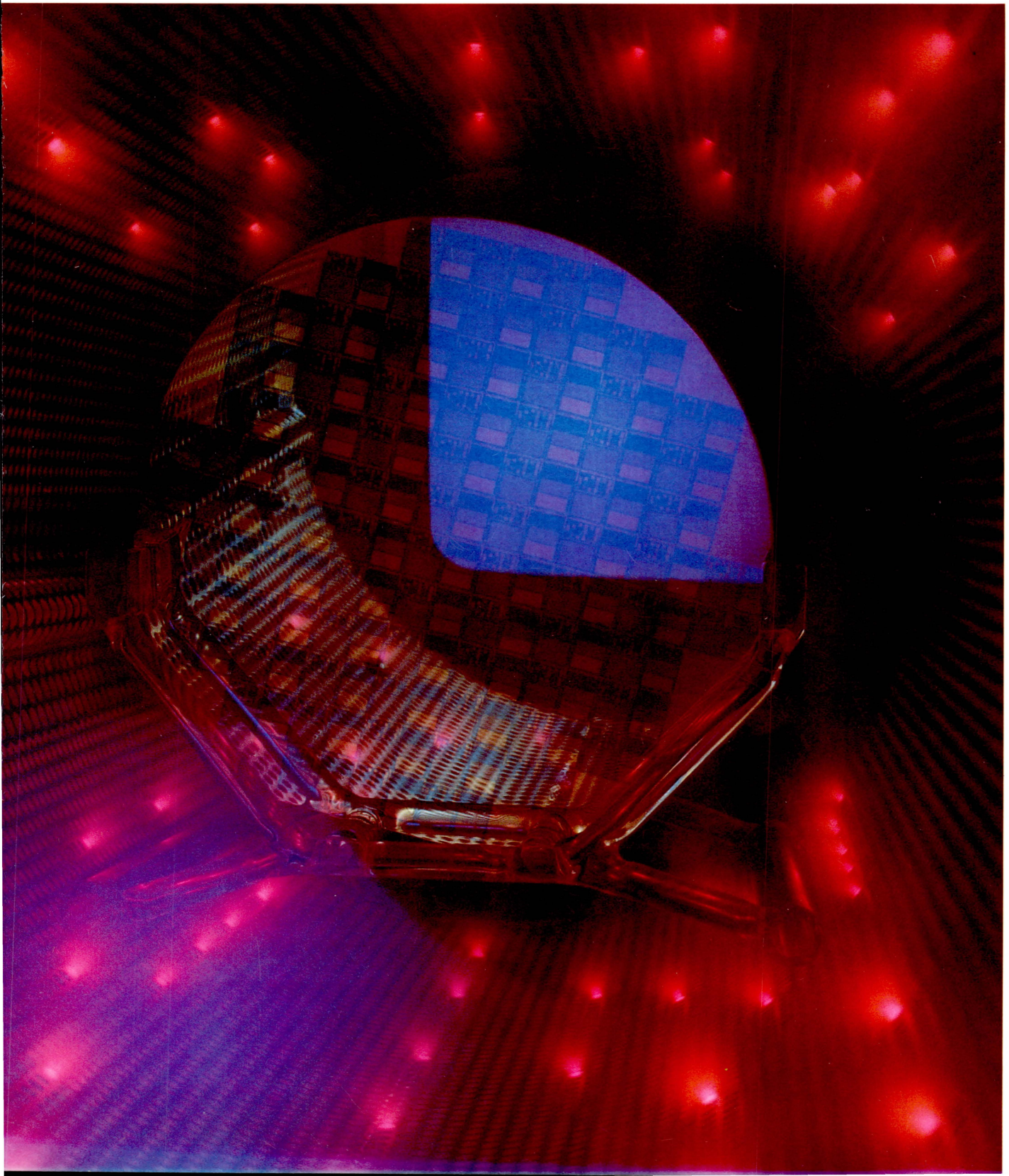


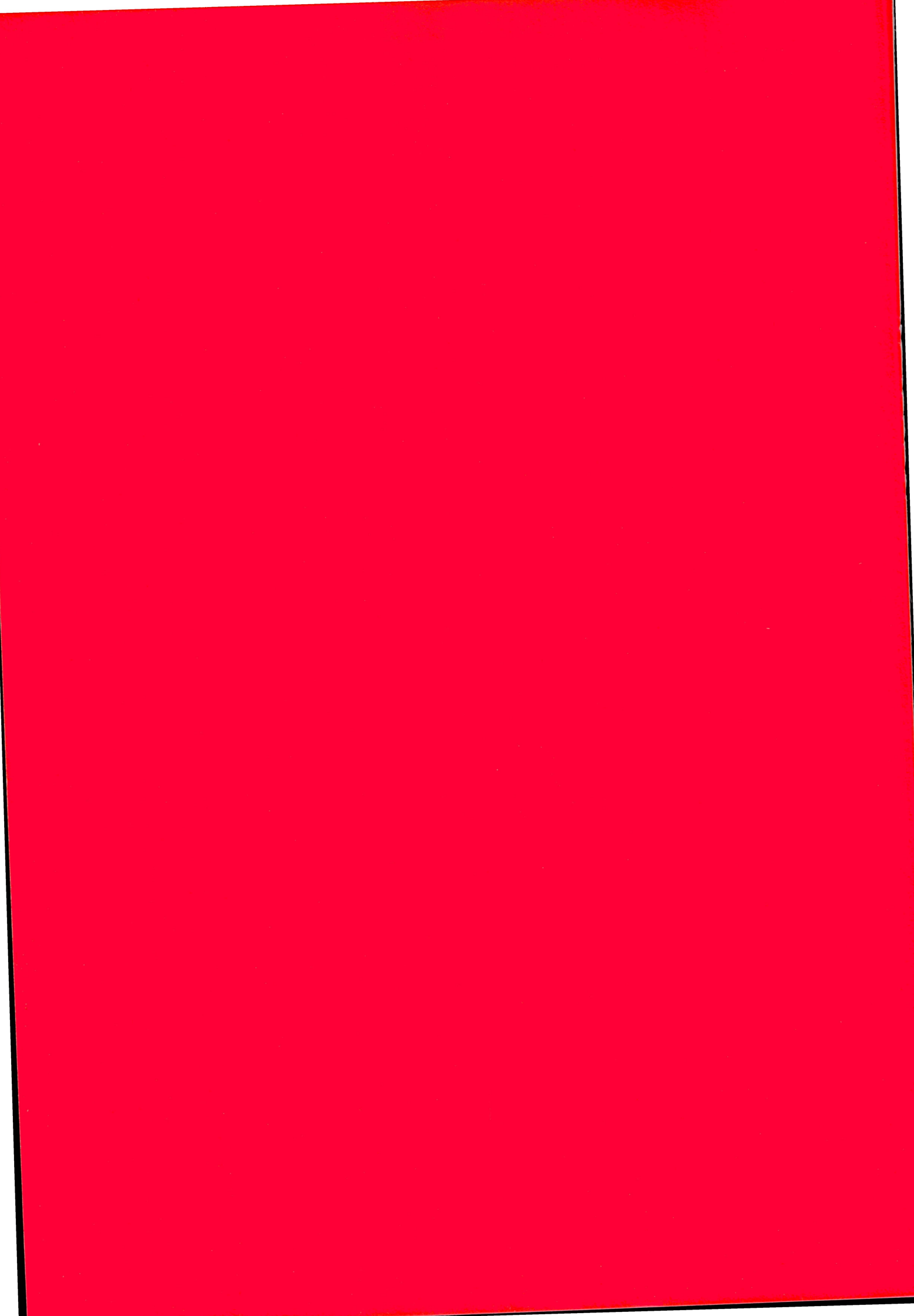
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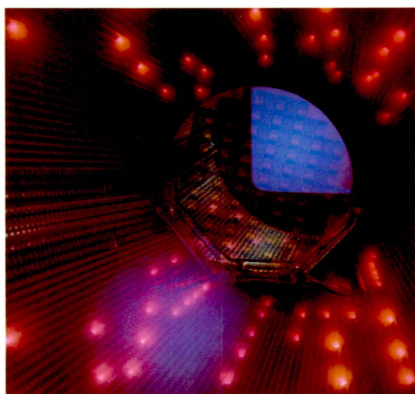
Digital Equipment Corporation

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Annual Report 1984







*On the Cover: Power of large computers harnessed on tiny chips containing thousands of complex circuits at Digital's Technology Center in Hudson, MA.*

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### Corporate Profile

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 variety of applications and programs, including scientific research, computation, communications, education, data analysis, industrial control, timesharing, commercial data processing, graphic arts, word processing, personal computing, health care, instrumentation, engineering and simulation.

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### Financial Highlights

Fiscal Year	1984	1983	% Change
Total operating revenues . . . . .	\$5,584,426,100	\$4,271,854,000	+ 31
Net income . . . . .	\$ 328,779,000	\$ 283,622,000	+ 16
Net income per share . . . . .	\$5.73	\$5.00	+ 15
Total stockholders' equity . . . . .	\$3,979,216,000	\$3,541,282,000	+ 12
Stockholders' equity per share . . . . .	\$68.83	\$62.84	+ 9

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### Annual Meeting of Stockholders

The Annual Meeting of Stockholders will be held at 11:00 A.M., Thursday, November 1, 1984, at the Marriott Copley Place Hotel, 110 Huntington Avenue, Boston, Massachusetts. Stockholders of record on September 7, 1984 will be entitled to vote at this meeting.

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## To our Shareholders, Employees and Friends:



*MicroPDP-11 delivers full power and functionality of PDP-11 minicomputer in a compact, desk-side package.*

Fiscal 1984 marked the 27th year of operations for Digital Equipment Corporation and we are pleased to report to you on our results.

Early in the year, Digital was still feeling the effects of the recession. Major corporations, our main customers, had drastically cut their capital expenditures and published reports were suggesting that the glamorous and expensive software on personal computers would replace the carefully disciplined software of large computers. At that time, we also suffered from some problems with our administrative processes.

As the year progressed, capital spending increased as industry realized that, while personal computers would always be important, the traditional disciplines of larger computers would become even more important. Personal computers also generated applications that very quickly grew to need large computers.

Early in its history, Digital offered many products for many applications and the company was organized into separate business units so that each would be free to pursue a separate market. As the industry has grown and it has become increasingly easy for anyone to enter many segments of the industry, Digital has focused more and more on those complex disciplines in which it has the most

expertise. Today, Digital is one company with one strategy, and all parts of the organization are working toward a common goal.

Several years ago, we stated our commitment to an overall corporate strategy, which included:

- Development of a single computer architecture, VAX, with a single software system, VMS, which would work for a broad range of computers, from very small to very large.
- Commitment to use Ethernet to tie together computer systems, storage devices, terminals and outside networks.
- Commitment to use "clustering" to allow multiprocessing among large computers from a common data base.
- Development of workstations and personal computers to serve as powerful terminals on these systems.

We are pleased with our progress against this strategy. Our VAX architecture has become the standard for



*Sleek VT241 workstation terminal offers advanced text handling and color graphics capabilities.*

many applications. Its success is due primarily to its single software system which has become very elegant and very complete.

For the past two years, we have offered UNIX on VAX for those who want a simple, easy-to-understand system and are willing to sacrifice the vast array of features and possibilities offered by VMS.

We have built hundreds of Ethernet networks with very good results. However, most of these link computers, and we are looking forward to making very large Ethernet systems which tie together entire organizations. In this way, we expect to significantly change the style of computing.

Digital can link as many as 15 VAX-computers with any number of large disks into a large cluster in which any computer can independently use the common data base on the disks. This means users can increase the speed and power of the computers simply by adding more VAXes. We have installed more than 1000 VAXclusters to date, and we feel that this capability will have an enormous influence on the market in the future.

Because Digital's personal computers and workstations are intended for commercial and industrial use, they are somewhat more expensive than those intended for more casual use.

Our products are designed to be connected to VAX computers in applications where they must function within complex and highly disciplined systems.

In addition to our major corporate strategy built around VAX and VMS, we are committed to continued investment in our DECSYSTEM and PDP-11 families. And, while we are committed to Ethernet as the best networking system, we intend to support the MAP system proposed by the automotive industry.

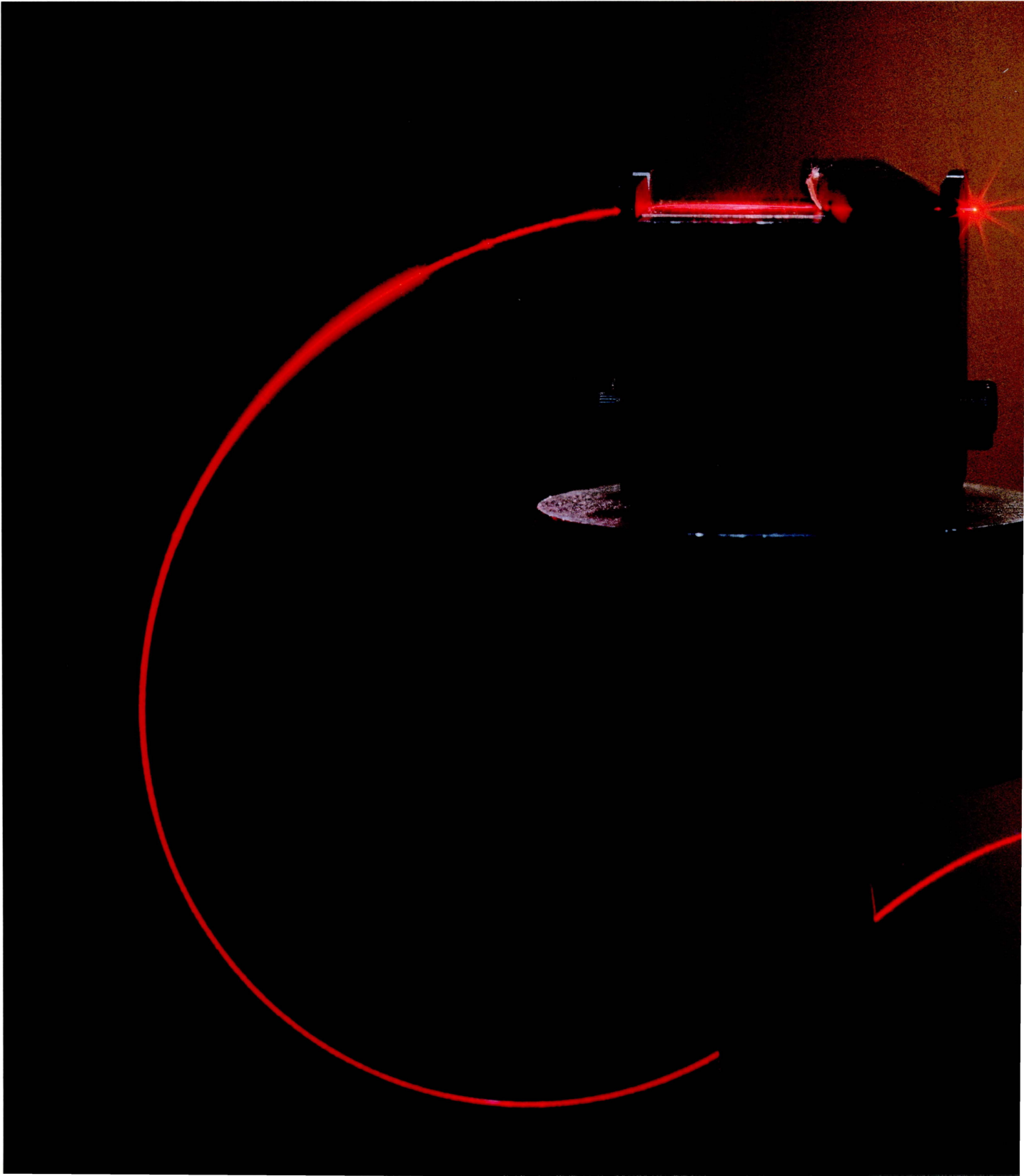
Digital is in a strong position to take advantage of the significant market opportunities we see, and we will continue to concentrate on ensuring that all parts of the company work together in support of Digital's uniform corporate strategy.

