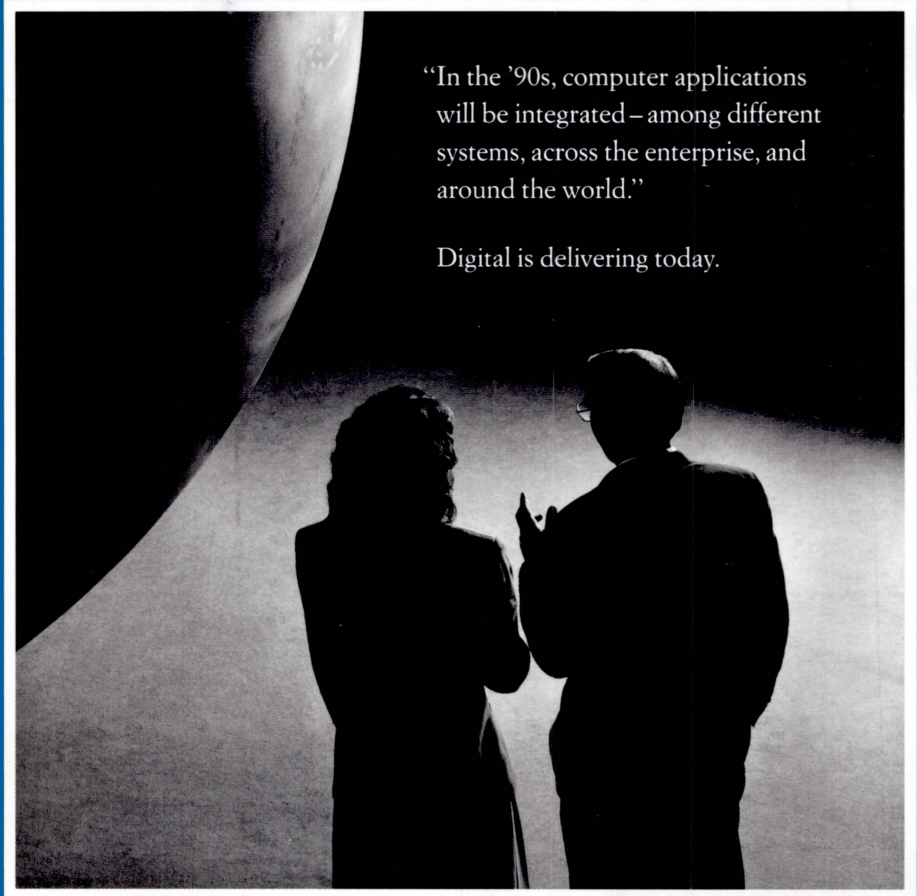


digital



“In the '90s, computer applications
will be integrated – among different
systems, across the enterprise, and
around the world.”

Digital is delivering today.

**Corporate
Profile**

Digital Equipment Corporation is one of the world's largest suppliers of networked computer systems, software, and services, and a leader in multivendor systems integration. ■ An international company, Digital does more than half its business outside the United States, developing and manufacturing products and providing customer services in the Americas, Europe, and the Pacific Rim. ■ Digital builds a full range of desktop, client/server, production, and mainframe systems for multivendor computing environments. Applications include transaction processing, data management, telecommunications, finance, realtime data acquisition and control, vector processing, education, publishing, manufacturing, software development, and health care. ■

Cover

DECWORLD '90 provided an opportunity for customers to meet with Digital engineers and industry specialists one-on-one and in small groups to discuss multivendor integration and other information technology issues facing organizations worldwide. ■

**Financial
Highlights**

<i>Fiscal Year</i>	1990	1989	<i>% Change</i>
Total operating revenues	\$12,942,523,000	\$12,741,956,000	+ 2
Net income	\$ 74,393,000	\$ 1,072,610,000	(93)
Net income per share	\$.59	\$8.45	(93)
Total stockholders' equity	\$ 8,181,914,000	\$ 8,035,673,000	+ 2
Number of stockholders	92,934	99,084	
Stockholders' equity per share . . .	\$66.76	\$66.12	+ 1

Annual Meeting

The Annual Meeting of Stockholders will be held at 11:00 a.m. Thursday, November 1, 1990, at the World Trade Center, Commonwealth Pier, 164 Northern Avenue, Boston, Massachusetts 02210. Stockholders of record on September 7, 1990, will be entitled to vote at this meeting. ■

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**President's
Letter**

To Our Stockholders, Employees, and Customers:

The continued slowdown in the computer systems business in the United States and some international markets has meant slow growth and low profits for Digital.

We continue to increase productivity through automation and the use of our own computer network. This means that when we don't have significant growth, we have a surplus of people. During the past year, about 3,000 employees voluntarily accepted a financial support package and left the Company. We absorbed a charge to operations to cover the costs of current and future changes.

We continue to make our traditional investments in technology because we believe that Digital is positioned for future growth. We are now very efficient in producing new technology and new products, and we feel that we are a leader in mainframe and client/server computing, and in multivendor systems integration.

Mainframe-Style Computing

Many customers run business management applications on our VAX systems because they need a robust, thoroughly tested, highly functional, fully supported, mainframe-style computing environment.

At times, industry pundits predicted that PCs and workstations would put mainframe-style systems out to pasture. This never happened. The reason is simple. There are certain applications that are critical to the existence of a business. You have to be totally reliable in putting your payroll out, tracking your inventories, and processing orders, or you will not remain a viable operation.

The key characteristic of a mainframe system is availability, the assurance that the system will be running when you need it. Several years ago we developed clustering, a technology to address this need.

High-Availability Systems. Today, Digital is the largest supplier of high-availability systems in the world. More than 100,000 VAX computers are running in cluster systems. The computers in a cluster work as a single system, sharing a common workload and a common database. Clusters are used for high-speed processing, maintaining large databases where many computers need to access the same information, and for never-fail applications. If one system goes off-line, the software switches the workload to another.

Fault-Tolerant Systems. This year, Digital introduced its first fault-tolerant computer, the VAXft 3000 system. In this system, every component is redundant. Today Digital is the only computer manufacturer to offer a full range of high-availability systems based on both hardware and software technology.

Transaction Processing. When these high-availability systems are coupled with the transaction processing capabilities built into Digital's VMS operating system this year, customers can build fault-tolerant transaction processing networks to support distributed applications in which continuous computing is a must.

New VAX Systems. To keep up with the demand for more powerful commercial and scientific processors, Digital introduced the VAX 9000 mainframe this year. We are shipping this new computer as fast as we can build it. Customers are happy with it. We see it as an important part of our product line.

We also introduced the VAX 4000 system and vector processing capabilities for the VAX 9000 and the VAX 6000 systems. We now have an entire line of new VAX systems from top to bottom.

Client/Server Computing

While mainframe-style systems focus on organizational productivity, client/server computing focuses on individual productivity.

Historically, timesharing represented our largest market. In a traditional timesharing system, each user had a simple terminal on the desk and shared the services of a Digital minicomputer.

As PCs and workstations became popular, the role of the minicomputer changed. As customers tied PCs and workstations together in active networks, the demand grew for common services to do filing, printing, computation, and networking.

Networked minicomputer servers provide these functions. But client/server computing involves more than calling a minicomputer a server; it requires highly specialized software. During the past eighteen months, Digital introduced new desktop integration and local-area networking software, a complete range of VAX and RISC workstations and servers, including the VAXserver 4000 and DECsystem 5000 servers, and new industry-standard PCs.

RISC and the UNIX Operating System. RISC, Reduced Instruction Set Computing, is becoming increasingly important in client/server computing because RISC systems are very fast and relatively inexpensive.

