

digital

*Digital Equipment Corporation  
1978 Annual Report*



## Corporate Profile

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Digital Equipment Corporation designs, manufactures, sells and services computers and associated peripheral equipment, and related software and supplies. The Company's products are used worldwide in a wide variety of applications and programs, including scientific research, computation, communications, education, data analysis, industrial control, timesharing, commercial data processing, word processing, health care, instrumentation, engineering and simulation.

## Financial highlights

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	1978	1977
Total operating revenues	<b>\$1,436,562,000</b>	\$1,058,614,000
Net income	<b>\$ 142,189,000</b>	\$ 108,500,000
Net income per share	<b>\$3.40</b>	\$2.78
Total stockholders' equity	<b>\$ 904,758,000</b>	\$ 735,463,000
Stockholders' equity per share	<b>\$22.69</b>	\$18.73

## Annual meeting of stockholders

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The Annual Meeting of Stockholders will be held at 11:00 A.M., Tuesday, October 31, 1978 in the Dorothy Quincy Suite, John Hancock Building, 180 Berkeley Street, Boston, Massachusetts. Stockholders of record on September 8, 1978 will be entitled to vote at this meeting.

*ON THE COVER: Digital's newest facility is located on a 360-acre site in Colorado Springs, Colorado. Opened in July 1978, this modern factory houses high-volume manufacturing of mass storage disk products, disk product engineering and the new Digital Diagnosis Center, the industry's most advanced capability for remote maintenance of computers.*

## President's Letter

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### To Our Shareholders, Employees and Friends:

We are pleased to report that total operating revenues for Fiscal 1978 grew 36 percent to \$1.437 billion, net income grew 31 percent to \$142.2 million and earnings per share reached \$3.40. Continuing the recent positive trend, we returned 17.3 percent on our investors' average equity investment.

We had planned for even bigger growth during Fiscal 1978 and had to adjust during the year to a somewhat smaller market demand than we anticipated. Thus, we are proud to have shown that we could make these changes and still have the year come out so well.

Our continued heavy investment in research and engineering paid off with the introduction of several important leadership products during the year:

- *VAX-11/780*, the 32-bit computer we introduced last fall, has created much excitement within the company and in the marketplace and will be of major importance to the company in the years ahead.
- *DECSYSTEM-2020*, the 36-bit system introduced in March has allowed us to take advantage of opportunities in areas where, traditionally, large and expensive mainframes were thought to be the only solution.
- *PDT-11s* (Programmable Data Terminals), a series of terminal-based systems introduced in June, are the newest members of our popular PDP-11 computer family and give us significant added strength in the small systems market with both end users and OEMs.
- We continued to build our capability for combining multiple computers into networks with the addition of several important DECnet software products which, together with our broad array of computer products, provide customers with the easiest and least expensive ways to implement their computer strategies by building expandable computer networks.
- *TRAX*, introduced in March, is the industry's first implementation of a true high-volume transaction processing capability on a minicomputer. It gives us an important new strength in the commercial marketplace in such areas as banking, insurance, hotel/travel, transportation and distribution.

At the end of Fiscal 1978, we had almost 39,000 employees around the world. Most of the increase over the previous year came from the continued aggressive build-up of our selling and customer support organizations.

We established the industry's most advanced remote diagnostic center at our new plant in Colorado Springs which will further bolster our ability to do preventative and corrective maintenance of computers at customer sites in the United States and Canada.

At the close of the year, we announced the further strengthening of Digital's corporate organization with the assumption by three experienced senior managers of corporate-wide responsibility for operations, marketing and planning. At the same time, we also made some adjustments in the responsibilities of our three market groups to give each of them a stronger applications and products focus.

We have been greatly encouraged by the steadily growing acceptance of Digital's concept of interactive, distributed computing, not only among customers but throughout the industry in general. Continuing to build on our singular strengths will put us in an even more favorable position to take advantage of this and the other major trends in the industry.

Looking into the 1980s and beyond, we feel very good about the Company. We are financially sound, we have a strong and stable organization and a broad array of exciting leadership products. In the short term, we are assessing the predictions of an economic slowdown in the year ahead but we think we are in a good position to do well in the event of either a slowdown or an upturn in the economy in Fiscal 1979.



Kenneth H. Olsen  
President

September 18, 1978

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## *Trends in the Computer Industry*

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Several important trends are becoming established in the computer industry.

First, computers are becoming more and more capable each year, at lower and lower prices. We like to think Digital has been a prominent contributor to this trend.

Second, because of this better price and better performance, distributed processing, which places computers at the site of the work, is a growing phenomenon. Many experts contend that the economies of scale, which once dictated the use of large, batch-oriented computers in central locations are, for many applications, shifting in favor of smaller, distributed computers, often interconnected into networks.

Third, the principal computer investment customers make today, and will make in the future, is in software. The development of computer programs is people-intensive. It becomes the principal investment because people-costs are going up with the

same apparent inevitability as computer hardware costs are coming down.

And fourth, support and service are increasingly important. The need for uninterrupted computer availability, the need for "uptime," is far greater now, as computers are integrated into the heart of an operation, than they ever were when they were off-line and not generally used for time-critical functions.

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## *Computers: More and More Capable, at Lower and Lower Prices*

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During the past year, Digital introduced dozens of new products — central processors, printers and video display terminals, mass storage devices, application-oriented systems, software, options — each of which is designed to help position the Company favorably in response to this trend. Three major products stand out:

*The VAX-11/780*, introduced in October, 1977, is a new, general purpose computer based upon state-of-



*Lloyd's of London, one of the world's largest and most complex insurance organizations, installed a dual PDP-11/70 computer when its large central computer became overburdened by the 13 million transactions which are handled annually by its Policy Signing Office. Replacing some of its key-punching and manual coding operations has improved the accuracy of data entry and reduced processing time by 50 percent.*



the-art architecture. Initially directed toward scientific applications, it has proven to be an outstanding FORTRAN machine, with benchmarks proving its capability. It can, for example, run FORTRAN programs 1,000 times larger than can be run on some multi-million dollar mainframes known for their FORTRAN capabilities. The machine's speed, especially considering its minicomputer price, is outstanding.

The VAX-11/780, the first of a whole new family of computers, is an upward-compatible expansion of the company's PDP-11 minicomputer family.

*The DECSYSTEM-2020*, introduced in February, 1978, is the world's lowest priced mainframe. The system is the low-end member of the DECSYSTEM-20 family, and features the large word length, 15 years of proven software, and the high-level language capabilities characteristic of mainframes. Advances in technology, and innovative packaging and design, allow this system to be sold with full capability at minicomputer prices. The basic DECSYSTEM-2020 consumes less power than some kitchen appliances

and can be installed in office environments without special flooring, power requirements and air conditioning.

Initial orders for the DECSYSTEM-2020 have come from computer service bureaus, universities, and government agencies. There has also been a growing appreciation among smaller businessmen that, at last there is a mainframe system that they, too, can afford.

*The PDT-11/110, 130, and 150*, introduced in June, 1978, is a new family of "intelligent terminals" based upon the LSI-11 computer-on-a-board. Models 110 and 130 are packaged inside the new VT100 video terminal; the Model 150 is packaged with two floppy disks and permits multi-terminal use. It augments the company's existing terminal line by offering limited computing power integrated directly into the terminal, and at the same time, making Digital's PDP-11 available at the lowest cost. Unlike other manufacturers, Digital has a single hardware architecture implemented as a microcomputer and a minicomputer, and the large PDP-11s provide extensive mainframe (general purpose) capability.



*One major U.S. automotive manufacturer employs a network of Digital's PDP-11/34 computers connected to a large PDP-11/70 system via DECnet software to gather and analyze the results of exhaust emission tests. A variety of other Digital computers is also used by this customer to aid in auto body styling and to ensure that appropriate parts are being used in engine assembly operations.*

Intelligent terminals have broad application with both volume and single users, and these technically advanced, low-priced terminals have special appeal to those with extensive communication needs, or to those who add software and lease or resell them to small users.

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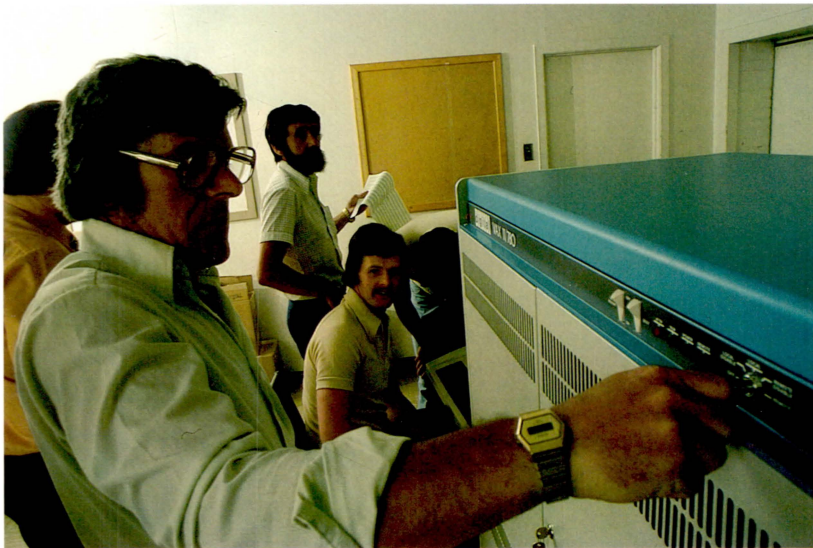
*Distributed Processing... Economies of Scale Shifted to Smaller Computers... Connected in Networks*

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Digital has led the trend in distributed processing. (The Company is credited by some with having created "distributed processing.") In fact, Digital's

goal here is simple: to continue to provide computer products which enable users to build distributed computer systems tailored to their own requirements, whether these needs demand one-terminal, single-user systems, small systems shared locally within a functional group, or large systems serving several groups or an entire organization.

Indeed, it is these differing needs of the distributed computer environment that have stimulated the breadth of the company's product offering. Digital today offers one of the broadest product lines available. Its processors sell for \$600 to \$400,000. Its systems range from a few thousand dollars to several millions. It offers a range of storage and memory devices, a range of terminals, a range of options, and



*Engineers are already working with a pair of VAX-11/780 computers which will control the annual generation and distribution of 62 billion kilowatt hours of energy produced at La Grande Complex, a massive hydroelectric project underway in the James Bay region of Canada's Quebec Province. When the project is complete in 1985, three generating stations along La Grande Rivière will provide electric power for customers of the Hydro-Quebec power network. The VAX-11/780 computers will be installed by CAE Electronics, Ltd. of Montreal, where Hydro-Quebec engineers are being trained.*



software operating systems, in a wide variety of configurations. This wide range of choices is very important in the distributed processing environment.