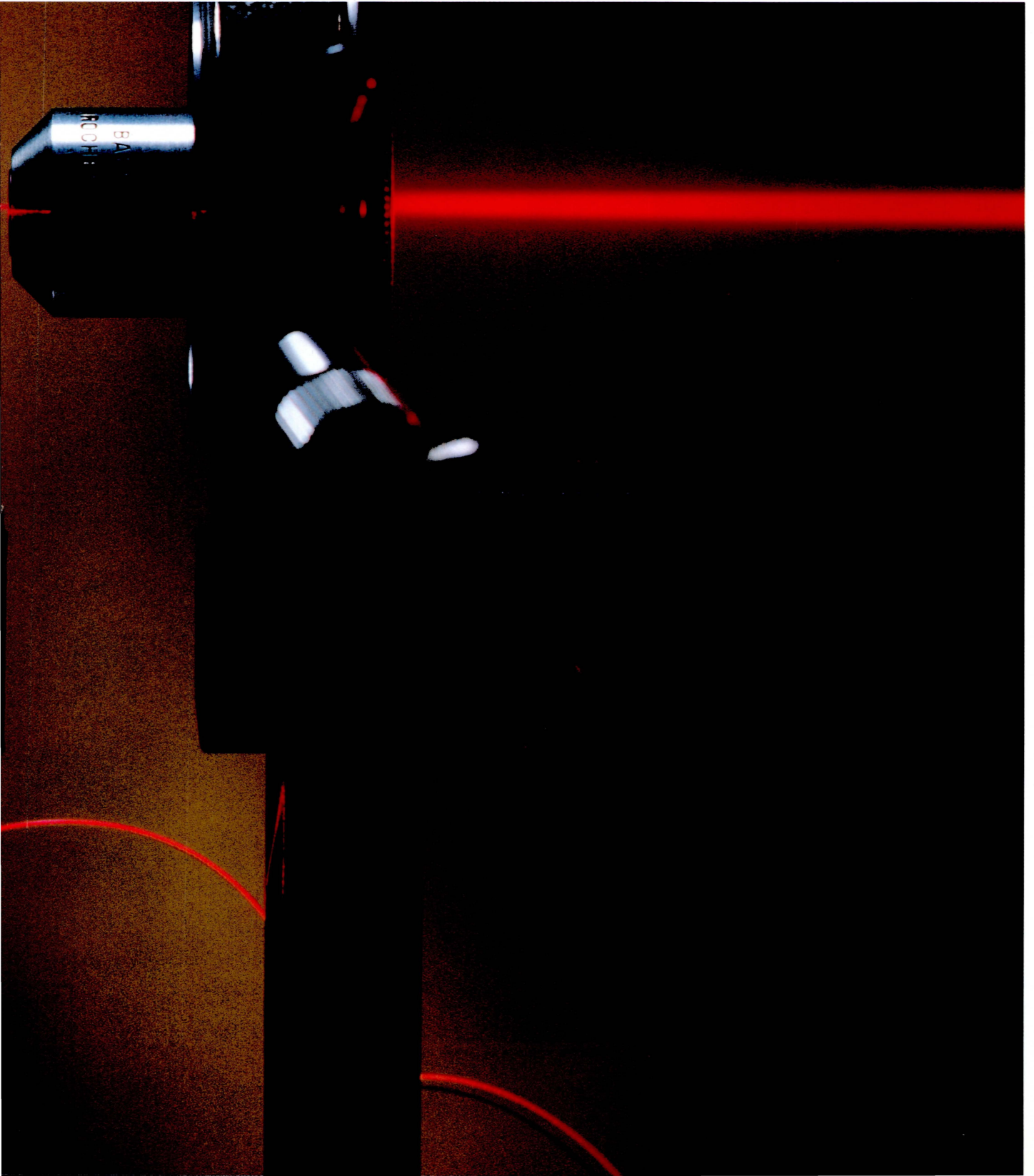
Cordially,

Kenneth H. Olsen, President  
September 14, 1984

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Corning Glass Works, world famous producer of high quality glass products, uses Digital's PDP-11s for test measurement, experiment control and data analysis in its Optical Fiber Laboratories in Corning, NY.







*New VT200 series advances standards set by popular VT100, the most copied product in the industry.*

### **Digital's Different Approach**

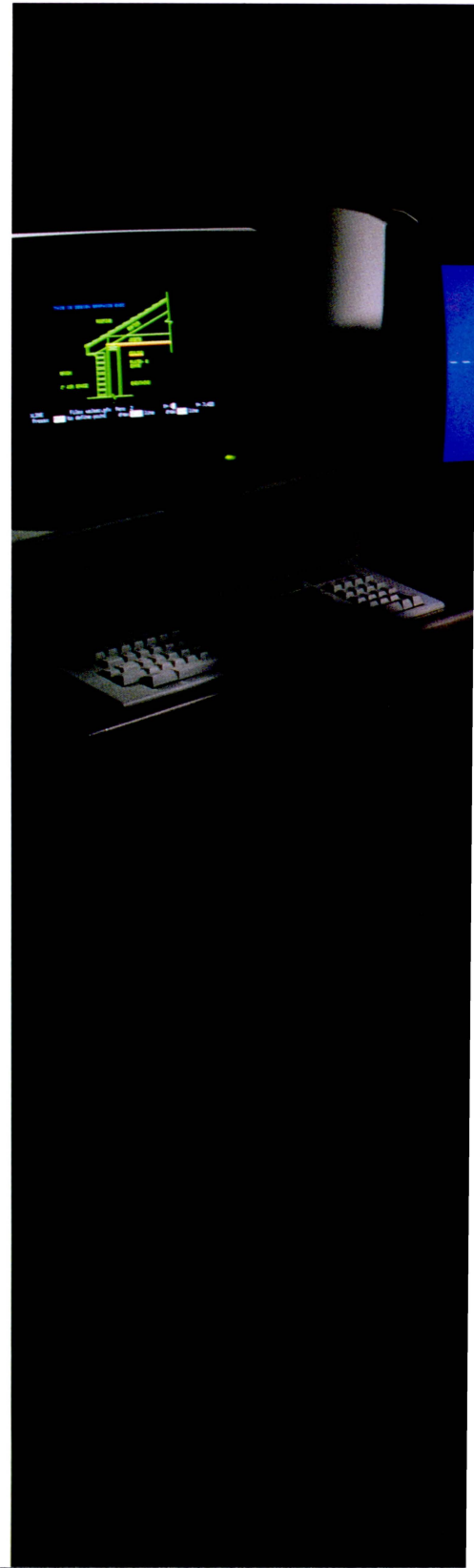
Digital Equipment Corporation was founded in 1957 at a time when there were few computers in the world. And those that did exist then were large, expensive, unreliable and limited in the kinds of useful work they could do. They were also centralized and virtually inaccessible to all but a chosen few.

Digital believed then, as it does today, that computers should be small, affordable, easy to use, capable of working together, easy to expand and accessible by anyone. Digital further believed that the various computer products—central processors, data storage disks, printers, video terminals and software—should be thoughtfully designed to work together in systems which could be deployed strategically against different but related individual and organizational needs.

Digital believes that a customer should be able to buy a computer system to match current needs, and to have that initial investment protected by the ability to expand that system easily in the future as needs increase.

Digital further believes that computer systems should be capable of being linked together—either locally or globally—to allow resources to be shared efficiently and permit information to be created, collected, distributed, stored and retrieved by anyone needing it.

Digital's approach is determined by how people and organizations work. Their style of using computers has shaped Digital's style of designing systems to address customer needs. People typically work individually, in small teams (or departments) and across global organizations. Thus, Digital recognizes the need to provide resources which can be used most effectively and efficiently in personal or localized situations and which can be linked together in clusters and networks for maximum resource and information sharing. Because people have a need to work together, the computing resources on which they rely need to work together.



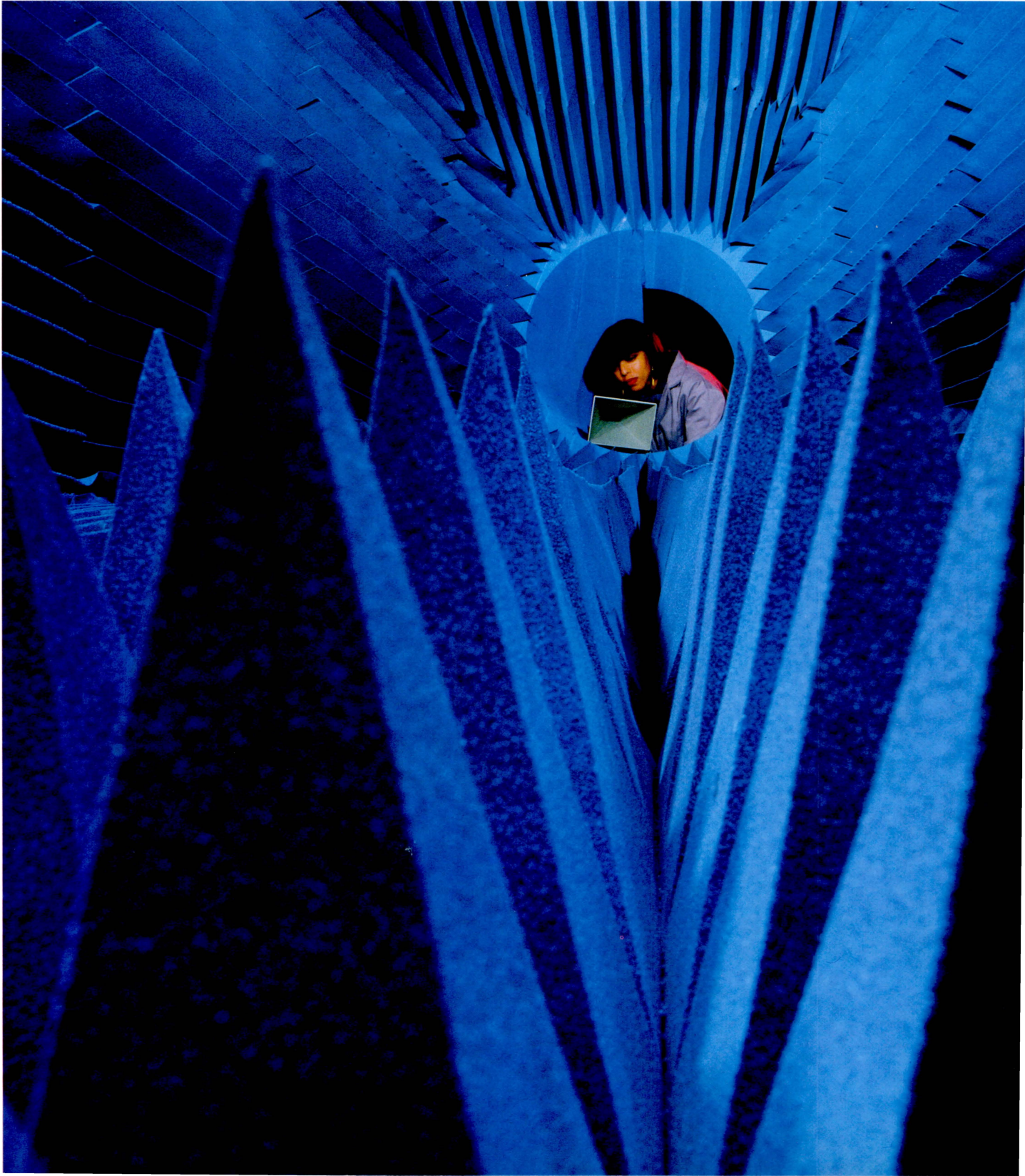
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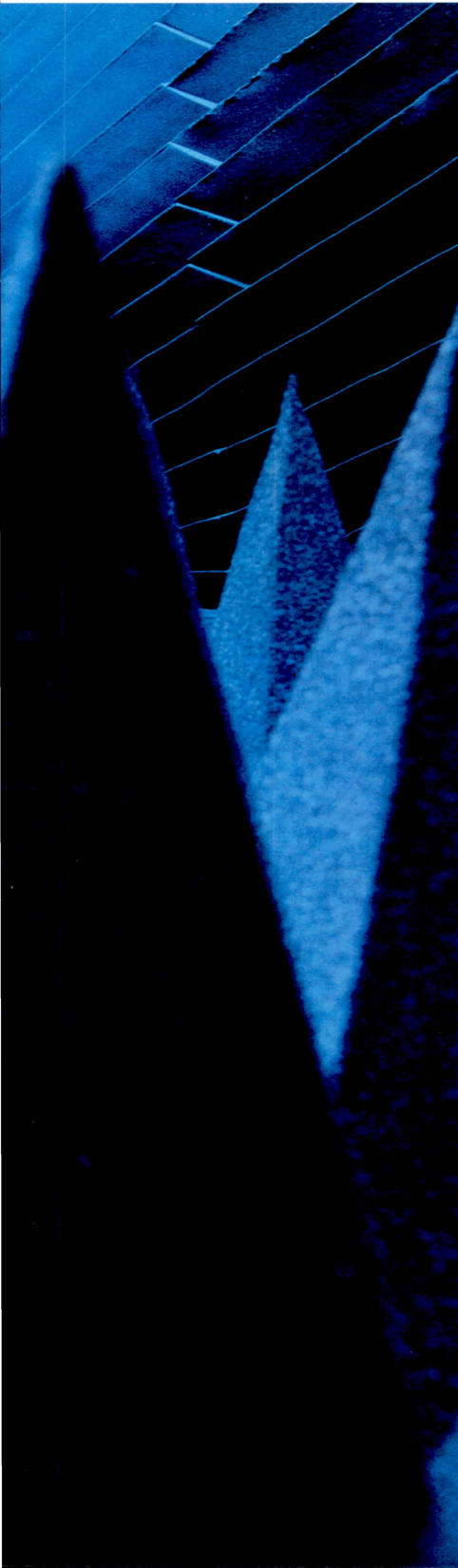
Digital maintains 16 CAD/CAM Centers worldwide, as represented here in Houston, TX, where customers are shown the latest techniques for problem-solving in computer-aided design, engineering and computer-aided manufacturing applications.



.....

Digital is helping the University of Houston, TX, build a vast multi-campus computer network. Data from antenna research in this anechoic chamber is analyzed on a VAX computer.





These beliefs have always differentiated Digital from other computer companies. Digital has different goals, different design criteria, a different product strategy.

Digital's goal is not growth, but quality—in its products and services, in its relationships with customers, vendors, employees and the community at large. Digital believes that continued commitment to this pursuit will result in continued growth.

Digital's design criteria require that disciplines be designed into hardware, software and communications products to achieve compatibility and interconnectability product-to-product, system-to-system, family-to-family.

Digital's product strategy requires that tomorrow's products work together easily and effectively with yesterday's to protect the customer's investment and allow easy expansion of computing resources to keep pace with growing customer needs. And, recognizing that customers have invested in products from other com-

puter companies, Digital designs its systems to communicate with them, as well.

But being different is not enough. Digital believes that its style of computing, highlighted by its unique interconnect capabilities, provides more and smarter solutions to customer needs. User consciousness of large, complex machines is being replaced by individual access through compact but powerful personal computers and workstations which deliver the functionality and versatility of large computer systems to the desks of those of who create, share and communicate information. These, in turn, are often connected through local or global networks or to clusters of similar computers.

Digital strives to understand and be responsive to customer needs and believes that its corporate behavior and product offering must accommodate those needs, instead of requiring customers to adapt their organizations and established procedures in order to maximize the benefits to them of using Digital's products.

The sum of these beliefs is Digital's Style of Computing.

### ..... Manifestations of Digital's Style

**Personal Computing** □ Digital pioneered personal computing in 1960 with its first computer, the PDP-1,



*Powerful MicroVAX I provides VAX functionality for under \$10,000.*

which provided individual hands-on access by users on a shared basis. In today's personal computing style, the system is dedicated to the use of an individual who doesn't typically share it with anyone else, so Digital's personal computing systems are now designed for this role.

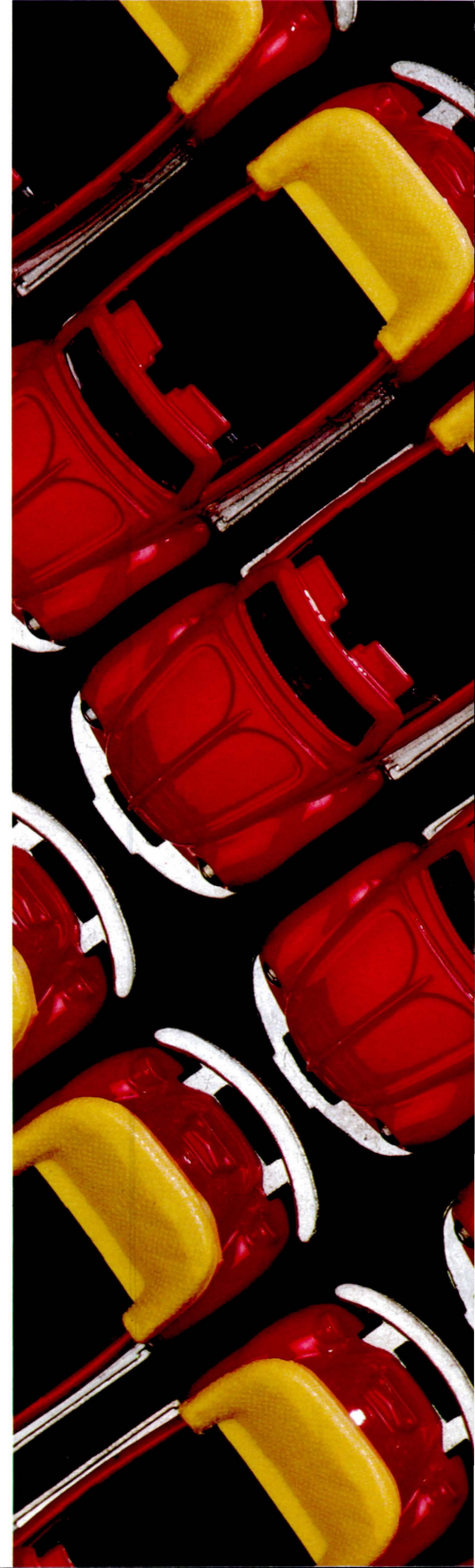
However, Digital also recognizes that individual users often benefit from being linked to each other or to data bases in large computers. As a result, Digital's personal computers are designed to be linked in networks and clusters in a way that maximizes individual use while at the same time affording communications with other users and access to the power and functionality of large computers.