Digital is committed to RISC computing. In fact, we are a leader in the integration of RISC systems into corporate computing environments. Our RISC family now includes ten workstations and systems and more than 1,500 applications, including over 300 that implement the X Window standard. The DECstation 5000 system, introduced in April, generates standard X Window displays three-and-a-half times faster than its two nearest competitors.

Workstations, Personal Computers, and Terminals. Digital has become a major factor in the desktop computer market. In addition to offering a complete line of PCs, Digital is the largest supplier of Ethernet local area networks in the industry. The VAXstation 3100 series is the world's largest-selling workstation family.

And, during the past year we sold over 560,000 terminals. This demonstrates the continued strength of the timesharing market. Customers are looking for ways to reduce training and support costs in environments where users neither need nor want the specialized capabilities of a personal computer or workstation.

Systems Integration

Our customers are asking for standards. They want to be able to take an application written for one system and run it on another. And they want that application to be able to share data and interact with other applications on the network.

At the same time, customers are asking Digital to help them plan, design, implement, and maintain their systems and networks. This systems integration work passed the billion-dollar mark in revenues for Digital this past year.

Digital's Strategy. Digital's strategy is to provide the products and services our customers need to integrate a multivendor computing environment. This strategy will ensure that:

1. All computers and operating systems that follow industry standards for language, human interface, and communications will be able to share applications. Software will be transportable from one system to another. This transportability is made possible by standards, not computer architecture or operating system.
2. Computer systems that follow the same standards will work on the same network. Digital's VAX and RISC-based DECsystem computers and workstations work interchangeably on the same network.
3. All popular desktop devices – simple terminals and windowing terminals; MS-DOS, OS/2, and Macintosh PCs; and workstations using the VMS and UNIX operating systems – are fully integrated into the Digital network.

Worldwide Operations

Digital's strategy is being implemented worldwide. We derive 56 percent of our revenues from the 81 countries outside the U.S. where Digital does business.

During the year we opened our most advanced semiconductor manufacturing plant, in Scotland. We established a joint venture in Hungary to

kick off what will be a growing presence for Digital in the emerging markets of Eastern Europe, and business is already exceeding expectations.

Manufacturing. Our worldwide manufacturing operations have become more efficient. Six years ago we had 32,000 manufacturing employees; today, with more than double the revenues, we have 29,300. Inventory turns have doubled, and we have dramatically reduced the cycle time for creating and introducing new products.

Sales and Marketing. We've cut overhead in our sales organization. We took steps to increase accountability, establishing over twenty business units. Each is responsible for planning and developing the products and services needed in a particular industry or application area and for balancing investments with return.

Revenue Growth and Cost Reduction. Increasing profits is a major challenge. We recognize the need to improve financial performance and enhance shareholder value. We are working to increase revenue growth and reduce costs. Digital has a sound financial base to build on with a strong balance sheet, positive cash flow, very little debt, and ample cash reserves.

DECWORLD '90

DECWORLD '90 provided an opportunity to demonstrate how we have implemented our product and business strategies.

A worldwide event, DECWORLD '90 opened this past summer in Boston. It then moved on to Canberra, Australia, in August; it will move to Cannes, France, in September, and Tokyo in November. Total attendance is expected to exceed 50,000 prospects and customers.

The DECWORLD program includes seminars, workshops, demonstrations, and laboratories where customers work with Digital and third-party specialists to explore ways computer applications can address their critical business needs.

I talked with many customers at DECWORLD in Boston. Their enthusiasm about our team, our products, and the Company's direction is extremely gratifying.

DECWORLD demonstrated to me why Digital can look forward to the future with confidence.



Kenneth H. Olsen
President
September 1, 1990

**Integrating
Applications
in a Multivendor
Environment**

Customers are shifting their information technology focus from automating discrete functions to addressing mission-critical business issues. Where, in the past, a customer asked for help in automating a warehouse, today that same customer is looking for help in reducing inventory. ■ Digital anticipated this shift. We recognized that working with customers to implement business strategies would, as often as not, require the ability to distribute and integrate applications across multivendor computing environments. Without this capability, business issues can only be approached in a piecemeal, patch-things-together-for-the-moment manner. The ability to solve the technical problems inherent in systems integration is the prerequisite to providing business solutions. ■ Multivendor integration has been a focus of Digital's worldwide research and development program since the early 1980s. Over the last ten years, Digital spent more than \$16 billion on research, development, equipment, and facilities. This past year, more than \$1 billion was spent on new equipment and facilities. In addition, Digital invested 12.5 percent of operating revenues—more than \$1.6 billion—in research and development. This placed Digital fifth among all American companies and fourteenth worldwide in total R&D expenditures. ■ These investments address a pressing customer need. In the past, multivendor computing environments had to be pieced together. It was left to the customer to write software to meet the interface specifications of this manufacturer or that. ■ Digital simplified things. We developed Network Application Support, NAS, software with several other companies so that our mutual customers would have a common application environment. NAS supports industry-standard windowing and menu interfaces so users can access applications in a consistent manner. And applications can access data and programs running on other systems anywhere on a Digital network. NAS makes multivendor distributed and client/server computing attractive and cost-effective. ■ Independent software developers have been quick to recognize the advantages of writing applications to NAS standards. This past year, they introduced hundreds of new programs that use NAS software, while hundreds of existing programs work with NAS as is, without requiring any rewrite. ■

In one way or another, all the customer stories featured in this Annual Report are about integrating systems and applications. The first story is about Eastman Kodak and Digital's role in planning, designing, implementing and maintaining multivendor networks. The last story features Bankers Trust and the role of NAS—Network Application Support—in providing the underlying technology needed to build multivendor networks. ■ Systems integration and NAS are, in effect, the bookends. They represent the service philosophy and the technology that support every Digital customer and provide the foundation for Digital's approach to client/server computing, transaction processing, application development, office and desktop computing, and all the other subjects addressed in this Annual Report. ■



“OSI makes the *networking*, in network computing, a non-issue. It provides the standards that will enable everything to work together in a scalable, manageable, and cost-efficient multivendor voice/data network.”

Katherine Hudson

Vice President and
Director
Corporate Information
Systems

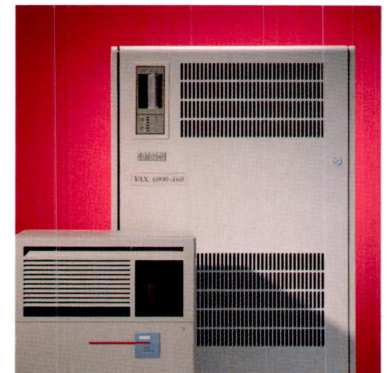
**Eastman Kodak
Company**

**The Digital Response:
DECnet/OSI implements
OSI – Open Systems Intercon-
nection – standards. It's the key
to multivendor networking; one
reason Kodak selected Digital
to maintain and manage its
worldwide voice/data network.**



