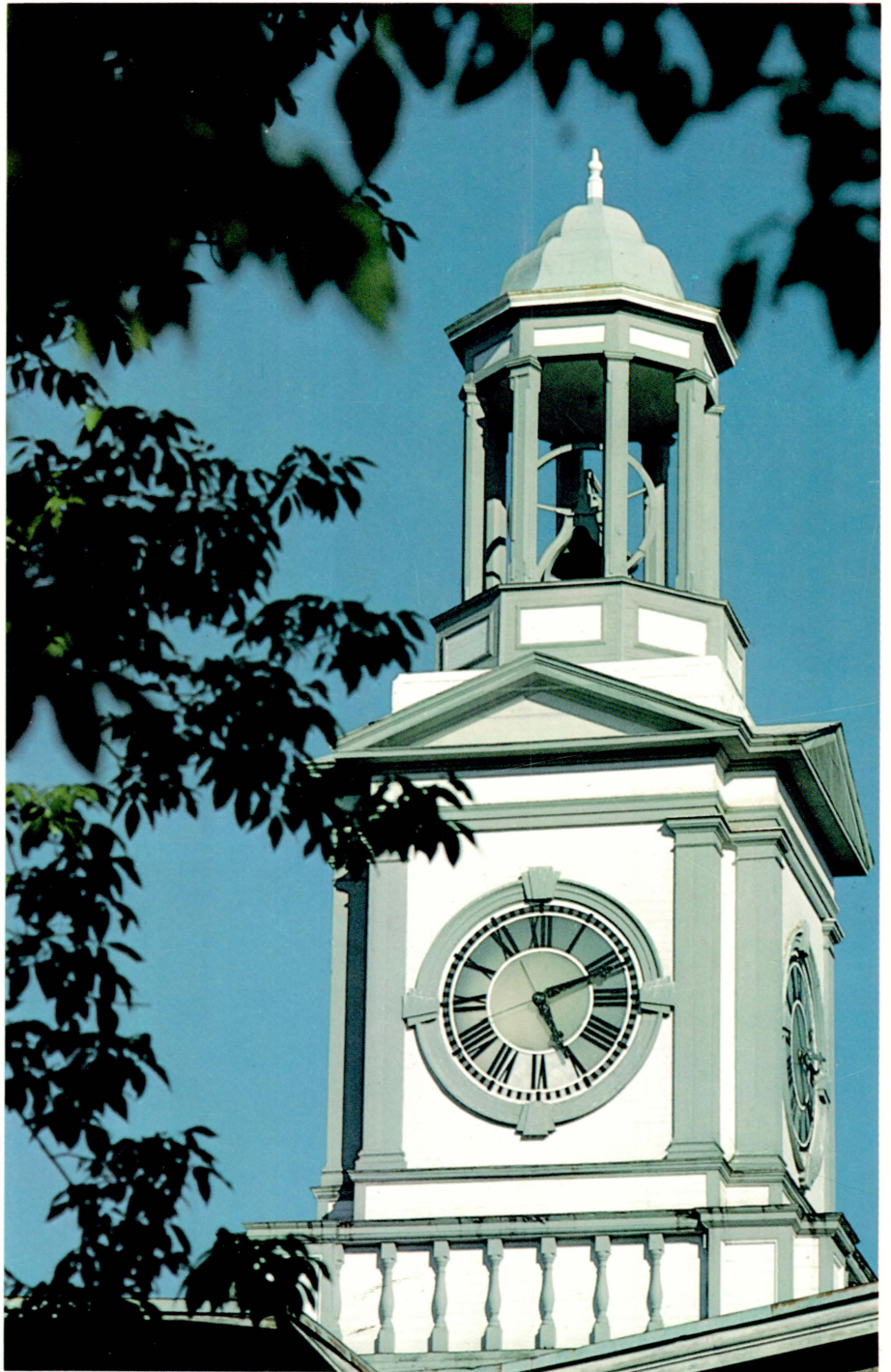


digital

Digital Equipment Corporation 1976 Annual Report





ABOVE: The company's newest plant, at Phoenix, Arizona, produces Digital printers.

FRONT COVER: Historic clock tower, erected in 1892, graces Digital's Corporate and Engineering Headquarters at Maynard, Massachusetts.

Corporate profile

Digital Equipment Corporation designs, manufactures, sells and services computer systems, computer peripheral equipment, software and associated computer accessory equipment. The Company's products are used worldwide in a wide variety of applications and programs, including scientific research, computation, communications, education, data analysis, industrial control, timesharing, business data processing, word processing, medicine, instrumentation and simulation.

Financial highlights

1975	1976	
\$533,774,000	\$736,288,000	Total operating revenues
\$ 46,000,000	\$ 73,400,000	Net income
\$3.85	\$5.94	Net income per common share
\$394,385,000	\$606,045,000	Total stockholders' equity
\$32.81	\$46.82	Stockholders' equity per share

Annual meeting of stockholders

The Annual Meeting of Stockholders will be held at 11:00 A.M., Tuesday, October 26, 1976 in the Dorothy Quincy Suite, John Hancock Building, 180 Berkeley Street, Boston, Massachusetts. Stockholders of record on September 10, 1976 will be entitled to vote at this meeting.

President's letter

To Our Shareholders, Employees and Friends:

We are pleased to report on our progress in Fiscal 1976. Our total operating revenues reached \$736,288,000, an increase of 38% over Fiscal 1975. Net income per share was \$5.94, compared to \$3.85 last year.

Toward the end of Fiscal 1975, as the recession continued to ease, we had begun to feel the effects of improvement in the major economies around the world. Recovery seemed to happen much faster in our industry than in other segments of the economy, and our opportunities for new business increased more rapidly than we had anticipated.

In general, orders outpaced shipments throughout the year. The economic upturn brought a sharp increase in demand from our customers, particularly Original Equipment Manufacturers (OEMs) whose orders for our products tripled in the rapidly improving economy. Our response was immediate and we are doing everything possible to keep them supplied because their success depends heavily upon our products.

A major expansion program was launched during the year which will add significantly to our total manufacturing capability. The first phase of our plant in Phoenix, Arizona was completed and we began construction of a large plant in Salem, New Hampshire which will be devoted to systems assembly. We acquired a large plant in Albuquerque, New Mexico, and committed to a large facility in Colorado Springs, Colorado. We plan to produce computer terminals and peripheral products at these two plants. We also started work on major additions in Canada and Ireland and established a new manufacturing capability at Ayr, Scotland. All of these are scheduled to become operational within the next 18 months.

We continued to invest heavily in our Engineering organization and in new products, with emphasis on terminals, peripherals, communications and software products in addition to central processors. This effort, together with the added capacity for high-volume manufacturing will, we feel, enable us to meet our commitments to present customers and at the same time respond to the needs of new customers.

With the cost of computers expected to continue to decline, future prospects look bright for our company and our industry. However, the challenge of managing major growth and responding to the competitive environment heightens our awareness that we must continue to focus on our primary goals of developing and delivering high quality products and services to our customers. We must also work hard to avoid the complacency and overconfidence that sometimes come with size.



Kenneth H. Olsen
President

September 17, 1976

THE IDEA OF DIGITAL

Digital Equipment Corporation is a company built on the idea that computers can be simple, and that anyone and everyone can learn to use them.

When Digital first began making computers in 1960, computers were looked on as mysterious creations far beyond the comprehension of ordinary people. They needed special environments and experts to run them. People brought their problem to the computer, left it, then came back later for the answer. These computers cost in the millions and only the experts could get near them. And the price itself became part of the mystique. It was as if the cost of the computer was more important than the work it did.

Digital never sold mystique, just functional tools to get the job done, tools that could be brought to the problem. We believe that computers belong on the factory floor and in the laboratory and the classroom. They belong in the office and the printing plant, in the power station, the hospital and the railroad yard.

And they should be designed



More than 20 billion bits of core memory are produced at Digital's facilities at Taiwan and Hong Kong. Here, inspectors at Taiwan perform microscopic quality assurance on memory arrays.



At Digital's semiconductor development facility in Worcester, Mass., silicon wafers are placed into a diffusion furnace to "grow" oxide on the wafer surface. Microscopic circuitry is then achieved on each wafer by means of a photographic masking technique. Each 3-inch wafer has the potential for up to 200 microcircuits. After testing, each circuit is packaged, retested and placed on modules to form the heart of Digital's LSI-11 microcomputer.

to allow people to interact with them, to hold a "dialogue" with the computer even as the events it controls are happening. Computers, we feel, should be approachable and understandable and affordable, and this idea continues to be the cornerstone of Digital's operations.

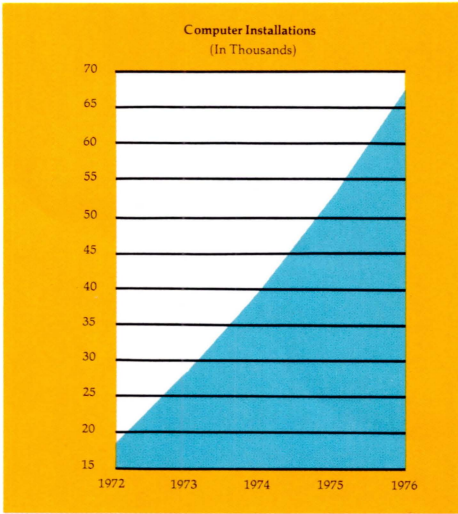
This goal of demystifying the computer was evident at the first introduction of our table-top PDP-8 at an engineering trade show in 1965. We replaced its metal cabinet with plastic see-through side panels. Many of the engineers who crowded the Digital exhibit had never seen the inside of a computer, and being able to peer into our PDP-8 helped further their understand-

ing of the computer as a tool.

Tools for working and learning; that is the idea of Digital.

Because our computers are tools, we work to develop new and better ones to keep pace with the changing needs of those who use them. We work to bring prices down, for every price reduction means new customers and new applications. And we offer a comprehensive range of products so people can select the tools to fit their specific needs.

In addition to supplying the basic computer central processors, we also provide the peripheral devices—video display terminals, printers, storage devices, interfaces—which give



the user full access to the power and capabilities of the computer. We also provide the programs and software that run them efficiently. And we build in more and more quality and reliability and produce them in large quantity.