During the year, Digital made significant enhancements to its Rainbow, DECmate and Professional 350 computers to broaden their usefulness and versatility.

**Team Computing** □ Team Computing is Digital's traditional minicomputer business, for both end users and Original Equipment Manufacturers (OEMs). This environment typically includes small to medium scale multi-user systems, ranging from small PDP-11 systems to VAX superminicomputers.

These systems are popular among OEMs, many of whom add specialized software and deliver the systems to end users. Other OEMs buy systems components, such as microprocessor chips, boards or central processors, and integrate them with other components to make their own systems.

Important new products for team computing, including a MicroVAX with significantly enhanced capabilities, are being planned for the coming year. These products will continue to move the technology currently associated with large scale superminicomputers down almost into the microcomputer area and deliver the power and functionality of large computers to the desk of the user.



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A trans-Pacific network links PDP-11s at Tomy Kogyo, Inc., Japan-based toy maker, with U.S. affiliate Tomy Corp., which uses a DECSYSTEM-20 tied to a VAXcluster for manufacturing and inventory control, order processing and corporate accounting at its headquarters near Los Angeles, CA.



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The Agricultural Food & Research Council in the United Kingdom uses a network of VAX computers to support scientific research at its 26 remote sites which are connected to a VAX-11/780 network host at the Council's new Computing Center in Harpenden, England.





**Clusters** □ Clusters technology is unique to Digital. It is a way to build very large scale computing environments to serve very large user populations and store very large amounts of data. Digital pioneered a practical way of connecting groups of similar computers in clusters with the introduction of VAXclusters in 1983, and customer demand for this capability has exceeded original estimates, with more than 1,000 VAXclusters installed during their first year of availability.

VAXclusters offer a unique approach to expanding computer resources by connecting two or more VAX computers in a way that allows the user to view the cluster as a single system with a single data base and provides a single access to multiple data files on multiple storage disks anywhere in the cluster.

Large batch processing jobs can be assigned to any computer in the cluster which can handle it at the time. Similarly, printing of data can be done on the next available printer, no matter where it resides in the cluster. If one computer in the cluster fails,

the user can easily continue to run the job on another computer in the cluster. Another significant feature allows VAXclusters to be expanded without disrupting the existing cluster.

Simply put, clustering provides more users with more access to more data on more systems in a way that makes multiple computers look to the user like a single system. Digital continues to be the only company in the industry able to offer users the significant advantages of computer clustering.

**Local Area Networks** □ Traditional multi-user systems consisted of a mid-range computer accessed through a number of terminals. However, all computation was done in the central computer. Local area networking technology, and particularly Ethernet,<sup>™</sup> provides individual users with dedicated computing resources through workstations which are strongly coupled to also enable users to interact with each other and share data and programs. And each user enjoys the same short response time.

And, because the local area network is such a high performance interconnect, it allows all of the users on the network to share expensive resources and still get high performance. Some users might have their own small storage disk, but most of the data is shared by all the workstations on the local network from a single large storage disk. Printing, communications and other tasks can also be shared in



*Versatile Rainbow personal computer runs thousands of industry-standard software packages.*

the same way. Local area networks are easy to install, can be expanded easily and inexpensively, and enable very efficient use of resources.

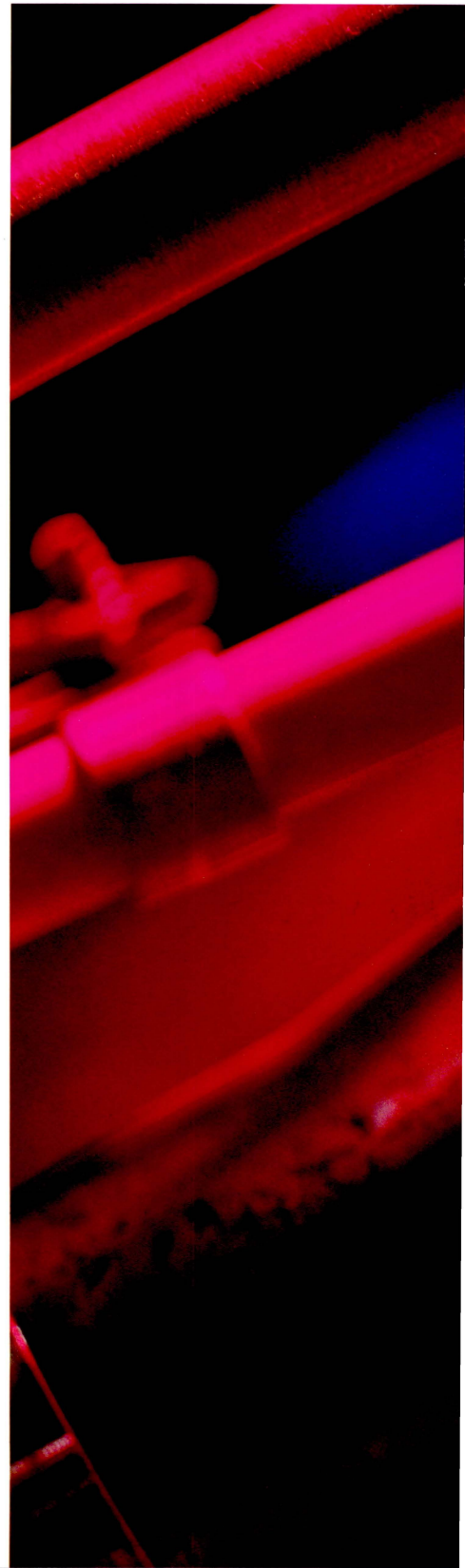
**Wide Area Networks** □ Local area computer networking answers the need to communicate within a building or a cluster of buildings. Wide area networking is a technique for meeting wider communications needs, from city to city or country to country. Digital Networking Architecture (DNA) is the framework within which all of Digital's networking products have been developed. Based upon the International Standards Organization model for open systems interconnection, DNA provides great flexibility in implementing efficient, cost-effective networks to suit specific current needs with the added advantage of being able to expand the network easily in the future as needs grow.

DECnet, Digital's networking software, allows all of Digital's computers and operating systems to interact in a network. DECnet incorporates Ethernet for implementation of high-speed local networks, and X.25, the widely used international networking protocol, for packet-switched networks. DECnet also incorporates an SNA™ Gateway, which permits access by Digital's computers to IBM™ computing environments for both local and wide area networks.

#### Products to Suit User Needs

**The VAX Family and VMS** □ The VAX Family is the broadest range of truly compatible computer products in the industry, with systems ranging from the \$10,000 MicroVAX to \$1 million VAXclusters.

Digital introduced the first VAX computer system in 1977, and with it a rich and powerful software operating system called VMS. VAX/VMS quickly became the standard against which computers were measured in the scientific, engineering, commercial and



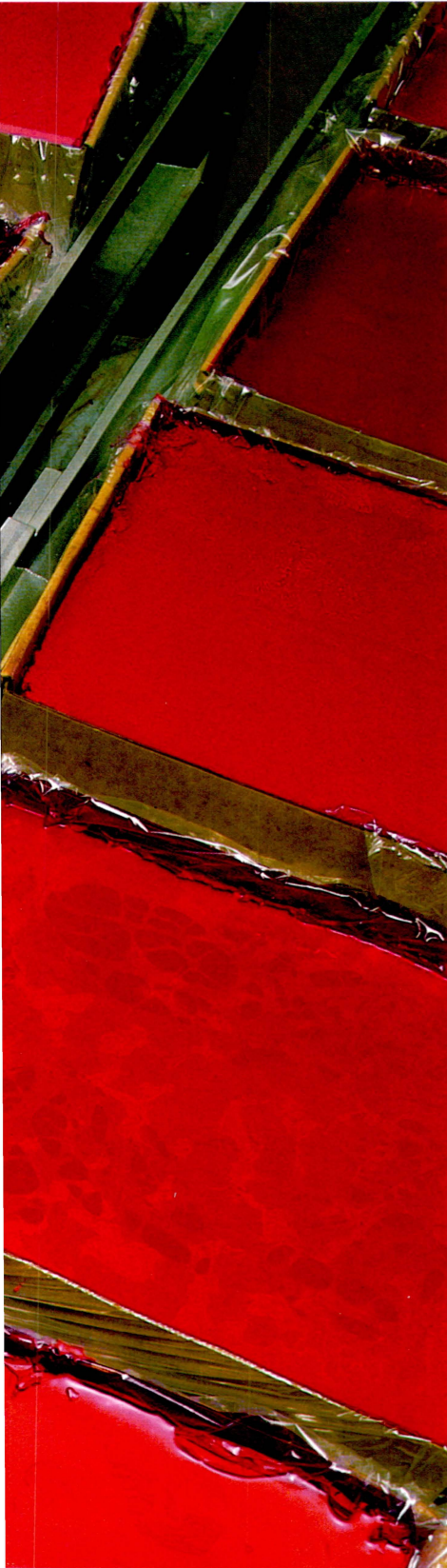
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Alcoa, a world leader in aluminum, uses a variety of Digital's computer systems to manage a broad range of scientific, engineering, office information and process control activities, including this ore fusion apparatus for x-ray fluorescence analysis at its Technical Center near Pittsburgh, PA.



Avon Products, Inc., leading maker and marketer of cosmetics, uses a VAX-based ALL-IN-1 office system at its Rye, NY, headquarters. Avon also uses Digital's PDP-11s throughout its nationwide manufacturing network for inventory control, order processing and process control.





instructional environments and has become the most widely used applications development system in the world. The family has been expanded to include several models, including the compact MicroVAX I, the VAX-11/725 for open office environments, and the powerful 11/785, all introduced during Fiscal 1984. (New VAX systems, large and small, will be introduced in Fiscal 1985.)

The key strength of the VAX family is its VMS software, which serves as the base for a wide variety of software products designed to make applications development as easy and efficient as possible. These include, in addition to the operating system, productivity tools, information management facilities, networking software and 14 programming languages, more than on any other computer system.

The result is that literally thousands of applications have been built on VAX. Ten years of VMS software development have produced the best integrated and broadest range of systems software in the industry.

Digital's consistent integrated extension of the VMS software base comes from a carefully designed framework of hardware, software, networking and storage architectures in which characteristics common to all VAX computers and peripherals are defined. Designing products against these common criteria ensures total integration, compatibility and interconnectibility across the entire VAX family.

And programs developed on VMS can be used on any size VAX and can be transported easily from one VAX system to another, including future products, without reprogramming. This means VAX users can do more jobs faster and more users can be connected to the same application. This commonality provides access for multiple users to larger development systems for applications on the MicroVAX I and up. Additional computer power can be added easily to networks through Digital's DECnet networking capabilities.

Digital also supports users of the UNIX™ operating system with a variety of hardware, software and support products.

To date, more than 30,000 VAX systems have been installed worldwide.

**The PDP-11 Family** □ Digital's celebrated PDP-11s, introduced in 1969, are the best-selling general-purpose minicomputers ever, and their popu-



*DECtalk advanced voice synthesizer features a variety of voices, languages, speaking rates.*

larity continues. We believe that more people have been trained on, and more applications written on PDP-11s than on any other computer.

The current family includes a span of products ranging from the powerful J-11 chip to the new PDP-11/73, which was introduced shortly after the close of Fiscal 1984. The PDP-11/73 is a low-cost, high-performance microcomputer, for both end users and OEMs, which delivers the power and functionality of a midrange mini-computer at a dramatically reduced price and size. Also added during the year was the Falcon-PLUS microcomputer on a single board. Both new products are built around the J-11 chip. PDP-11s are available to OEMs and others as separate components or in full systems.

Digital's Professional 350 desk-top computer is, in fact, a personal PDP-11, and is compatible with all

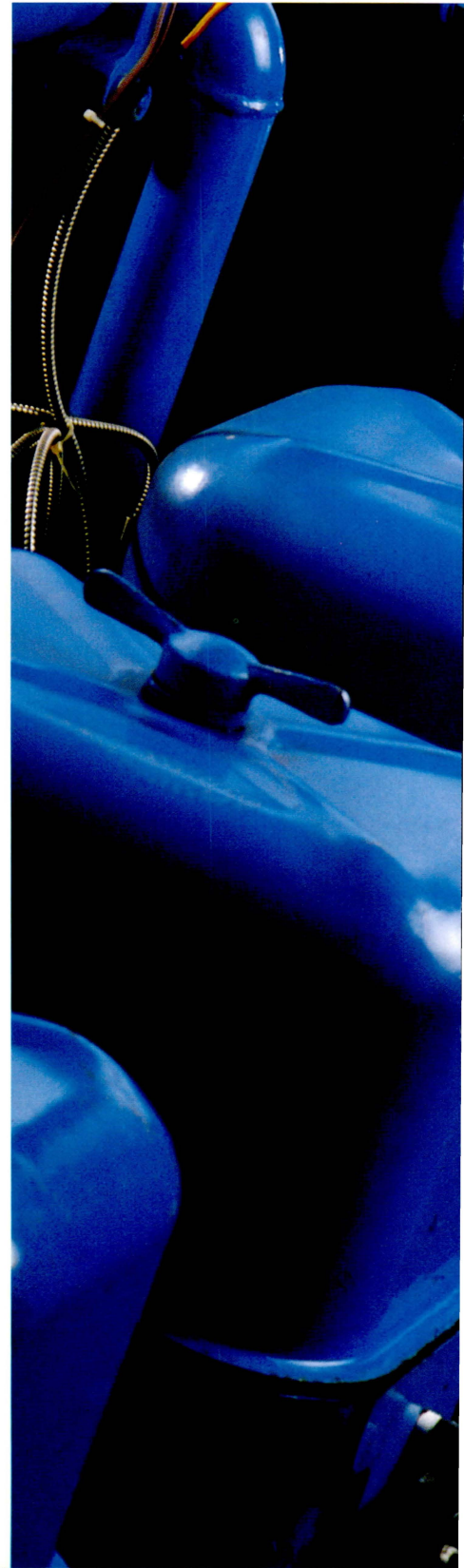
other family members. The Professional 350 can be used as a stand-alone system or can be connected via Ethernet to other PDP-11s or VAXs to serve as a powerful workstation for technical, scientific and office applications.

#### **The DECSYSTEM 10/20 Family** □

Digital became the first company to offer interactive, multi-user timesharing capability with the introduction in 1964 of the PDP-6, forerunner of today's family of DECSYSTEM 10/20 computer systems. In the ensuing 20 years, these products have attracted an important and loyal customer base whose investments Digital is committed to protect by enabling these users to integrate and extend their 10/20 applications to other Digital product families, particularly VAXs and personal computers. In this way, they can meet their growing needs by developing new applications which build on their previous investments.

#### ..... **Customer Support: A Key to Success**

The mission of Digital's customer support organization is to maximize computer availability to customers and minimize their cost of ownership. This means helping customers to



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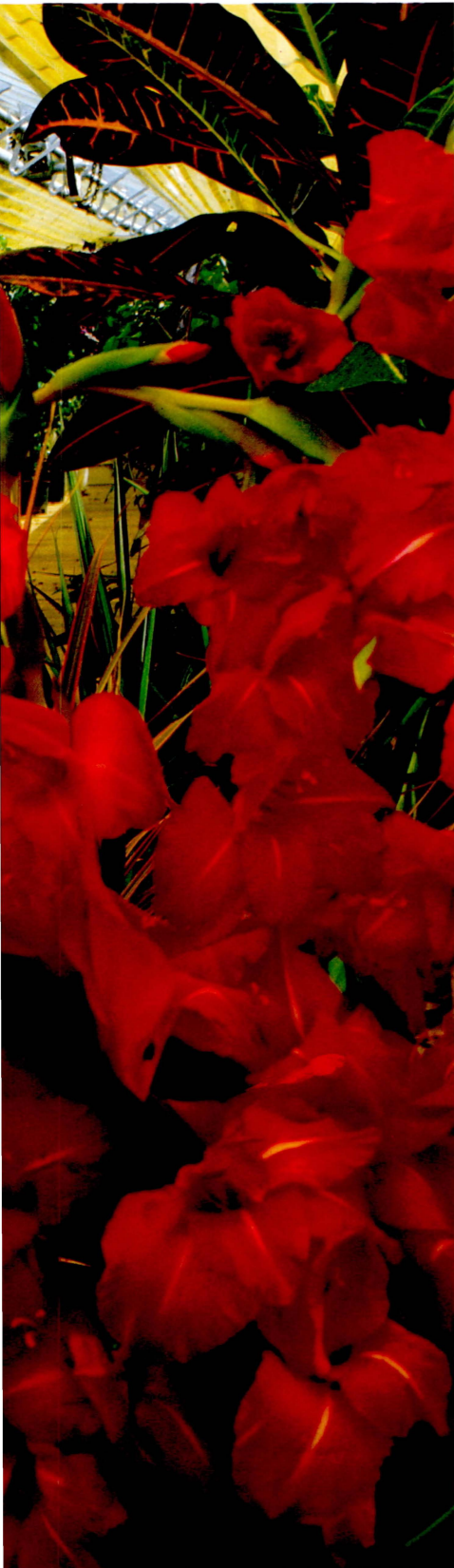
Bombardier, Inc. of Montreal, major Canadian producer of mass transit, recreational and utility vehicles, relies on a VAX-powered CAD/CAM system to design locomotive engines.