As information systems and telecommunications networks grow ever more complex and interrelated, standards become the critical issue. A systems integration program is either built on standards or built on sand. ■ Digital is committed to standards and works closely with other companies that share this commitment. With Consilium, ASK, Sanchez Computing, Shared Medical Systems, and other industry specialists. With leading telecommunications companies like Northern Telecom, Siemens, Mitel, and AT&T. ■ This past year, Digital signed formal alliances with a number of consulting firms including Arthur D. Little, Computer Sciences Corporation, Deloitte & Touche, Andersen Consulting, Price Waterhouse, and Ernst & Young. Through these alliances, Digital is able to offer a complete range of services for planning, designing, implementing, managing, and maintaining complex multivendor networks. ■ Digital has undertaken major systems integration programs for Deutsche Telepost, Bankers Trust, Aetna Life & Casualty, Tyson Foods, and the U.S. Census Bureau. Eastman Kodak selected Digital to manage, maintain, and operate its worldwide voice and data network. This network supports computers, workstations, personal computers, and terminals from Digital, IBM, and other computer vendors, together with telephones, facsimile machines, and closed-circuit television. ■ It takes sophisticated technology to get everything to work together. Digital's Enterprise Management Architecture is based on the OSI standard. It provides the tools needed to build a distributed network management system. DECnet/OSI software supports multivendor computer networks. NAS, Digital's Network Application Support software, provides print, message, file sharing, data access, windowing, application control, and other services across the network. And CIT, Digital's Computer Integrated Telephony program, gives telephone users access to computer databases. ■ These tools provide the mechanism to integrate IBM SNA, DECnet/OSI, and existing telephone networks into a single, manageable system. ■ It is for this reason companies like MCI, Northern Telecom, and Litel use Digital systems like the VAX 4000 and VAX 6000 computers to provide value-added network services, to control voice/data switches, and to manage network operations. ■

**Enterprise
Integration
Services**





“The new Alfa Romeo 164 integrates high-performance engineering and advanced manufacturing techniques to produce an exceptional luxury car. Setting the pace in design, performance, and quality requires consistent, integrated, and connectable software.”

Arrigo Arrigoni

Director of Sales and
Marketing

Alfa Romeo
The Fiat Group

The Digital Response:
This year more than 1,200 software developers signed cooperative marketing or development agreements to provide Digital customers with quality solutions that work together.

People who buy an Alfa Romeo look for performance, panache, and polish. Bringing these elusive characteristics together requires a total quality program. ■ Building quality applications is also a challenge for software developers. Customers like Alfa Romeo want applications that work together. Software that runs on a broad range of computers from desktop systems to mainframes. Software that's reliable and robust. They want applications that are fully supported and properly documented in English, Spanish, Japanese, and German, as well as in Italian. ■ There are over 8,000 applications for Digital VAX and RISC systems. Many of these applications are provided by over 3,600 Complementary Solutions Organizations (CSOs) worldwide, including leading software developers such as Lotus, Matra, Schlumberger, Ross Systems, Wolfram Research, Computer Associates, and Dun & Bradstreet Software Services. ■ Digital also has formal alliances with customers. Some have developed specialized applications for their own use and want to work with Digital to market these applications to other companies. Others are joint ventures, like SESAM S.p.A. – Software e Sistemi per l'Automazione Manifatturiera – an alliance between Fiat and Digital to develop new approaches to computer-integrated manufacturing. ■ Teamwork facilitates the development, testing, marketing, and support of consistent, integrated, and connectable application programs and tools for Digital systems. Our customers want Lotus spreadsheets to be able to access Rdb databases. They want engineering graphics programs to implement the DECwindows user interface. ■ Complementary software built around a consistent user interface and common data management and networking services reduces data processing costs. And, because Digital provides customers and software developers with a well-defined and consistent architecture, software written for a small system will run on a larger one. Software written for prior generations will run on future systems. ■

8,000

Software

Applications





“ To lower software development costs and improve programmer productivity, we need a complete set of CASE – Computer-Aided Software Engineering – tools and the ability to ‘transport’ finished applications from one system to the next.”

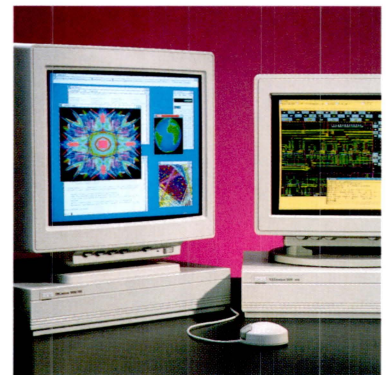
Ed Hurd

Vice President and
General Manager
Industrial Automation
and Control Division
Honeywell Inc.

The Digital Response:
CASE is not blue smoke and mirrors. This year, Digital introduced COHESION, a complete software development environment with the services and CASE tools that make it easier to write applications for multivendor computing.

Computer Aided Software Engineering—CASE—tools are used to build transportable and integrated applications for multivendor environments. They're the basis for strategic alliances between Digital and companies like Honeywell, who are developing systems for complex applications. Both parties work in a common software environment, share the same tools, and follow common methodologies. ■ For example, Digital works with Honeywell's Industrial Automation and Control Division to integrate process control and plant-wide information systems. These solutions consist of Honeywell application software packages, an interface that links Honeywell's TDC 3000 process control system to Digital VAX computers, and a joint development product that will link TDC 3000 systems directly to DECnet/OSI networks. ■ This integration gives Honeywell customers in the process industries—oil and gas production, petrochemicals, pulp and paper, power generation, and food processing—realtime, business-oriented, decision-making capabilities. ■ Digital helps Honeywell achieve this level of integration through COHESION, a comprehensive software development environment with industry-standard CASE tools and a complete set of services. Software developed in this environment will run on any VAX or RISC-based Digital workstation or system. ■ Honeywell, like many manufacturers, systems integrators, and software developers, uses Digital systems, NAS software, and CASE tools to develop “transportable” applications that will run on many personal computers, workstations, or mainframes. ■ This unified environment spreads development costs over a broad range of systems, greatly increasing the potential market for new software. Software has become the largest component in most data processing budgets. Developing, documenting, updating, and maintaining software can account for sixty cents in every data processing dollar. But expense is only part of the problem. Most large organizations have an application backlog. ■ Digital systems like the VAXstation 3100 and the DECstation 5000 workstations can help reduce this backlog. Each programmer can have a dedicated VAX or RISC system with a complete set of development tools, freeing production systems from the programming development workload. ■

**Software
Development,
Transportability,
and the Application
Backlog**





“ In retailing and distribution, almost everything involves transaction processing. That’s why we wanted to integrate transaction processing into a distributed environment where it can run concurrently with batch and time-sharing applications.”

Lennart Nilsson

Information Systems
Director

IKEA Svenska AB

The Digital Response:
This past February, Digital made every VAX/VMS system a full-function production machine that can handle a mix of transaction processing, batch, and timesharing jobs.

Production data processing supports the critical missions of a business. If production systems aren't running, business grinds to a halt. That's why there is so much interest in distributed transaction processing—where the network, not just an individual system, is fault tolerant. ■ This is particularly true in retailing and distribution. IKEA, a \$2.6 billion furniture retailer based in Älmhult, Sweden, is a case in point. A long-time Digital customer, IKEA operates 83 outlets and works with 1,500 suppliers in 20 countries, and has a rapidly expanding presence in the U.S. ■ In a typical distributed transaction processing network, fault-tolerant VAXft 3000 systems gather transactions from point-of-sale systems and pass them on to high-availability VAXcluster systems that maintain the corporate database. It's a very cost-effective approach that eliminates the need to duplicate every system on the network. There's absolute data integrity. All VAX systems—from the smallest desktop workstation to a VAX 9000 mainframe—run system software that allows a single transaction to access and update multiple databases on a network. ■ VMS software implements this “two-phase” commit procedure. One database isn't changed unless all databases are changed. This is the key capability needed to build distributed transaction processing networks with multiple databases. In effect, every VAX computer has “mainframe” capabilities. Application availability and recoverability, data integrity and security, and response time and elapsed time can all be matched to the customer's specific requirements. ■ The flexibility of Digital's approach makes a lot of sense to profit-conscious retailers like IKEA, Blockbuster Video, and Toys “R” Us, who use MicroVAX systems to capture transactions at the point of sale and who have to maintain accurate, mirror-image databases at both retail outlets and distribution centers. ■ Support is particularly important to these retailers. Digital's established presence in international markets is one reason IKEA has bought more than 80 MicroVAX systems. Digital is there to help IKEA plan, design, and implement its worldwide network. ■

**Distributed
Transaction
Processing**





“ Our goal is to turn Singapore into an ‘Intelligent Island,’ a fully networked global city in the 21st century. We want to work with computer manufacturers who can help us integrate the desktops in every major sector of the economy into a nationwide network.”