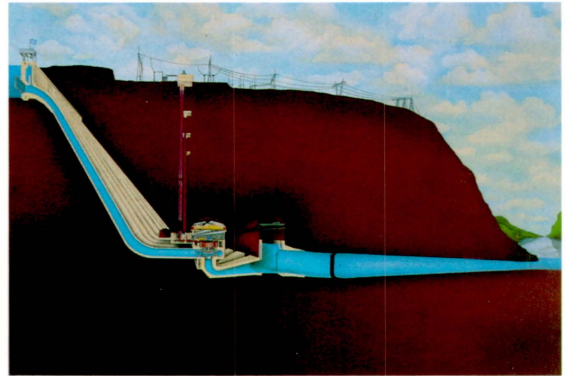
Distributed processing demands a close match between the local job and the local computer. It is estimated that 80 percent of the need for computing power in a distributed environment is needed locally at the work site. Only 20 percent of the computed results are needed elsewhere. Unless the 80 percent is efficient, no distributed network can possibly be. And, in the nature of the varying jobs computers do in factories and laboratories, in schools, offices, and warehouses... to select the optimum computer for the local job demands choice.

To further enhance its position in distributed processing, Digital introduced during the past year its

second generation of networking software called *DECnet, Phase II*.

DECnet, Phase II permits communication between substantially all of Digital's computer systems, irrespective of the software operating systems under which they run. It permits resource sharing and capability sharing between systems, and offers a range of control options and data path topologies.

Further, DECnet implements a set of protocols—those rules which control communications between computers—in so generalized and flexible a way that the software will permit general interconnectability to computers of other manufacture, and to third party carrier services. In fact, several organizations use these protocols for interconnecting computers made by others.





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## *The Principal Computer Investment: Software*

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Software, the programs which allow a computer to do specific jobs, has always been expensive. Developing software is people-intensive. As the prices of computers themselves come down, the cost of the software rises, both as a percentage of the total system cost, and absolutely as well.

Digital has responded to this trend in several ways:

First, by building computers in families, no software need be obsoleted, even when the customer application outgrows the machine. Digital's computer families are software compatible. Programs developed on a small PDP-11 will run on any PDP-11, and on the VAX-11/780 as well. Programs developed on the smallest member of the DECsystem-10 or the DECSYSTEM-20 family will run on the intermediate and on the largest systems in those families.

This compatibility is true, not only system to sys-

tem, but across generations as well. Program investments on Digital systems made in 1965 will still run on appropriate modern Digital systems. In other words, software investments on Digital systems are protected.

Second, all Digital customers become automatic members of DECUS, with 33,000 members the largest and most active computer-users society in the industry. DECUS not only holds meetings, issues papers, supports publications, and provides a forum for the exchange of ideas, but it also makes available to its members a program-library containing more than 2,400 applications programs.

And third, for some complex applications, Digital provides the software as part of the system itself.

TRAX, Digital's new transaction processing system, is an example of such an application. Introduced in April, 1978, TRAX is a software and hardware combination, including the VT-62, a special forms terminal totally dedicated to transaction processing. It is the first such dedicated system ever implemented on a minicomputer. At present, TRAX runs on the PDP-11/34, 11/60 and the 11/70 computers.



*At the Heineken Brewery at Zoeterwoude, one of four operated by the famous Dutch Brewers in Holland, Digital PDP-11 computers are distributed throughout the automated bottling process to control the hourly production of 150,000 bottles of beer. A PDP-11/34 in the Heineken administrative office is used to develop software for the process control computers.*



Transaction processing, most visible in hotel reservation systems and airline ticket systems, has broad application in most larger commercial establishments. The special technological features of the TRAX system, its exceptional reliability and low cost are expected to compete favorably with main-frame transaction processing. And no systems programming is required by the customer, resulting in substantial savings of time and money in the implementation stage.

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### *Support and Service: Increasingly Important*

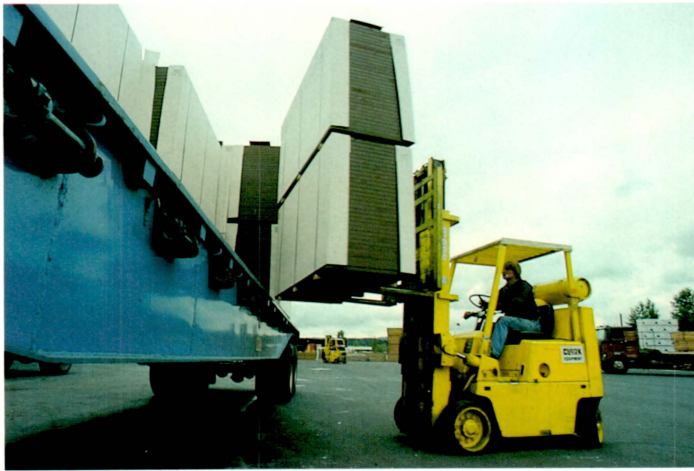
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Just as Digital is committed to maintaining product leadership in the computer industry, the same commitment also drives the Company's customer ser-

vices organization. And the quality of the customer services rendered by Digital is measured against the requirements and expectations of the customers. Last year, as in previous years, each customer holding a Digital service contract was asked to grade the quality and quantity of the Company's services. Their responses enable Digital to determine the extent to which customer expectations of service are being met. These "report cards" also provide the basis for reshaping service policies and products to ensure that Digital is responsive to customer needs.

Digital's response to the increasing importance of support and service takes many forms.

First, a large and well-trained customer support organization numbering more than 8,000 is strategically located around the world, providing services from almost 400 locations, in more than 38 countries, on five continents.



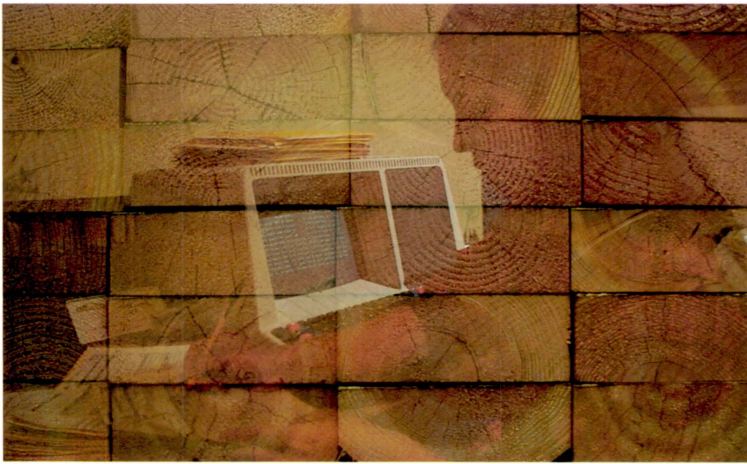
Second, spare parts are inventoried at branch, district and regional warehouses with computerized inventories for exchange between them. This network is backed up by an automated central warehouse facility in Woburn, Massachusetts, close by an international airport. This facility can act upon 95 percent of the requests it receives within 24 hours.

Third, because many of our customers are both budget conscious and technically competent, Digital offers a range of service contracts from self-maintenance arrangements backed by on-call service to the comprehensive DECservice designed to support critical applications. Many spares and supplies are also available through catalog sales by dialing a toll-free telephone number.

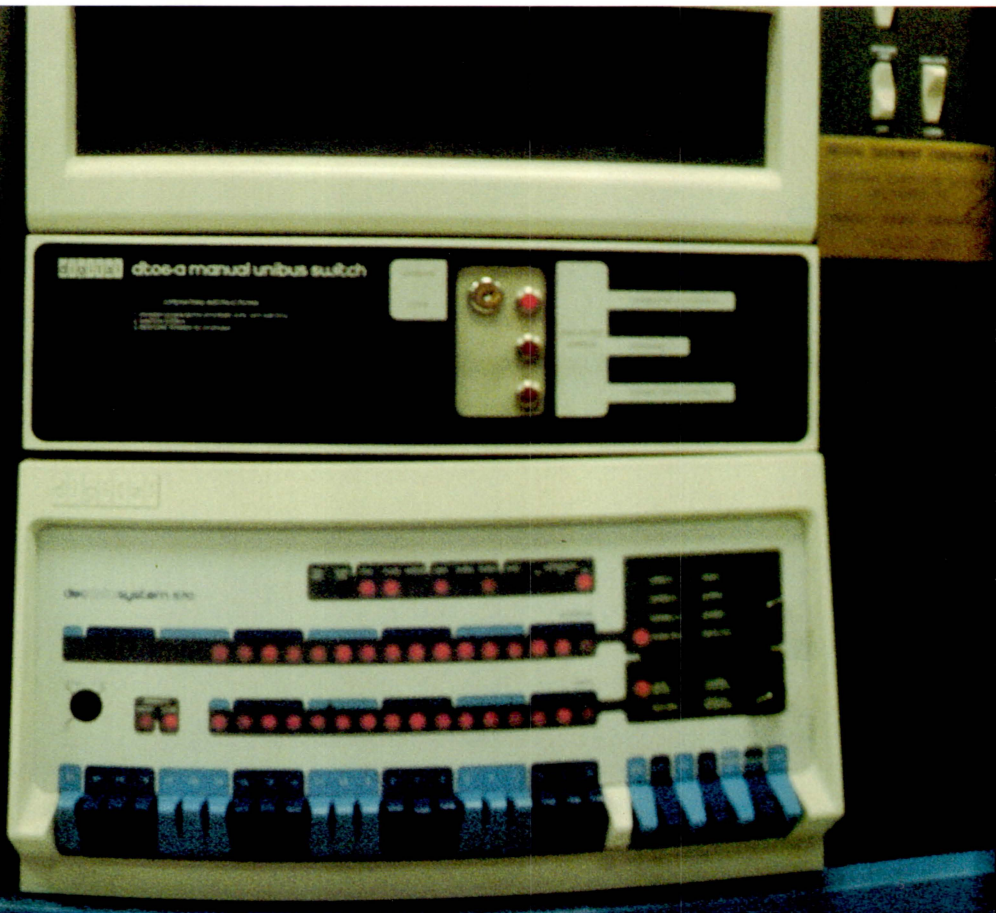
Fourth, software applications specialists are available to assist in the more technically demanding environments—specialists experienced in both the computer, and in the special applications area itself.

Fifth, special resources are available through Digital's Computer Special Systems organization to customers whose needs are one-of-a-kind. Nine facilities throughout the world are devoted to developing, producing, documenting and supporting custom-made hardware and software.

Sixth, eighteen customer training centers are maintained throughout North and South America, Europe and Asia to provide live instruction, self-paced audio visual programs and on-site training to customer personnel. The total of student hours of instruction given at these centers exceeds the number of teaching hours at the average 5000-student university.