Throughout the world, the selling and servicing of computers means looking first to customer needs, however special, and selling the customer only that which is needed to do the job at hand (but something which customers can build on

as their needs grow). And these tools must be kept running, because the customers are counting on them. Our business is built on satisfying our customers; almost 70 percent of our business comes from previous customers.

Digital's task-related, customer-oriented philosophy depends on a strong people-related organization. We encourage individual initiative, reward independent action and vigorously support individual responsibility.

Digital's newest computer family, DECSYSTEM-20, incorporates the features of a large-scale system into compact cabinet layout at significantly lower cost than large systems of comparable capability. It supports timesharing, batch and transaction processing concurrently.



THE DIGITAL IDEA IN ACTION: 1976

"...we develop new and better tools to keep pace with the changing needs of those who use them..."

Digital's engineering organization is involved in continuing research, engineering and programming activities. Most of the research is directed toward the long term. Much of the engineering is devoted to applying new technologies to make Digital's computer systems more useful, more reliable and less expensive, for quality and reliability, rather than just low price, are the only things that can survive in our highly competitive marketplace.

During the year, we doubled the size of our semiconductor

development operation at Worcester, Massachusetts where we are now making microcomputer chips for the LSI-11, and other special semiconductors.

Much of our research and engineering effort is also being directed toward developing more and better peripherals, communications options and software to meet the rapidly growing requirements of our customers.

"...we offer a comprehensive range of products so people can select the tools to fit their specific needs..."

During Fiscal 1976, Digital offered the broadest array of products in its history. In addi-

tion to our major computer families—PDP-8, PDP-11, PDP-15, and DECsystem-10 and DECSYSTEM-20—we supplied a complete line of peripherals and software that expands basic computers into powerful systems.

The DECSYSTEM-20, introduced during the year, represents a new concept in computer integration. Though smaller in size, it provides the word length, power and capabilities of large-scale systems costing considerably more. This new system—and Digital's other large-scale computer, the DECsystem-10—provide the advantages of interactive timesharing in central computing facilities among industrial, educational



Patients in the Medical Intensive Care Unit at University Hospitals of Cleveland, Ohio are under the watchful eye of a bedside monitoring system which transmits heart rate, blood pressure and other vital signs to a central station where it is displayed on a Digital video terminal controlled by a PDP-11 computer. The system, designed by American Optical Corporation, monitors up to 20 patients simultaneously. It can provide immediate information on any patient and sounds an alarm if a medical emergency develops.



Traffic control of a busy, forty-mile section of the New Jersey Turnpike is accomplished through use of a Digital PDP-11 computer. Sensors embedded in the highway surface transmit traffic information to a control center where the data is translated into a visual display on a large illuminated map. If the system identifies unusual traffic conditions, it can automatically activate warning or directional signs to alert motorists.

and commercial users.

The most powerful computer in our PDP-11 family, the 11/70, has continued to exceed our expectations. The 11/70 provides high system throughput in multi-user, multi-task environments.

The addition of the PDP-11T55 strengthened the position of Digital's PDP-11 line as the most complete computer family currently available. This powerful system delivers the fastest FORTRAN performance available on the market, making it particularly useful in applications where rapid data processing is required.

At the low-end of the PDP-11 group, the Digital LSI-11 micro-

computer achieved volume production as demand for this computer-on-a-board continued to grow. Most customers for the LSI-11 are new to Digital and they have a broad range of exciting, new applications.

Another new product, the PDP-11V03 combines the LSI-11 with low-cost flexible disk storage and a video display terminal. It is one of the most compact and least expensive fully integrated systems available. Its size permits it to be wheeled easily from one location to another. Its simple installation and operation and low cost overcome the limitations of space, budget and computer knowledge which have tradi-

tionally kept many smaller users from applying the efficiencies of computerization to their operations.

Digital's goal of making tools to fit specific needs led the company into a new market during the year with the introduction of the DEC Datasystem 310W word processing system. The system integrates our workhorse PDP-8 into a compact desk-size unit with flexible disk storage and a Digital alphanumeric keyboard video terminal. With a separate letter-quality printer, the system serves as a sophisticated video display word processor in addition to providing the capabilities of a business data processing system.



Trim loss of expensive hardwood used in the manufacture of fine furniture is kept to a minimum at American Drew Furniture Company factory in North Wilkesboro, North Carolina. A special system developed by Barr-Mullin, Inc. uses a small Digital PDP-11 computer located on the factory floor to compare furniture design to characteristics of the board being cut to determine the most efficient cutting pattern. A Digital LA36 DECwriter located with the PDP-11 prints out the computer's analyses.

"...we also provide the peripherals (and software) which give the user full access to the power and capabilities of the computer..."

The growing use of Digital computers, particularly in distributed data processing and communications applications, demands the availability of a variety of peripherals and software which allow the user to match exact computer power to exact requirements.

During the year, we introduced the LA180 DECprinter, with low price, high reliability and 180-character-per-second output. It joins the LA36 DECwriter II, which was introduced last year and has achieved leadership as



A Digital PDP-11/70 system at Babson College in Wellesley, Mass. serves as the central computer for a consortium of local colleges and universities, performing a variety of academic and administrative data processing tasks. Babson uses the system for student registration, class scheduling, grading and alumni record-keeping and student billing, in addition to the classroom instructional use shown here.

the industry's lowest priced, most reliable keyboard teleprinter. Both printers feature the dot-matrix printing head engineered and developed by Digital.

We also added a new 24-line video terminal, the VT52, to our series of low-cost DECscopes. It features quiet, trouble-free operation and its screen displays twice as many lines of data as earlier models.

A high-performance disk drive, the RP06, was also introduced. Its storage capacity of 200 million bytes is twice that of previous models. It can be used with our PDP-11, DECSYSTEM-20 and DECsystem-10 families of computers.

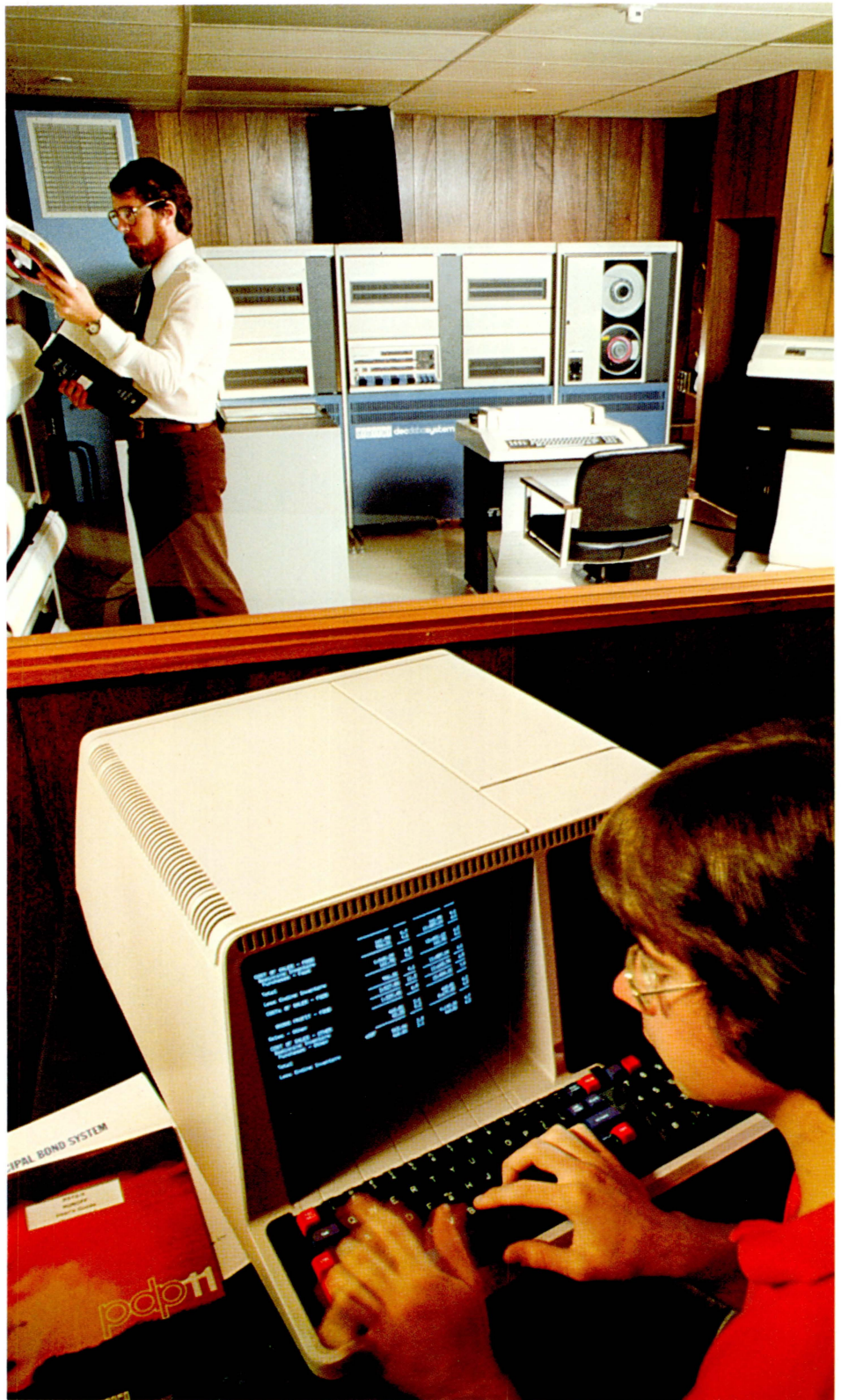
With the introduction of DBMS-11 software, Digital became the first manufacturer to offer industry-standard data base management capabilities on a 16-bit computer system. This new software product used with a PDP-11/70 system can provide savings of 60 to 70 percent over large-scale systems offering equivalent performance.

Fiscal 1976 also saw increased customer implementation of DECnet, a set of easy-to-use software tools which allows users to build a variety of networks by connecting Digital computers to each other (or to those of other manufacturers) to move data from one location to another or to enable the sharing of expensive computer resources among several computer systems.

One of the clearest manifestations of Digital's "tools" approach is shown in the company's relationship with Original Equipment Manufacturers (OEMs), those firms which add value to our basic products before reselling them into specialized market areas. The company has always had a strong commitment to OEMs, most of whom deal in technologically advanced products for specialized uses. They represent an

important channel of distribution into markets and applications which Digital cannot easily

reach and the company remains committed to helping them succeed.