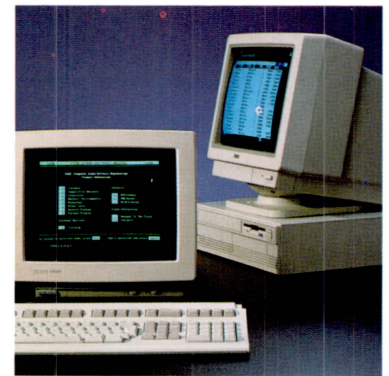
Chin Nam Tan

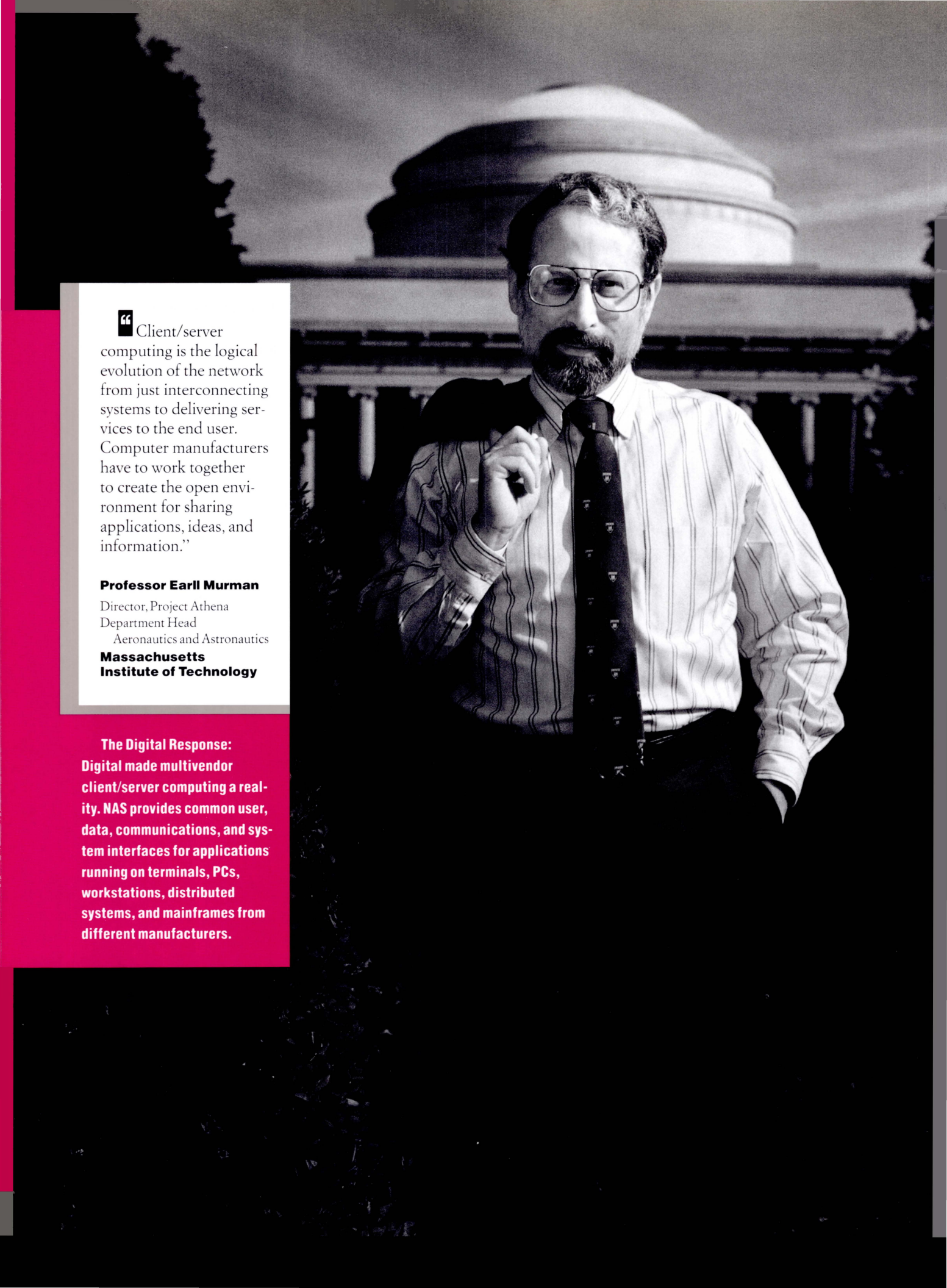
Managing Director
Economic Development
Board
Chairman
National Computer Board
Republic of Singapore

The Digital Response:
In 1990, Digital extended
its PC integration program.
Desktop, departmental, and
mainframe systems now form a
single, tightly integrated com-
puting environment.

In a typical office, one user may run WordPerfect, another Microsoft Word, a third WPS-PLUS. People want software they're familiar and comfortable with. They want to exchange compound documents, access videotex services, and send and receive mail. ■ Digital is helping to break the barriers that separate one desktop and one department from the next. The office is no longer defined by four walls and a local area network. Future office systems will cut across geographies and existing organizational structures. They will make use of emerging technologies for integrating voice and data, for combining text and graphics in printed documents, and for distributing transaction processing capabilities across the organization. ■ The National Computer Board, Economic Development Board, and Trade Development Board are three Singapore government agencies linked in an intra- and inter-organizational DECnet network. ■ A prototype of the office of the future, this network integrates over 900 personal computers and terminals and two VAXcluster systems on the island of Singapore with overseas offices in New York, San Francisco, Frankfurt, and Tokyo. A fourth agency, the Jurong Town Corporation, will be linked to the network by the end of 1990. ■ Working with PCSA, Digital's Personal Computing Systems Architecture—a key NAS component—and ALL-IN-1, Digital's office information and communication system, users can share files and network resources, and mail and videotex services across the organization. And they can choose the desktop device that best meets their needs—a Digital VT420 or VT1200 terminal, an industry-standard PC like the DECstation 320, a Macintosh personal computer, or a workstation. ■ This approach to office systems is based on standards and alliances with leading PC companies, including Apple, Ashton-Tate, COMPAQ, Lotus, and Toshiba. These alliances help ensure that desktop systems and applications using the MS-DOS, OS/2, Macintosh, UNIX, and VMS operating systems can share files and exchange information. ■ As a local manufacturer for the past decade, Digital is committed to the idea of the “intelligent island.” Working with the Republic of Singapore, Digital is making the investments needed to help the island country in its aspirations to become a global technopolis. ■

**Personal
and Office
Computing**





“ Client/server computing is the logical evolution of the network from just interconnecting systems to delivering services to the end user. Computer manufacturers have to work together to create the open environment for sharing applications, ideas, and information.”

Professor Earl I. Murman

Director, Project Athena
Department Head
Aeronautics and Astronautics

**Massachusetts
Institute of Technology**

The Digital Response:
Digital made multivendor client/server computing a reality. NAS provides common user, data, communications, and system interfaces for applications running on terminals, PCs, workstations, distributed systems, and mainframes from different manufacturers.