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Proschel's Flowers and Greenhouses,  
Long Island, NY, a leading member of the  
worldwide FTD association of retail flor-  
ists, will use Rainbow computers tied to  
cash registers for inventory control and  
accounts receivable, and to link its many lo-  
cations to FTD members across the U.S.





reduce programming and training costs and helping them solve business problems while delivering the highest possible level of system utilization. To achieve this, Digital has integrated its maintenance, software support and training services into a unified worldwide organization which last year grew to almost 28,000 support personnel in 47 countries on five continents.

Recognizing that different customers have different needs, Digital has developed a comprehensive array of support services from which customers can choose the services which best suit their particular needs.

In addition to its first-in-the-industry written guarantee of computer uptime, Digital offers automated telephone diagnosis of hardware and software products. We believe this remote diagnosis capability to be the most advanced in the industry. Digital also provides a family of software support services complemented by call-in software support centers where customers can receive consultation by telephone.

The company has established carry-in service centers for owners of terminals and small systems, whose needs are also served by a fleet of fully-equipped mobile units based in major cities in the United States, Canada and Western Europe.

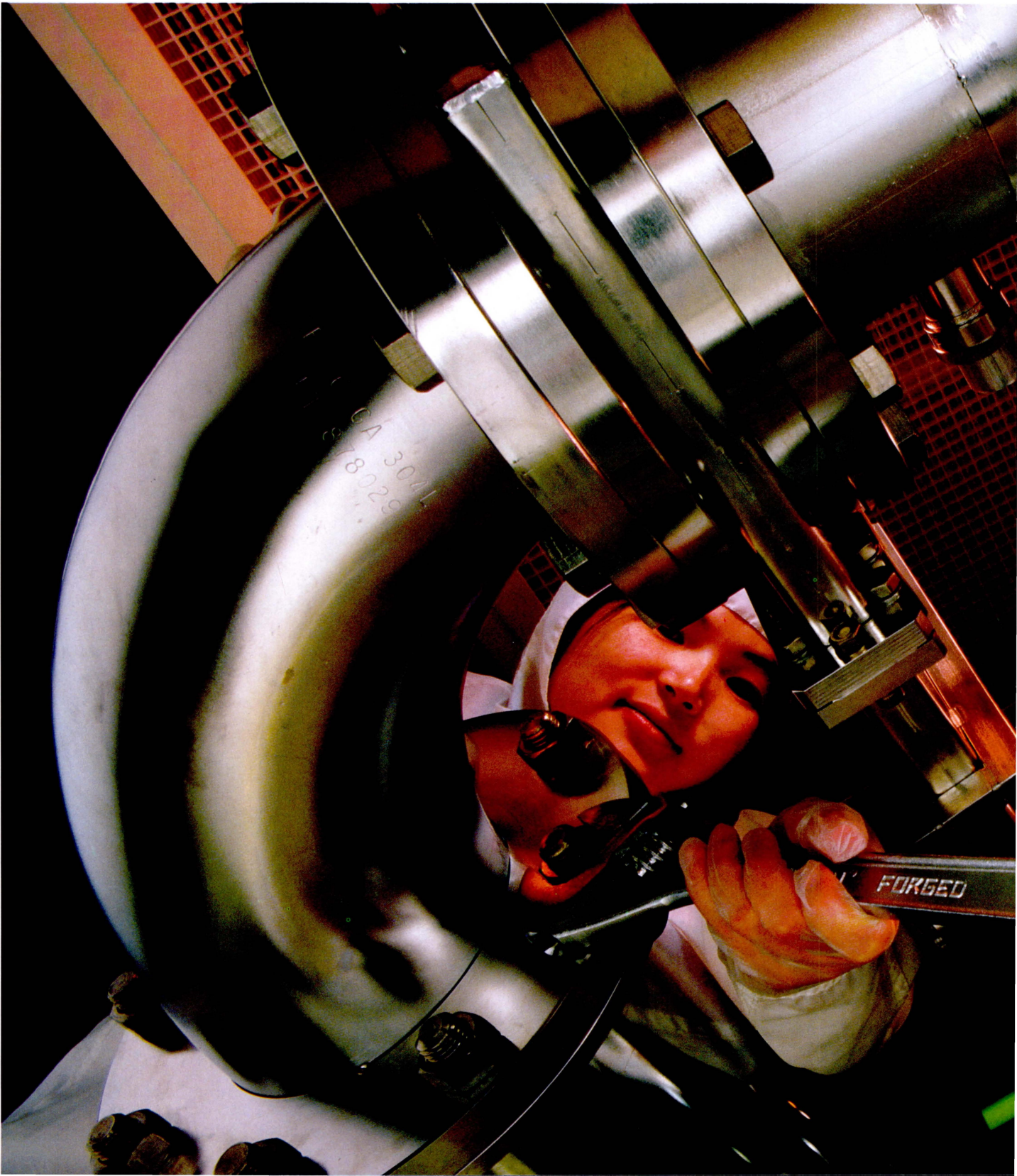
For customers whose needs are not met by Digital's standard computer systems, the company maintains Computer Special Systems facilities around the world to provide customized services in hardware and software design, applications programming, systems engineering, project management and computer networking.

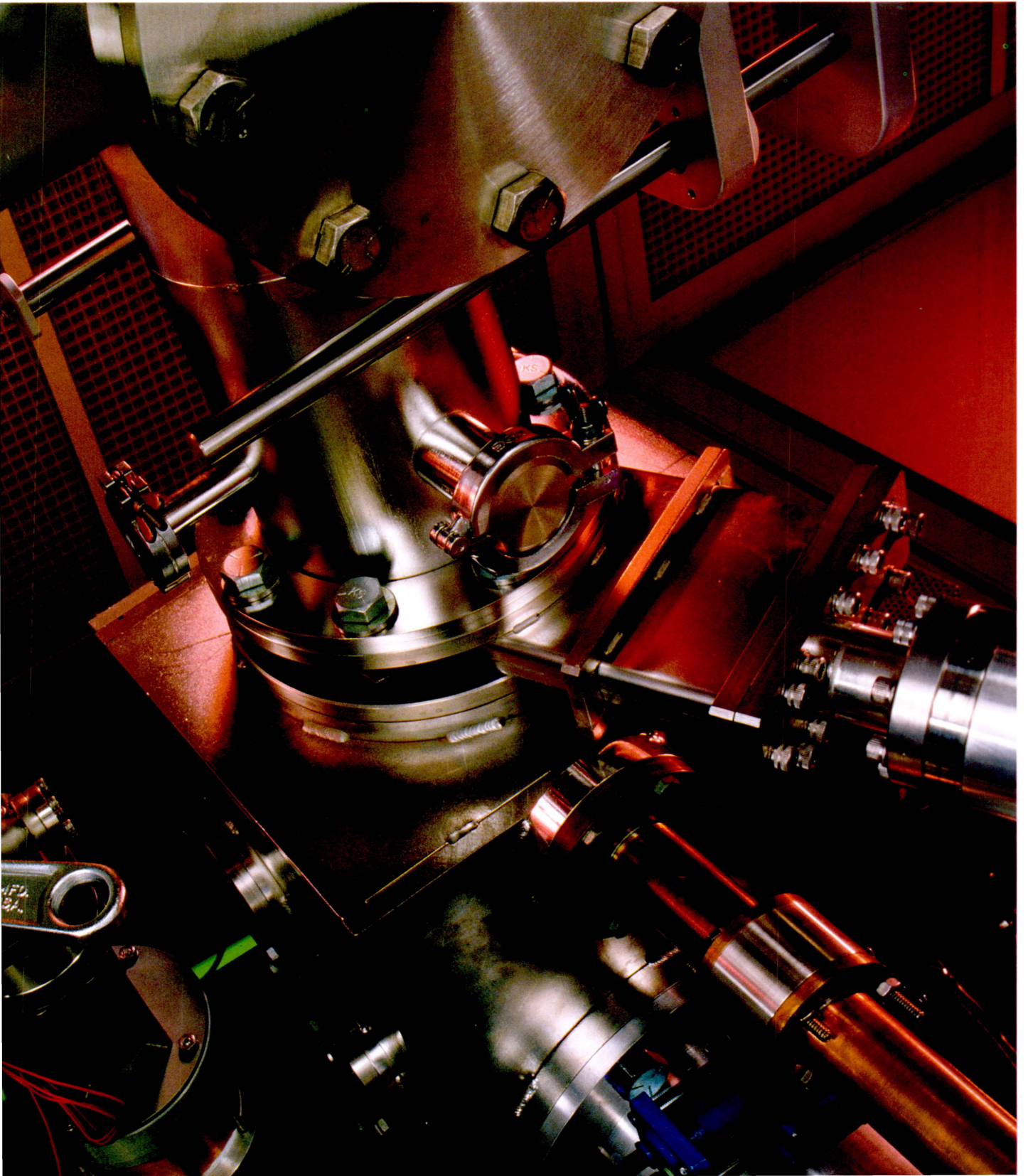
Digital provides extensive educational service to customers through 28 training centers around the world. The company's training curriculum encompasses more than 500 courses offered in 18 languages. Self-paced courses, interactive computer-based instruction and classes at customer sites are also offered, as are newly developed training services for first-time users of computers.

Digital's customer support capabilities give the company an important competitive advantage, and we remain committed to ensuring that Digital's support personnel and the services they provide will continue to be the most effective and responsive in the computer industry.

.....

New ion implanter at the University of California, Berkeley, symbolizes Digital-supported research projects at more than 60 leading universities worldwide.





## Digital's Obligations to People



*DECmate, a premier word processor and versatile office workstation with Digital's ALL-IN-1 office system.*



*VAX-11/785, newest member of Digital's industry-standard computer family.*

Digital recognizes that it has important obligations to many people whose reasonable expectations the company must strive to meet. Customers expect Digital to be a reliable supplier of quality products. Shareholders expect the company to work hard to make their investments grow.

Digital also feels a deep sense of responsibility to its employees. The company is very proud of the dedication of its people around the world and strives to recognize their accomplishments by providing programs to promote their personal and professional growth.

These programs include continuing education, personal skills workshops, job enlargement training, management development, tuition refunds, scholarships and university courses at company facilities. All of these programs were expanded during the year to accommodate the steadily growing number of employees at all levels of the organization who seek to learn and grow, and we will continue to encourage their initiatives.

Digital remains seriously committed to programs which ensure that all employees have equal opportunities for hiring and advancement and has continued to aggressively pursue affirmative action programs to attract and develop minority and female employees. One of several such programs involves a partnership between Digital and a consortium of minority univer-

sities in which the company provides computer equipment and other resources to aid in developing state-of-the-art science and technology curricula.

The company increased its involvement with the outside community through support of educational, health care, civic, social and cultural programs at the national, regional and local levels. During the year, the company made gifts of cash and equipment valued at more than \$65 million, which included more than 1,000 equipment grants to colleges and universities in the United States and abroad. More than 300 students received scholarships, including college-bound students in Digital communities, women and minorities pursuing careers in science and engineering. Digital also encourages employee involvement by matching dollar-for-dollar their individual gifts to schools, non-profit organizations and United Way programs.

As Digital grows, it remains strongly committed to meet its obligations as responsive employer, thoughtful neighbor and responsible corporate citizen.

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## Eleven-Year Financial Summary

<b>Operations</b> <i>(in millions except per share data)</i>	1984	1983	1982
<b>Revenues</b>			
Equipment sales . . . . .	\$3,831.1	\$2,867.5	\$2,793.7
Service and other revenues . . . . .	1,753.3	1,404.4	1,087.1
Total operating revenues . . . . .	5,584.4	4,271.9	3,880.8
<b>Costs and Expenses</b>			
Cost of equipment sales, service and other revenues . . . . .	3,379.6	2,606.0	2,187.6
Research and engineering expenses . . . . .	630.7	472.4	349.8
Selling, general and administrative expenses . . . . .	1,179.5	830.6	758.6
Operating income . . . . .	394.6	362.9	584.8
Interest expense . . . . .	35.1	13.1	14.8
Interest income . . . . .	(41.5)	(61.2)	(102.8)
Income before income taxes . . . . .	401.0	411.0	672.8
Provision for income taxes . . . . .	72.2	127.4	255.6
Net income . . . . .	\$ 328.8	\$ 283.6	\$ 417.2
Net income per share <sup>1</sup> . . . . .	\$ 5.73	\$ 5.00	\$ 7.53
Weighted average shares outstanding . . . . .	57.4	56.7	55.4
<b>Financial Position</b> <i>(in millions except per share data)</i>			
Inventories . . . . .	1,852.2	1,353.8	1,137.4
Accounts receivable, net of allowances . . . . .	1,527.3	1,125.0	807.6
Working capital . . . . .	3,001.4	2,377.0	2,181.2
Property, plant and equipment, at cost . . . . .	2,351.8	1,961.4	1,605.4
Total assets . . . . .	5,593.3	4,541.1	4,024.0
Long-term debt . . . . .	441.3	92.8	92.4
Stockholders' equity . . . . .	3,979.2	3,541.3	3,164.5
Stockholders' equity per share . . . . .	\$ 68.83	\$ 62.84	\$ 57.30
<b>General Information and Ratios</b> <i>(dollars in millions)</i>			
Current ratio . . . . .	3.8:1	3.9:1	4.1:1
Additions to property, plant and equipment . . . . .	\$ 452.1	\$ 419.2	\$ 511.2
Depreciation . . . . .	\$ 252.6	\$ 203.2	\$ 152.6
Debt to debt plus equity ratio . . . . .	10.0%	2.6%	2.8%
Operating income as a percentage of			
total operating revenues . . . . .	7.1%	8.5%	15.1%
Income before income taxes as a percentage of			
total operating revenues . . . . .	7.2%	9.6%	17.3%
Net income as a percentage of total operating revenues . . . . .	5.9%	6.6%	10.7%
Net income as a percentage of average stockholders' equity . . . . .	8.7%	8.5%	14.3%
Net income as a percentage of average total assets . . . . .	6.5%	6.6%	11.2%
Number of days sales of accounts receivable outstanding . . . . .	83	82	73
Inventory turns . . . . .	2.1	2.1	2.0
Number of employees at year-end . . . . .	85,600	73,000	67,100
Revenues per average number of employees <i>(in thousands)</i> . . . . .	\$ 70.4	\$ 61.0	\$ 59.7
Common shares outstanding <i>(in thousands)</i> . . . . .	57,811	56,357	55,227
Shareholders at year-end . . . . .	44,389	40,903	44,706

<sup>1</sup>See Note E of Notes to Consolidated Financial Statements.