Interactive Management Services of Belmont, Mass. is able to offer a nationwide data processing timesharing service using a DEC DATASYSTEM 570. IMS customers anywhere in the continental United States can access the computer simply by dialing a local telephone number. In this way, a Los Angeles brokerage can check securities prices as quickly as a New York textile firm can verify its inventories.



Digital computers perform a wide variety of important tasks for growing numbers of users throughout the world. In the United Kingdom, Hill Samuel Investment Management, Ltd., a London-based merchant banker, uses a DEC DATASYSTEM 500 to provide investment banking and portfolio management services to its clients.

"...we build quality and reliability into our products and produce them in large quantity..."

Digital currently operates 17 manufacturing plants throughout the world. Three new plants were added during Fiscal 1976 and plans are well along for several more which will add significantly to the company's total worldwide manufacturing capability. As our volume increased during the year, we further streamlined our production, cost control, and quality assurance procedures. This was achieved largely through the use of our own computers, which control such operations as automatic insertion of components into printed circuit boards, inventory management, move-

ment of materials in our automated warehouse and the final testing of finished products.

Digital began a major expansion into New Hampshire during the year. Pilot manufacturing facilities were opened at Salem and Derry, N.H., and this spring construction was started on a half-million square foot systems assembly factory which is scheduled for completion in early 1977.

Also in New Hampshire, Digital has received approval of its plans to develop 1000 acres in Merrimack. We hope to break ground in October 1976 for a 600,000-square-foot building to house marketing, engineering and administrative groups. Meanwhile, we have leased several locations in nearby Nashua, N.H. as temporary quarters for these groups until the Merri-

mack facility is completed near the end of 1978.

The first phase of the Digital plant in Phoenix, Arizona was completed and phase two construction is continuing. We expect this entire 320,000-square-foot plant to be completed before the end of 1976 and plan to produce printer terminals there.

Colorado Springs, Colorado will be the site of a major production facility for data storage peripherals. We purchased 360 acres of land there and will break ground before the end of 1976 for a 320,000-square-foot factory. Completion is slated for early 1978.

Toward the end of the fiscal year, Digital acquired a 325,000-square-foot facility in Albuquerque, New Mexico from The Singer Company. Production of video terminals will be underway there before the end of 1976.

Digital added to its manufacturing capability outside the United States, and particularly in Europe. An expansion was completed which doubled the size of our plant in Galway, Ireland. We also established a new plant at Ayr, Scotland and have already begun building an addition there. These new facilities will help Digital measurably in meeting its commitment to the important European market.

Work also began on an addition which will double the size of the company's Canadian administration and manufacturing headquarters at Kanata. This expansion will strengthen service to our customers throughout Canada.

We have been gratified by the welcome the company has received in those communities where Digital is locating for the first time, and we look forward to enjoying the same relationship with these new communities that we have enjoyed at other Digital sites over the years.

"...the selling and servicing of tools means looking first to customer needs..."

Digital continued to build its worldwide customer support capability during the year. We opened 16 new sales offices and added significantly to our field organization.

We now have more than 5100 professionals deployed throughout the world to provide high levels of support to our growing customer base.

Customers in the field are supported through a concept we call Account Management. An experienced sales professional is assigned to each account. This

account manager is, in effect, the leader of a team which collaborates to provide whatever sales, maintenance and software support services the customer requires. Coordination of these activities through the Account Manager has succeeded in simplifying the process by which our customers can access the Digital resources they need to solve their problems and has helped us ensure customer satisfaction.

Customized problem-solving is provided by Digital's worldwide Computer Special Systems organization to customers with highly specialized needs. Our staff of engineers and programmers provide special hardware

and software design, applications programming, systems engineering and project management.

The Digital Equipment Computer Users Society (DECUS) continues to be the largest and most active users society in the computer industry, with more than 25,000 members who meet at seminars in the United States, Europe, Canada and Australia to exchange ideas and information, establish standards and provide feedback to the company on equipment and programming needs. The DECUS library contains more than 2000 programs which are available to members on request.



Scientists at the world headquarters of E.R. Squibb & Sons, Inc., Princeton, New Jersey, use Digital PDP-11 computers to control the quality of existing drug products and to evaluate potential new products. Small PDP-11's in several research and development laboratories control experiments and transmit data to a central PDP-11 system.

"...our task-related, customer-oriented philosophy depends on a strong, people-related people-oriented organization..."

Digital now has 25,000 employees worldwide and every one of them is in the computer business. They are a sign of our growth and are also its principal cause.

At Digital, business manage-



ment and controls are as decentralized as possible, distributed into a structure as diverse as the company's product range, as varied as the uses to which our products are put and as widely deployed as the needs of our worldwide customer base require.

Such programs as employee education, sales training, management development, job enlargement, tuition refunds, university courses at company facilities...these are all serious commitments at Digital. For in a growing company that considers distributed management as the key to today's operations, this investment in our employees is essential.

During the year we expanded our employee training and development programs and continued our vigorous affirmative action programs to attract and

develop minority and female employees. A program of continuing education offers individual courses, high school equivalency and university level courses leading to degrees. Many of our Massachusetts people are enrolled in programs conducted at company facilities by Boston University and Worcester Polytechnic Institute. Digital employees can also pursue further education through company-sponsored programs run in cooperation with scores of colleges and universities among them MIT, Harvard, Carnegie Mellon and Stanford. Digital is proud of the opportunities for personal and professional enlargement which it is able to provide for employees at all levels. Indeed, they are the reason for Digital's progress to date and the source of the company's optimism for the future.



Reporters and editors at THE PRESS, a daily newspaper serving southern New Jersey, use Digital VT20 graphics terminals instead of typewriters to speed news to their readers. Stories are written, edited, and sent directly from the terminals into a large Digital PDP-11 system which controls justified typesetting and production of copy which is ready for printing.

Digital Equipment Corporation Financial Statements



Five year financial summary

1972	1973	1974	1975	1976	
OPERATIONS					
(In Thousands except per share data)					
\$166,262	\$229,051	\$360,756	\$433,185	\$586,670	REVENUES
<u>21,291</u>	<u>36,418</u>	<u>61,128</u>	<u>100,589</u>	<u>149,618</u>	Equipment sales
<u>187,553</u>	<u>265,469</u>	<u>421,884</u>	<u>533,774</u>	<u>736,288</u>	Service and other revenues
					TOTAL OPERATING REVENUES
98,199	142,616	227,646	292,905	414,180	COSTS AND EXPENSES
20,137	24,933	36,599	48,520	58,387	Cost of equipment sales, service and other revenues
43,601	59,774	89,800	117,592	146,256	Research and engineering expenses
546	718	2,066	4,765	9,882	Selling, general and administrative expenses
(730)	(1,172)	(3,127)	(3,608)	(11,817)	Interest expense
<u>161,753</u>	<u>226,869</u>	<u>352,984</u>	<u>460,174</u>	<u>616,888</u>	Interest income
25,800	38,600	68,900	73,600	119,400	TOTAL COSTS AND EXPENSES
<u>10,500</u>	<u>15,100</u>	<u>24,500</u>	<u>27,600</u>	<u>46,000</u>	INCOME BEFORE INCOME TAXES
<u>\$ 15,300</u>	<u>\$ 23,500</u>	<u>\$ 44,400</u>	<u>\$ 46,000</u>	<u>\$ 73,400</u>	INCOME TAXES
\$1.49	\$2.16	\$3.80	\$3.85	\$5.94	NET INCOME
10,282	10,874	11,688	11,959	12,355	NET INCOME PER COMMON SHARE ¹
					Weighted average number of common shares outstanding during each year

¹ See Notes F and L of Notes to Consolidated Financial Statements.

FINANCIAL POSITION

(In Thousands except per share data)

\$ 62,117	\$102,743	\$137,402	\$174,824	\$218,777	Inventories
68,367	107,239	144,578	164,966	219,277	Accounts receivable, net of allowances
87,156	152,724	238,620	333,202	498,983	Working capital
58,935	83,942	127,394	167,563	215,806	Property, plant and equipment, at cost
192,416	287,397	440,270	565,069	856,038	Total assets
—	—	10,575	85,215	91,358	Long-term debt
144,807	223,546	339,645	394,385	606,045	Stockholders' equity
14.00	20.18	28.47	32.81	46.82	Stockholders' equity per share

GENERAL INFORMATION AND RATIOS

(Dollars in Thousands)

2.8:1	3.4:1	3.8:1	5.2:1	4.3:1	Current ratio
\$ 27,714	\$ 31,810	\$ 50,085	\$ 45,876	\$ 54,518	Additions to property, plant and equipment
\$ 5,053	\$ 8,032	\$ 12,374	\$ 16,896	\$ 21,984	Depreciation
13.8%	14.5%	16.3%	13.8%	16.2%	Income before income taxes as a percentage of total operating revenues
11.3%	12.8%	15.8%	12.5%	14.7%	Net income as a percentage of average stockholders' equity
8.9%	9.8%	12.2%	9.2%	10.3%	Net income as a percentage of average total assets
7,800	13,000	17,600	19,000	25,000	Employees at year-end
\$ 24.0	\$ 20.4	\$ 24.0	\$ 28.1	\$ 29.5	Revenues per employee
10,343	11,079	11,932	12,022	12,944	Common shares outstanding (in thousands)
15,430	14,226	14,393	15,033	15,442	Shareholders at year-end

Financial review

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

As an aid to understanding the Company's operating results, the following tables indicate the percentage relationships of income and expense items included in the income statements for the three fiscal years ended July 3, 1976 and the percentage increases in those items for such years.