Users want the simplicity of timesharing, the “one-to-one” convenience of personal computers and workstations, *and* the power of a network that can tap all the computing resources within the enterprise. Client/server computing goes far beyond the familiar local area network linking PCs together. ■ It’s relatively easy to build a local area network to support a handful of PCs. It is quite another thing to build a LAN that will support over 10,000 workstations from a number of different manufacturers and provide each user with transparent access to a number of different applications and services. ■ That was the goal of Project Athena. This \$100 million, eight-year joint project among MIT, Digital, and IBM turned the MIT campus into a living laboratory for client/server computing. The X Window System was developed as part of the project. It provides a systems-independent windowing interface to any workstation on the network. ■ DECwindows, a NAS component, is Digital’s implementation of the X Window System. As part of the DECwindows program, Digital developed an application interface that makes it possible to write a single program that will run on many different computers. This interface has been incorporated into the X Window System specification and has been adopted by the Open Software Foundation as a key component in an emerging standard for client/server networks. ■ With this new standard, users will no longer have to learn a new set of commands every time they run a new program. They will no longer have to deal with the complexities of the network. In fact, they won’t see any difference between a program running on the desktop and a program running on any other system on the network. They won’t know – or care – whether the application is running under the VMS, UNIX, MS-DOS, OS/2, or Macintosh operating system. ■ At the same time, users will be able to access information anywhere on the network. Using NAS, a generation of specialized systems like the VAXserver 4000 and the DECsystem 5000 servers are optimized to support VMS, UNIX, MS-DOS, OS/2, and Macintosh clients, while maintaining very large databases and serving as a link to datacenter mainframes. ■

Client/Server Computing



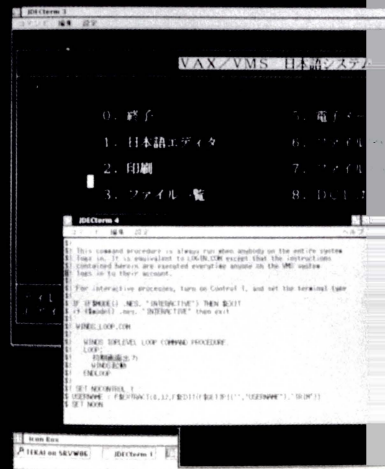
“Our goal is to build an open, accessible system to integrate Nomura’s worldwide operations. As the systems integrator, we want to work with computer companies that are committed to multivendor networking and international standards.”

Kenjiro Hayashi

Executive Managing
Director
Systems Research
Division

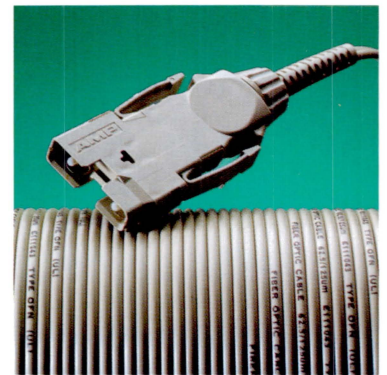
**Nomura Research
Institute**

The Digital Response:
Digital is working with customers, telecommunications companies, and other computer manufacturers to develop and implement the open standards our customers need to build multivendor and international networks.



The Nomura Research Institute (NRI) is developing a strategic financial system for various customers, including the Nomura Group, the world's largest financial institution. Nomura wants NRI to create a network that will make exchanging data or messages among computers in London, New York, and Tokyo as simple as communicating with a PC in the next office. For example, the decision support system for Nomura will support realtime arbitrage and risk management by integrating various systems in different offices into a single, open network. ■ NRI's goal is to create a single system that will be the common property of the entire Nomura Group. Building this network means conforming to international standards and integrating the efforts of a number of different computer and telecommunications companies. ■ For NRI, working with other companies is a way of life. In the financial services industry, success often comes from working with competitors, from developing mature relationships with customers and suppliers, and from building a strong presence in local markets. This kind of cooperation is a model for computer manufacturers and telecommunications companies. ■ Digital helps customers achieve their strategic business goals by taking the same approach as NRI. Digital has established alliances with leading telecommunications providers and equipment manufacturers and plays an active role in international organizations that develop and set standards. Without these standards, it would be difficult to introduce products and services designed to support a multivendor computing environment. For example, Digital's FDDI—Fiber Distributed Data Interface—products provide high-speed, 100-megabit-per-second, local area network communications. These new products are based on a standard published by the X3T9.5 committee of the American National Standards Institute. ■ Implementing international standards and supporting international customers requires an established global infrastructure. Digital Equipment Corporation Japan has the resources needed to provide global account management and to coordinate the efforts of Digital networking specialists in the U.S. and Europe. ■

**The
Global
Network**





“ We want to choose the best solution regardless of who makes it. And we want everything to work together just as if it came from a single vendor. Networking is more than linking computers, it's helping people to work together as a team.”

Carmine Vona

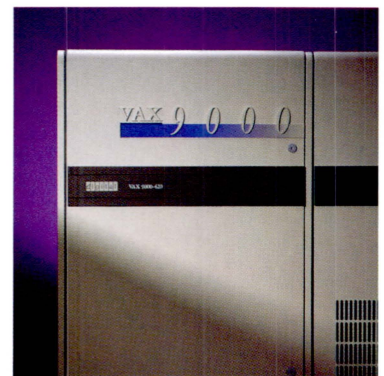
Executive Vice President
for Technology

Bankers Trust Company

The Digital Response:
During the year, Digital introduced additional Network Application Support (NAS) software to integrate Digital, IBM, Apple, and other systems so both computers and users can work together.

Network Application Support, NAS, is more than an architecture; it is a comprehensive set of software products that is being used by Digital customers today. NAS is windowing, electronic mail, electronic document interchange, data management, and spreadsheets that can be shared among different systems. It's desktop, commercial, and technical applications. ■ With NAS, distributed and client/server applications run across Digital networks. NAS is the logical outgrowth of Digital's long-standing commitment to desktop-to-datacenter compatibility. As VMS was Digital's architecture for the 1980s, NAS is the Digital architecture for the 1990s. It applies the lessons and disciplines of VMS to a multivendor environment. But NAS does not replace VMS or other operating systems; it enhances them in a way that lets the customer build a multivendor computing environment around existing systems. ■ The new Bankers Trust trading room at Broadgate in London demonstrates this capability. In the past, trading rooms depended on video technology to provide a picture of market activity. But with feeds coming in from a number of different reporting services, it had become increasingly difficult for traders to find and focus on the specific information they needed. ■ Working with software specialists, network analysts, hardware engineers, and traders, the Digital/Bankers Trust team solved the problem by converting the incoming video feeds into a digital format. Where it used to take a trader ten seconds to call up specific information on a display, it now takes less than half a second. And when you're dealing in a market where prices change by the second, time is literally money. ■ By combining its knowledge of capital markets with Digital's technology, Bankers Trust has been able to create applications that can be used in trading rooms around the world. Network Application Support provides the needed links to existing networks, computer systems, and applications. ■ This capability made Digital the world leader in multivendor networking. Every Digital system—from desktop computers and workstations to the VAX 9000 mainframe designed for production data processing—is a network computer. ■