1981	1980	1979	1978	1977	1976	1975	1974
\$2,384.2	\$1,779.4	\$1,381.8	\$1,128.1	\$ 847.5	\$ 586.7	\$ 433.2	\$ 360.8
813.9	588.6	422.3	308.5	211.1	149.6	100.6	61.1
3,198.1	2,368.0	1,804.1	1,436.6	1,058.6	736.3	533.8	421.9
1,778.7	1,319.9	1,012.3	802.3	595.1	424.3	301.2	233.6
251.2	186.4	138.3	115.7	79.7	58.4	48.5	36.6
632.2	478.9	370.1	281.0	205.9	136.1	109.3	83.8
536.0	382.8	283.4	237.6	177.9	117.5	74.8	67.9
29.2	27.0	24.3	22.4	11.7	9.9	4.8	2.1
(60.6)	(53.8)	(35.8)	(12.3)	(10.2)	(11.8)	(3.6)	(3.1)
567.4	409.6	294.9	227.5	176.4	119.4	73.6	68.9
224.1	159.7	116.5	85.3	67.9	46.0	27.6	24.5
\$ 343.3	\$ 249.9	\$ 178.4	\$ 142.2	\$ 108.5	\$ 73.4	\$ 46.0	\$ 44.4
\$ 6.70	\$ 5.45	\$ 4.10	\$ 3.40	\$ 2.78	\$ 1.98	\$ 1.28	\$ 1.27
52.6	47.2	44.9	43.2	39.0	37.1	35.9	35.1
1,102.2	819.9	513.5	428.1	375.0	218.8	174.8	137.4
758.1	629.1	475.1	375.2	323.1	219.3	165.0	144.6
2,029.8	1,658.2	1,076.9	887.0	574.2	499.0	333.2	238.6
1,128.4	772.3	582.1	507.8	352.4	215.8	167.6	127.4
3,456.1	2,666.1	1,863.2	1,501.4	1,070.4	856.0	565.1	440.3
88.4	489.7	340.7	341.6	90.6	91.4	85.2	10.6
2,679.7	1,651.7	1,120.2	904.8	735.5	606.0	394.4	339.6
\$ 49.31	\$ 36.25	\$ 27.59	\$ 22.69	\$ 18.73	\$ 15.61	\$ 10.94	\$ 9.49
4.2:1	4.5:1	3.8:1	4.7:1	3.5:1	4.3:1	5.2:1	3.8:1
\$ 398.5	\$ 209.9	\$ 93.9	\$ 167.0	\$ 143.2	\$ 54.5	\$ 45.9	\$ 50.1
\$ 102.1	\$ 69.8	\$ 57.7	\$ 50.2	\$ 28.5	\$ 22.0	\$ 16.9	\$ 12.4
3.2%	22.9%	23.3%	27.4%	11.0%	13.1%	17.8%	3.0%
16.8%	16.2%	15.7%	16.5%	16.8%	16.0%	14.0%	16.1%
17.7%	17.3%	16.4%	15.8%	16.7%	16.2%	13.8%	16.3%
10.7%	10.6%	9.9%	9.9%	10.3%	10.0%	8.6%	10.5%
15.9%	18.0%	17.6%	17.3%	16.2%	14.7%	12.5%	15.8%
11.2%	11.0%	10.6%	11.1%	11.3%	10.3%	9.2%	12.2%
73	81	82	82	88	85	92	96
1.9	2.0	2.2	2.0	2.0	2.2	1.9	1.9
63,000	55,500	44,200	39,000	36,700	25,700	19,000	17,600
\$ 54.0	\$ 47.5	\$ 43.4	\$ 38.0	\$ 33.9	\$ 32.9	\$ 29.2	\$ 27.6
54,348	45,568	40,606	39,873	39,259	12,944	12,022	11,932
39,948	35,144	28,835	25,868	22,738	15,442	15,033	14,393

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## Management's Discussion and Analysis of Results of Operations

Income and Expense Items as a Percentage of Total Operating Revenues						
1982	1983	1984	Income and Expense Items	1983-84	Percentage Changes	
					1982-83	1981-82
72.0%	67.1%	<b>68.6%</b>	Equipment sales . . . . .	<b>34%</b>	3%	17%
28.0%	32.9%	<b>31.4%</b>	Service and other revenues . . . . .	<b>25%</b>	29%	34%
100.0%	100.0%	<b>100.0%</b>	Total operating revenues . . . . .	<b>31%</b>	10%	21%
56.4%	61.0%	<b>60.5%</b>	Cost of sales, service and other revenues . . . . .	<b>30%</b>	19%	23%
9.0%	11.1%	<b>11.3%</b>	Research and engineering expenses . .	<b>34%</b>	35%	39%
19.5%	19.4%	<b>21.1%</b>	Selling, general and administrative expenses . . . . .	<b>42%</b>	9%	20%
15.1%	8.5%	<b>7.1%</b>	Operating income . . . . .	<b>9%</b>	(38%)	9%
0.4%	0.3%	<b>0.6%</b>	Interest expense . . . . .	<b>168%</b>	(11%)	(50%)
(2.6%)	(1.4%)	<b>(0.7%)</b>	Interest income . . . . .	<b>(32%)</b>	(40%)	70%
17.3%	9.6%	<b>7.2%</b>	Income before income taxes . . . . .	<b>(2%)</b>	(39%)	19%
6.6%	3.0%	<b>1.3%</b>	Income taxes . . . . .	<b>(43%)</b>	(50%)	14%
10.7%	6.6%	<b>5.9%</b>	Net income . . . . .	<b>16%</b>	(32%)	22%

As an aid to understanding the Company's operating results, the above tables indicate the percentage relationships of income and expense items included in the Consolidat-

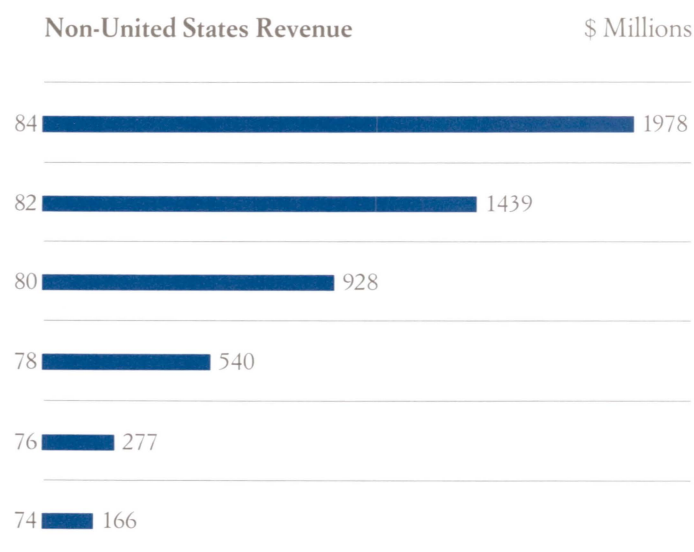
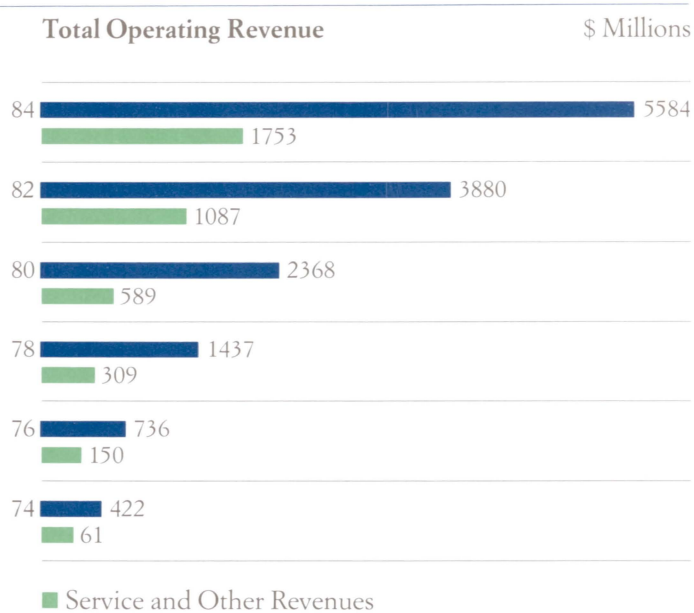
ed Statements of Income for the three fiscal years ended June 30, 1984 and the percentage changes in those items for such years.

## Revenues

For the fiscal year 1984, the Company's total operating revenues increased by 31% compared to increases of 10% and 21% in the two preceding fiscal years. The sharp upturn in revenue growth in fiscal 1984 was due to a variety of factors, the foremost of which was the broad-based economic recovery occurring both in the United States and overseas. Customer demand was also spurred by the aggressive advertising, marketing and selling of the Company's existing product line and the introduction and availability of several new products. Demand was particularly strong from the Company's traditional markets consisting of commercial and technical end-user customers and OEMs (original equipment manufacturers), which consists of technical and commercial OEMs and components customers. Strong customer demand was experienced for our VAX computers, RA series of Winchester disks, printers and video terminals and several members of our PDP-11 family of computers. Our personal computer shipments grew substantially from fiscal 1983, although more slowly than anticipated.

During the first quarter of fiscal 1984, revenue growth fell below our expectations due primarily to product shipment delays and some temporary administrative problems. These problems were identified and action was taken to remedy them. The Company's second fiscal quarter saw a 33% increase in revenues over the first fiscal quarter and a 40% increase over the comparable period of a year ago.

In fiscal 1984, service and other revenues, which principally include maintenance service, software revenues, customer training and the sale of replacement parts, grew 25%. For fiscal 1984 service and other revenues comprised 31% of total revenues as compared with 33% in fiscal 1983 and 28% in fiscal 1982.



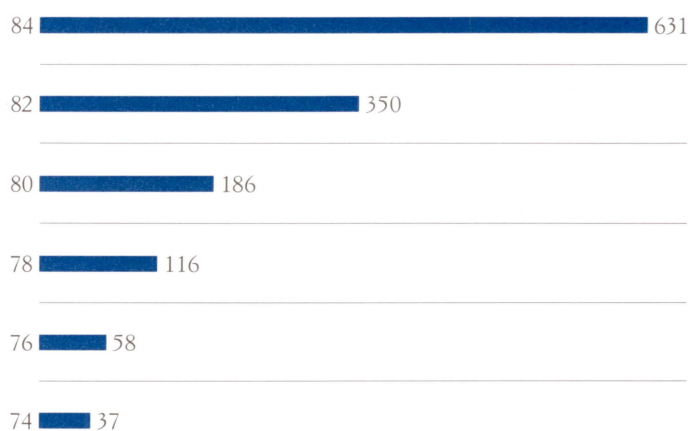
## Expenses and Profit Margins

The cost of equipment sales, service and other revenues decreased slightly in fiscal 1984 as compared to fiscal 1983 but remained higher than fiscal 1982. This slight improvement over fiscal 1983 was due to a strong 34% increase in hardware sales and the improved profitability of the Company's services businesses, which include field engineering, training and software support services. Somewhat offsetting were the effects of price reductions, lower volumes and margins on some products and the impact of a strong U.S. dollar.

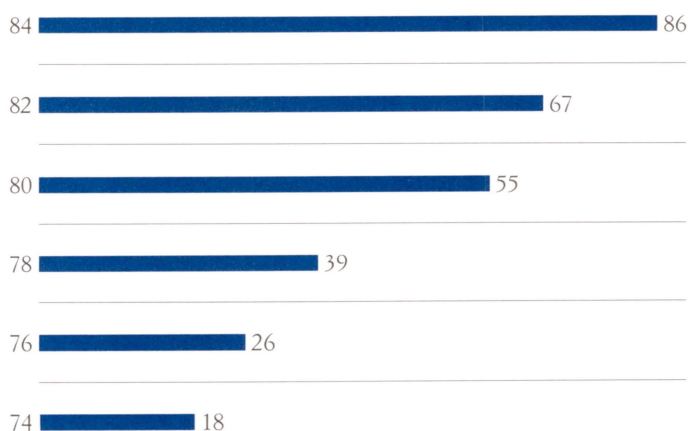
Research and engineering expenses grew 34% in fiscal 1984 and were 11.3% of total operating revenues compared to 11.1% in fiscal 1983 and 9% in fiscal 1982. Research and engineering expenses would have totaled 10.9% of revenues in fiscal 1984 had they not included a \$20.4 million writedown of the Company's investment in Trilogy Limited as discussed in the next paragraph. The Company feels it is imperative to pursue its research and engineering efforts because the industry is becoming increasingly competitive and many new companies are entering the marketplace. Research and engineering spending will continue to be a significant percentage of revenues in fiscal 1985 and the years ahead. The results of spending nearly \$1.5 billion in research and engineering over the last three years manifested themselves with the introduction of many new products in fiscal 1984. Some of these include the VAX-11/785, VAX-11/725 and MicroVAX I, new additions to the industry standard VAX family of computers; the VT200 family of video terminals with features ranging from advanced text handling to both text and color graphics capabilities; Rainbow 100+, a new personal computer offering greater storage capacity; and three new board-level 16-bit microcomputers called the LSI-11/73, KXT11-C and Falcon-PLUS, which significantly enhance the power and performance of Digital's LSI-11 microcomputer family.

During the fourth fiscal quarter, the Company wrote down its investment in Trilogy Limited, a company involved in the development of wafer-scale integration semiconductor technology. The writedown of \$20.4 million, which is included in research and engineering expenses, adjusted the Company's investment in Trilogy Limited to market value as of June 30, 1984 and reduced net income per share by 19 cents. Without this writedown, research and engineering expenses would have totaled approximately 10.9% of total operating revenues. The Company had invested \$26 million in Trilogy Limited in 1983 in return for an option to license advanced semiconductor technology and an equity interest in that company.

### Research and Engineering \$ Millions



### Employee Population Thousands



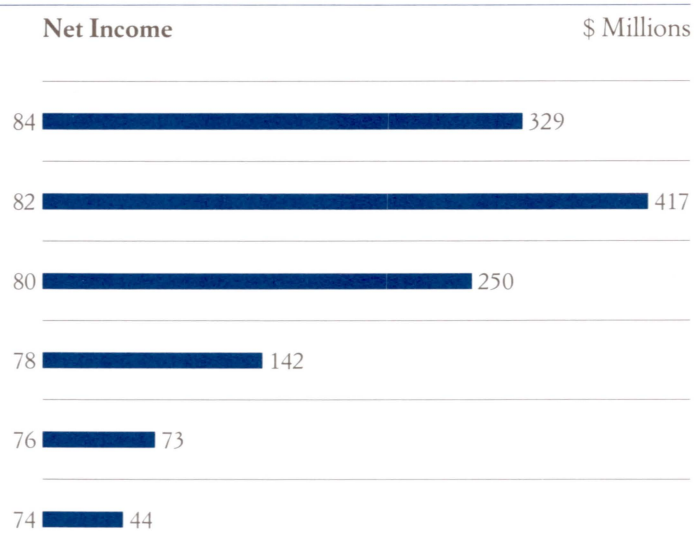
### Expenses and Profit Margins (continued)

Selling, general and administrative expenses increased to 21.1% of total operating revenues in fiscal 1984 compared to 19.4% in fiscal 1983 and 19.5% in fiscal 1982. Additions to field sales, service and sales support personnel as well as increased advertising expenditures account for most of the increase over fiscal 1983.

Interest income decreased in fiscal 1984 from fiscal 1983 levels due to a reduced level of temporary cash investments. Interest expense increased due to an increase in debt. The Company's effective tax rate in fiscal 1984 declined from 31% to 18% due principally to higher tax benefits from the Company's manufacturing operations in Ireland.

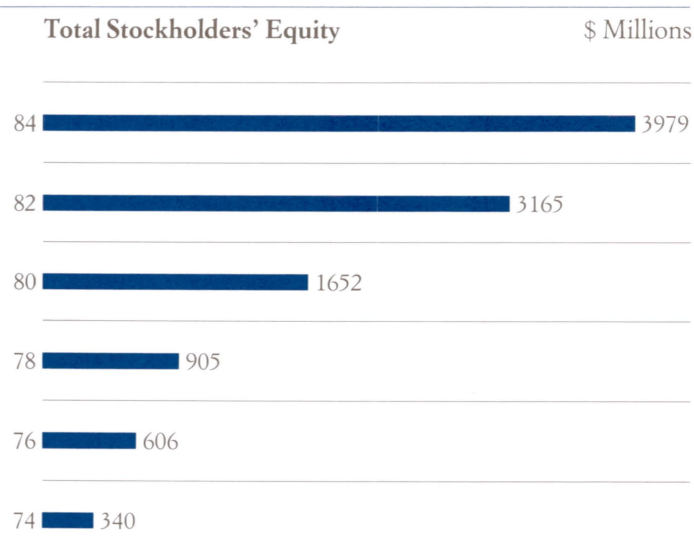
During the year, the total number of employees increased by 12,600, bringing the total number of employees at year end to 85,600. The increase in the number of employees took place primarily in the sales and service and manufacturing organizations. The number of employees in the marketing and general overhead functions remained essentially unchanged.

Net income per share for fiscal 1984 was \$5.73, a 15% increase over the \$5.00 in fiscal 1983, which constituted a 34% reduction over fiscal 1982 net income of \$7.53.



### Inflation and Changing Prices

The preceding discussion and analysis are based on the Company's financial statements presented in historical dollars. See pages 47 through 50 for supplementary information on the Company's historical financial data adjusted for the effects of inflation and changing prices.



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## Management's Discussion and Analysis of Financial Condition

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

The need for funds to support the Company's rapid growth has historically caused it to use external financing to supplement internally-generated funds. The Company foresees the need to continue to use external financing.

During the fiscal 1982-1984 periods, the total funds used to support operations and future growth exceeded the total funds generated from operations by \$740 million. External financing during this period consisted primarily of the proceeds generated from three debt offerings sold during fiscal 1984. In March, 1984, the Company issued \$150 million of 11¾% guaranteed notes, due 1989, in Europe. This offering constituted the Company's first financing venture outside the United States. In April, 1984, the Company issued \$200 million of senior debt in the United States in two pieces: \$100 million in 10-year 12⅝% notes and \$100 million in 30-year 13% sinking fund debentures. In September,

after the close of the fiscal year, the Company issued \$400 million of 8% convertible subordinated debentures due 2009. From time to time, the Company has and may issue commercial paper to meet short-term operational needs.