*Georgia-Pacific Corporation, a leader in building materials, pulp, paper and chemicals, has distributed a DEC Datasystem 310 business computer to each of its 151 wholesale distribution outlets. Daily, each computer sends updated sales, billing and inventory data to a central computer, a large DEC Datasystem 570, located at G-P's Portland, Oregon headquarters, providing timely information which has enabled better day-to-day management control of the firm's extensive operations.*





Seventh, during this past year, Digital opened the Digital Diagnosis Center at Colorado Springs, in the building pictured on the cover of this report. Remote diagnostic services are now available for VAX-11/780, PDP-11/70 and DECSYSTEM-20 computers at customer sites in the United States and Canada. Owners of such equipment, experiencing system difficulties, call the Diagnosis Center and connect their computers to one at the Center via telephone lines. The Center's computer conducts a series of tests designed to isolate the difficulty, first to a unit, and then, to the replaceable board level. When diagnosed, the Center calls the local Digital service office. A serviceman is dispatched with the replacement part on his first visit.

And eighth, Digital's Educational Services Group established Digital Press for the publication of timely, high quality texts and reference books on subjects related to the use of computers. Its first publication, *Technical Aspects of Data Communications*, was released in November 1977. It describes the communications basis for distributed processing. *Computer Engineering: A DEC View of Hardware Systems Design*, describes the engineering of

Digital's computers during the first 21 years. A book on microcomputers is in preparation and many other titles are planned.

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## *New Products*

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Five major new products have already been discussed: the VAX-11/780, the DECSYSTEM-2020, TRAX, DECnet Phase II, and the new PDT family of intelligent terminals.

In addition, the company enhanced its position in the disk area by introducing four new disk drives—the RM02 and RM03, the RK07, and the RL01. Storage of information on disks is an important aspect of the computer industry, and these four new devices make Digital very competitive in this area.

The LSI-11/2, a half-size microcomputer module of particular interest to OEM and volume markets was introduced.



*Ships carrying containerized cargo in and out of the harbor of Hamburg, Germany, can be unloaded and reloaded within 24 hours at the modern terminal of Hamburger Hafen-und Lagerhaus AG. Forty-two video display consoles connected to a large DEC Datasystem 570 are distributed throughout the port facility to keep track of the more than 3000 cargo containers that can be processed through the terminal each day.*

The VT-100 video terminal, which is the base of the intelligent terminal line, was also introduced as a non-intelligent terminal, along with its ruggedized version, the VT-110. The VT-62, a "smart terminal" with forms-editing and multi-drop capability, was introduced as an integral part of the TRAX system. The VT-72/t, for typesetting applications, also joined the video terminal line.

The DEC Datasystem-308, the smallest, and lowest cost DEC Datasystem, was introduced in January, 1978 as particularly appropriate for small businesses.

The WS200, a PDP-8 based word processing system, and the WD-78 business data processing and visual text editing display system were added to the product offering, along with the DECedit-620.

The PDP-11T03 was the first of a new family of "packaged systems" based upon the PDP-11, and the PDP-8T was introduced as a family of "packaged systems" based upon the PDP-8. The PDP-8/A205, 425, and 625 were a series of processor options permitting memory capacities much larger than previous PDP-8 systems.

Special systems introduced include the MSB-11, a low cost instructional system, the MDA-11, a portable hospital system for acquiring data from gamma cameras, and the IP300, a micro-based dedicated industrial process monitoring and control system.

Two ruggedized versions of standard products, the PDP-11/34M and the LSI-11M were also introduced, as well as the PDP-11/03L for program development.



In addition, the company introduced a series of educational systems, a micro-based peripheral controller, a DECwriter II integral modem, several disk subsystems, new printer-plotters, and other devices.

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### *The Markets Served by Digital*

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Digital sells its products directly to end-users, through Original Equipment Manufacturers (OEMs), through a catalog and, most recently through a retail store.

#### *Direct Sales to End-Users:*

Principal markets served by direct selling effort include:

*Telephone and Utility Industries:* The company is a major supplier to these industries, with over 5,000 computers installed throughout telephone, electric,

gas and water utility companies. The systems are distributed throughout every aspect of these businesses, from monitoring telephone switching equipment, to the billing of customers, to computerizing service orders.

*Universities and Institutional Laboratories:* The company is a supplier to university and institutional laboratories conducting research in all scientific disciplines. Digital first sold its computers in this very sophisticated technical world, and over the years, has maintained both technological and price/performance leadership.

*Medical and Hospital:* In attempts to stem the rising costs of health care, hospitals have used more and more computers. Digital is a prominent supplier of equipment for pathology laboratories and hospital administration, including systems for admissions, patient records, facilities utilization, billing and other functions.



*A Digital PDP-11/70 computer summons buses for customers of the RUFBUS system in Friedrichshafen, Germany, sells them tickets and tells them the number and arrival time of the bus. Simultaneously, aboard the buses in the system, a video display tells drivers how many riders are waiting and where they are located. This automated dial-a-ride system, the first in Germany, was developed by Dornier GmbH with the support of the German Ministry of Science and Technology.*



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*Educational Institutions:* Universities, colleges, junior colleges and high schools have become a major market for computer products, not only for the administration of student affairs, but as tools for science and for teaching computer sciences.

*Governments:* Digital sells computer systems to national, regional and local governments worldwide. Government needs for data processing, communications, and research are served by the entire breadth of the company's product lines. In the United States, for example, there are more of Digital's computers in use throughout the Federal government than those of any other manufacturer.

*Engineering:* Digital sells computers to a broad base of engineering firms and engineering departments of industrial firms. Computer-aided design, computer-driven plotters and digitizers, project control systems, and structural analysis systems are some of the more prominent engineering applications.

*Manufacturing:* Factory operations are supported by Distributed Plant Management systems for monitoring and controlling various manufacturing processes. The range of products sold, from small LSI-11

controllers to large distributed networks, offer complete solutions for resource planning and asset management.

*Banking:* Digital supplies distributed computers to a wide range of bank customers. The computers are used for all banking purposes including customer services, credit card and electronic banking applications, communications between branches and departments, and computational functions.

*Insurance:* The company supplies computer systems at all levels of the insurance industry, from the field office to central headquarters. They are used in claims processing, customer service applications, risk evaluation, premium monitoring, and customer communications through word processing systems.

*Transportation:* The company sells computing systems directly to airlines, railroads, shipping companies and trucking firms for warehousing controls, bills of lading, order confirmations, asset tracking, scheduling, and in some cases, railroad switching applications, as well as conventional financial control systems.



*Lehman Brothers Kuhn Loeb, Incorporated, a major investment banking firm located in New York's financial district, has incorporated many business management functions into its internal computer operations, using a DECSYSTEM-2020 computer to provide faster, more direct access to information from such operations as investment management, corporate planning, fixed income and equity research and customer profiles.*

*Data Services:* Digital is a major supplier of computer systems to companies who sell data services for both scientific and commercial applications. In some cases, data service companies have placed Digital's computers at customer sites.

*Commercial Environments:* A large number of Digital's computers are sold to businesses for commercial applications— for off-loading older main-frames, for accounting, reporting, and word-processing applications. Distributing commercial accounting functions to branch and district offices is a growing application.

*Word Processing:* Digital supplies word processing systems to businesses writing "personal" letters, firms writing repetitive contracts and other documents, and large users of form letters. Digital's word processors are technically advanced, and are particularly useful for multi-function applications, often combining word processing with other computer functions.

*Graphic Arts:* Digital is a leading supplier of computer systems to newspapers, typographic houses, printers, and in-house typesetting and printing facilities. The systems' advantages include the ability to edit copy on video screens, to store copy for retrieval at some later date, and to format copy, all as part of a continuing, on-line process and without the need for the separate operations traditionally needed to perform these functions.



*Small businesses are important customers for Digital's computers. Typical is The Bicycle Exchange in Cambridge, Massachusetts, which uses a DEC Datasystem 322 to run the day-to-day operations of its Harvard Square retail store and its dealings with 120 wholesale customers.*



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## *Selling Through Original Equipment Manufacturers (OEMs)*

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Digital was early in recognizing that specialized companies closely allied with special fields, could participate heavily in Digital's growth and success. The OEM has, from the beginning, played a vital role in Digital's progress, and continues to do so.

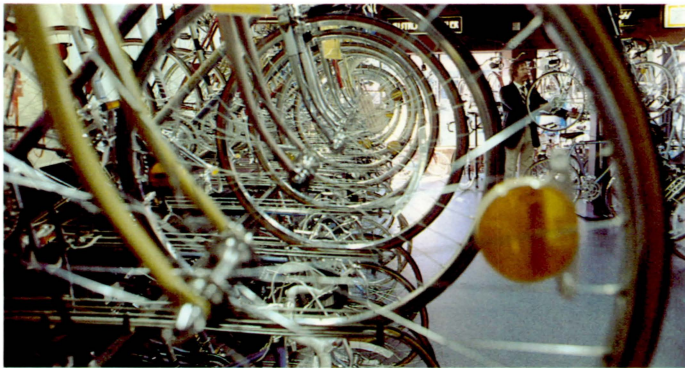
There are essentially two types of OEMs. The first builds equipment such as oil rigs, test equipment, medical brain scanners in which the computer made by Digital is built into their product. The second type of OEM takes Digital's systems substantially as they are, but adds special applications software needed by the customer for a specific job. The emphasis of this latter type is on understanding

the special requirements of, and installing a computer system in, a user's environment.

The range of markets and applications covered by Digital OEMs is far broader than the markets served directly by the company. In most cases, they are specialized markets, understood in fine detail, by the OEM. Some of the more prominent ones are:

*Electronic Test Equipment:* a number of OEMs purchase Digital's computers and include them in electronic test equipment. Electronic component testing, auto-engine testing, circuit board testing are examples of these applications.

*Communications Equipment:* Digital's computers are an important element in many communications systems designed by others, including satellite communications and message-switching systems.



*Navigation and Guidance Equipment:* radar controls, commercial and military air traffic control systems, airborne-ruggedized guidance systems, military command and control systems are just a few kinds of equipment utilizing Digital's computers inside.

*Process Control Equipment:* for some process control applications, including pipeline controls, nuclear, and fossil fuel power generating equipment, paper manufacture and some plastics processing, Digital's computers are part of other companies' systems.

*Energy Exploration Equipment:* Many Digital computers are included in instruments used for gas, oil and seismic studies and analysis— primarily with apparatus used for on-site data reduction and analysis.

*Display Equipment:* Most large electrical display units, including those at sports stadiums, racetracks, hotels, and civic centers are computer controlled. Digital is an important supplier.

*Medical Apparatus:* OEMs have included Digital's computers in brain scanners, body scanners, X-ray, and other diagnostic devices as well as a host of monitoring instruments for operating room and intensive care units.