Network
Application
Support



**It's Good
Business
to be a
Good
Neighbor**



A good neighbor contributes time, talent, and resources to the community; is genuinely concerned with people and the environment. ■ For Digital – and Digital employees – being a good neighbor means more than making donations. It means being involved in the communities where we live and work. Being involved with environmental issues that have global impact. ■ It means Digital executives and engineers on their own time, and on assignment from the Company, work with researchers, teachers, and social agencies to apply technology to environmental, health, and educational issues. ■ For example, a team of engineers from Digital’s Augusta, Maine, plant and Tewksbury, Massachusetts, office developed a process (left) for cleaning circuit boards with an aqueous solution rather than CFCs – chlorofluorocarbons – that affect the atmosphere. Digital put this new technology in the public domain so that everyone could benefit from Digital’s research without paying a licensing fee. ■ When “The Infinite Voyage” – an ongoing series of hour-long public television science specials underwritten by Digital – focused on ozone depletion, hundreds of students gathered at the University of Colorado to listen to a lecture by Dr. Sherwood Rowland. This lecture was beamed live via Digital’s satellite network to 1,500 high schools, colleges, and Digital facilities across the United States. ■ Digital also supports educational, health, and cultural programs. When Digital sponsored “Monet in the ’90s” in Boston, Chicago, and London, special showings were scheduled for employees and their families. ■ Being a good neighbor meant donating Digital computers to hospitals in New South Wales, Australia, for AIDS research, testing, and patient-care monitoring. It meant contributing money and equipment to Tuskegee Institute, Howard University, and other black colleges and universities. ■ It meant supporting over 300 research programs at 125 colleges in North America, Europe, and the Pacific Rim. ■ This kind of commitment and community involvement was supported by research grants and \$37 million in cash and equipment donations, including \$6 million in matching funds disbursed to non-profit organizations. ■ Being involved is not just good business; it is one of the ways Digital and Digital people support the communities that support them. ■

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Eleven-Year Financial Summary

Operations <i>(in millions except per share data)</i>	1990	1989	1988	1987
Revenues				
Product sales	\$ 8,146	\$ 8,190	\$ 7,541	\$ 6,254
Service and other revenues	4,797	4,552	3,934	3,135
Total operating revenues	<u>12,943</u>	<u>12,742</u>	<u>11,475</u>	<u>9,389</u>
Costs and Expenses				
Cost of product sales, service and other revenues	6,795	6,242	5,468	4,514
Research and engineering expenses	1,614	1,525	1,306	1,010
Selling, general and administrative expenses ⁴	4,521	3,639	3,066	2,253
Operating income	<u>13</u>	<u>1,336</u>	<u>1,635</u>	<u>1,612</u>
Interest income	142	124	144	122
Interest expense	31	39	38	45
Income before income taxes	<u>124</u>	<u>1,421</u>	<u>1,741</u>	<u>1,689</u>
Provision for income taxes	50	348	435	552
Net income	<u>\$ 74</u>	<u>\$ 1,073</u>	<u>\$ 1,306</u>	<u>\$ 1,137</u>
Net income per share ^{1,2}	<u>\$.59</u>	<u>\$ 8.45</u>	<u>\$ 9.90</u>	<u>\$ 8.53</u>
Weighted average shares outstanding	<u>125</u>	<u>127</u>	<u>132</u>	<u>133</u>
Financial Position <i>(in millions except per share data)</i>				
Inventories	\$ 1,538	\$ 1,638	\$ 1,575	\$ 1,453
Accounts receivable, net of allowance	\$ 3,207	\$ 2,965	\$ 2,592	\$ 2,312
Property, plant and equipment, at cost	\$ 7,027	\$ 6,249	\$ 5,210	\$ 3,859
Total assets	\$ 11,655	\$ 10,668	\$ 10,112	\$ 8,407
Long-term debt	\$ 150	\$ 136	\$ 124	\$ 269
Stockholders' equity	\$ 8,182	\$ 8,036	\$ 7,510	\$ 6,294
Stockholders' equity per share ²	\$ 66.76	\$ 66.12	\$ 59.47	\$ 49.87
General Information and Ratios				
<i>(dollars in millions except stock prices)</i>				
Current ratio	2.3:1	2.9:1	2.9:1	3.4:1
Quick ratio	1.6:1	1.9:1	2.0:1	2.4:1
Working capital	\$ 4,332	\$ 4,501	\$ 4,516	\$ 4,377
Additions to property, plant and equipment	\$ 1,028	\$ 1,223	\$ 1,518	\$ 748
Depreciation	\$ 759	\$ 659	\$ 516	\$ 435
Debt to debt plus equity ratio	1.8%	1.7%	1.6%	4.1%
Operating income as a percentage of revenues . . . . .	.1%	10.5%	14.2%	17.2%
Income before income taxes as a percentage of revenues	1.0%	11.2%	15.2%	18.0%
Effective tax rate	40.0%	24.5%	25.0%	32.7%
Net income as a percentage of revenues . . . . .	.6%	8.4%	11.4%	12.1%
Net income as a percentage of average stockholders' equity . . . . .	.9%	13.8%	18.9%	18.9%
Net income as a percentage of average total assets . . . . .	.7%	10.3%	14.1%	14.6%
Number of days sales of accounts receivable outstanding	86	76	75	78
Inventory turns	4.3	3.9	3.6	3.4
Number of employees at year-end	124,000	125,800	121,500	110,500
Common shares outstanding <i>(in thousands)</i>	122,555	121,537	126,290	126,187
Stockholders at year-end	92,934	99,084	103,162	99,379
Common stock yearly high and low sales prices	\$ 103-70	\$ 122-86	\$ 199-99	\$ 174-82

1986	1985	1984	1983	1982	1981	1980
\$ 5,103	\$ 4,530	\$ 3,804	\$ 2,828	\$ 2,739	\$ 2,313	\$ 1,736
2,487	2,156	1,780	1,444	1,142	885	632
7,590	6,686	5,584	4,272	3,881	3,198	2,368
4,282	4,087	3,379	2,606	2,188	1,779	1,320
814	717	631	472	350	251	186
1,665	1,432	1,179	831	758	632	479
829	450	395	363	585	536	383
116	63	41	61	103	60	54
88	82	35	13	15	29	27
857	431	401	411	673	567	410
240	(16) ³	72	127	256	224	160
\$ 617	\$ 447	\$ 329	\$ 284	\$ 417	\$ 343	\$ 250
\$ 4.81	\$ 3.71	\$ 2.87	\$ 2.50	\$ 3.76	\$ 3.35	\$ 2.73
131	124	115	113	111	105	94
\$ 1,200	\$ 1,756	\$ 1,852	\$ 1,354	\$ 1,137	\$ 1,102	\$ 820
\$ 1,903	\$ 1,539	\$ 1,527	\$ 1,125	\$ 808	\$ 758	\$ 629
\$ 3,263	\$ 2,828	\$ 2,352	\$ 1,961	\$ 1,605	\$ 1,128	\$ 772
\$ 7,173	\$ 6,369	\$ 5,593	\$ 4,541	\$ 4,024	\$ 3,456	\$ 2,666
\$ 333	\$ 837	\$ 441	\$ 93	\$ 92	\$ 88	\$ 490
\$ 5,728	\$ 4,555	\$ 3,979	\$ 3,541	\$ 3,165	\$ 2,680	\$ 1,652
\$ 44.54	\$ 38.43	\$ 34.42	\$ 31.42	\$ 28.65	\$ 24.65	\$ 18.12
4.9:1	4.9:1	3.8:1	3.9:1	4.1:1	4.2:1	4.5:1
3.5:1	2.8:1	1.9:1	2.0:1	2.3:1	2.3:1	2.6:1
\$ 4,223	\$ 3,694	\$ 3,001	\$ 2,377	\$ 2,181	\$ 2,030	\$ 1,658
\$ 564	\$ 572	\$ 452	\$ 419	\$ 511	\$ 399	\$ 210
\$ 384	\$ 315	\$ 253	\$ 203	\$ 153	\$ 102	\$ 70
5.5%	15.5%	10.0%	2.6%	2.8%	3.2%	22.9%
10.9%	6.7%	7.1%	8.5%	15.1%	16.8%	16.2%
11.3%	6.4%	7.2%	9.6%	17.3%	17.7%	17.3%
28.0%	(3.7%) ³	18.0%	31.0%	38.0%	39.5%	39.0%
8.1%	6.7%	5.9%	6.6%	10.7%	10.7%	10.6%
12.0%	10.5%	8.7%	8.5%	14.3%	15.9%	18.0%
9.1%	7.5%	6.5%	6.6%	11.2%	11.2%	11.0%
79	75	83	82	73	73	81
2.9	2.3	2.1	2.1	2.0	1.9	2.0
94,700	89,000	85,600	73,000	67,100	63,000	55,500
128,591	59,253	57,811	56,357	55,227	54,348	45,568
76,860	68,810	44,389	40,903	44,706	39,948	35,144
\$ 94-46	\$ 63-39	\$ 61-33	\$ 65-32	\$ 55-34	\$ 55-29	\$ 41-27