At the end of fiscal 1984, the Company's short and long-term debt totaled \$454 million, up from \$109 million at the end of fiscal 1983. Cash and temporary cash investments were \$476 million at the end of fiscal 1984, compared to \$556 million at the end of fiscal 1983. Unused lines of credit at the end of fiscal 1984 were \$607 million, including revolving credit agreements of \$340 million.

The Company believes its financial performance over the years, its low debt to debt-plus-equity ratio and its high credit rating, leave it positioned to obtain the financing required to support future growth.

### Common Stock Information

The Company's common stock is listed and traded on the New York Stock Exchange and the Pacific Stock Exchange. There were 43,349 stockholders of record as of August 1, 1984. The high and low quarterly sales prices for the past two fiscal years are presented as follows:

		1984	
Fiscal Quarter	High	Low	
First	\$121.500	\$ 94.000	
Second	106.250	64.000	
Third	94.250	70.375	
Fourth	97.750	83.500	
		1983	
Fiscal Quarter	High	Low	
First	\$ 90.500	\$ 61.750	
Second	115.000	77.750	
Third	132.125	99.750	
Fourth	130.375	107.500	

The Company has never declared any cash dividends. It has been the policy of the Company to use its earnings to finance expansion and growth. While the payment of future dividends will rest with the discretion of the Board of Directors and will depend, among other things, upon the Company's earnings, capital requirements and financial condition, the Company expects to retain all of its earnings for use in the business and has no present plans to pay cash dividends.

## Spending for Operations

In fiscal 1984 inventories grew 37% in order to meet the strong demand for traditional and new products the Company experienced during the year and anticipates again during fiscal 1985. Inventory turns were unchanged at 2.1 times, from fiscal 1983 and up slightly from the 2.0 turns of fiscal 1982. Accounts receivable grew 36%, reflecting primarily a rise in net operating revenues in the fourth quarter of fiscal 1984. Although slightly higher than a year ago, 83 days as compared to 82 days, days sales in accounts receivable outstanding improved significantly during the year after a sharp increase in the first quarter. The Company is confident it can improve this measure.

Capital spending in fiscal 1984 totaled \$452 million, an increase of \$33 million or 8% from the \$419 million spent in fiscal 1983. In fiscal 1984, 76% of the capital spending or \$345 million was for equipment as the Company outfitted several recently completed facilities and continued to modernize and update its manufacturing, engineering and administrative facilities and field service operations. Spending for land and building additions totaled \$68 million while leasehold improvements totaled \$40 million.

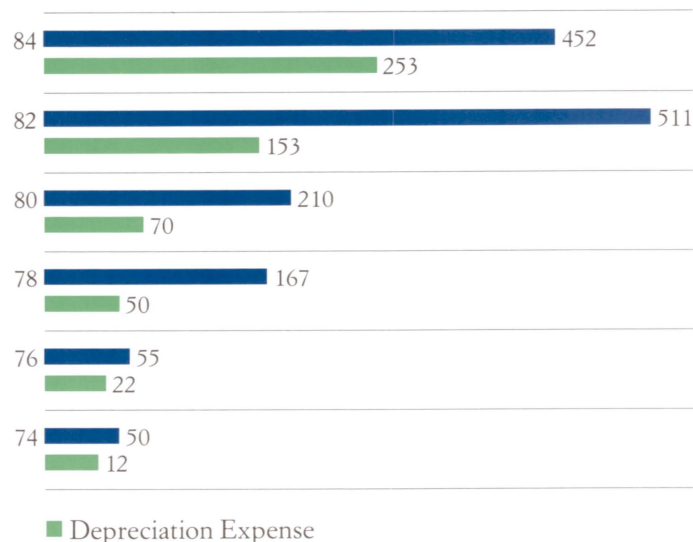
The ratio of net income to average total assets was 6.5% in fiscal 1984, 6.6% in fiscal 1983 and 11.2% in fiscal 1982.

The Company added approximately 1.5 million square feet in fiscal 1984, bringing the total amount of space to 24.5 million square feet up from 23 million square feet in fiscal 1983 and 21 million square feet in fiscal 1982. During fiscal 1984 the Company began to consolidate its facilities worldwide in order to maximize the use of its owned facilities and lessen the need for smaller, leased facilities. Construction began on one new building in Massachusetts and continued on several other facilities in the United States and overseas on which construction had begun in fiscal 1983.

In fiscal 1985 capital spending is again expected to be heavily concentrated in equipment as the Company continues to invest in capital expenditures to support the growth of its operations. While the actual spending level will be dependent on a variety of factors, including worldwide economic conditions and the growth in demand for its products and services, the Company presently anticipates capital expenditures of approximately \$550-\$650 million in fiscal 1985.

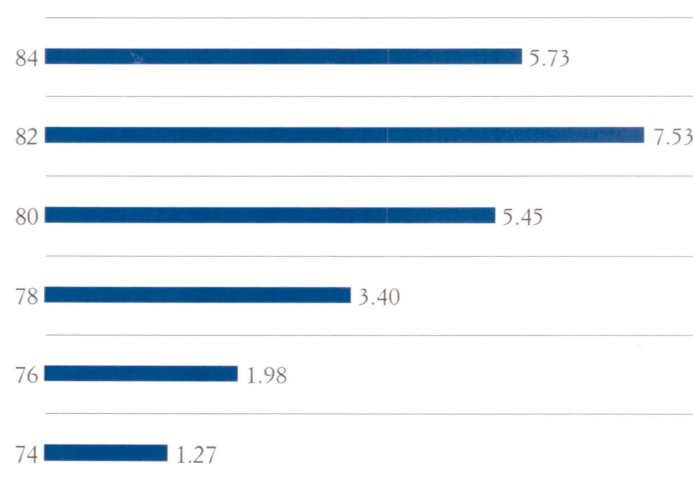
## Additions to Property, Plant & Equipment Depreciation Expense

\$ Millions



## Net Income Per Common Share

\$



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## Report of Management

The Company's management is responsible for the preparation of the financial statements in accordance with generally accepted accounting principles and for the integrity of all the financial data included in this Annual Report. In preparing the financial statements, management makes informed judgments and estimates of the expected effects of events and transactions that are currently being reported.

Management maintains a system of internal accounting controls that is designed to provide reasonable assurance that assets are safeguarded and that transactions are executed and recorded in accordance with management's policies for conducting its business. This system includes policies which require adherence to ethical business standards and compliance with all laws to which the Company is subject. The internal controls process is continuously monitored by direct management review and an internal audit program under which periodic independent reviews are made.

The Board of Directors, through its Audit Committee, is responsible for determining that management fulfills its responsibility with respect to the Company's financial statements and the system of internal accounting controls.

The Audit Committee meets periodically with representatives of management, the independent accountants and the Company's internal auditors to review audits, financial reporting, and internal control matters, and also meets with the Company's outside counsel on related matters. The independent accountants and the internal auditors have full and free access to the Audit Committee and periodically meet privately with the Audit Committee.

Coopers & Lybrand, independent Certified Public Accountants, have been engaged by the Board of Directors, with the approval of the stockholders, to examine the Company's financial statements. Their report appears below.



Kenneth H. Olsen  
*President*



Alfred M. Bertocchi  
*Vice President, Finance  
and Administration*

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## 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 of June 30, 1984 and July 2, 1983 and the related consolidated statements of income, stockholders' equity and changes in financial position for each of the three fiscal years in the period ended June 30, 1984. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Digital Equipment Corporation as of June 30, 1984 and July 2, 1983, and the consolidated results of its operations and the consolidated changes in its financial position for each of the three fiscal years in the period ended June 30, 1984 in conformity with generally accepted accounting principles applied on a consistent basis.

Boston, Massachusetts  
August 7, 1984  
(September 13, 1984 as to Note G)



Coopers & Lybrand

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## Consolidated Statements of Income

<i>(in thousands except per share data)</i>	Year Ended		
	June 30, 1984	July 2, 1983	July 3, 1982
<b>Revenues</b> <i>(Notes A and B)</i>			
Equipment sales . . . . .	\$3,831,073	\$2,867,428	\$2,793,701
Service and other revenues . . . . .	1,753,353	1,404,426	1,087,070
Total operating revenues . . . . .	5,584,426	4,271,854	3,880,771
<b>Costs and Expenses</b> <i>(Notes A and I)</i>			
Cost of equipment sales, service and other revenues . . . . .	3,379,632	2,605,970	2,187,620
Research and engineering expenses . . . . .	630,696	472,392	349,778
Selling, general and administrative expenses . . . . .	1,179,529	830,564	758,607
Operating income . . . . .	394,569	362,928	584,766
Interest expense . . . . .	35,096	13,078	14,746
Interest income . . . . .	(41,477)	(61,195)	(102,811)
Income before income taxes . . . . .	400,950	411,045	672,831
<b>Provision for income taxes</b> <i>(Notes A and C)</i>			
Federal . . . . .	40,494	80,858	188,780
Foreign . . . . .	16,641	36,273	41,375
State . . . . .	15,036	10,292	25,521
Total provision for income taxes . . . . .	72,171	127,423	255,676
Net income . . . . .	\$ 328,779	\$ 283,622	\$ 417,155
Net income per share <i>(Note E)</i> . . . . .	\$ 5.73	\$ 5.00	\$ 7.53
Weighted average shares outstanding <i>(Note E)</i> . . . . .	57,364	56,676	55,429

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

## Consolidated Balance Sheets

<i>(in thousands)</i>	June 30, 1984	July 2, 1983
<b>Assets</b>		
<b>Current Assets</b>		
Cash and temporary cash investments <i>(Note D)</i> . . . . .	\$ 476,150	\$ 556,209
Accounts receivable, net of allowance of \$38,512 and \$29,299 . . . . .	1,527,257	1,125,037
Inventories <i>(Note A)</i> :		
Raw materials . . . . .	456,490	320,820
Work-in-process . . . . .	614,766	557,509
Finished goods . . . . .	780,912	475,501
Total Inventories . . . . .	1,852,168	1,353,830
Prepaid expenses . . . . .	57,030	38,484
Net deferred Federal and foreign income tax charges . . . . .	169,308	127,799
Total Current Assets . . . . .	4,081,913	3,201,359
<b>Property, Plant and Equipment, at cost <i>(Note A)</i></b>		
Land . . . . .	97,517	92,202
Buildings . . . . .	678,895	619,153
Leasehold improvements . . . . .	150,985	113,439
Machinery and equipment . . . . .	1,424,389	1,136,574
Gross Property, Plant and Equipment . . . . .	2,351,786	1,961,368
Less accumulated depreciation . . . . .	840,446	621,642
Net Property, Plant and Equipment . . . . .	1,511,340	1,339,726
Total Assets . . . . .	\$5,593,253	\$4,541,085
<b>Liabilities and Stockholders' Equity</b>		
<b>Current Liabilities</b>		
Loans payable to banks <i>(Note F)</i> . . . . .	\$ 13,181	\$ 14,897
Accounts payable . . . . .	278,111	213,728
Federal, foreign and state income taxes . . . . .	312,871	221,820
Salaries, wages and related items . . . . .	224,036	194,035
Deferred revenues and customer advances <i>(Note A)</i> . . . . .	126,454	103,523
Current portion of long-term debt . . . . .	1,374	1,371
Other current liabilities . . . . .	124,517	74,993
Total Current Liabilities . . . . .	1,080,544	824,367
Net deferred Federal and foreign income tax credits . . . . .	92,180	82,626
Long-term debt <i>(Note G)</i> . . . . .	441,313	92,810
Total Liabilities . . . . .	1,614,037	999,803
<b>Stockholders' Equity <i>(Note J)</i></b>		
Common stock, \$1.00 par value; authorized 225,000,000 shares; issued and outstanding 57,811,416 and 56,357,078 shares . . . . .	57,811	56,357
Additional paid-in capital . . . . .	1,610,575	1,509,781
Retained earnings . . . . .	2,310,830	1,975,144
Total Stockholders' Equity . . . . .	3,979,216	3,541,282
Total Liabilities and Stockholders' Equity . . . . .	\$5,593,253	\$4,541,085

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

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## Consolidated Statements of Stockholders' Equity

<i>(in thousands)</i>	Common Stock	Additional Paid-in Capital	Retained Earnings	Total Stock- holders' Equity
June 27, 1981 .....	\$54,348	\$1,350,974	\$1,274,367	\$2,679,689
Shares issued under stock option and purchase plans <i>(Note J)</i> .....	879	45,384		46,263
Restricted stock plans, charge to operations <i>(Note J)</i> .....		13,891		13,891
Stock option and purchase plans – excess Federal income tax benefits <i>(Note J)</i> .....		7,466		7,466
Net income – 1982 .....			417,155	417,155
July 3, 1982 .....	\$55,227	\$1,417,715	\$1,691,522	\$3,164,464
Shares issued under stock option and purchase plans <i>(Note J)</i> .....	1,130	61,686		62,816
Restricted stock plans, charge to operations <i>(Note J)</i> .....		15,325		15,325
Stock option and purchase plans – excess Federal income tax benefits <i>(Note J)</i> .....		15,055		15,055
Net income – 1983 .....			283,622	283,622
July 2, 1983 .....	\$56,357	\$1,509,781	\$1,975,144	\$3,541,282
Shares issued under stock option and purchase plans <i>(Note J)</i> .....	1,454	75,065		76,519
Restricted stock plans, charge to operations <i>(Note J)</i> .....		17,499		17,499
Stock option and purchase plans – excess Federal income tax benefits <i>(Note J)</i> .....		8,230		8,230
Effect of exchange rate changes on net deferred income tax charges/credits .....			6,907	6,907
Net income – 1984 .....			328,779	328,779
June 30, 1984 .....	\$57,811	\$1,610,575	\$2,310,830	\$3,979,216

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

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## Consolidated Statements of Changes in Financial Position

<i>(in thousands)</i>	Year Ended		
	June 30, 1984	July 2, 1983	July 3, 1982
<b>Funds from Operations</b>			
Net income .....	\$ 328,779	\$283,622	\$417,155
Add—expenses not requiring funds in current period:			
Depreciation <i>(Note A)</i> .....	252,631	203,214	152,629
Disposal of property, plant and equipment .....	27,894	20,749	13,636
Restricted stock plans— charge to operations <i>(Note J)</i> .....	17,499	15,325	13,891
Deferred income tax provision <i>(Note C)</i> .....	(23,725)	32,587	(26,598)
Total funds from operations .....	<u>603,078</u>	<u>555,497</u>	<u>570,713</u>
<b>Funds Used to Support Operations</b>			
Increase (decrease) in working capital:			
Accounts receivable .....	402,220	317,478	49,450
Inventories .....	498,338	216,392	35,190
Prepaid expenses .....	18,546	92	(2,452)
Accounts payable .....	(64,383)	(71,679)	(28,914)
Income Taxes .....	(91,051)	22,387	32,215
Other current liabilities .....	(102,459)	(74,168)	(70,738)
Additions to property, plant and equipment .....	<u>661,211</u>	<u>410,502</u>	<u>14,751</u>
Effect of exchange rate changes on net deferred income tax charges/credits .....	452,139	419,215	511,240
Total funds used to support operations .....	<u>1,106,443</u>	<u>829,717</u>	<u>525,991</u>
Net increase (decrease) in funds from operations .....	<u>(503,365)</u>	<u>(274,220)</u>	<u>44,722</u>
<b>Funds provided by Financing Sources</b>			
Increase (decrease) in:			
Loans payable to banks <i>(Note F)</i> .....	(1,716)	2,556	4,112
Long-term debt .....	2,503	410	3,968
9 <sup>3</sup> / <sub>8</sub> % Debentures Due 2000 .....	(4,000)		
11 <sup>3</sup> / <sub>4</sub> % Overseas Notes Due 1989 .....	150,000		
13% Debenture Due 2014 .....	100,000		
12.625% Notes Due 1994 .....	100,000		
Common stock issued under stock option and purchase plans <i>(Note J)</i> .....	76,519	62,816	46,263
Total funds from financing sources .....	<u>423,306</u>	<u>65,782</u>	<u>54,343</u>
Net increase (decrease) in cash and temporary cash investments .....	(80,059)	(208,438)	99,065
Cash and temporary cash investments at beginning of year .....	556,209	764,647	665,582
Cash and temporary cash investments at end of year .....	<u>\$ 476,150</u>	<u>\$556,209</u>	<u>\$764,647</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 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.

In fiscal 1984, the Company adopted the Financial Accounting Standard No. 52, "Foreign Currency Translation." For foreign operations, the U.S. dollar continues to be the functional currency under the new standard. Adoption of FAS No. 52 in 1984 had no significant impact on the Company's operating results. Retained earnings have been increased by \$6,907,000 for the difference in translation of net deferred income tax charges and credits between FAS No. 52 and FAS No. 8.