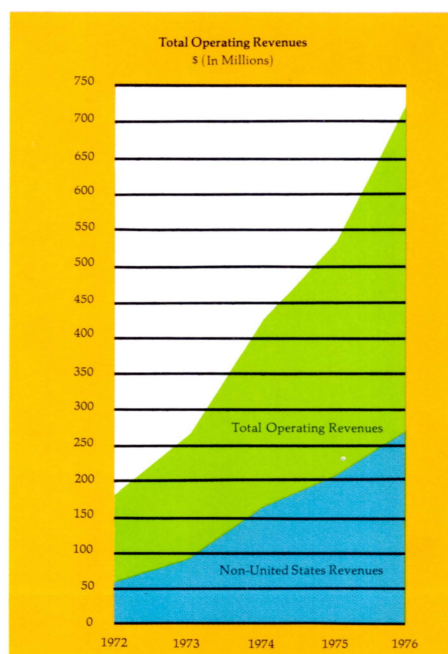
Income and Expense Items as a Percentage of Total Operating Revenues			Income Statement Item	Percentage Increases		
1974	1975	1976		1973 to 1974	1974 to 1975	1975 to 1976
85.5%	81.2%	79.7%	Equipment sales	58%	20%	35%
14.5%	18.8%	20.3%	Service and other revenues	68%	65%	49%
100.0%	100.0%	100.0%	Total operating revenues	59%	27%	38%
54.0%	54.9%	56.3%	Cost of sales, service and other revenues	60%	29%	41%
8.7%	9.1%	7.9%	Research and engineering expenses	47%	33%	20%
21.3%	22.0%	19.9%	Selling, general and administrative expenses	50%	31%	24%
.5%	.9%	1.3%	Interest expense	188%	131%	107%
(.8%)	(.7%)	(1.6%)	Interest income	167%	15%	228%
83.7%	86.2%	83.8%	Total costs and expenses	56%	30%	34%
16.3%	13.8%	16.2%	Income before income taxes	78%	7%	62%
5.8%	5.2%	6.2%	Income taxes	62%	13%	67%
10.5%	8.6%	10.0%	Net income	89%	4%	60%

REVENUES

Worldwide total operating revenues for fiscal 1976 amounted to \$736.3 million, an increase of 38 percent over the \$533.8 million reported in fiscal 1975. The availability of a number of new computer and software systems and increased demand for products and services resulted in higher unit shipments of computer systems, related peripheral equipment and significant growth in support service revenues.

Equipment sales attained a record \$586.7 million. Shipments were 35 percent ahead of the \$433.2 million recorded in fiscal 1975. The increasingly higher level of unit shipments throughout fiscal 1976 was supported by the domestic and international economic recovery during the fiscal year.

Growth in the installed base of equipment and in the number of users was reflected in the 49 percent increase in service and other revenues. Service



and other revenues, which includes such items as maintenance service, customer training, software support, replacement parts, and equipment rentals were \$149.6 million or 20 percent of total operating revenues. This category in fiscal 1975 accounted for \$100.6 million or 19 percent of total operating revenues.

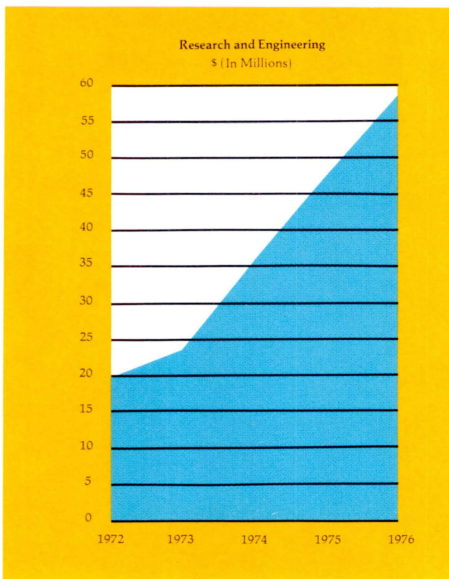
INTERNATIONAL OPERATIONS

While the economy of the United States made a speedier recovery than the economies of many other industrial nations, operating revenues in fiscal 1976 from customers outside the U.S. were \$276.5 million, 33 percent ahead of last year's \$207.8 million. This represented 38 percent of total operating revenues compared with 39 percent in fiscal 1975. Included in these results are revenues from sales operations conducted in Europe, Canada, the Far East, and Central and South America.

EXPENSES

To satisfy the growing demand for products and services, the organization was expanded both in terms of people and plant, and major investment in engineering activities was continued.

Cost of equipment sales, service and other revenues increased 41 percent from fiscal 1975 to fiscal 1976, compared to a 38 percent increase in total operating revenues. Cost of equipment sales, service and other revenues increased as a percentage of total operating revenues from 54.9 percent to 56.3 percent. These changes are attributable to planned margin reductions of certain hardware products and to the effect of an increase in sales of products with lower profit margins.



A total of \$58.4 million or 8 percent of total operating revenues was spent in fiscal 1976 on research and engineering programs. In fiscal 1975, \$48.5 million or 9.1 percent of total operating revenues was invested in the design and development of new computers, peripheral devices and software.

Selling, general and administrative expenses increased in response to business expansion and amounted to \$146.3 million or 20 percent of total operating revenues. These expenses in fiscal 1975 were \$117.6 million or 22 percent of total operating revenues.

The increase in interest income from \$3.6 to \$11.8 million resulted primarily from the short-term investment of funds obtained from the sale of common stock in the third quarter of fiscal 1976 and the sale of 9³/₈ Sinking Fund Debentures in the third quarter of fiscal 1975. The increase in interest expense from \$4.8 million in fiscal 1975 to \$9.9 million in fiscal 1976 is attributable to the debt incurred by the sale of such debentures.

INCOME

Net income rose to \$73.4 million, or \$5.94 per share, up 60 percent. Net income in fiscal 1975 was \$46 million or \$3.85 per share.

Net income reflected a slight increase in the effective tax rate which was 38.5 percent versus 37.5 percent in fiscal 1975. See Note E on page 22 for further information concerning the change in the effective tax rate.



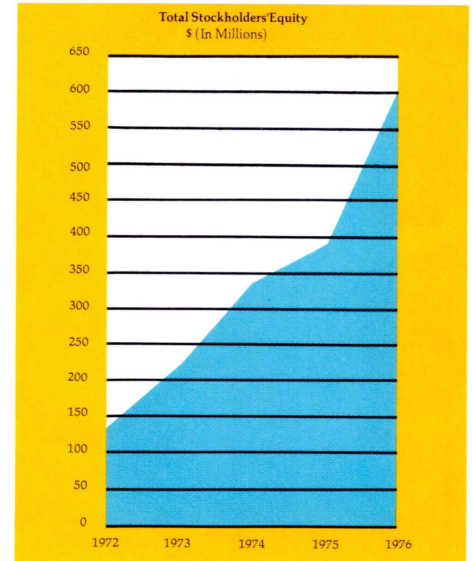
FINANCIAL POSITION

The current asset position improved as the result of on-going asset management programs involving inventory control and collection of accounts receivable.

Cash and temporary cash investments at year-end totaled \$201.4 million, an increase of \$134.5 million over the fiscal 1975 position. This build up in available cash resulted, in part, from the sale of 800,000 shares of common stock in February, 1976.

Accounts receivable at year-end amounted to \$219.3 million, \$54.3 million or 33 percent greater than the level a year ago. The number of days sales outstanding (accounts receivable divided by fourth quarter total operating revenue times 90 days) were 85 days versus 92 days in fiscal 1975.

The inventory position was \$218.8 million, an increase of 25 percent over the year-end fiscal 1975 inventory position. The steady improvement in demand for our products throughout the year and the level of business anticipated in the coming year is reflected in the inventory position at the end of fiscal 1976.

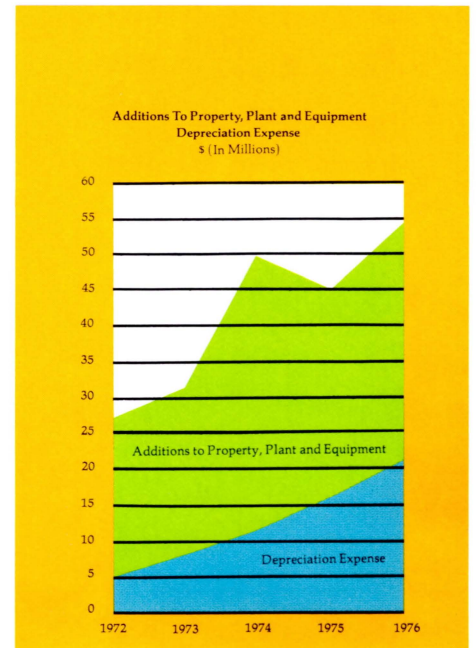


STOCKHOLDERS' EQUITY

Total stockholders' equity was \$606.0 million, an increase of \$211.7 million. Return on average stockholders' equity improved from 12.5 percent in fiscal 1975 to 14.7 percent in fiscal 1976. Stockholders' equity per share was \$46.82 versus \$32.81 per share a year ago.

PROPERTY, PLANT AND EQUIPMENT EXPENDITURES

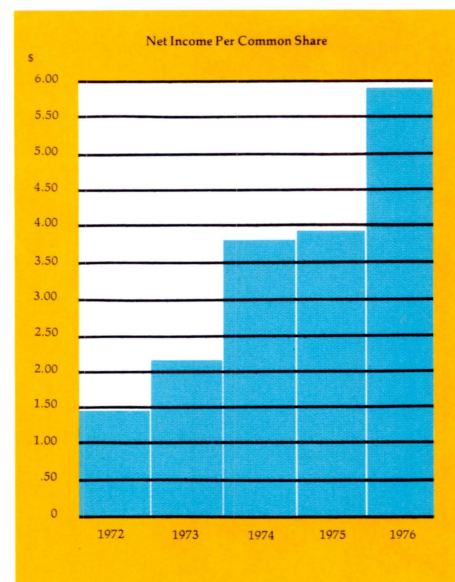
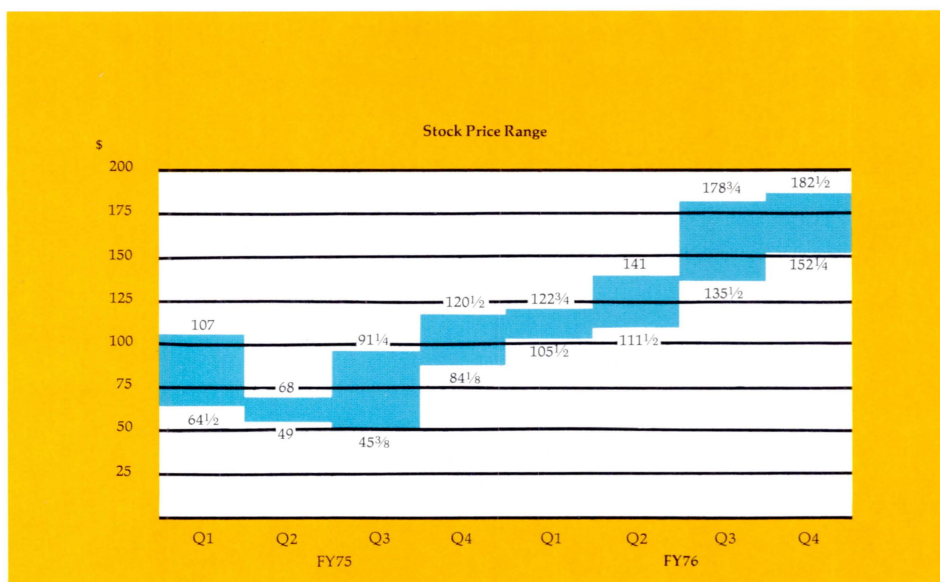
The Company invested \$54.5 million in additions to property, plant and equipment in anticipation of continued growth and product demand. The Company spent \$45.9 million a year ago. The funds were invested primarily in new manufacturing facilities and the expansion of existing facilities, and equipment for use in the Company's manufacturing operations and selling and administrative functions.