¹See Note B of Notes to Consolidated Financial Statements.

²Per share data adjusted to reflect two-for-one stock split in May 1986.

³Includes elimination of DISC taxes of \$63M accrued prior to 1984.

⁴Includes restructuring charges of \$550M in 1990.

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

*Income and Expense Items as a
Percentage of Total Operating Revenues*

Percentage Changes

1988	1989	1990	Income and Expense Items	1989-90	1988-89	1987-88
65.7%	64.3%	62.9%	Product sales	(1%)	9%	21%
34.3%	35.7%	37.1%	Service and other revenues	5%	16%	25%
100.0%	100.0%	100.0%	Total operating revenues	2%	11%	22%
40.3%	42.3%	47.0%	Cost of product sales	10%	14%	20%
61.7%	60.9%	61.9%	Service expense and cost of other revenues	7%	14%	22%
47.7%	49.0%	52.5%	Total cost of operating revenues	9%	14%	21%
11.4%	12.0%	12.5%	Research and engineering expenses	6%	17%	29%
26.7%	28.5%	30.7%	Selling, general and administrative expenses	9%	19%	36%
—	—	4.2%	Restructuring charges	—	—	—
14.2%	10.5%	0.1%	Operating income	(99%)	(18%)	1%
1.3%	1.0%	1.1%	Interest income	15%	(14%)	18%
0.3%	0.3%	0.2%	Interest expense	(22%)	4%	(16%)
15.2%	11.2%	1.0%	Income before income taxes	(91%)	(18%)	3%
3.8%	2.8%	0.4%	Provision for income taxes	(86%)	(20%)	(21%)
11.4%	8.4%	0.6%	Net income	(93%)	(18%)	15%

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 Consolidated Statements of Income for the three years ended June 30, 1990,

and the percentage changes in those items for such years. Components of total cost of operating revenues are shown as percentages of their related revenues.

Revenues

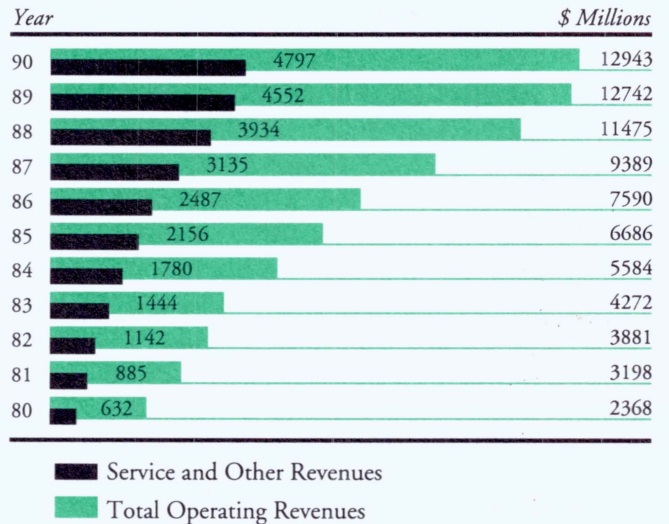
In 1990, the Company's operating revenues grew by 2% compared with the prior year. All of the Company's growth occurred in its overseas markets. For the year, international revenues accounted for approximately 56% of the Company's total revenues.

Product sales, which accounted for approximately 63% of operating revenues, were essentially flat compared with those of the prior year, following increases of 9% in 1989 and 21% in 1988. The lack of growth of product sales reflects persistent weakness in the U.S. market, a contraction in the rate of growth in some of the Company's overseas markets and a revenue decline in the Company's high-end product set pending production start-up of the new VAX 9000 mainframe computer. A pervasive change in industry demand, favoring low-end and desktop products, also was a factor. The Company has responded to this change in demand by introducing a number of new computer systems for both UNIX and Digital's own VMS operating systems, as well as a broad range of multivendor client/server software, service and hardware products.

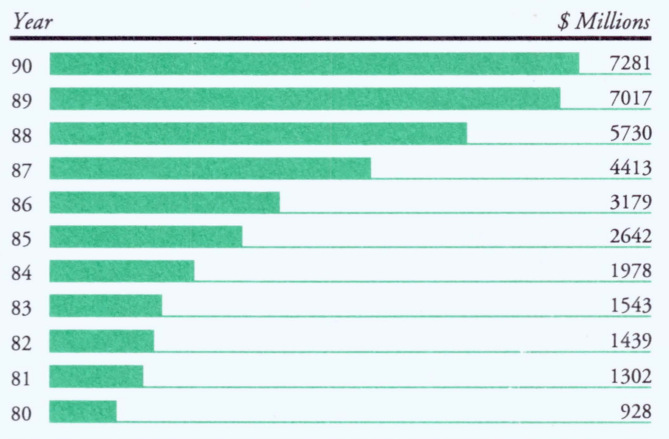
During the second fiscal quarter the Company announced its VAX 9000 mainframe computer system. The machine has met with a high level of customer interest and is functioning at speeds 30% faster than those noted at the time of the product's announcement. In anticipation of the availability of the VAX 9000 mainframe, demand for a number of the Company's other computer systems declined during the year.

In 1990, service and other revenues grew by \$245 million or 5%, following increases of 16% in 1989 and 25% in 1988. Service revenue growth slowed somewhat from the prior two years, reflecting the same factors that affected product sales growth. Service revenues also were affected by changes in warranty policies, the high level of product quality, and price/performance improvements that often lead to product replacement instead of maintenance.

Total Operating Revenues



Non-United States Revenues



Expenses and Profit Margins

The Company's gross margin declined from the previous year, reflecting primarily lower than anticipated revenue growth, the negative impact of currency movements, competitive pricing pressures and a shift in the Company's mix of product revenues from larger systems toward smaller desktop systems. This shift shows a trend evident throughout much of the industry, as customers migrate applications to more of a distributed data processing environment and place more computer resources in the hands of the ultimate user. Service gross margin was slightly lower than the previous year.

The Company continued to be among the leaders in the industry in its commitment to research and engineering investment. The Company believes such investment is critical to maintaining a strong competitive position and ensuring future growth. Research and engineering expenses grew 6% in 1990 and represented 12.5% of total operating revenues, compared with 12% in 1989 and 11.4% in 1988. For the last three years combined, the Company's investment in research and engineering exceeded \$4.4 billion. Approximately 10,500 professional employees are involved in a number of research, engineering and programming activities around the world. These activities include developing or enhancing systems, related peripheral equipment, and software, and expanding product applications and multivendor systems integration.