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

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

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

**Taxes**  In general, the Company's practice is to reinvest the earnings of its foreign subsidiaries in those operations and repatriation of retained earnings is done only when it is advantageous to do so. Applicable taxes are provided only on amounts planned to be remitted. Management believes that sufficient deferred taxes have been provided for the undistributed earnings of the Company's Domestic International Sales Corporation ("DISC"). Accordingly, the Company discontinued the provision of deferred taxes on the undistributed DISC earnings in the fiscal year ending June 30, 1984. Investment tax credits are treated as reductions of income taxes in the year in which the credits arise.

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

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

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)

**Note B – International Operations***(in thousands)*

	Fiscal Year		
	1984	1983	1982
<b>Revenues</b>			
United States customers . . . . .	\$3,628,594	\$2,770,052	\$2,497,584
Intercompany . . . . .	1,136,030	816,740	722,866
	<u>4,764,624</u>	<u>3,586,792</u>	<u>3,220,450</u>
Europe customers . . . . .	1,462,319	1,074,853	1,006,052
Intercompany . . . . .	9,137	–	–
	<u>1,471,456</u>	<u>1,074,853</u>	<u>1,006,052</u>
Canada, Far East, Americas customers . . . . .	493,513	426,949	377,135
Intercompany . . . . .	718,324	390,337	274,998
	<u>1,211,837</u>	<u>817,286</u>	<u>652,133</u>
Eliminations . . . . .	(1,863,491)	(1,207,077)	(997,864)
<b>Net Revenue</b> . . . . .	<u>\$5,584,426</u>	<u>\$4,271,854</u>	<u>\$3,880,771</u>
<b>Income</b>			
United States . . . . .	\$ 230,522	\$ 169,802	\$ 380,483
Europe . . . . .	137,763	127,568	127,214
Canada, Far East, Americas . . . . .	123,364	69,404	88,260
Eliminations . . . . .	(97,080)	(3,846)	(11,191)
<b>Income from operations</b> . . . . .	<u>394,569</u>	<u>362,928</u>	<u>584,766</u>
Interest income . . . . .	41,477	61,195	102,811
Interest expense . . . . .	(35,096)	(13,078)	(14,746)
<b>Income before income taxes</b> . . . . .	<u>\$ 400,950</u>	<u>\$ 411,045</u>	<u>\$ 672,831</u>
<b>Assets</b>			
United States . . . . .	\$4,287,682	\$3,384,140	\$2,730,160
Europe . . . . .	1,166,193	828,087	758,655
Canada, Far East, Americas . . . . .	819,735	547,756	359,685
Corporate assets ( <i>temporary cash investments</i> ) . . . . .	449,319	563,979	751,676
Eliminations . . . . .	(1,129,676)	(782,877)	(576,163)
<b>Total assets</b> . . . . .	<u>\$5,593,253</u>	<u>\$4,541,085</u>	<u>\$4,024,013</u>

**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 through various representative and distributorship arrangements.

The Company's international manufacturing operations include plants in Canada, the Far East and Western Europe. The products of these manufacturing plants are sold to the Company's international sales subsidiaries, the parent corporation or other international manufacturing plants for further processing.

Intercompany transfers between geographic areas are accounted for at prices which are designed to be representative of unaffiliated party transactions.

**Note B – International Operations** (continued)

Sales to unaffiliated customers outside of the United States, including U.S. export sales, were \$1,977,794,000 for the year ended June 30, 1984, \$1,542,779,000 for the year ended July 2, 1983 and \$1,438,884,000 for the year ended July 3, 1982, which represented 35%, 37%, and 37%, respectively, of total operating revenues.

The retained earnings of substantially all of the Company's international subsidiaries have been reinvested to support operations. These accumulated retained earnings, before elimination of intercompany transactions, aggregated \$939,891,000 at June 30, 1984, \$722,140,000 at July 2, 1983, and \$605,900,000 at July 3, 1982.

**Note C – Income Taxes**

Income before income taxes for domestic and foreign operations was as follows:

<i>(in thousands)</i>	Year Ended		
	June 30, 1984	July 2, 1983	July 3, 1982
Domestic .....	\$219,908	\$288,437	\$535,184
Foreign .....	181,042	122,608	137,647
Total .....	<u>\$400,950</u>	<u>\$411,045</u>	<u>\$672,831</u>

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

	1984	1983	1982
U.S. Federal statutory tax rate .....	46.0%	46.0%	46.0%
Tax benefit of manufacturing operations in (a):			
Puerto Rico .....	( 5.7)	(5.0)	(3.3)
Ireland .....	(12.4)	(4.4)	(3.6)
Investment tax credits .....	( 4.0)	(5.5)	(2.9)
Research and engineering credit .....	( 5.4)	(5.4)	(1.7)
Other .....	( .5)	5.3	3.5
	<u>18.0%</u>	<u>31.0%</u>	<u>38.0%</u>

(a) Consolidated net income includes income of a domestic manufacturing subsidiary operating in Puerto Rico and of a foreign manufacturing subsidiary operating in Ireland. Under Puerto Rican law, the subsidiary is subject to tax at a rate of approximately 9% on its manufacturing earnings through fiscal 1995. Remitted earnings are not subject to U.S. Federal income taxes, but are subject to Puerto Rican withholding taxes at rates not in excess of 10%, less a partial credit for taxes paid to Puerto Rico. Under Irish law, the

income from products manufactured for export is exempt from Irish taxes through April 1990. Under Singaporean law, the income from manufacturing certain products is wholly exempt from Singaporean taxes through March, 1991 and partially exempt through December, 1996. The income tax benefits per common share attributable to the tax status of these subsidiaries for the years ended June 30, 1984, July 2, 1983 and July 3, 1982 were \$1.36, \$.69 and \$.83, respectively.

**Note C—Income Taxes** (continued)

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

<i>(in thousands)</i>	Year Ended		
	June 30, 1984	July 2, 1983	July 3, 1982
U.S. Federal:			
Currently payable .....	\$35,526	\$32,317	\$137,813
Deferred .....	4,968	48,541	50,967
Total .....	<u>\$40,494</u>	<u>\$80,858</u>	<u>\$188,780</u>
Foreign:			
Currently payable .....	\$35,225	\$27,944	\$ 50,658
Deferred .....	(18,584)	8,329	(9,283)
Total .....	<u>\$16,641</u>	<u>\$36,273</u>	<u>\$ 41,375</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 June 30, 1984, July 2, 1983 and July 3, 1982, and the tax effect of each were as follows:

<i>(in thousands)</i>	Year Ended		
	June 30, 1984	July 2, 1983	July 3, 1982
Inventory related transactions .....	\$(60,660)	\$(3,766)	\$(27,854)
Installment sales, principally intercompany, and financing leases .....	( 1,640)	(2,964)	(20,312)
Domestic International Sales Corporation profits .....	241	3,079	27,624
Depreciation .....	17,997	13,962	2,374
Tax benefit transfers .....	28,946	31,695	68,282
Other .....	1,500	14,864	(8,430)
Total .....	<u>\$(13,616)</u>	<u>\$56,870</u>	<u>\$ 41,684</u>

In connection with its normal examinations of the Company's 1978 through 1981 tax returns, the Internal Revenue Service has proposed adjustments. The Company believes its judgments in these matters have been appropriate and intends to contest certain of the adjustments proposed by the IRS. In addition, the Company believes any adjustments which might result would not have a material effect on the financial statements.

On July 18, 1984, the Deficit Reduction Act of 1984 was signed by the President. This law provides that no U.S. taxes will be charged on the undistributed earnings of the DISC. Prior to fiscal year 1984, the Company had provided for income taxes it anticipated would be paid in connection with its DISC earnings. As a result of the change in the law, the Company's income tax expense for fiscal year 1985 will be reduced by an estimated \$60 million, reflecting elimination of the taxes provided for DISC earnings in years prior to 1984.

The Company entered into "Safe Harbor" leases as defined under the Economic Recovery Tax Act of 1981. In accordance with the provisions of the agreements, the Company made payments of \$1,622,000 and \$103,954,000 for fiscal years 1983 and 1982, respectively, which amounts have been recorded as investments in tax benefits. These investments have been reduced by permanent tax savings of \$3,201,000, \$24,283,000 and \$68,282,000 in fiscal years 1984, 1983 and 1982, respectively. The remaining unrecovered cost is amortized by an interest method over the periods during which the Company has the use of additional temporary tax savings. While there is a cash flow benefit, there is no significant impact on net income.

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

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**Note D – Cash and Temporary Cash Investments**

The Company's policy is to invest cash in income-producing temporary cash investments. Accordingly, uninvested cash balances are kept at minimum levels. Temporary cash

investments are valued at cost, which approximates market, and principally include certificates of deposit and time deposits.

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**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 1984, 1983 and 1982 common share equivalents were attributable to stock options.

No cash dividends have ever been paid by the Company.

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**Note F – Short-Term Debt**

Short-term debt and related interest rates were as follows:

<i>(in thousands)</i>	<b>June 30, 1984</b>		July 2, 1983	
	Average Interest Rate		Average Interest Rate	
Loans payable to banks . . . . .	<b>\$13,181</b>	<b>21.1%</b>	\$14,897	13.4%

Short-term debt at year end was principally denominated in foreign currencies. High interest rates on Brazilian, Mexican and Italian short-term debt were a major influence on the year-end interest rate. The maximum aggregate short-term debt outstanding at any month-end was \$265,569,000 during fiscal 1984, and \$18,163,000 during fiscal 1983. Average short-term borrowings during these years, computed on a month-end basis, were \$138,261,000 and \$11,520,000, respectively. The average interest rate based on a weighted average of the stated month-end rates was 10.2% in fiscal 1984 and 22.3% in fiscal 1983. The short-term debt interest rates for fiscal 1983 were significantly impacted by the high interest rate on Brazilian short-term debt.

The Company has revolving credit agreements totaling \$340,000,000. These commitments are available on a revolving basis until March, 1985, converting at such time to term loans with final maturities in March, 1989. Borrowing rates under these commitments vary with the prime rate, domestic money market rates or the London Interbank Offer Rate. Although there are no compensating balance requirements under these agreements, commitment fees on the unused portion of the commitment approximate 3% compensating balances. These credit arrangements were unused at June 30, 1984.

Unused lines of credit for short-term financing were \$267,151,000 at June 30, 1984 and \$93,604,000 at July 2, 1983. At June 30, 1984, \$166,000,000 of these lines of credit required the payment of facility fees. Although there are no compensating balance requirements under these agreements, facility fees on the unused portion of the commitment approximate 3% compensating balances.

None of the cash reflected in the balance sheets at June 30, 1984 and July 2, 1983 was required as compensating balances.

### Note G – Long-Term Debt

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

<i>(in thousands)</i>	June 30, 1984	July 2, 1983
Lease obligations payable 1984-2000 (7.5%-8.25%)(a) . . . . .	\$ 7,520	\$ 8,095
Collateralized obligations maturing serially to 1993 (5.4%)(b) . . . . .	5,950	6,530
Sinking Fund Debentures due 2000 (9 <sup>3</sup> / <sub>8</sub> %)(c) . . . . .	71,000	75,000
Sinking Fund Debentures due 2014 (13%)(d) . . . . .	100,000	–
Notes due 1994 (12 <sup>5</sup> / <sub>8</sub> %)(e) . . . . .	100,000	–
Overseas Finance Notes due 1989 (11 <sup>3</sup> / <sub>4</sub> %)(f) . . . . .	150,000	–
Other . . . . .	6,843	3,185
	<u>\$441,313</u>	<u>\$92,810</u>

Principal payments required during the next five fiscal years are as follows: 1985 – \$1,374,000; 1986 – \$5,757,000; 1987 – \$5,799,000; 1988 – \$5,841,000; and 1989 – \$155,886,000.

(a) Weighted average interest rate at June 30, 1984 of 7.9%.

(b) Interest rate shown is the weighted average rate at June 30, 1984.

(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<sup>3</sup>/<sub>8</sub>% 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<sup>3</sup>/<sub>8</sub>% per annum. The Indenture for the Debentures also contains certain restrictions on future borrowings and dividend distributions.

(d) Sinking Fund Debentures were issued by the Company in April 1984. Sinking Fund payments of \$4.5 million are required in each of the fiscal years 1995-2013. The Company at its option may increase the sinking fund payments

up to an additional \$6.75 million in each such year. The Debentures are redeemable at the option of the Company at any time, as a whole or in part, at 113% of the principal amount during the year beginning April 15, 1984, and at declining percentages each year thereafter. However, prior to April 15, 1994, the Company may not redeem any of the Debentures from the proceeds of funds borrowed at an interest rate less than 13.05% per annum. The Indenture for the Debentures also contains certain restrictions on future borrowings and sales and leasebacks.

(e) Notes were issued by the Company in April 1984. The Notes are redeemable on or after April 15, 1991, at any time prior to maturity, at the option of the Company, as a whole or from time to time in part, at a redemption price equal to the principal amount thereof, together with interest accrued to the redemption date. The Indenture for the Notes also contains certain restrictions on future borrowings and sales and leasebacks.

(f) Notes were issued in March 1984 by Digital Equipment Overseas Finance N.V. The notes are unconditionally guaranteed by Digital Equipment Corporation, and may be redeemed in whole at any time at their principal amount, plus accrued interest if certain events occur involving United States or Netherlands Antilles taxes.

(g) On September 13, 1984 the Company issued \$400,000,000 of 8% Convertible Subordinated Debentures. The Debentures are subordinated in right of payment to all present and future senior indebtedness, as defined, and are convertible, subject to prior redemption, into shares of common stock at \$114 per share at any time up to and including the maturity date of September 1, 2009.

Annual sinking fund payments to redeem \$14,400,000 principal amount of the Debentures are required beginning on September 1, 1995. 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 beginning at 108% of the principal amount of the Debentures through August 31, 1985 and at prices which decrease annually thereafter to August 31, 1994 and thereafter at 100% of the principal amount, together with accrued interest to the date of redemption. However, prior to September 16, 1986 the Debenture may not be redeemed unless certain conditions are met.

**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 are as follows:

(in thousands)

1985 .....	\$108,352
1986 .....	\$ 89,653
1987 .....	\$ 72,390
1988 .....	\$ 56,529
1989 .....	\$ 38,292
Later years .....	<u>\$211,801</u>
Total minimum lease payments .....	<u>\$577,017</u>

Total rental expense for the fiscal years ended June 30, 1984, July 2, 1983 and July 3, 1982 amounted to \$175,055,000, \$145,303,000 and \$120,751,000, respectively.

**Note I – Pension Plans**

The Company and its subsidiaries have pension plans covering substantially all of their employees. Total pension expense was \$95,463,000 in fiscal 1984, \$89,766,000 in fiscal 1983, and \$61,801,000 in fiscal 1982. Annual contributions are made to the plans equal to the amounts accrued for pension expense. There was no unfunded past service liability as of June 30, 1984.

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

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 6 percent for both 1984 and 1983.

(in thousands)	June 30, 1984	July 2, 1983
Actuarial present value of accumulated plan benefits:		
Vested .....	\$125,748	\$ 86,805
Nonvested .....	<u>33,082</u>	<u>24,894</u>
	<u>\$158,830</u>	<u>\$111,699</u>
Net assets available for benefits .....	<u>\$382,354</u>	<u>\$229,108</u>

**Note J—Stock Plans**

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

Information concerning activity during the three fiscal years ended June 30, 1984 follows:

	Shares Reserved For Future Grants	Options Outstanding	
		Shares	Average Price Per Share
<b>June 27, 1981</b>	1,016,130	3,358,414	\$24.12
Additional shares authorized to be issued	5,000,000		
Options granted	(924,110)	924,110	49.43
Options exercised		(306,279)	17.98
Options cancelled	135,988	(135,988)	
Options terminated	(23,612)		
<b>July 3, 1982</b>	5,204,396	3,840,257	\$31.05
Options granted	(1,154,130)	1,154,130	82.82
Options exercised		(487,154)	23.66
Options cancelled	133,020	(133,020)	33.07
Options terminated	(18,657)		
<b>July 2, 1983</b>	4,164,629	4,374,213	\$45.47
Options granted	(1,708,090)	1,708,090	63.02
Options exercised		(439,604)	24.22
Options cancelled	309,013	(309,013)	46.18
Options terminated	(19,680)		
<b>June 30, 1984</b>	<b>2,745,872</b>	<b>5,333,686</b>	<b>52.80</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 \$17,499,000 in fiscal 1984, \$15,325,000 in fiscal 1983 and \$13,891,000 in fiscal 1982. The amount deductible for Federal income taxes exceeds the amount charged to income for book purposes. The Federal income tax benefits relating to this difference have been credited to additional paid-in capital.

**Employee Stock Purchase Plans**  Under the Company's Employee Stock Purchase Plans, all United States and certain international 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 1,961,690 shares at June 30, 1984 and 2,950,620 shares at July 2, 1983. There were 988,930 shares issued at an average price of \$59.87 in fiscal 1984 and 648,035 shares at \$74.88 in fiscal 1983. There have been no charges to income in connection with the options other than incidental expenses related to the issuance of the shares. Federal income tax benefits relating to such options have been credited to additional paid-in capital.