COMMON STOCK PRICES

The Company's common stock is listed and traded on the New York Stock Exchange. The high and low quarterly sales prices on the New York Stock Exchange to January 23, 1976, and in composite transactions thereafter, for the past two fiscal years are presented below.

Quarter:	1976		1975	
	High	Low	High	Low
First	\$122.750	\$105.500	\$107.000	\$64.500
Second	141.000	111.500	68.000	49.000
Third	178.750	135.500	91.250	45.375
Fourth	182.500	152.250	120.500	84.125



Report of independent certified public accountants

TO THE STOCKHOLDERS AND DIRECTORS DIGITAL EQUIPMENT CORPORATION

We have examined the consolidated balance sheet of Digital Equipment Corporation as at July 3, 1976 and the related consolidated statements of income, changes in financial position, and stockholders' equity for the fiscal year then ended. Our examination was made in accordance with generally accepted auditing standards and,

accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously examined and reported upon the consolidated financial statements for the fiscal year ended June 28, 1975.

In our opinion, the aforementioned financial statements present fairly the consolidated financial position of Digital Equipment Corporation at July 3, 1976 and June 28, 1975, the

consolidated results of its operations and the consolidated changes in its financial position for the fiscal years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Boston, Massachusetts
August 16, 1976

Coopers & Lybrand

COOPERS & LYBRAND

Consolidated statements of income

(In Thousands except per share data)

Year Ended		
<u>June 28, 1975</u>	<u>July 3, 1976</u>	
\$433,185	\$586,670	REVENUES
<u>100,589</u>	<u>149,618</u>	Equipment sales
<u>533,774</u>	<u>736,288</u>	Service and other revenues
		TOTAL OPERATING REVENUES (Notes A and B)
		COSTS AND EXPENSES
292,905	414,180	Cost of equipment sales, service and other revenues
48,520	58,387	Research and engineering expenses (Note A)
117,592	146,256	Selling, general and administrative expenses
4,765	9,882	Interest expense
<u>(3,608)</u>	<u>(11,817)</u>	Interest income
<u>460,174</u>	<u>616,888</u>	TOTAL COSTS AND EXPENSES (Notes D and J)
<u>73,600</u>	<u>119,400</u>	INCOME BEFORE INCOME TAXES
		PROVISION FOR INCOME TAXES (Notes A, C and E)
21,500	41,600	Federal
3,700	(1,400)	Foreign
<u>2,400</u>	<u>5,800</u>	State
<u>27,600</u>	<u>46,000</u>	
<u>\$ 46,000</u>	<u>\$ 73,400</u>	NET INCOME
<u>\$3.85</u>	<u>\$5.94</u>	NET INCOME PER COMMON SHARE (Notes F and L)

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

Consolidated balance sheets

(In Thousands)

<u>June 28, 1975</u>	<u>July 3, 1976</u>	
		ASSETS
		CURRENT ASSETS
\$ 7,130	\$ 7,615	Cash
59,736	193,730	Temporary cash investments, at cost which approximates market (Note A)
164,966	219,277	Accounts receivable, net of allowances of \$5,609 and \$7,397
		Inventories (Note A):
35,522	53,561	Raw materials
52,150	81,667	Work-in-process
<u>87,152</u>	<u>83,549</u>	Finished goods
174,824	218,777	
5,504	8,710	Prepaid expenses
<u>412,160</u>	<u>648,109</u>	TOTAL CURRENT ASSETS
		INVESTMENTS (Notes A and C)
28,628	53,714	Marketable securities, at cost which approximates market
		PROPERTY, PLANT AND EQUIPMENT, at cost (Note A)
7,068	10,110	Land
58,207	75,943	Buildings
5,933	8,871	Leasehold improvements
<u>96,355</u>	<u>120,882</u>	Machinery and equipment
167,563	215,806	
43,282	61,591	Less accumulated depreciation
<u>124,281</u>	<u>154,215</u>	
<u>\$565,069</u>	<u>\$856,038</u>	
		LIABILITIES AND STOCKHOLDERS' EQUITY
		CURRENT LIABILITIES
\$ 3,455	\$ 4,761	Loans payable to banks (Note G)
22,865	47,126	Accounts payable
10,915	43,853	Federal, foreign and state income taxes
16,427	25,234	Salaries, wages and related items
13,483	17,025	Deferred revenues and customer advances (Note A)
360	664	Current portion of long-term debt
<u>11,453</u>	<u>10,463</u>	Other current liabilities
78,958	149,126	TOTAL CURRENT LIABILITIES
6,511	9,509	Deferred Federal and foreign income taxes
85,215	91,358	Long-term debt (Note H)
		STOCKHOLDERS' EQUITY (Notes K and L)
12,022	12,944	Common stock, \$1.00 par value; authorized 36,000,000 shares;
203,677	341,015	issued and outstanding 12,021,793 and 12,943,776 shares
178,686	252,086	Additional paid-in capital
<u>394,385</u>	<u>606,045</u>	Retained earnings
<u>\$565,069</u>	<u>\$856,038</u>	TOTAL STOCKHOLDERS' EQUITY

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

Consolidated statements of stockholders' equity

(In Thousands)

Years Ended July 3, 1976 and June 28, 1975

Common Stock	Additional Paid-in Capital	Retained Earnings	Total Stockholders' Equity	
\$11,932	\$195,027	\$132,686	\$339,645	June 29, 1974
90	4,264		4,354	Shares issued under option plans— net of repurchases (Note K)
	2,716		2,716	Restricted stock plan (Note K):
	796		796	Charge to operations
	874		874	Excess Federal income tax benefits
		46,000	46,000	Other
				Net income— 1975
\$12,022	\$203,677	\$178,686	\$394,385	June 28, 1975
800	121,840		122,640	Sale of common stock in public offering
122	9,474		9,596	Shares issued under option plans— net of repurchases (Note K)
	2,992		2,992	Restricted stock plan (Note K):
	1,899		1,899	Charge to operations
	1,133		1,133	Excess Federal income tax benefits
		73,400	73,400	Other
				Net income— 1976
<u>\$12,944</u>	<u>\$341,015</u>	<u>\$252,086</u>	<u>\$606,045</u>	July 3, 1976 (Note L)

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

Consolidated statements of changes in financial position

(In Thousands)

Year Ended																																																										
June 28, 1975	July 3, 1976																																																									
<table border="0"> <tr><td>\$ 46,000</td><td>\$ 73,400</td></tr> <tr><td>16,896</td><td>21,984</td></tr> <tr><td>2,744</td><td>2,600</td></tr> <tr><td>2,716</td><td>2,992</td></tr> <tr><td>1,997</td><td>2,998</td></tr> <tr><td><u>70,353</u></td><td><u>103,974</u></td></tr> <tr><td>796</td><td>1,899</td></tr> <tr><td>—</td><td>122,640</td></tr> <tr><td>75,000</td><td>6,143</td></tr> <tr><td>4,354</td><td>9,596</td></tr> <tr><td>514</td><td>1,133</td></tr> <tr><td><u>151,017</u></td><td><u>245,385</u></td></tr> <tr><td>10,559</td><td>25,086</td></tr> <tr><td><u>45,876</u></td><td><u>54,518</u></td></tr> <tr><td>56,435</td><td>79,604</td></tr> <tr><td><u>\$ 94,582</u></td><td><u>\$165,781</u></td></tr> </table>	\$ 46,000	\$ 73,400	16,896	21,984	2,744	2,600	2,716	2,992	1,997	2,998	<u>70,353</u>	<u>103,974</u>	796	1,899	—	122,640	75,000	6,143	4,354	9,596	514	1,133	<u>151,017</u>	<u>245,385</u>	10,559	25,086	<u>45,876</u>	<u>54,518</u>	56,435	79,604	<u>\$ 94,582</u>	<u>\$165,781</u>	<table border="0"> <tr><td>\$ (722)</td><td>\$ 485</td></tr> <tr><td>28,842</td><td>133,994</td></tr> <tr><td>20,388</td><td>54,311</td></tr> <tr><td>37,422</td><td>43,953</td></tr> <tr><td>2,074</td><td>3,206</td></tr> <tr><td><u>88,004</u></td><td><u>235,949</u></td></tr> <tr><td>4,666</td><td>(1,306)</td></tr> <tr><td>5,112</td><td>(24,261)</td></tr> <tr><td>5,688</td><td>(32,938)</td></tr> <tr><td><u>(8,888)</u></td><td><u>(11,663)</u></td></tr> <tr><td>6,578</td><td>(70,168)</td></tr> <tr><td><u>\$ 94,582</u></td><td><u>\$165,781</u></td></tr> </table>	\$ (722)	\$ 485	28,842	133,994	20,388	54,311	37,422	43,953	2,074	3,206	<u>88,004</u>	<u>235,949</u>	4,666	(1,306)	5,112	(24,261)	5,688	(32,938)	<u>(8,888)</u>	<u>(11,663)</u>	6,578	(70,168)	<u>\$ 94,582</u>	<u>\$165,781</u>	<p>SOURCE OF FUNDS</p> <p>Operations:</p> <p>Net income</p> <p>Add— expenses not requiring working capital in current period:</p> <p>Depreciation (Note A)</p> <p>Disposal of property, plant and equipment (Note A)</p> <p>Restricted stock plan— charge to operations (Note K)</p> <p>Deferred income taxes, non-current</p> <p>Restricted stock plan— excess Federal income tax benefit (Note K)</p> <p>Sale of common stock</p> <p>Increase in long-term debt (Note H)</p> <p>Common stock issued under option plans, net of repurchases (Note K)</p> <p>Other</p> <p>USE OF FUNDS</p> <p>Investments in marketable securities (Note A)</p> <p>Additions to property, plant and equipment</p> <p>INCREASE IN WORKING CAPITAL</p> <p>ANALYSIS OF INCREASE IN WORKING CAPITAL</p> <p>Increase (decrease) in current assets:</p> <p>Cash</p> <p>Temporary cash investments</p> <p>Accounts receivable</p> <p>Inventories</p> <p>Prepaid expenses</p> <p>(Increase) decrease in current liabilities:</p> <p>Loans payable to banks</p> <p>Accounts payable</p> <p>Federal, foreign and state income taxes</p> <p>Other current liabilities</p> <p>INCREASE IN WORKING CAPITAL</p>
\$ 46,000	\$ 73,400																																																									
16,896	21,984																																																									
2,744	2,600																																																									
2,716	2,992																																																									
1,997	2,998																																																									
<u>70,353</u>	<u>103,974</u>																																																									
796	1,899																																																									
—	122,640																																																									
75,000	6,143																																																									
4,354	9,596																																																									
514	1,133																																																									
<u>151,017</u>	<u>245,385</u>																																																									
10,559	25,086																																																									
<u>45,876</u>	<u>54,518</u>																																																									
56,435	79,604																																																									
<u>\$ 94,582</u>	<u>\$165,781</u>																																																									
\$ (722)	\$ 485																																																									
28,842	133,994																																																									
20,388	54,311																																																									
37,422	43,953																																																									
2,074	3,206																																																									
<u>88,004</u>	<u>235,949</u>																																																									
4,666	(1,306)																																																									
5,112	(24,261)																																																									
5,688	(32,938)																																																									
<u>(8,888)</u>	<u>(11,663)</u>																																																									
6,578	(70,168)																																																									
<u>\$ 94,582</u>	<u>\$165,781</u>																																																									