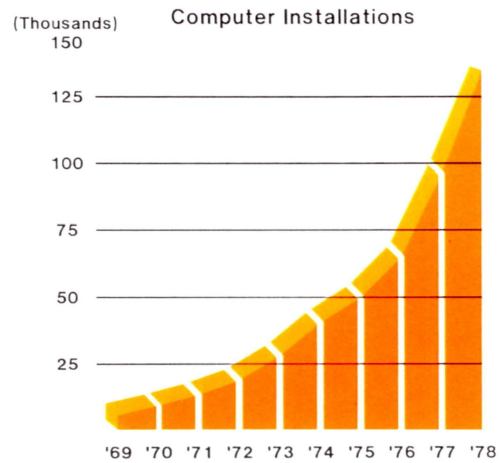
*Sensing Devices:* Air and water pollution sensors, air and water temperature sensors, light sensors, seismic and heat sensors, all the way down to traffic systems and toll collectors are other prominent uses of equipment which include Digital's computers.

*Heavy Equipment:* Large machine tools, oil rigs and vat mixers frequently include Digital's computers as control elements.

*Industrial Systems:* Numerical control systems, machine control and monitoring systems, power conservation systems, factory instrumentation and quality control devices are prominent systems using Digital's computers.

*Simulation Equipment:* OEMs simulating commercial and military aircraft, spacecraft, ships, tanks, cars and trucks, power stations, bridges, and tires are important users of Digital's computers as part of their own equipment.

*Commercial Business Packages:* OEMs have written application software adapting Digital's computers to almost every business application. These application packages include accounts payable, accounts receivable, billing, general ledger, financial planning/management/portfolio management, teller-item-accounting, trusts and investments, tax assessing,



*Fast, accurate diagnosis of computer problems is performed automatically at the new Digital Diagnostic Center in Colorado Springs. Now, in place of an in-person visit by a Digital Service Representative, initial diagnosis of problems is made through a toll-free telephone connection between the customer's computer and one at the center. Currently available in the U.S. and Canada to customers owning PDP-11/70, VAX-11/780, DECsystem-10 and DECSYSTEM-20 computers, this remote diagnosis capability will be expanded to include other Digital computers.*

mortgage accounting, inventory and warehouse management, production control, scheduling, distribution, payroll/labor distribution, property management, rental management, order entry, point of sale, route accounting, sales analysis and forecasting, and mailing list management and subscriptions.

*Industry-Specific Business Packages:* Commercial OEMs have written appropriate software for applications in construction, manufacturing, home-fuel, pharmacy, theater and auto-parts retailing, transportation, wholesale distribution, importing, and services associated with insurance, hotels, motels, legal offices, photofinishing, printing, libraries, real estate and associations.

*Scientific and Engineering Packages:* OEMs have written appropriate software for Digital's computers for civil engineering and architectural design; stress, strain, weight, thickness, density and performance analyses; electrical and chemical analysis, geological engineering, and color formation and testing.

There are packages for laboratories, statistics, mathematics, linear programming, hybrid simulation and non-physical simulation.

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### *Selling Through the Retail Store and the Catalog*

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In July, 1978, Digital opened its first retail store in the Mall of New Hampshire, at Manchester, close by our commercial facilities in Merrimack, N.H.

This pilot store sells word processing systems and services, and small computer systems aimed at small businesses. It also sells computer supplies, such as paper and ribbons, and conducts seminars for operators.

The objective of the store is to sell small systems with standard software for businesses which require such products. If a customer's application requires anything special, he is referred to the appropriate commercial OEM.



*With an installed base of more than 135,000 computers around the world which continues to grow every day, Digital's customer and employee training activities have grown accordingly. Housed in modern, new headquarters at Bedford, Massachusetts, Digital's Educational Services organization combines comprehensive classroom instruction with hands-on training on one of the half-mile of computers which fill the training laboratories. Programs also include individual self-paced audio-visual courses as well as instruction at customer sites. Last year, almost 3 million student hours of instruction were given to more than 52,000 students at the company's 18 training facilities located around the world.*



The Company also sells from a comprehensive catalog which is distributed to more than 25,000 users of Digital's computers. These customers can order spare parts, supplies, media such as disks and tapes, and certain modules simply by dialing a special toll-free telephone number.

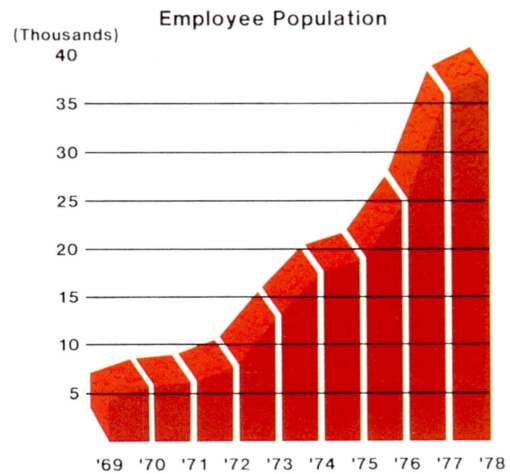
### *Digital Programs for Its People*

Digital's people, who now number more than 38,000, are its most essential resource. Digital is proud of the quality of its worldwide organization and provides programs which are designed to enhance the effectiveness of employees in the overall organization and to promote individual development as well.

Programs such as employee education, sales training, management development, job training enlargement, tuition refunds, and university courses at company facilities are all serious commitments at Digital which, during the past year, were expanded to accommodate the steadily growing numbers of employees who seek both personal and professional growth. We continued to pursue affirmative action programs to attract and develop minority and female employees. An extensive in-company program of continuing education offers individual courses, high school equivalency and university level courses leading to degrees.

Opportunities are also available to pursue further education through company-sponsored programs run in cooperation with scores of colleges and universities.

The participation of employees at all levels in these programs is encouraging, for their individual enthusiasm and desires to learn and grow can only ensure Digital's continuing progress and bolster its confidence in the future.



*In July, 1978, Digital opened its first retail computer store in the Mall of New Hampshire, a large, high-traffic shopping complex at Manchester. Most of the store's 4500-square foot area is devoted to a large display and selling area which offers a variety of data- and word-processing systems geared to the everyday management needs of small businesses. The store also houses a Word Processing Service Center and a 40-seat auditorium/classroom where introductory seminars and customer training courses are given.*



# *Digital Equipment Corporation*

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*Financial Statements*

## Ten Year Financial Summary

<i>Operations (In Millions except per share data)</i>	1978	1977	1976
<i>Revenues</i>			
Equipment sales	\$1,128.1	\$ 847.5	\$ 586.7
Service and other revenues	308.5	211.1	149.6
Total Operating Revenues	1,436.6	1,058.6	736.3
<i>Costs and Expenses</i>			
Cost of equipment sales, service and other revenues <sup>1</sup>	802.3	595.1	424.3
Research and engineering expenses	115.7	79.7	58.4
Selling, general and administrative expenses <sup>1</sup>	281.0	205.9	136.1
Interest expense (income), net	10.1	1.5	(1.9)
Total Costs and Expenses	1,209.1	882.2	616.9
Income Before Income Taxes	227.5	176.4	119.4
Income Taxes	85.3	67.9	46.0
Net Income	\$ 142.2	\$ 108.5	\$ 73.4
Net Income Per Share <sup>2</sup>	\$ 3.40	\$ 2.78	\$ 1.98
Weighted average number of shares outstanding during each year	43.2	39.0	37.1
<i>Financial Position (In Millions of dollars except per share data)</i>			
Inventories	428.1	375.0	218.8
Accounts receivable, net of allowances	375.2	323.1	219.3
Working capital	887.0	574.2	499.0
Property, plant and equipment, at cost	507.8	352.4	215.8
Total assets	1,491.7	1,070.4	856.0
Long-term debt	341.6	90.6	91.4
Stockholders' equity	904.8	735.5	606.0
Stockholders' equity per share	\$ 22.69	\$ 18.73	\$ 15.61
<i>General Information and Ratios (Dollars in Millions)</i>			
Current ratio	4.9:1	3.5:1	4.3:1
Additions to property, plant and equipment	\$ 167.0	\$ 143.2	\$ 54.5
Depreciation	\$ 50.2	\$ 28.5	\$ 22.0
Income before income taxes as a percentage of total operating revenues	15.8%	16.7%	16.2%
Net income as a percentage of average stockholders' equity	17.3%	16.2%	14.7%
Net income as a percentage of average total assets	11.1%	11.3%	10.3%
Average number of employees for year	37,500	30,500	22,000
Revenues per average number of employees (in thousands)	\$ 38.3	\$ 34.7	\$ 33.5
Common shares outstanding (in thousands)	39,873	39,259	12,944
Shareholders at year-end	25,868	22,738	15,442

<sup>1</sup> Certain customer support expenses of \$3.1, \$1.9, \$1.5 and \$1.0 million, classified as selling, general and administrative expenses in fiscal 1972-1969, respectively, have been reclassified and reported as part of cost of equipment sales, service and other revenues.

<sup>2</sup> See Note E of Notes to Consolidated Financial Statements.

1975	1974	1973	1972	1971	1970	1969
\$ 433.2	\$ 360.8	\$ 229.1	\$ 166.3	\$ 133.0	\$128.0	\$ 86.7
100.6	61.1	36.4	21.3	13.8	7.4	4.5
533.8	421.9	265.5	187.6	146.8	135.4	91.2
301.2	233.6	146.8	101.3	78.3	68.6	47.7
48.5	36.6	25.0	20.1	16.7	13.3	9.4
109.3	83.8	55.6	40.5	33.6	27.0	16.2
1.2	(1.0)	(.5)	(.1)	(.3)	.3	.1
460.2	353.0	226.9	161.8	128.3	109.2	73.4
73.6	68.9	38.6	25.8	18.5	26.2	17.8
27.6	24.5	15.1	10.5	7.9	11.8	8.4
\$ 46.0	\$ 44.4	\$ 23.5	\$ 15.3	\$ 10.6	\$ 14.4	\$ 9.4
\$ 1.28	\$ 1.27	\$ .72	\$ .50	\$ .35	\$ .50	\$ .35
35.9	35.1	32.6	30.8	30.1	28.6	27.1
174.8	137.4	102.7	62.1	44.4	43.0	24.8
165.0	144.6	107.2	68.4	49.9	41.9	28.1
333.2	238.6	152.7	87.2	86.6	56.1	38.2
167.6	127.4	83.9	58.9	37.0	24.9	10.2
565.1	440.3	287.4	192.4	150.1	114.8	62.3
85.2	10.6	—	—	—	—	—
394.4	339.6	223.5	144.8	125.9	76.3	45.4
\$ 10.94	\$ 9.49	\$ 6.73	\$ 4.67	\$ 4.10	\$ 2.63	\$ 1.64
5.2:1	3.8:1	3.4:1	2.8:1	4.6:1	2.5:1	3.3:1
\$ 45.9	\$ 50.1	\$ 31.8	\$ 27.7	\$ 18.4	\$ 14.9	\$ 5.5
\$ 16.9	\$ 12.4	\$ 8.0	\$ 5.1	\$ 2.9	\$ 1.9	\$ 1.2
13.8%	16.3%	14.5%	13.8%	12.6%	19.4%	19.5%
12.5%	15.8%	12.8%	11.3%	10.5%	23.7%	27.7%
9.2%	12.2%	9.8%	8.9%	8.0%	16.3%	19.2%
18,300	15,300	10,400	7,000	6,000	5,100	3,500
\$ 29.2	\$ 27.6	\$ 25.5	\$ 26.8	\$ 24.5	\$ 26.5	\$ 26.1
12,022	11,932	11,079	10,343	10,239	9,673	9,216
15,033	14,393	14,226	15,430	7,420	6,460	3,586

