revenue Code of 1954 as amended, and generally will have the following tax consequences:

1. The employee does not recognize any income when the options are granted pursuant to the Qualified Plan.
2. If shares of common stock purchased under an option granted pursuant to the Qualified Plan are *not* disposed of within the three-year period beginning the day after the day of transfer of the shares to him, then (1) no income shall be deemed to have resulted at the time of issue of such shares and (2) any income realized on the sale or taxable exchange of such shares will be treated as a long-term capital gain.
3. If shares of common stock purchased under an option granted pursuant to the Qualified Plan are disposed of within the three-year period, then (1) no income shall be deemed to have resulted at the time of issue of such shares, *but* upon such disposition (2) he will be considered to realize compensation, taxable as ordinary income, and in most instances in an amount equal to the lesser of (a) the difference between the fair market value on the date of exercise and the option price, or (b) the difference between the amount realized and the option price.

The Code also provides an additional 10% tax on an amount equal to the excess of an individual's total items of tax preference for the taxable year over the sum of \$30,000 plus his other income taxes (after certain adjustments) plus certain carryovers. Among the sundry items of tax preference are the amount by which the fair market value of the stock received upon exercise of the option exceeds the option price, and certain capital gains, including those arising upon sale or exchange of stock acquired by exercise of these options.

If the three-year holding period is satisfied, the Corporation will not receive any deduction for federal income tax purposes with respect to the options or the stock issued pursuant thereto. If the three-year holding period is not satisfied, the Corporation may be entitled to a deduction in an amount equal to the amount which is considered ordinary income to the individual.

The Proposed Amendment to the Qualified Stock Option Plan

On August 20, 1973 the Board of Directors amended the Qualified Plan to increase the maximum number of shares available for issuance from 525,000 shares to 725,000 shares (subject to adjustments for stock dividends or recapitalization). The amendment will become effective only upon approval by stockholders representing a majority of the outstanding shares of Common Stock of the Company.

The closing price of the Corporation's Common Stock on the New York Stock Exchange on September 14, 1973 was \$92½ per share.

Information as to options granted under the Qualified Plan and under other plans to certain directors and officers and to all officers and directors as a group is set forth above under the caption “Remuneration and Other Information.”

The directors recommend a vote for adopting the amendment to the Qualified Plan.

Description of Other Plans

In 1968 the Company adopted an Employee Stock Purchase Plan (the "Employee Plan") for substantially all employees of the Company and of its designated subsidiaries, other than directors, officers and highly compensated employees. At September 1, 1973 approximately 5,000 employees were eligible to participate in the Employee Plan.

The Employee Plan authorizes the issuance of a maximum of 250,000 shares of Common Stock (subject to adjustment for stock dividends or recapitalization) pursuant to the exercise of nontransferable options granted to participating employees.

Under the terms of the Employee Plan, the option price is an amount equal to 85% of the fair market value of the stock on the grant date or on the first business day six months preceding the grant date, whichever is lower. Options are granted twice yearly on December 1 and June 1 (or the next succeeding business day if either of such dates is not a business day). The options are exercisable through accumulation of payroll deductions after the expiration of six months from the date the option is granted. At September 1, 1973, 46,166 shares had been purchased by employees under the Employee Plan and 203,834 shares remained available.

RATIFICATION OF SELECTION OF AUDITORS

The Board of Directors has selected the firm of Coopers & Lybrand, independent public accountants, to serve as auditors for the fiscal year ending June 29, 1974, such selection being subject to ratification by the stockholders in accordance with the Massachusetts Business Corporation Law. Formerly known as Lybrand, Ross Bros. & Montgomery, the firm, which has served as the Corporation's auditors since 1957, adopted their international name of Coopers & Lybrand in the United States on April 1, 1973.

The directors recommend a vote for ratification of this selection.

Coopers & Lybrand have advised the Corporation that they do not have any direct financial interest or any material indirect financial interest in the Corporation or any of its subsidiaries, and that they have not had any connection during the past three years with the Corporation or any of its subsidiaries in the capacity of promoter, underwriter, voting trustee, director, officer or employee.

EXPENSES AND SOLICITATION

The cost of solicitation of proxies will be borne by the Corporation. In addition to soliciting stockholders by mail through its regular employees, the Corporation may request banks and brokers to solicit customers of theirs who have stock of the Corporation registered in the name of a nominee. If done, the Corporation will reimburse such banks and brokers for their reasonable out-of-pocket costs, at the rates suggested by the New York Stock Exchange. Solicitation by officers and employees of the Corporation may also be made of some stockholders in person, or by mail, telephone or telegraph, following the original solicitation.

September 24, 1973