**Employee Stock Ownership Plan**  The Employee Stock Ownership Plan ("ESOP") and a related trust were established in 1982. The Company intends to make contributions of stock or cash to the trust equivalent to not more than 1/2% of the base salaries (not in excess of \$100,000 salary for any single employee) of substantially all U.S. employees for calendar years 1983 through 1987. Federal tax law generally allows a tax credit for the Company equal to the full value of the contribution.

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## Supplementary Financial Information

### Quarterly Financial Data (unaudited)

Selected quarterly financial data for fiscal 1984 and fiscal 1983 is set forth below:

<i>(in millions except per share data)</i>	Total Operating Revenues	Gross Profit	Income Before Income Taxes	Income	Net Income Per Share
<b>1984</b>					
First Quarter .....	\$1,074.3	\$ 394.0	\$ 23.7	\$ 15.9	\$ .28
Second Quarter .....	1,423.8	569.6	120.1	80.5	1.41
Third Quarter .....	1,430.8	575.8	131.5	101.8	1.76
Fourth Quarter .....	1,655.5	665.4	125.7	130.6	2.28
Total Year .....	<u>\$5,584.4</u>	<u>\$2,204.8</u>	<u>\$401.0</u>	<u>\$328.8</u>	<u>\$5.73</u>
<b>1983</b>					
First Quarter .....	\$ 927.5	\$ 353.4	\$ 91.6	\$ 56.8	\$1.02
Second Quarter .....	1,015.7	401.5	98.4	61.0	1.08
Third Quarter .....	1,094.3	428.2	109.4	79.8	1.40
Fourth Quarter .....	1,234.4	482.8	111.6	86.0	1.51
Total Year .....	<u>\$4,271.9</u>	<u>\$1,665.9</u>	<u>\$411.0</u>	<u>\$283.6</u>	<u>\$5.00</u>

### Information on the Effects of Inflation (unaudited)

**General Background**  To provide readers of financial statements with information on the estimated effects of inflation, the Financial Accounting Standards Board issued Statement No. 33, Financial Reporting and Changing Prices, which requires disclosure of certain experimental information on the effects of inflation on business enterprises. The two different methods ("constant dollar" and "current cost") for estimating the effects of inflation are described below.

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

**Current Cost**  This method is intended to measure the effect of changes in specific prices by substituting the

current cost of resources for the actual acquisition costs. Changes in specific prices were principally based on external price indexes closely related to the resources being measured, internally developed indexes and recent production cost experience.

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

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

**Information on the Effects of Inflation** (unaudited) (continued)

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

<i>(in millions)</i>	Adjustment for General Inflation (constant dollars)	Adjustment for Changes in Specific Prices (current costs)
Depreciation expense . . . . .	\$27.3	\$11.5
Cost of sales, exclusive of depreciation . . . . .	\$50.1	(122.2)
Total (increase) decrease in net income . . . . .	<u>\$77.4</u>	<u>(110.7)</u>

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

Cost of sales adjusted for the general inflation rate is higher than cost of sales as reported, because the higher costs measured by the general inflation rate are substituted for the lower historical costs included in cost of sales as reported in the income statement. Cost of sales is lower under the current cost method because the Company's first-in, first-out method of valuing inventories results in historical inventory costs being included in cost of sales reported in the income statement, whereas under the current cost method, the corresponding cost of sales element reflects lower current manufacturing costs.

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

**Purchasing Power of Net Monetary Assets** □ Net monetary assets are cash and temporary cash investments and fixed dollar claims to money. The purchasing power of the Company's net monetary assets declined because of inflation by \$34.1 million in fiscal 1984, as measured by the change in the Consumer Price Index.

**Current Cost of Inventories and Property, Plant and Equipment** □ The current cost of inventories and property, plant and equipment, net of accumulated depreciation, and the corresponding historical cost amounts at June 30, 1984 were as follows:

<i>(in millions)</i>	Inventories	Property, Plant and Equipment, Net
Current Cost . . . . .	\$1,671.3	\$1,679.9
Historical Cost . . . . .	<u>\$1,852.2</u>	<u>\$1,511.3</u>
Difference . . . . .	<u>(180.9)</u>	<u>\$ 168.6</u>

The current cost of inventories is approximately 10% lower than the corresponding historical cost, which is reflective of the lower costs which would be incurred if the fiscal 1984 year-end inventories were to be replaced at the expected current costs. This is not necessarily a fair measure of the expected inflation effect on fiscal 1985 cost of sales, since the 1985 cost of sales will include the higher historical costs in inventory at the end of fiscal 1984, as well as the cost of products manufactured and sold in fiscal 1985, which are different and have different costs from those in inventory at the end of fiscal 1984.

Net property, plant and equipment at current costs exceeded the corresponding historical cost by \$168.6 million. The current cost method assumes replacement of all the Company's property, plant and equipment as of June 30, 1984. However, the Company's property, plant and equipment are relatively new, with 85% of it having been acquired in the last 5 fiscal years. Consequently, the Company's future capital expenditures will be principally to expand, rather than replace, existing capacity.

The decrease in current cost of inventories held during fiscal 1984 was \$213.4 million, and the decrease in property, plant and equipment was \$13.2 million. The increases during fiscal 1984, measured by the general inflation rate, were \$60.0 million for inventories and \$66.3 million for property, plant and equipment.

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Consolidated Statement of  
Income and Changes in  
Stockholders' Equity Adjusted  
for the Effects of Inflation

For the Year Ended June 30, 1984	Adjusted for Inflation		
	As Reported	Constant Dollars	Current Costs
<i>(in millions except per share data)</i>			
Total operating revenues .....	\$5,584.4	\$5,584.4	\$5,584.4
Cost of equipment sales, services and other revenues (a) .....	3,229.4	3,279.5	3,107.3
Depreciation expense .....	252.6	279.9	264.1
Other expenses (a) .....	1,701.4	1,701.4	1,701.4
Provision for income taxes .....	72.2	72.2	72.2
Net income .....	<u>\$ 328.8</u>	<u>\$ 251.4</u>	<u>\$ 439.4</u>
Net income per share .....	<u>\$ 5.73</u>	<u>\$ 4.38</u>	<u>\$ 7.66</u>
Stockholders' equity at July 2, 1983 .....	3,541.3	3,848.3	3,729.8
Effect of exchange rate changes on net deferred income tax charges/credits .....	6.9	6.9	6.9
Net income as reported above .....	328.8	251.4	439.4
Decline in purchasing power of net monetary assets .....		(34.1)	(34.1)
Excess of general price level increase over specific price level increase of inventories and property, plant and equipment .....			(353.0)
Increase in common stock and additional paid-in capital .....	102.2	102.2	102.2
Stockholders' equity at June 30, 1984 .....	<u>\$3,979.2</u>	<u>\$4,174.7</u>	<u>\$3,891.2</u>

(a) Excludes depreciation expense

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### Five-Year Comparison of Selected Financial Data Adjusted for Effects of Inflation

The inflation-adjusted data shown below has been expressed in average fiscal 1984 dollars (based on the average Consumer Price Index for each fiscal year), to provide comparability between years in terms of dollars of equiva-

lent purchasing power. Corresponding historical cost amounts, as reported, are also shown to allow their comparison to the inflation adjusted data.

<i>(in millions except per share data)</i>	1984	1983	1982	1981	1980
<b>Total operating revenues</b>					
As reported .....	<b>\$5,584.4</b>	\$4,271.9	\$3,880.8	\$3,198.1	\$2,368.0
In constant dollars .....	<b>5,584.4</b>	4,430.0	4,199.0	3,757.8	3,104.4
<b>Net income</b>					
As reported .....	<b>328.8</b>	283.6	417.2	343.3	249.9
In constant dollars .....	<b>251.4</b>	220.3	332.4	279.4	220.4
In current costs .....	<b>439.4</b>	355.3	389.3	366.2	314.8
<b>Net income per share</b>					
As reported .....	<b>5.73</b>	5.00	7.53	6.70	5.45
In constant dollars .....	<b>4.38</b>	3.89	5.99	5.52	4.87
In current costs .....	<b>7.66</b>	6.27	7.02	7.16	6.88
<b>Net assets at year end</b>					
As reported .....	<b>3,979.2</b>	3,541.3	3,164.5	2,679.7	1,651.7
In constant dollars .....	<b>4,174.7</b>	3,860.5	3,568.2	3,234.6	2,249.0
In current costs .....	<b>3,891.3</b>	3,729.8	3,459.3	3,260.8	2,284.9
Decline in purchasing power of net monetary assets	<b>(34.1)</b>	(24.6)	(65.6)	(62.4)	(52.2)
Excess of general price level increase over specific price level increase of inventories and property, plant and equipment .....	<b>(353.0)</b>	(159.4)	(201.0)	(136.7)	(92.7)
<b>Market price per common share</b>					
As reported at year end .....	<b>84.00</b>	121.50	66.00	101.19	67.12
In constant dollars .....	<b>82.43</b>	124.27	69.25	113.72	82.65
Average Consumer Price Index (1967 = 100.0) .....	<b>304.9</b>	294.1	281.9	259.4	232.6

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

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**Officers**

Kenneth H. Olsen  
President and Director

John K. Alexanderson  
Vice President, Peripherals and Supplies Group

Alfred M. Bertocchi  
Vice President, Finance and Administration

Don K. Busiek  
Vice President, Corporate Software Services

George A. Chamberlain, 3d  
Vice President, Engineering and Manufacturing Finance

Henry J. Crouse  
Vice President, Manufacturing – Europe

James G. Cudmore  
Vice President, Group Manager – Low-End Engineering

Sheldon A. Davis  
Vice President, Organization – Europe

William R. Demmer  
Vice President, 32-Bit Systems

Pier-Carlo Falotti  
Vice President, Field Operations – Europe

Samuel H. Fuller  
Vice President, Research and Architecture

Rose Ann Giordano  
Vice President, Large Systems Marketing

Dave W. Grainger  
Vice President, Area Manager, Western and Central States

William C. Hanson  
Vice President, Systems Manufacturing

G. William Helm, Jr.  
Treasurer

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

Robert C. Hughes  
Vice President, Business and Office Systems Marketing

William R. Johnson, Jr.  
Vice President, Systems and Clusters Engineering

Jeffrey C. Kalb  
Vice President, Group Manager, Large Scale Integration

Edward A. Kramer  
Vice President, Technical Marketing

Delbert E. Lippert  
Vice President, Educational Services

William H. Long  
Vice President, Corporate Projects<sup>1</sup>

Ward D. MacKenzie  
Vice President, Group Manager

Albert E. Mullin, Jr.  
Vice President, Corporate Relations

Jean-Claude Peterschmitt  
Vice President, Europe

Richard Poulsen  
Vice President, Field Service

F. Grant Saviers  
Vice President, Storage Systems

Edward A. Schwartz  
Vice President, General Counsel and Secretary

Joel Schwartz  
Vice President, Educational Marketing

John J. Shields  
Vice President, Group Manager

Godfrey S. Shingles  
Vice President, Managing Director  
United Kingdom Region

Charles F. Shue  
Vice President, Area Manager, Northeast States

John L. Sims  
Vice President, Corporate Personnel

John F. Smith  
Vice President, Manufacturing and Engineering

Peter J. Smith  
Vice President  
Computer Aided Engineering and Manufacturing

Harvey L. Weiss  
Vice President, Area Manager  
Mid-Atlantic and Southern States

William G. Witmore  
Vice President, General International Area

Richard H. Yen  
Vice President, Far East Engineering and Manufacturing

<sup>1</sup>On leave of absence through September, 1985

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**Directors**


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Vernon R. Alden  
Director of several organizations

Philip Caldwell  
Chairman of the Board and Chief Executive Officer,  
Ford Motor Company (Manufacturers)

Arnaud de Vitry  
Chairman of the Board and Chief Executive Officer,  
Eureka SICAV (French Investment Company)

Georges F. Doriot  
Retired Chairman of the Board of American Research  
and Development Corporation (Venture Capital  
Investment Company)

William H. McLean  
Engineering consultant and Director of several  
corporations

Kenneth H. Olsen  
President, Digital Equipment Corporation

Dorothy E. Rowe  
Retired Senior Vice President and Treasurer of  
American Research and Development Corporation  
(Venture Capital Investment Company)

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**Corporate Consulting Engineers**


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David N. Cutler  
Senior Corporate Consultant, Computer Systems

Richard I. Hustvedt  
Corporate Consultant, Operating Systems

Alan Kotok  
Corporate Consultant, High Performance Computers

Jesse Lipcon  
Corporate Consultant, Micro Systems

William D. Strecker  
Senior Corporate Consultant, Computer Architecture

Robert M. Supnik  
Corporate Consultant, VLSI Development

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**Headquarters**


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Corporate Headquarters  
Digital Equipment Corporation  
146 Main Street  
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: 845 422 593

General International Area Headquarters  
Digital Equipment Corporation  
100 Nagog Park  
Acton, Massachusetts 01720  
Telephone: (617) 264-7111  
TWX: 710-347-0216

Canadian Headquarters  
Digital Equipment of Canada, Ltd.  
100 Herzberg Road  
Kanata, Ontario, Canada K2K 2A6  
Telephone: (613) 592-5111  
TWX: 610-562-8732

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**Investor Information**


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The Company's common stock is listed and traded on the:  
 New York Stock Exchange  
 Pacific Stock Exchange  
 (Ticker Symbol "DEC")

Unlisted trading privileges have been granted by the:  
 Boston Stock Exchange  
 Cincinnati Stock Exchange  
 Midwest Stock Exchange  
 Philadelphia Stock Exchange

The Company maintains an Investor Relations office to assist shareholders. Investors' inquiries are welcome, by telephone or letter.

Inquiries relating to investment in Digital Equipment Corporation should be directed to:  
 Albert E. Mullin, Jr.  
 Vice President, Corporate Relations  
 Digital Equipment Corporation  
 111 Powdermill Road (K10)  
 Maynard, MA 01754  
 (617) 493-5350

Digital Equipment Corporation's Annual Report on Form 10-K for the fiscal year ended June 30, 1984, including schedules thereto, which is filed with the Securities and Exchange Commission, will be sent without charge upon written request. The Company's annual report, filings with the Securities and Exchange Commission, interim reports and additional information about the Company and its products can be obtained by addressing:  
 Digital Equipment Corporation  
 Inquiry Section  
 10 Forbes Road NRO3-1/MO3  
 Northboro, MA 01532  
 (617) 351-4401

Financial community information and requests to be placed on the Company's mailing list should be directed to:  
 Digital Equipment Corporation  
 Investors Relations - ML  
 111 Powdermill Road (K10)  
 Maynard, MA 01754  
 (617) 493-8246

Inquiries of an administrative nature relating to shareholder accounting records, stock transfer, change of address, and employee purchases should be directed to:  
 Digital Equipment Corporation  
 Investor Services  
 111 Powdermill Road (L2)  
 Maynard, MA 01754  
 (617) 493-5213

Digital Equipment Corporation customers who have questions and/or problems relating to their account should contact the Customer Assistance Department at (617) 493-7161.

Transfer Agent and Registrar  
 for Common Stock  
 Morgan Guaranty Trust Company is the principal stock transfer agent and registrar, and maintains the shareholder accounting records. The agent will respond to questions on change of ownership, lost stock certificates, consolidation of accounts and change of address.

*continued on next page*

**Investor Information** (continued)

A change of address should be reported promptly by sending a signed and dated note or postcard to Morgan Guaranty Trust Company. Shareholders should state the name in which the stock is registered, account number, as well as the old and new addresses.

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

Trustees and Registrars  
*For 9<sup>3</sup>/<sub>8</sub>% Sinking Fund Debentures due 2000*  
Morgan Guaranty Trust Company of New York  
30 West Broadway  
New York, NY 10015

Trustees and Registrars  
*For 12<sup>3</sup>/<sub>8</sub>% Notes due 1994*  
*For 13% Sinking Fund Debentures due 2014*  
The Chase Manhattan Bank, N.A.  
1 New York Plaza  
New York, NY 10081

Paying Agents and Registrars  
*For 11<sup>3</sup>/<sub>4</sub>% Guaranteed Notes due 1989*  
Morgan Guaranty Trust Company of New York  
30 West Broadway  
New York, NY 10015

Trustees and Registrars  
*For 8% Convertible Subordinated Debentures due 2009*  
Morgan Guaranty Trust Company of New York  
30 West Broadway  
New York, N.Y. 10015

Auditors  
Coopers & Lybrand  
One Post Office Square  
Boston, MA 02109  
(617) 574-5000

Legal Counsel  
Testa, Hurwitz & Thibault  
60 State Street  
Boston, MA 02109  
(617) 367-7500

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Digital Equipment Corporation  
Maynard, Massachusetts 01754

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