## 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

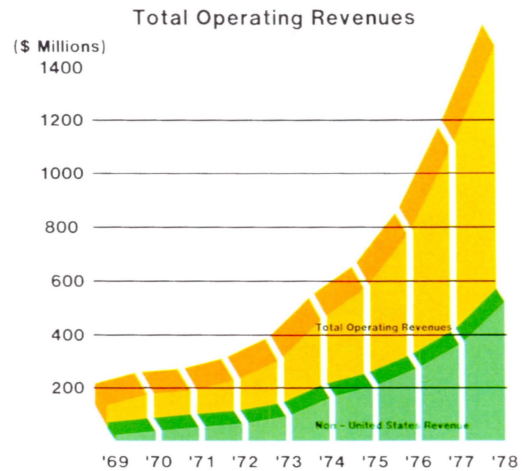
in the Consolidated Summary of Operations for the three fiscal years ended July 1, 1978 and the percentage changes in those items for such years.

Income and Expense Items as a Percentage of Total Operating Revenues			Income and Expense Items	Percentage Increase (Decrease)		
				1977 to 1978	1976 to 1977	1975 to 1976
1976	1977	1978				
79.7%	80.1%	<b>78.5%</b>	Equipment sales	<b>33%</b>	44%	35%
20.3%	19.9%	<b>21.5%</b>	Service and other revenues	<b>46%</b>	41%	49%
100.0%	100.0%	<b>100.0%</b>	Total operating revenues	<b>36%</b>	44%	38%
57.6%	56.2%	<b>55.8%</b>	Cost of sales, service and other revenues	<b>35%</b>	40%	41%
7.9%	7.5%	<b>8.1%</b>	Research and engineering expenses	<b>45%</b>	36%	20%
18.5%	19.5%	<b>19.6%</b>	Selling, general and administrative expenses	<b>36%</b>	51%	25%
1.4%	1.1%	<b>1.6%</b>	Interest expense	<b>91%</b>	19%	107%
(1.6%)	(1.0%)	<b>(.9%)</b>	Interest income	<b>20%</b>	(13%)	228%
83.8%	83.3%	<b>84.2%</b>	Total costs and expenses	<b>37%</b>	43%	34%
16.2%	16.7%	<b>15.8%</b>	Income before income taxes	<b>29%</b>	48%	62%
6.2%	6.4%	<b>5.9%</b>	Income taxes	<b>26%</b>	48%	67%
10.0%	10.3%	<b>9.9%</b>	Net income	<b>31%</b>	48%	60%

## Revenues

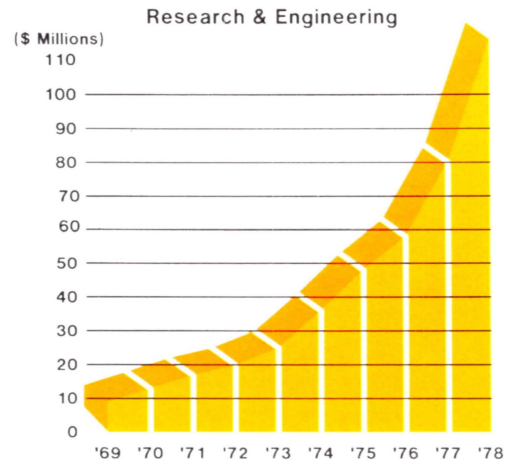
Total operating revenues for fiscal 1978 were \$1.437 billion, a 36% increase over the \$1.059 billion reported for fiscal 1977. Equipment sales in fiscal 1978 were \$1.128 billion, an increase of 33% over fiscal 1977 equipment sales of \$847.5 million. The 33% rate of increase in equipment sales was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

Service and other revenues, which includes maintenance service, software sales, replacement parts, and to a minor extent, equipment rentals, were \$308.5 million in fiscal 1978, a 46% increase over fiscal 1977 service and other revenues of \$211.1 million. The 46% growth rate was ahead of the corresponding fiscal 1977 growth rate of 41% as a result of an increased number of customers purchasing such services and the continued growth in the base of installed computer systems.



## International Operations

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



## Expenses

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

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

Selling, general and administrative expenses increased 36%, or approximately at the same growth

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

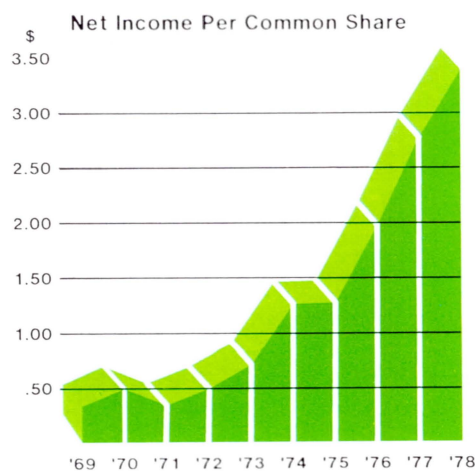
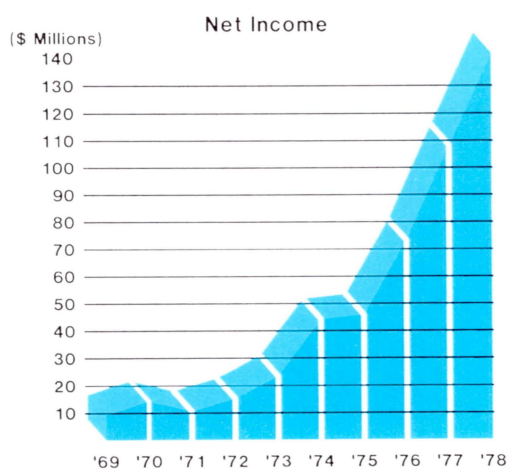
Interest expense increased 91% in fiscal 1978 as a result of the interest on the \$250 million of Convertible Subordinated Debentures sold during the first quarter of fiscal 1978. Interest income increased 20% due to the increase in funds available for investment.

## Income

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

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

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



## Financial Position

The Company's financial position continued to improve in fiscal 1978 as the result of continued emphasis on asset management and growth in operations.

Working capital increased \$312.9 million during the year to \$887.0 million. This increase was effected primarily by the sale of \$250 million of Convertible Subordinated Debentures during the first quarter of fiscal 1978 and by the generation of nearly \$208 million from operations. These funds were used to finance increases in accounts receivable and inventories and additions to plant and equipment. Remaining funds, included in temporary cash investments, resulted in an increase of \$211.3 million over the fiscal 1977 position to \$298.5 million at year-end.

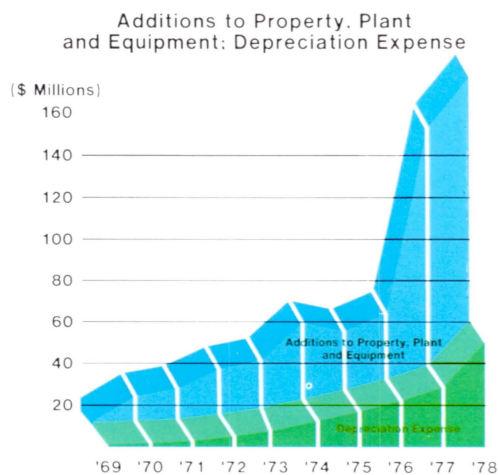
Accounts receivable were \$375.2 million, an increase of \$52.1 million over last year, while the number of days sales outstanding (accounts receivable divided by fourth quarter operating revenue multiplied by 90 days) improved to 82 days versus 88 days last year.

The inventory position was \$428.1 million versus \$375 million last year. This increase reflects the level of business anticipated by the Company and an improvement in the inventory turnover in fiscal 1978.

In response to the Company's commitment to shortened delivery times and to support the higher level of expected customer demand, total additions to plant and equipment were \$167.0 million, resulting in a net increase to the Company's capital investment of nearly 42%.

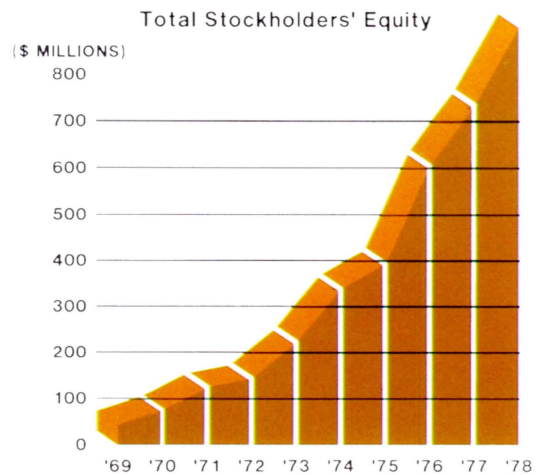
## Property, Plant and Equipment Investment

This past year \$167.0 million was invested in new additions to property, plant and equipment. Building programs in Colorado Springs, Colorado; Burlington, Vermont; and at various sites in Massachusetts and New Hampshire represent a significant portion of this investment. The major part of the investment was in machinery and equipment to support the greatly expanded manufacturing and administrative functions. Return on average total assets at year-end was 11.1 percent versus 11.3 percent a year ago.



## Stockholders' Equity

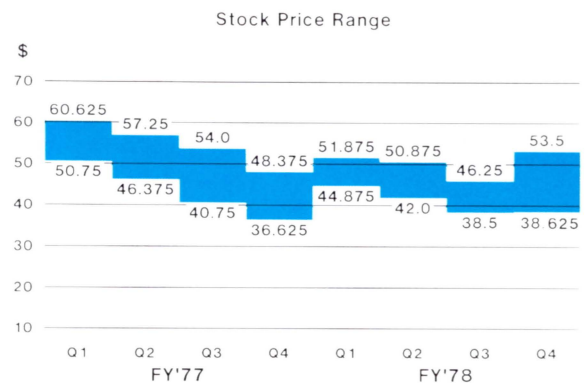
Stockholders' equity rose to \$904.8 million in fiscal 1978, an increase of \$169.3 million. Return on average stockholders' equity was 17.3 percent versus 16.2 percent last year. Stockholders' equity per share was \$22.69 versus \$18.73 in 1977.