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

Notes to consolidated financial statements

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

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

TRANSLATION OF FOREIGN CURRENCIES

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

In June 1976 the Company adopted the Financial Accounting Standards Boards Statement No. 8 "Accounting for the Translation of Foreign Currency Transactions and Foreign Currency Financial Statements" which requires that exchange gains and losses be included in the determination of net income in the period in which the exchange rates change. The effect of the change in fiscal 1976 and on prior years was not material and accordingly prior periods have not been restated.

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

REVENUE RECOGNITION

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

RESEARCH AND ENGINEERING AND WARRANTY COSTS

Research and engineering and warranty costs are expensed as incurred.

TAXES

In general, the Company's practice is to reinvest the earnings of its foreign subsidiaries and of its domestic subsidiary operating in Puerto Rico in those operations and repatriation of retained earnings is done only when it is advantageous to do so. United States Federal income taxes are provided only on amounts planned to be remitted, which amounts are not significant. The Company has elected to provide for taxes on the entire income of its Domestic International Sales Corporation (DISC). Investment tax credits are credited directly to income.

INVENTORIES

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

TEMPORARY CASH INVESTMENTS

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

MARKETABLE SECURITIES

Marketable securities classified as non-current assets are held by the Company's domestic manufacturing subsidiary operating in Puerto Rico and are not expected to be utilized in operations during the succeeding fiscal year.

PROPERTY, PLANT AND EQUIPMENT

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

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

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

NOTE B—FOREIGN OPERATIONS

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

solidated profits at least equal to the profits on products manufactured and sold to customers in the United States. Due to the organizational structure and the complex manufacturing process, the results of operations of the individual subsidiaries are only reflective of the separate functions which they perform and, consequently, are not reported separately.

Sales to customers outside the United States were \$276,487,000 for the year ended July 3, 1976 and \$207,759,000 for the year ended June 28, 1975, which represented 38% and 39%, respectively, of total operating revenues.

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

	ASSETS	
	July 3, 1976	June 28, 1975
	(In Thousands)	
Current assets	\$157,130	\$116,741
Property, plant and equipment—net	19,455	14,759
	\$176,585	\$131,500
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities	\$ 41,068	\$ 32,229
Intercompany obligations	90,497	60,846
Capital stock	5,978	1,133
Retained earnings	39,042	37,292
	\$176,585	\$131,500

NOTE C—PUERTO RICAN OPERATIONS

The Company has a domestic manufacturing subsidiary located in Puerto Rico, the products of which are sold to other members of the consolidated group. Earnings of this subsidiary included in consolidated retained earnings aggregated approximately \$70,000,000 at July 3, 1976 and \$43,000,000 at June 28, 1975. These earnings, if partially or fully repatriated under certain circumstances, may be subject to United States Federal income taxes at normal rates; however,

under other circumstances these earnings could be repatriated totally free of United States Federal income taxes but after such a repatriation, the subsidiary's earnings would be subject to United States Federal income tax on an ongoing basis. The Company has no current plans to repatriate these earnings which have been reinvested in the Puerto Rican operations and in marketable securities.

NOTE D—DEPRECIATION

Depreciation expense is computed principally on the following basis:

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

NOTE E—INCOME TAXES

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

	<u>1976</u>	<u>1975</u>
U.S. Federal statutory tax rates	48.0%	48.0%
Tax benefit of nontaxable income (a):		
Puerto Rico	(7.2)	(6.5)
Ireland	(3.4)	(4.3)
State income taxes, net of Federal income tax benefit	2.5	1.7
Other (b)	<u>(1.4)</u>	<u>(1.4)</u>
	<u>38.5%</u>	<u>37.5%</u>

(a) Consolidated net income includes income of a domestic manufacturing subsidiary operating in Puerto Rico and income of a foreign manufacturing subsidiary operating in Ireland. Under an exemption which expires in 1981 (for years 1982 through 1991 income is partially exempt), the income of the subsidiary in Puerto Rico is not subject to Puerto Rican income taxes. Under Irish law, the income from products manufactured for export by the subsidiary in Ireland is exempt from Irish taxes for a period of 15 years, which period expires in

1986 (for the years 1987-1991 the income is partially exempt). The Federal income tax benefits per common share attributable to the tax-exempt status of these subsidiaries for the two years ended July 3, 1976 and June 28, 1975 were \$1.03 and \$.66, respectively.

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

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

	<u>Year Ended</u>	
	<u>July 3, 1976</u>	<u>June 28, 1975</u>
	(In Thousands)	
U.S. Federal:		
Currently payable	\$29,000	\$13,500
Deferred	<u>12,600</u>	<u>8,000</u>
Total	<u>\$41,600</u>	<u>\$21,500</u>
Foreign:		
Currently payable	\$ 2,700	\$ 4,300
Deferred	<u>(4,100)</u>	<u>(600)</u>
Total	<u>\$ (1,400)</u>	<u>\$ 3,700</u>

Deferred tax expense results from timing differences in the recognition of revenues and expenses for tax and financial reporting purposes. The sources of these timing differences in the years ended July 3, 1976 and June 28, 1975 and the tax effect of each were as follows:

	<u>Year Ended</u>	
	<u>July 3, 1976</u>	<u>June 28, 1975</u>
	(In Thousands)	
Inventory related transactions	\$(5,500)	\$(6,100)
Installment sales, principally inter-company, and financing leases	3,400	9,700
Domestic International Sales Corporation profits	4,100	900
Other	<u>6,500</u>	<u>2,900</u>
Total	<u>\$ 8,500</u>	<u>\$ 7,400</u>

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

NOTE F—NET INCOME PER COMMON SHARE AND DIVIDENDS

Net income per common share is computed based on the weighted average number of common shares outstanding during each year, 12,355,498 in fiscal 1976 and 11,958,556 in fiscal 1975. Common stock equivalents arising

from stock options have been excluded from the computation since their dilutive effect is not material.

No cash dividends have ever been paid by the Company.

NOTE G—SHORT-TERM DEBT

Loans payable to banks at July 3, 1976 and June 28, 1975 represent foreign borrowings at average interest rates of 12% for both years. The maximum aggregate short-term debt outstanding at any month-end was \$12,320,000 during fiscal 1976 and \$27,500,000 during fiscal 1975, while average short-term borrowings during such periods were \$5,840,000 and \$13,000,000, respectively. The average interest rate based on a weighted average of the stated month-end rates was 12.3% in fiscal 1976 and 11.5% in fiscal 1975.

Unused lines of credit for short-term financing were \$58,800,000 at

July 3, 1976 and \$83,500,000 at June 28, 1975. At July 3, 1976, certain lines of credit required either the maintenance of compensating balances or the payment of commitment fees; \$21,700,000 required the maintenance of compensating balances equal to approximately 10% of such unused lines and \$11,300,000 required the payment of commitment fees which in general are based on 1/2% of such unused commitment amounts. After considering "float," none of the cash reflected in the balance sheets at July 3, 1976 and June 28, 1975 was required as compensating balances.

NOTE H—LONG-TERM DEBT

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

	<u>July 3, 1976</u>	<u>June 28, 1975</u>
	(In Thousands)	
4½%-8¼% lease obligations payable 1977-1989 (a)	\$ 6,523	—
5.4% collateralized obligations maturing serially to 1993 (b)	9,835	\$10,215
9¾% Sinking Fund Debentures due March 15, 2000 (c)	<u>75,000</u>	<u>75,000</u>
	<u>\$91,358</u>	<u>\$85,215</u>

(a) Long-term lease obligations were assumed by the Company in connection with the purchase on July 2, 1976 of a manufacturing facility in Albuquerque, New Mexico. Interest is payable semi-annually at a weighted average interest rate at July 3, 1976 of 7.2%.

(b) Interest rate shown is the weighted average rate at July 3, 1976.