## Common Stock Prices

The Company's common stock is listed and traded on the New York Stock Exchange and the Pacific Stock Exchange. The high and low quarterly sales prices for the past two fiscal years are presented below.

Quarter:	1978		1977	
	High	Low	High	Low
First	\$51.875	\$44.875	\$60.625	\$50.750
Second	50.875	42.000	57.250	46.375
Third	46.250	38.500	54.000	40.750
Fourth	53.500	38.625	48.375	36.625



## Consolidated Statements of Income (In Thousands except per share data)

	Year Ended	
	July 1, 1978	July 2, 1977
<i>Revenues</i> (Notes A and B)		
Equipment sales	\$1,128,099	\$ 847,539
Service and other revenues	308,463	211,075
<b>Total operating revenues</b>	<b>1,436,562</b>	<b>1,058,614</b>
<i>Costs and Expenses</i> (Notes A and I)		
Cost of equipment sales, service and other revenues	802,253	595,170
Research and engineering expenses	115,686	79,694
Selling, general and administrative expenses	280,990	205,883
Interest expense	22,384	11,711
Interest income	(12,254)	(10,244)
<b>Total costs and expenses</b>	<b>1,209,059</b>	<b>882,214</b>
Income before income taxes	227,503	176,400
<i>Provision for Income Taxes</i> (Notes A, C and D)		
Federal	60,446	52,200
Foreign	17,398	6,800
State	7,470	8,900
	85,314	67,900
<b>Net income</b>	<b>\$ 142,189</b>	<b>\$ 108,500</b>
<b>Net income per share (Note E)</b>	<b>\$ 3.40</b>	<b>\$ 2.78</b>

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

## Consolidated Balance Sheets (In Thousands)

Assets	July 1, 1978	July 2, 1977
<i>Current Assets</i>		
Cash	\$ 862	\$ 1,069
Temporary cash investments, at cost which approximates market (Note A)	298,500	87,154
Accounts receivable, net of allowances of \$16,457 and \$10,865	375,205	323,145
Inventories (Note A):		
Raw materials	78,020	97,924
Work-in-process	161,180	139,134
Finished goods	188,902	137,936
	428,102	374,994
Prepaid expenses	13,052	18,659
Total Current Assets	1,115,721	805,021
<i>Property, Plant and Equipment, at cost (Note A)</i>		
Land	25,431	19,730
Buildings	175,135	114,895
Leasehold improvements	23,556	16,205
Machinery and equipment	283,688	201,591
	507,810	352,421
Less accumulated depreciation	131,875	87,010
	375,935	265,411
	<b>\$1,491,656</b>	<b>\$1,070,432</b>
<i>Liabilities and Stockholders' Equity</i>		
<i>Current Liabilities</i>		
Loans payable to banks (Note F)	\$ 8,822	\$ 27,830
Accounts payable	50,507	60,574
Federal, foreign and state income taxes	54,065	57,750
Salaries, wages and related items	44,805	36,118
Deferred revenues and customer advances (Note A)	43,870	29,710
Current portion of long-term debt	917	802
Other current liabilities	25,699	18,071
Total Current Liabilities	228,685	230,855
Deferred Federal and foreign income taxes	16,590	13,558
Long-term debt (Note G)	341,623	90,556
<i>Stockholders' Equity (Note J)</i>		
Common stock, \$1.00 par value; authorized 120,000,000 shares (50,000,000 at July 2, 1977); issued and outstanding 39,873,449 and 39,259,015 shares	39,873	39,259
Additional paid-in capital	362,110	335,618
Retained earnings	502,775	360,586
Total Stockholders' Equity	904,758	735,463
	<b>\$1,491,656</b>	<b>\$1,070,432</b>

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

## Consolidated Statements of Stockholders' Equity *(In Thousands)*

	Years Ended			
	July 1, 1978 and July 2, 1977			
	Common Stock	Additional Paid-in Capital	Retained Earnings	Total Stockholders' Equity
July 3, 1976	\$12,944	\$341,015	\$252,086	\$606,045
Par value of shares issued in three-for-one stock split	25,928	(25,928)		—
Shares issued under stock option and purchase plans (Note J)	387	13,012		13,399
Restricted stock plans (Note J)				
Charge to operations		4,350		4,350
Excess Federal income tax benefits		1,887		1,887
Other		1,282		1,282
Net income—1977			108,500	108,500
July 2, 1977	\$39,259	\$335,618	\$360,586	\$735,463
Shares issued under stock option and purchase plans (Note J)	614	17,748		18,362
Restricted stock plans (Note J)				
Charge to operations		6,235		6,235
Excess Federal income tax benefits		1,872		1,872
Other		637		637
Net income—1978			142,189	142,189
July 1, 1978	\$39,873	\$362,110	\$502,775	\$904,758

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

## *Consolidated Statements of Changes in Financial Position* (In Thousands)

	Year Ended	
	July 1, 1978	July 2, 1977
<i>Source of Funds:</i>		
<i>Operations:</i>		
Net income	\$142,189	\$108,500
Add—expenses not requiring working capital in current period:		
Depreciation (Note A)	50,216	28,536
Disposal of property, plant and equipment (Note A)	6,304	3,428
Restricted stock plans—charge to operations (Note J)	6,235	4,350
Deferred income taxes, non-current	3,032	4,049
	<b>207,976</b>	<b>148,863</b>
Restricted stock plans—excess Federal income tax benefit (Note J)	1,872	1,887
Increase (decrease) in long-term debt (Note G)	251,067	(802)
Decrease in investments in marketable securities, long-term	—	53,714
Common stock issued under option plans (Note J)	18,362	13,399
Other	637	1,282
	<b>479,914</b>	<b>218,343</b>
<i>Use of Funds:</i>		
Additions to property, plant and equipment	167,044	143,160
Increase in Working Capital	<b>\$312,870</b>	<b>\$ 75,183</b>
<i>Analysis of Increase in Working Capital</i>		
Increase (decrease) in current assets:		
Cash	\$ (207)	\$ (6,546)
Temporary cash investments	211,346	(106,576)
Accounts receivable	52,060	103,868
Inventories	53,108	156,217
Prepaid expenses	(5,607)	9,949
	<b>310,700</b>	<b>156,912</b>
(Increase) decrease in current liabilities:		
Loans payable to banks	19,008	(23,069)
Accounts payable	10,067	(13,448)
Federal, foreign and state income taxes	3,685	(13,897)
Other current liabilities	(30,590)	(31,315)
	<b>2,170</b>	<b>(81,729)</b>
Increase in Working Capital	<b>\$312,870</b>	<b>\$ 75,183</b>

The accompanying notes are an integral part of these 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 intercompany accounts and profits have been eliminated.

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

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

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

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

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

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

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

*Property, Plant and Equipment* Depreciation expense is computed principally on the following bases:

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

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

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

## Note B—International Operations

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

**International Operations** Sales and marketing operations outside the United States are conducted principally through sales subsidiaries in Canada, Europe, Central and South America and the Far East, by direct sales from the parent corporation and, to a minor extent, through various representative and distributorship arrangements. A substantial portion of these sales consists of products manufactured domestically. The Company's foreign manufacturing operations include manufacturing operations in Canada, Taiwan, Hong Kong, West Germany, Ireland and Scotland. 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 prices to foreign customers are designed to yield consolidated profits substantially the same as the profits on products manufactured and sold to customers in the United States. Inter-company transfers between geographic areas are accounted for at discounts from list prices which are designed to be representative of unaffiliated party transactions.

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

	United States	International			Consolidated
		Europe	Canada, Far East and Americas	Eliminations	
		<i>(In Thousands)</i>			
Sales to unaffiliated customers	\$ 913,128	\$376,888	\$146,546	\$ —	\$1,436,562
Transfers between geographical areas	297,193	—	114,513	(411,706)	—
<b>Total Net Sales</b>	<b>\$1,210,321</b>	<b>\$376,888</b>	<b>\$261,059</b>	<b>\$(411,706)</b>	<b>\$1,436,562</b>
Operating profit	\$ 184,631	\$ 28,270	\$ 34,940	\$ (10,208)	\$ 237,633
Interest Income					12,254
Interest Expense					(22,384)
<b>Income before income taxes</b>					<b>\$ 227,503</b>
Identifiable Assets	\$1,117,547	\$266,572	\$142,572	\$(333,535)	\$1,193,156
Corporate Assets (Temporary cash investments)					\$ 298,500
<b>Total Assets</b>					<b>\$1,491,656</b>

Sales to unaffiliated customers outside of the United States, including U.S. export sales, were \$539,513,000 for the year ended July 1, 1978 and \$378,884,000 for the year ended July 2, 1977, which represented 38% and 36%, respectively, of total operating revenues.

The retained earnings of all of the Company's foreign subsidiaries generally have been reinvested to support their operations. These retained earnings, before elimination of intercompany transactions, aggregated \$112,201,000 at July 1, 1978 and \$73,916,000 at July 2, 1977.

## Note C—Puerto Rican Operations

The Company has a domestic manufacturing subsidiary located in Puerto Rico, the products of which are sold to other members of the consolidated group. If the earnings of this subsidiary are remitted, they become subject to Puerto Rican withholding taxes at rates not in excess of 10%. As a result of the Tax

Reform Act of 1976, remitted funds are not subject to U.S. Federal income taxes. In June 1978, the Puerto Rican subsidiary remitted a substantial portion of its accumulated earnings to the parent corporation. Appropriate provision had been made for the applicable Puerto Rican taxes.

## Note D—Income Taxes

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

	1978	1977
U.S. Federal statutory tax rate	48.0%	48.0%
Tax benefit of nontaxable income (a):		
Puerto Rico	(7.6)	(6.0)
Ireland	(2.3)	(3.0)
Difference between U.S. and Foreign tax rates	(2.7)	(1.2)
State income taxes, net of Federal income tax benefit	1.7	2.6
Other	.4	(1.9)
	37.5%	38.5%

(a) Consolidated net income includes income of a domestic manufacturing subsidiary operating in Puerto Rico and income of a foreign manufacturing subsidiary operating in Ireland. Under an exemption which expires in 1981 (for years 1982 through 1991 income is partially exempt), the income of the subsidiary in Puerto Rico is not subject to Puerto Rican income taxes. See Note C for further explanation of the tax aspects of the Company's operations in Puerto Rico. Under Irish law, the income from products manufactured for export by the subsidiary in Ireland is exempt from Irish taxes for a period of 15 years, which period expires in 1986 (for the years 1987-1991 the income is partially exempt). The income tax benefits per common share attributable to the tax status of these subsidiaries for the two years ended July 1, 1978 and July 2, 1977 were \$.52 and \$.41, respectively.

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

	Year Ended	
	July 1, 1978	July 2, 1977
	<i>(In Thousands)</i>	
U.S. Federal:		
Currently payable	\$45,543	\$51,900
Deferred	14,903	300
Total	\$60,446	\$52,200
Foreign:		
Currently payable	\$20,461	\$16,300
Deferred	(3,063)	(9,500)
Total	\$17,398	\$ 6,800

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 1, 1978 and July 2, 1977 and the tax effect of each were as follows:

	Year Ended	
	July 1, 1978	July 2, 1977
	<i>(In Thousands)</i>	
Inventory related transactions	\$ (9,782)	\$(21,600)
Installment sales, principally intercompany, and financing leases	6,896	3,600
Domestic International Sales Corporation profits	6,908	4,300
Other	7,818	4,500
Total	\$11,840	\$ (9,200)

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

## Note E—Net Income Per Share and Dividends

Net income per share is based on the weighted average number of common shares and, if their aggregate dilutive effect is material, common share equivalents, outstanding during the year. In fiscal 1978 common share equivalents are attributable principally to the \$250 million of Convertible Subordinated Debentures sold by the Company in the first quarter of fiscal 1978, and to a minor extent, stock options.

Prior to fiscal 1978 common share equivalents were solely attributable to stock options and were excluded from per share calculations because their dilutive effect was not material.

No cash dividends have ever been paid by the Company.

## Note F—Short-Term Debt

Short-term debt and related interest rates at July 1, 1978 and July 2, 1977 were as follows:

	July 1, 1978		July 2, 1977	
	(In Thousands)	Average Interest Rate	(In Thousands)	Average Interest Rate
Loans payable to banks—domestic	\$ —	—	\$17,738	6.3%
Loans payable to banks—foreign	8,822	18.1%	10,092	17.3%
	<b>\$8,822</b>		<b>\$27,830</b>	

The maximum aggregate short-term debt outstanding at any month-end was \$84,979,000 during fiscal 1978 and \$88,631,000 during fiscal 1977, while average short-term borrowings during these years were \$24,588,000 and \$30,102,000, respectively. The average interest rate based on a weighted average of the stated month-end rates was 10.3% in fiscal 1978 and 8.5% in fiscal 1977.

Unused lines of credit for short-term financing were \$113,113,000 at July 1, 1978 and \$84,900,000 at July 2, 1977. At July 1, 1978, certain lines of credit required either the maintenance of compensating balances or the payment of facility fees; \$23,000,000 required the maintenance of compensating balances equal to approximately 10% of such unused lines and \$41,000,000 required the payment of facility fees which in general are approximately the equivalent of 9% compensating balances. After considering "float," none of the cash reflected in the balance sheets at July 1, 1978 and July 2, 1977 was required as compensating balances.

## Note G—Long-Term Debt

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

	July 1, 1978	July 2, 1977
	<i>(In Thousands)</i>	
Lease obligations payable 1979-1993 (4.5%-11.7%) (a)	\$ 7,618	\$ 6,121
Collateralized obligations maturing serially to 1993 (5.4%) (b)	9,010	9,435
Sinking Fund Debentures due March 15, 2000 (9 $\frac{3}{8}$ %) (c)	75,000	75,000
Convertible Subordinated Debentures due December 15, 2002 (4 $\frac{1}{2}$ %) (d)	249,995	—
	<b>\$341,623</b>	<b>\$90,556</b>

Principal payments required during the next five fiscal years are as follows: 1979-\$917,000; 1980-\$971,000; 1981-\$1,032,000; 1982-\$1,088,000; 1983-\$1,141,000.

(a) Weighted average interest rate at July 1, 1978 of 8.0%.

(b) Interest rate shown is the weighted average rate at July 1, 1978.

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

redeemable at the option of the Company at any time, as a whole or in part, at 109 $\frac{3}{8}$ % of the principal amount during the year beginning March 15, 1975, and at declining percentages each year thereafter. However, prior to March 15, 1985, the Company may not redeem any of the Debentures from the proceeds of funds borrowed at an interest rate less than 9 $\frac{3}{8}$ % per annum. The Indenture for the Debentures also contains certain restrictions on future borrowings and dividend distributions.

(d) On September 8, 1977, the Company sold \$250,000,000 of 4 $\frac{1}{2}$ % Convertible Subordinated Debentures. The Debentures are subordinated in right of payment to all senior indebtedness, as defined, and are convertible, subject to prior redemption, into shares of common stock at \$57 per share at any time up to and including the maturity date of December 15, 2002.

Annual sinking fund payments to redeem \$9,000,000 principal amount of the Debentures are required beginning on December 15, 1988, and beginning December 15, 1983, the Company, at its option, may make additional sinking fund payments to redeem up to an additional \$9,000,000 principal amount annually. In each case, the sinking fund redemption price is the principal amount of the Debentures, plus accrued interest to the date of redemption. In addition, the Debentures are redeemable at the option of the Company, at any time, in whole or in part, at 104 $\frac{1}{2}$ % of the principal amount of the Debentures through December 14, 1978, at prices which decrease annually thereafter to December 14, 1997 and thereafter at 100% of the principal amount, together with accrued interest to the date of redemption.

## Note H—Leases

Minimum annual rentals under noncancelable leases (which are principally for leased regional sales offices and manufacturing space) for the fiscal years listed below are as follows:

	<i>(In Thousands)</i>
1979	\$23,077
1980	18,928
1981	14,887
1982	11,215
1983	8,835
1984-1988	29,077
1989-1993	13,591
1994-1998	11,472
1999 and thereafter	13,294
<b>Total</b>	<b>\$144,376</b>

Total rental expense for the fiscal years ended July 1, 1978 and July 2, 1977 amounted to \$23,080,000 and \$21,462,000, respectively. The Company has no significant noncapitalized financing leases.

## Note I—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 \$16,092,000 in fiscal 1978 and \$9,723,000 in fiscal 1977.

## Note J—Stock Options

**Qualified Stock Options** Under its 1965 Qualified Stock Option Plan, the Company has granted certain officers and key employees options to purchase common stock within five years from the grant date at 100% of market price on the grant date. Of the 218,377 options outstanding at July 1, 1978, 208,602 shares are presently exercisable with 9,775 shares becoming exercisable in fiscal 1979. Authority to grant options under the plan expired March 9, 1975.

Information concerning activity during fiscal 1978 follows:

	Options Outstanding	
	Shares	Average Price Per Share
July 2, 1977	385,919	\$32.14
Options exercised	(147,661)	29.69
Options cancelled	(19,881)	28.02
<b>July 1, 1978</b>	<b>218,377</b>	<b>\$34.16</b>

**Restricted Stock Options** Under its Restricted Stock Option and Purchase Plans, the Company has granted certain officers and key employees options, which are exercisable upon grant, to purchase common stock at a price determined by the Board of Directors. Shares purchased under the 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 1978 follows:

	Shares Reserved For Future Grants	Options Outstanding	
		Shares	Average Price Per Share
July 2, 1977	1,288,878	2,382,918	\$17.89
Options granted	(276,688)	276,688	18.84
Options exercised		(146,646)	13.11
Options cancelled	91,929	(91,929)	18.97
<b>July 1, 1978</b>	<b>1,104,119</b>	<b>2,421,031</b>	<b>\$18.25</b>

At the time these options are exercised, the common stock account is increased by the par value (\$1 per share) of the shares sold and the remaining portion of the proceeds is credited to additional paid-in capital. The excess of the fair market value of the shares on the grant date over the option price is charged to operations each year as the restrictions lapse. Such charges to operations amounted to \$6,235,000 in fiscal 1978 and \$4,350,000 in fiscal 1977. 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 (\$1,872,000 in fiscal 1978 and \$1,887,000 in fiscal 1977) 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% of market value on the first or last business day of the six month payment period, whichever is lower. Common stock reserved for future grants aggregated 1,146,540 shares at July 1, 1978 and 1,470,777 shares at July 2, 1977. There were 324,237 shares issued at an average price of \$37.25 in fiscal 1978 and 213,717 shares at \$38.44 in fiscal 1977. There have been no charges to income in connection with the options other than incidental expenses related to the issuance of the shares.

## Note K – Quarterly Financial Data (Unaudited)

Selected quarterly financial data for fiscal 1978 and fiscal 1977 is set forth below:

	Total Operating Revenues	Gross Profit	Income Before Income Taxes	Net Income	Net Income Per Share
<i>(In Millions except per share data)</i>					
<b>1978</b>					
First Quarter	\$ 302.6	\$133.7	\$ 42.9	\$ 26.4	\$ .66
Second Quarter	346.6	151.6	51.4	32.5	.77
Third Quarter	374.8	163.4	59.2	37.0	.87
Fourth Quarter	412.5	185.6	74.0	46.3	1.08
Total Year	\$1,436.5	\$634.3	\$227.5	\$142.2	3.40
<b>1977</b>					
First Quarter	\$ 204.6	\$ 86.0	\$ 27.2	\$ 16.7	\$ .43
Second Quarter	241.0	105.8	36.9	22.7	.58
Third Quarter	282.7	122.5	45.5	28.0	.72
Fourth Quarter	330.3	149.1	66.8	41.1	1.05
Total Year	\$1,058.6	\$463.4	\$176.4	\$108.5	2.78

## Note L – Replacement Cost Information (Unaudited)

In compliance with Securities and Exchange Commission requirements, the Company has estimated the cost of inventories and plant and equipment as at July 1, 1978 and July 2, 1977, as well as depreciation expense and cost of equipment sales, service and other revenues for the years then ended, on the basis of replacement costs. Based on the methods and assumptions used, the estimated replacement cost of plant and equipment as at July 1, 1978 and July 2, 1977 exceeds the comparable historical cost by approximately \$97 million and \$83 million respectively, whereas inventories as at July 1, 1978 and July 2, 1977 and cost of equipment sales and depre-

ciation expense for the years then ended estimated based on replacement costs are less than the comparable historical cost amounts. (Replacement cost depreciation expense was computed, as required, on the straight-line method, whereas the Company uses accelerated methods for most machinery and equipment in its consolidated financial statements.)

Further information on replacement cost estimates, including methods and assumptions used and management qualifications concerning such estimates, may be obtained by reference to the Company's Form 10-K, copies of which are available upon request from the Company.