(c) Sinking Fund Debentures were issued by the Company in March 1975. Sinking fund payments of \$4,000,000 are required in each of the fiscal years 1985-1999. The Company at its option may increase the sinking fund payments up to an additional \$4,000,000 in each such year. The Debentures are redeemable at the option of the Com-

pany at any time, as a whole or in part, at 109¾% of the principal amount during the year beginning March 15, 1975, and at declining percentages each year thereafter. However, prior to March 15, 1985, the Company may not redeem any of the Debentures from the proceeds of funds borrowed at an interest rate less than 9¾% per annum. The Indenture for the Debentures also contains certain restrictions on future borrowings and dividend distributions.

Principal payments required during the next five fiscal years are as follows: 1977—\$664,000; 1978—\$802,000; 1979—\$857,000; 1980—\$902,000 and 1981—\$959,000.

NOTE I—LEASES

Minimum annual rentals under non-cancelable leases (which are principally for leased regional sales offices and manufacturing space) are as follows:

	(In Thousands)
1977	\$11,747
1978	9,537
1979	6,196
1980	3,202
1981	1,423
1982-1986	5,634
1987-1991	3,889
1992 and thereafter	4,406
Total	<u>\$46,034</u>

Total rental expense for the fiscal years ended July 3, 1976 and June 28, 1975 amounted to \$14,165,000 and \$7,995,000, respectively. The Company has no significant non-capitalized financing leases.

NOTE J—PENSION PLANS

The Company has several pension plans covering substantially all employees. Pension costs are charged to income and funded currently. Total pension costs were \$7,653,000 in 1976 and \$4,950,000 in 1975.

NOTE K—STOCK OPTIONS

1965 QUALIFIED STOCK OPTION PLAN:

Under its 1965 Qualified Stock Option Plan, the Company has granted certain officers and key employees options to purchase common stock within five years from the grant date at 100% of market price on the grant date. Of the 182,715 options outstanding at July 3, 1976, 85,027 shares are presently ex-

ercisable; 46,713 shares become exercisable in fiscal 1977, 46,350 shares in fiscal 1978, and 4,625 shares in fiscal 1979. Under the provisions of the plan authority to grant options under the plan expired March 9, 1975.

Information concerning activity during fiscal 1976 follows:

	Options Outstanding	
	Shares	Average Price Per Share
June 28, 1975	244,684	\$89.42
Options granted	—	
Options exercised	(56,383)	79.54
Options cancelled	(5,586)	89.06
July 3, 1976	<u>182,715</u>	<u>92.48</u>

1968 RESTRICTED STOCK PURCHASE PLAN:

Under its 1968 Restricted Stock Purchase Plan, the Company has granted certain officers and key employees options to purchase common stock at a price determined by the Board of Directors. Shares purchased under the

plan are generally subject to repurchase options and restrictions on sales which lapse over an extended time period not exceeding 10 years.

Information concerning activity during fiscal 1976 follows:

	Shares Reserved For Future Grants	Options Outstanding Shares	Average Price Per Share
June 28, 1975	490,392	470,907	\$46.53
Options granted	(239,095)	239,095	66.67
Options exercised		(22,082)	18.03
Options cancelled	<u>12,657</u>	<u>(12,657)</u>	43.30
July 3, 1976	<u>263,954</u>	<u>675,263</u>	<u>54.66</u>

NOTE K—STOCK OPTIONS continued

At the time these options are exercised, the common stock account is increased by the par value (\$1 per share) of the shares sold and the remaining portion of the proceeds is credited to additional paid-in capital. The excess of the fair market value (as adjusted for the restrictions for options granted before January 1, 1973) of the shares on the grant date over the option price is charged to operations each

year as the restrictions lapse. Such charges to operations amounted to \$2,992,000 in fiscal 1976 and \$2,716,000 in fiscal 1975. The amount actually deductible for Federal income taxes exceeds the amount charged to income for book purposes. The Federal income tax benefits relating to this difference (\$1,899,000 in fiscal 1976 and \$796,000 in fiscal 1975) have been credited to additional paid-in capital.

1968 EMPLOYEE STOCK PURCHASE PLAN:

Under the Company's 1968 Employee Stock Purchase Plan, all United States and Canadian employees may be granted options to purchase common stock at 85 percent of market value on the first or last business day of the sixth month payment period, whichever is lower. Common stock reserved for future grants aggregated 561,498

shares at July 3, 1976 and 107,696 at June 28, 1975. There were 46,198 shares issued at an average price of \$102.61 in fiscal 1976 and 68,330 shares at an average price of \$48.90 in fiscal 1975. There have been no charges to income in connection with the options other than incidental expenses related to the issuance of the shares.

NOTE L—COMMON STOCK SPLIT

On August 16, 1976, the Company's Board of Directors declared a three-for-one common stock split to stockholders of record at the close of business on October 26, 1976. The additional shares will be issued on

November 8, 1976, subject to approval by the stockholders of an increase in the authorized capital stock from 36,000,000 to 50,000,000 common shares.

NOTE M—QUARTERLY FINANCIAL DATA (UNAUDITED)

Selected quarterly financial data for fiscal 1976 and fiscal 1975 is set forth below:

	Total Operating Revenues	Gross Profit	Income Before Income Taxes	Net Income	Net Income Per Share
(In Millions except per share data)					
1976					
First Quarter	\$140.5	\$ 60.8	\$ 18.5	\$11.4	\$.95
Second Quarter	172.6	76.1	26.5	16.3	1.35
Third Quarter	191.2	84.6	30.8	18.9	1.53
Fourth Quarter	232.0	100.6	43.6	26.8	2.11
Total Year	<u>\$736.3</u>	<u>\$322.1</u>	<u>\$119.4</u>	<u>\$73.4</u>	<u>\$5.94</u>
1975					
First Quarter	\$111.8	\$ 49.8	\$ 12.2	\$ 7.5	\$.63
Second Quarter	126.8	57.3	15.5	9.8	.81
Third Quarter	134.6	61.3	18.2	11.3	.95
Fourth Quarter	160.6	72.5	27.7	17.4	1.46
Total Year	<u>\$533.8</u>	<u>\$240.9</u>	<u>\$ 73.6</u>	<u>\$46.0</u>	<u>\$3.85</u>

Digital facilities around the world

DIGITAL SALES AND SERVICE OFFICES

NORTH AMERICA

CANADA

Calgary
Chalk River*
Edmonton
Halifax
Kanata (Ottawa)
London
Montreal
Toronto
Vancouver
Winnipeg

UNITED STATES

ALABAMA

Birmingham

Huntsville

ARIZONA

Phoenix

Tucson

ARKANSAS

Little Rock*

CALIFORNIA

El Segundo

Oakland

Ridgecrest*

Sacramento

San Diego

Santa Ana

Santa Clara

Stanford

Sunnyvale

COLORADO

Denver

CONNECTICUT

Fairfield

Meriden

DELAWARE

Newark*

DISTRICT OF COLUMBIA

Washington (Lanham, Md.)

FLORIDA

Fort Lauderdale

Orlando

GEORGIA

Atlanta

HAWAII

Honolulu

ILLINOIS

Chicago (Loop)*

Peoria*

Rolling Meadows

INDIANA

Indianapolis

IOWA

Bettendorf

KENTUCKY

Louisville

LOUISIANA

New Orleans

MARYLAND

Odenton (Fort Meade)*

MASSACHUSETTS

Maynard

Waltham (Boston)

Westfield

MICHIGAN

Detroit

Kalamazoo*

MINNESOTA

Minneapolis

MISSOURI

Kansas City

St. Louis

NEBRASKA

Omaha*

NEW HAMPSHIRE

Manchester

Nashua

Salem

NEW JERSEY

Cherry Hill*

Fairfield

Metuchen

Princeton

NEW MEXICO

Albuquerque

Los Alamos*

NEW YORK

Albany

Buffalo

Ithaca*

Long Island

New York City

Rochester

Rome*

Syracuse

NORTH CAROLINA

Durham/Chapel Hill

OHIO

Cleveland

Columbus

Dayton

Toledo*

OKLAHOMA

Oklahoma City*

Tulsa

OREGON

Eugene*

Portland

PENNSYLVANIA

Allentown*

Harrisburg*

Philadelphia

Pittsburgh

SOUTH CAROLINA

Columbia

TENNESSEE

Knoxville

Memphis*

Nashville

TEXAS

Austin

Dallas

Houston

UTAH

Salt Lake City

VIRGINIA

Richmond

WASHINGTON

Seattle

Vancouver*

WISCONSIN

Milwaukee

PUERTO RICO

San Juan

Santurce*

EUROPE

AUSTRIA

Vienna

BELGIUM

Brussels

DENMARK

Copenhagen

EGYPT

Cairo (D)

FINLAND

Helsinki

FRANCE

Asnieurs*

Grenoble

Lyon

Paris

Toulouse*

IRELAND

Belfast

Dublin

ISRAEL

Tel Aviv

ITALY

Milan

Rome

Turin

LEBANON

Beirut (D)

NETHERLANDS

Amsterdam*

Hoofddorp

(European Module

Repair Center)

The Hague*

Utrecht

NORWAY

Oslo

Trondheim*

SPAIN

Madrid

SWEDEN

Gothenburg

Stockholm

SWITZERLAND

Geneva

(European Headquarters)

Zurich

UNITED KINGDOM

Birmingham

Brentwood*

Bristol

Edinburgh

Kent*

Leeds

Leicester

Liverpool*

London City

London North (Ealing)

London South (Epsom)

Manchester

Reading

Southampton

WEST GERMANY

Cologne

Frankfurt

Hamburg

Hannover

Munich

Stuttgart

West Berlin

YUGOSLAVIA

Ljubljana (D) +

GENERAL

INTERNATIONAL

ARGENTINA

Buenos Aires (D) +

AUSTRALIA

Adelaide

Brisbane

Canberra

Hobart*

Melbourne

Perth

Sydney

BOLIVIA

La Paz (D)

BRAZIL

Rio de Janeiro (D)

Sao Paulo

CHILE

Santiago (D)

HONG KONG (also D)

INDIA

Bangalore (D)

Bombay (also D)

INDONESIA

Djakarta (D)

IRAN

Teheran (also D)

JAPAN

Osaka (also D)

Tokyo (also D)

Yokohama*

MALAYSIA

Kuala Lumpur (D) +

MEXICO

Mexico City (also D)

NEW ZEALAND

Auckland

Christchurch

SINGAPORE (D) +

SOUTH KOREA

Seoul (D)

TAIWAN

Taipei (D)

Taoyuan*

VENEZUELA

Caracas (D) +

**DIGITAL COMPUTER SPECIAL
SYSTEMS FACILITIES**

AUSTRALIA
Sydney
CALIFORNIA
Santa Ana
Santa Clara
CANADA
Kanata (Ottawa)
FRANCE
Rungis (Paris)
GERMANY
Munich
JAPAN
Tokyo
NETHERLANDS
Utrecht
NEW HAMPSHIRE
Nashua
SWEDEN
Solna (Stockholm)
UNITED KINGDOM
Manchester
Reading
NEW JERSEY
Princeton
PENNSYLVANIA
Blue Bell (Philadelphia)
SWEDEN
Solna (Stockholm)
SWITZERLAND
Zurich
UNITED KINGDOM
Reading

DIGITAL TRAINING CENTERS

AUSTRALIA
Sydney
CALIFORNIA
Sunnyvale
CANADA
Kanata (Ottawa)
DISTRICT OF COLUMBIA
Washington (Lanham, Md.)
FRANCE
Rungis (Paris)
GERMANY
Munich
ILLINOIS
Rolling Meadows (Chicago)
ITALY
Milan
JAPAN
Tokyo
MASSACHUSETTS
Marlborough
Maynard
NETHERLANDS
Utrecht

**DIGITAL MANUFACTURING
FACILITIES**

ARIZONA
Phoenix
CALIFORNIA
Mountain View
CANADA
Kanata
HONG KONG
IRELAND
Galway
MASSACHUSETTS
Marlborough
Maynard
Natick
Springfield
Westfield
Westminster
NEW HAMPSHIRE
Salem
NEW MEXICO
Albuquerque
PUERTO RICO
Aguadilla
San German
SCOTLAND
Ayr
TAIWAN

(Besides the offices listed, Digital
Equipment Corporation personnel
provide Customer Service through an
additional 140 locations worldwide.)

CORPORATE HEADQUARTERS

Digital Equipment Corporation
Maynard, Massachusetts 01754
Telephone:
Metropolitan Boston: 646-8600
Elsewhere: (617) 897-5111
TWX: 710-347-0212
Cable: Digital Mayn.
Telex: 94-8457

EUROPEAN HEADQUARTERS

Digital Equipment Corporation
International (Europe)
81 Route de l'Aire
Case postale 340
CH-1211
Geneva 26, Switzerland
Telephone: (022) 42 79 50
Telex: 22593

CANADIAN HEADQUARTERS

Digital Equipment of Canada, Ltd.
100 Herzberg Road
Kanata, Ontario, Canada
Telephone: (613) 592-5111
TWX: 610-562-8732

Digital Equipment Corporation

DIRECTORS

Vernon R. Alden*
Chairman of the Board
The Boston Company, Inc.
(managers of financial resources)

Arnaud de Vitry
Chairman of the Board
Dunlop, S.A. France
(manufacturers)

Georges F. Doriot*
Director of several corporations

William H. McLean
Engineering consultant
and director of several corporations

Kenneth H. Olsen
President
Digital Equipment Corporation

Dorothy E. Rowe*
Management consultant
and director of several corporations

*Member of the Audit Committee of the Board
of Directors

OFFICERS

Kenneth H. Olsen
President

C. Gordon Bell
Vice President, Engineering

Alfred M. Bertocchi
Vice President, Finance & Treasurer

Winston R. Hindle, Jr.
Vice President, Group Manager

Theodore G. Johnson
Vice President, Sales & Service

Peter J. Kaufmann
Vice President, Manufacturing

Andrew C. Knowles III
Vice President, Group Manager

Stanley C. Olsen
Vice President, Group Manager

Richard J. Clayton
Vice President,
Computer Systems Development

William C. Hanson
Vice President,
Volume Manufacturing

Henry P. Lemaire
Vice President, Component
Manufacturing & Engineering

John Leng
Vice President, Large Computers

William H. Long
Vice President, OEM

Julius L. Marcus
Vice President, Information Systems
Group

Gerald T. Moore
Vice President,
North American Sales

Jean-Claude Peterschmitt
Vice President, Europe

Lawrence J. Portner
Vice President,
Software Development

Robert W. Puffer, III
Vice President,
Hardware Development

John J. Shields
Vice President,
Field Service and Training

John F. Smith
Vice President,
Systems Manufacturing

Robert H. Lander
Controller

Edward A. Schwartz
Vice President,
Secretary & General Counsel

George A. Chamberlain, 3d
Assistant Treasurer

TRANSFER AGENTS

Shawmut Bank of Boston, N.A.
1 Federal Street
Boston, Massachusetts 02110

Morgan Guaranty Trust Company
of New York
30 West Broadway
New York, New York 10015

REGISTRARS

Shawmut Bank of Boston, N.A.
1 Federal Street
Boston, Massachusetts 02110

The Chase Manhattan Bank N.A.
1 Chase Manhattan Plaza
New York, New York 10015

AUDITORS

Coopers & Lybrand
100 Federal Street
Boston, Massachusetts 02110
(617) 423-4200

LEGAL COUNSEL

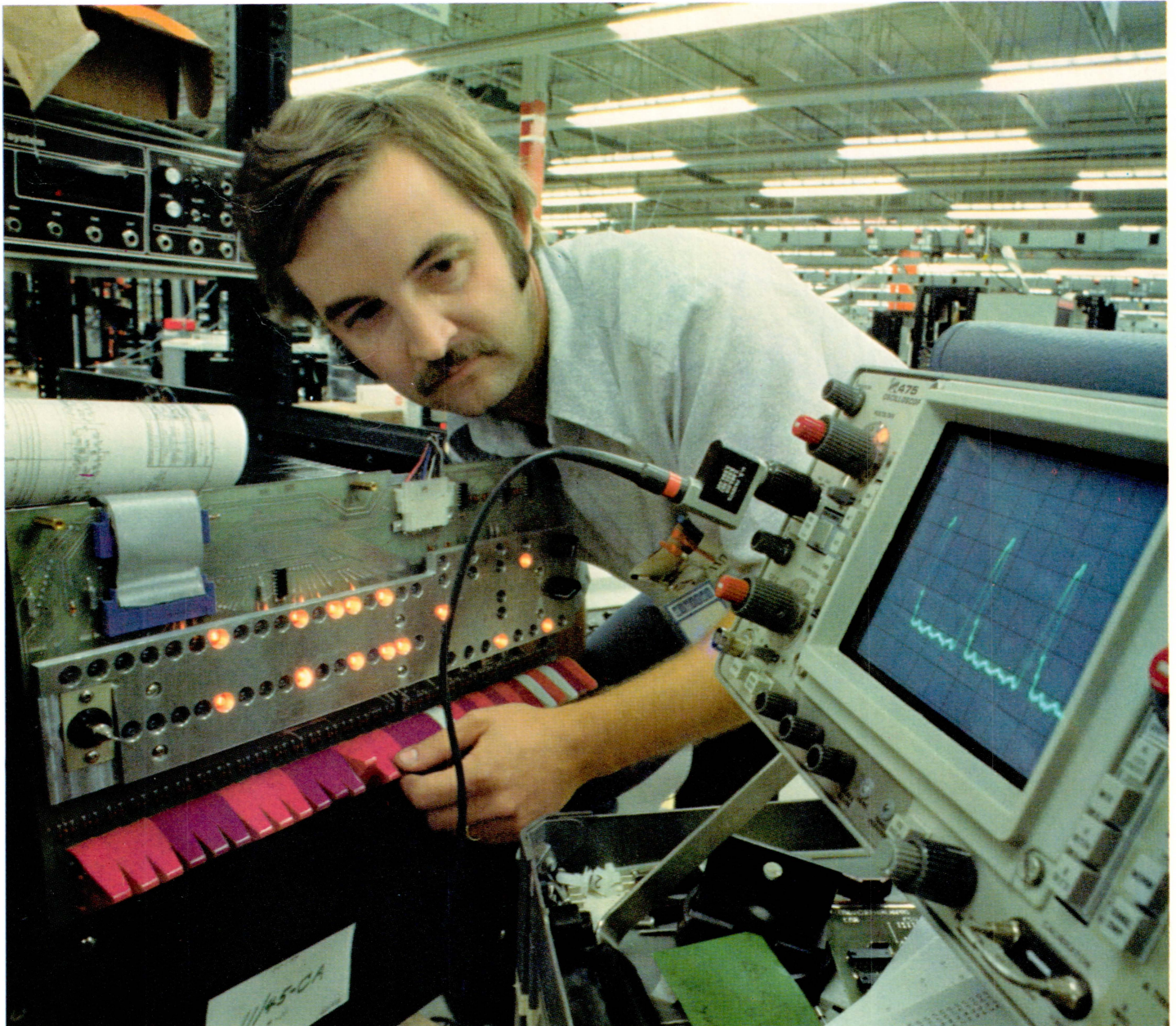
Testa, Hurwitz & Thibeault
100 Federal Street
Boston, Massachusetts 02110
(617) 956-4500

SHARES TRADED

New York Stock Exchange
(Ticker Symbol "DEC")

UNLISTED TRADING

Boston Stock Exchange
Midwest Stock Exchange
PBW Stock Exchange



ABOVE: Extensive testing at every step of the manufacturing process assures customers of maximum reliability of Digital products, as with this PDP-11 processor being readied for shipment at Digital's systems assembly plant in Westminister, Massachusetts.

BACK COVER: Digital's Sales and Marketing Headquarters at Maynard, Massachusetts.

Investor information

A copy of Digital's Annual Report on Form 10-K for the fiscal year ended July 3, 1976, including the financial statements and schedules thereto, which is filed with the Securities and Exchange Commission, will be sent without charge to any shareholders requesting it in writing.

The Form 10-K and additional information about Digital and its products can be obtained by addressing:
Albert E. Mullin, Jr.
Director, Investor Relations
PK3-2/F40
Digital Equipment Corporation
Maynard, Massachusetts 01754
(617) 897-5111, Ext. 5350

digital

Digital Equipment Corporation
Maynard, Massachusetts 01754