## Report of Independent Certified Public Accountants

To The Stockholders and Directors,  
Digital Equipment Corporation

We have examined the consolidated balance sheets of Digital Equipment Corporation as at July 1, 1978 and July 2, 1977, and the related consolidated statements of income, stockholders' equity and changes in financial position for the fiscal years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the consolidated financial position of Digital Equipment Corporation as at July 1, 1978 and July 2, 1977, 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 9, 1978

*Coopers & Lybrand*

COOPERS & LYBRAND

# Digital facilities around the world

## Digital Sales and Service Offices

### NORTH AMERICA

#### CANADA

Calgary  
Edmonton  
Halifax  
Kanata (Ottawa)  
London  
Montreal  
Quebec City  
Toronto  
Vancouver  
Winnipeg

#### UNITED STATES

##### Alabama

Birmingham  
Huntsville

##### Arizona

Phoenix  
Tucson

##### Arkansas

Little Rock\*

##### California

El Segundo  
Oakland  
Ridgecrest\*  
Sacramento  
San Diego  
San Francisco  
Santa Ana  
Santa Barbara  
Santa Clara

##### Colorado

Colorado Springs\*  
Denver

##### Connecticut

Fairfield  
Meriden

##### Delaware

Newark\*

##### District of Columbia

Washington (Lanham, Md.)

##### Florida

Jacksonville\*  
Miami  
Orlando  
Pensacola\*  
Tampa

##### Georgia

Atlanta

##### Hawaii

Honolulu

##### Illinois

Champaign\*  
Chicago (Loop)  
Peoria  
Rolling Meadows

##### Indiana

Ft. Wayne\*  
Indianapolis

##### Iowa

Bettendorf

Des Moines\*

##### Kansas

Wichita\*

##### Kentucky

Louisville

##### Louisiana

New Orleans

##### Maine

Portland\*

##### Maryland

Baltimore\*  
Odenton

##### Massachusetts

Waltham (Boston)  
West Springfield  
Worcester\*

##### Michigan

Detroit  
Kalamazoo\*  
Saginaw\*

##### Minnesota

Minneapolis

##### Missouri

Kansas City  
St. Louis

##### Nebraska

Omaha

##### New Hampshire

Manchester

##### New Jersey

Cherry Hill  
Fairfield  
Princeton  
Somerset

##### New Mexico

Albuquerque  
Los Alamos

##### New York

Albany  
Binghamton\*  
Buffalo  
Ithaca\*  
Long Island  
New York City  
Rochester  
Rome\*  
Syracuse  
Westchester

##### North Carolina

Chapel Hill  
Charlotte

##### Ohio

Cincinnati  
Cleveland  
Columbus  
Dayton  
Toledo\*

##### Oklahoma

Oklahoma City\*  
Tulsa

##### Oregon

Eugene\*

Portland

##### Pennsylvania

Allentown  
Harrisburg  
Philadelphia  
Pittsburgh

##### Rhode Island

Providence

##### South Carolina

Charleston\*  
Columbia  
Greenville\*

##### Tennessee

Knoxville  
Memphis\*  
Nashville

##### Texas

Austin  
Dallas  
El Paso  
Houston  
San Antonio\*

##### Utah

Salt Lake City

##### Vermont

Burlington

##### Virginia

Norfolk\*  
Richmond

##### Washington

Seattle

##### West Virginia

Charleston

##### Wisconsin

Madison\*  
Milwaukee

### EUROPE

#### Austria

Vienna

#### Belgium

Brussels

#### Denmark

Copenhagen

#### Egypt

Cairo (D)

#### Finland

Helsinki

#### France

Lyon  
Marseille  
Paris  
Puteau  
Toulouse\*

#### Ireland

Dublin

#### Israel

Tel Aviv

#### Italy

Milan  
Rome  
Turin

#### Netherlands

Amsterdam  
Hoogeveen\*  
The Hague  
Utrecht

#### Northern Ireland

Belfast

#### Norway

Oslo

Trondheim\*

#### Saudi Arabia

Jeddah (D)

#### Scotland

Edinburgh

#### Spain

Madrid

#### Sweden

Gothenburg  
Stockholm

#### Switzerland

Basle\*

Geneva

(European Headquarters)

Zurich

#### United Kingdom

Birmingham  
Brentwood\*  
Bristol  
Kent\*  
Leeds

Leicester

Liverpool\*

London City

London North (Ealing)

Manchester

Reading

Teesside\*

Welwyn

#### West Germany

Cologne  
Frankfurt

Hamburg

Hannover

Munich

Nurnberg

Stuttgart

West Berlin

#### Yugoslavia

Belgrade

Ljubljana (D)

### GENERAL

#### INTERNATIONAL

##### Argentina

Buenos Aires (D)

##### Australia

Adelaide

Brisbane

Canberra

Darwin\*

Melbourne

Newcastle\*

Perth  
 Sydney  
 Tasmania  
 Townsville  
**Bolivia**  
 LaPaz (D)  
**Brazil**  
 Rio de Janeiro  
 Sao Paulo  
**Chile**  
 Santiago (D)  
**Hong Kong**  
 Kennedy Town\*  
**India**  
 Bangalore (D)  
 Bombay (D)  
**Iran**  
 Teheran (also D)  
**Japan**  
 Kyoto\*  
 Kyushu\*  
 Nagoya\*  
 Osaka  
 Oyama\*  
 Tokyo  
 Tsuchiura\*  
 Yokahama\*  
**Mexico**  
 Mexico City  
 Monterrey\*  
**New Zealand**  
 Auckland  
 Christchurch  
 Dunedin\*  
 Hamilton\*  
 Wellington  
**Peru**  
 Lima (D)  
**Puerto Rico**  
 San Juan  
**Singapore**  
**South Korea**  
 Seoul (D)  
**Taiwan**  
 Taipei\*  
 Taoyuan\*  
**Venezuela**  
 Caracas (D)

(Besides the offices listed, Digital Equipment Corporation personnel provide Customer Service through an additional 167 locations worldwide.)

#### DIGITAL TRAINING CENTERS

**Australia**  
 Sydney (St. Leonards)  
**California**  
 San Francisco (Sunnyvale)  
**Canada**  
 Kanata (Ottawa)  
**District of Columbia**  
 Washington (Lanham, Md.)  
**France**  
 Paris (Rungis)  
**Germany**  
 Munich  
**Illinois**  
 Chicago (Rolling Meadows)  
**Italy**  
 Milan  
**Japan**  
 Tokyo  
**Massachusetts**  
 Bedford  
 Marlborough  
 Maynard  
**Netherlands**  
 Utrecht  
**New York**  
 New York City  
**Spain**  
 Madrid  
**Sweden**  
 Solna  
**Switzerland**  
 Zurich  
**United Kingdom**  
 Reading

#### DIGITAL COMPUTER SPECIAL SYSTEMS FACILITIES

**Australia**  
 Sydney  
**California**  
 Santa Ana  
**Canada**  
 Kanata (Ottawa)  
**France**  
 Annecy  
**Germany**  
 Munich  
**Japan**  
 Tokyo  
**New Hampshire**  
 Nashua  
**Sweden**  
 Solna (Stockholm)  
**United Kingdom**  
 Reading

#### DIGITAL MANUFACTURING FACILITIES

**Arizona**  
 Phoenix  
**California**  
 Mountain View  
**Canada**  
 Kanata  
**Colorado**  
 Colorado Springs  
**Hong Kong**  
**Ireland**  
 Galway  
**Maine**  
 Augusta  
**Massachusetts**  
 Acton  
 Marlborough  
 Maynard  
 Natick  
 Springfield  
 Westboro  
 Westfield  
 Westminster  
 Worcester  
**New Hampshire**  
 Nashua  
 Salem  
**New Mexico**  
 Albuquerque  
**Puerto Rico**  
 Aguadilla  
 San German  
**Scotland**  
 Ayr  
**Taiwan**  
**Vermont**  
 So. Burlington  
**West Germany**  
 Kaufbeuren

#### CORPORATE HEADQUARTERS

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

#### EUROPEAN HEADQUARTERS

Digital Equipment Corporation  
 International (Europe)  
 12, avenue des Morgines  
 Case Postale 510  
 1213 Petit-Lancy 1, Geneva  
 Switzerland  
 Telephone: (022) 93 33 11  
 Telex: 22 593

#### CANADIAN HEADQUARTERS

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

#### GENERAL INTERNATIONAL AREA HEADQUARTERS

Digital Equipment Corporation  
 Nagog Square  
 Acton, Massachusetts 01720  
 Telephone: (617) 263-6000  
 TWX: 710-347-0216

# Digital Equipment Corporation

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## DIRECTORS

Vernon R. Alden\*  
Chairman, Massachusetts  
Foreign Business Council  
(A group chartered to  
attract foreign business  
to the state.)

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

Sheldon A. Davis  
Vice President, Personnel

Winston R. Hindle, Jr.  
Vice President, Corporate Operations

Theodore G. Johnson  
Vice President, Sales & Service

Andrew C. Knowles III  
Vice President, Corporate Marketing

John Leng  
Vice President, Technical Group

Julius L. Marcus  
Vice President, Commercial Group

Stanley C. Olsen  
Vice President, Computer Products Group

Edward A. Schwartz  
Vice President, Secretary &  
General Counsel

John F. Smith  
Vice President, Manufacturing

Richard J. Clayton  
Vice President, Computer Systems  
Development

William C. Hanson  
Vice President, Volume Manufacturing

Irwin Jacobs  
Vice President, Commercial OEM Group

Edward A. Kramer  
Vice President, Components Group

William H. Long  
Vice President, Corporate Planning

Gerald T. Moore  
Vice President, North American Sales

Jean-Claude Peterschmitt  
Vice President, Europe

Lawrence J. Portner  
Vice President, Software

Robert W. Puffer, III  
Vice President, Engineering Operations

John J. Shields  
Vice President, Field Service and  
Training

George A. Chamberlain, 3d  
Treasurer

William R. Thompson  
Controller

## TRANSFER AGENT AND REGISTRAR FOR COMMON STOCK

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

## TRUSTEES AND REGISTRARS

*For 9<sup>3</sup>/<sub>8</sub>% Sinking Fund Debentures*  
Morgan Guaranty Trust Company  
Of New York  
30 West Broadway  
New York, New York 10015

*For 4<sup>1</sup>/<sub>2</sub>% Convertible  
Subordinated Debentures*  
Citibank, N.A.  
111 Wall Street  
New York, New York 10015

## AUDITORS

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

## LEGAL COUNSEL

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

## SHARES TRADED

New York Stock Exchange  
Pacific Stock Exchange  
(Ticker Symbol "DEC")

## UNLISTED TRADING

Boston Stock Exchange  
Midwest Stock Exchange  
PBW Stock Exchange

## *Investor information*

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A copy of Digital's Annual Report on Form 10-K for the fiscal year ended July 1, 1978, 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) 493-5350

**digital**

*Digital Equipment Corporation  
Maynard, Massachusetts 01754*