During the year the Company introduced many new hardware, software and service products. Early in the year the Company added new DECsystem 5800 series RISC systems and extended its family of expandable VAX systems with MicroVAX and VAXserver 3100 products. At the same time, the Company added to its Network Application Support (NAS) software, which allows customers to combine VAX, RISC systems and systems from other manufacturers in a multivendor network. In the second quarter a number of new products that simplify multivendor network management were announced in conjunction with several third-party companies. At mid-year the Company enlarged its family of desktop systems with the introduction of two models of the VAXstation 3100 workstation. The Company also reconfigured its ALL-IN-1 integrated office system to support multivendor systems in a client/server model. In this relationship, client software on the desktop gives users access to the network while server software on a host provides numerous business applications across a local area or global network. In the third quarter the Company enhanced its NAS capabilities with the announcement of VMS Production Systems Programs for mission-critical, distributed computing and, in addition, announced its first fault-tolerant

Research and Engineering

Year	\$ Millions
90	1614
89	1525
88	1306
87	1010
86	814
85	717
84	631
83	472
82	350
81	251
80	186

Net Income

Year	\$ Millions
90	74
89	1073
88	1306
87	1137
86	617
85	447
84	329
83	284
82	417
81	343
80	250

Net Income Per Common Share

Year	\$
90	.59
89	8.45
88	9.90
87	8.53
86	4.81
85	3.71
84	2.87
83	2.50
82	3.76
81	3.35
80	2.73

system, the VAXft 3000 computer. A new version of Digital's ULTRIX operating system also was announced, with many new features including the ability to support symmetric multiprocessing.

Shortly after the close of the year, at DECWORLD '90, the Company announced new products for critical elements of the emerging client/server market, including software, hardware, networking and management capabilities. At the forefront of the Company's client/server strategy is the VAX 4000 Model 300 system. This system has excellent price/performance characteristics that allow it to perform high capacity input/output and network traffic tasks at considerable cost savings to the customer.

Selling, general and administrative expenses increased 9% over the previous year and represented 30.7% of total operating revenues, compared with 28.5% in 1989 and 26.7% in 1988. The Company continued to invest in its sales, marketing and Enterprise Integration Services organizations to promote sales growth and enhance customer support. Much of the increase in spending represented the addition of personnel as the Company increased the size of its sales organization.

For the last several years the Company has invested heavily in all facets of its operations in anticipation of higher revenue growth than what was actually achieved. Although the rate of spending growth has been reduced, the Company's overall profitability has declined. Consequently, the Company absorbed restructuring charges of \$550 million to cover the cost of employee separations, reskilling, retraining and relocation, as well as facility consolidations and related administrative costs, mostly in the United States. As a result of this charge, the Company incurred a \$378 million loss before income taxes in the United States in the 1990 fiscal year.

A portion of these restructuring actions occurred in fiscal 1990 but most will occur during fiscal 1991. The considerable cost savings benefits expected from these actions, therefore, will be realized partially in 1991 and more fully in 1992. During 1990, worldwide employment declined from 125,800 to 124,000.

The restructuring charges contributed to the lowering of the Company's operating margin for the year to .1%, compared with 10.5% in 1989 and 14.2% in 1988. Some positive impact from these charges will be realized during the 1991 fiscal year, and the full impact of actions taken in 1990 and 1991 will be realized in fiscal 1992.

The Company's positive cash flow, high cash balance, low level of debt and overall sound financial condition leave it well-positioned to absorb the restructuring charges without any serious impairment to its financial strength.

Interest income in 1990 increased from 1989 levels, reflecting higher cash balances. Interest expense decreased from the previous year due to a lower level of debt outstanding.

The Company's effective tax rate for 1990 was 40%, up from 24.5% in the previous year. The increase primarily reflects the inability of the Company to utilize all of the foreign tax credits available to it due to the lack of profitability in the U.S.

During December 1987, the Financial Accounting Standards Board issued a new accounting standard for income taxes, SFAS No. 96, which will require the company to adjust its deferred tax assets and liabilities. The statement has been amended by SFAS No. 103 which defers the effective date of adoption. The Company must adopt SFAS No. 96 no later than fiscal year 1993. Management does not anticipate that its adoption will have a material impact on the Company's consolidated financial position and results of operations. There will be no cash flow impact from these adjustments.

Employee Population

Year	Thousands
90	124
89	126
88	122
87	111
86	95
85	89
84	86
83	73
82	67
81	63
80	56

Management's Discussion and Analysis of Financial Condition

Availability of Funds to Support Current and Future Operations

Cash to support the Company's operations has historically been met with internally generated cash supplemented with external financing. During 1990, internally generated cash was more than sufficient to support operations.

During the three-year period of 1988-1990, cash generated from operating activities exceeded cash used for investing activities by \$681 million. In 1990, net cash generated from operations and investments was \$331 million, compared with \$189 million in 1989 and \$161 million in 1988. The increase in net cash generated from operations and investments from 1989 to 1990 reflects lower capital spending.

During 1989 and 1990, the Board of Directors authorized the repurchase of ten and five million shares, respectively, of the

Company's common stock on the open market. In the second quarter of 1990, the Company repurchased 1.7 million shares of common stock at a cost of \$159 million to complete the 10 million share authorization. In the fourth quarter of 1990, the Company repurchased 1.3 million of the five million share authorization at a cost of \$111 million.

Cash and temporary cash investments rose to \$2,009 million at the end of 1990 from \$1,655 million at the end of 1989. Unused lines of credit at the end of 1990 were \$784 million.

The Company's financial performance, together with its substantial reserve debt capacity and high credit rating, leave it well positioned to obtain cash required for future growth.

Common Stock Information

The Company's common stock is listed and traded on the Midwest Stock Exchange, New York Stock Exchange, Pacific Stock Exchange and several European stock exchanges. There were 92,934 stockholders of record as of June 30, 1990. The high and low quarterly sales prices for the past three fiscal years are presented below.

			1990
<i>Fiscal Quarter</i>	<i>High</i>	<i>Low</i>	
First	\$103 ³ / ₈	\$ 91	
Second	94 ¹ / ₂	79 ³ / ₄	
Third	90 ¹ / ₄	69 ¹ / ₂	
Fourth	95 ¹ / ₈	76 ¹ / ₄	
			1989
<i>Fiscal Quarter</i>	<i>High</i>	<i>Low</i>	
First	\$117	\$ 91 ¹ / ₂	
Second	99 ³ / ₈	86 ³ / ₈	
Third	122 ³ / ₈	95 ³ / ₄	
Fourth	102 ¹ / ₂	89 ³ / ₄	
			1988
<i>Fiscal Quarter</i>	<i>High</i>	<i>Low</i>	
First	\$198 ¹ / ₄	\$157 ¹ / ₂	
Second	199 ¹ / ₂	110	
Third	144 ³ / ₄	103 ³ / ₄	
Fourth	115 ⁷ / ₈	99 ¹ / ₄	

Total Stockholders' Equity

<i>Year</i>	<i>\$ Millions</i>
90	8182
89	8036
88	7510
87	6294
86	5728
85	4555
84	3979
83	3541
82	3165
81	2680
80	1652

Spending for Operations

The Company continued to make investments during the 1990 fiscal year to ensure product quality and technological competitiveness, while maintaining its sound financial position.

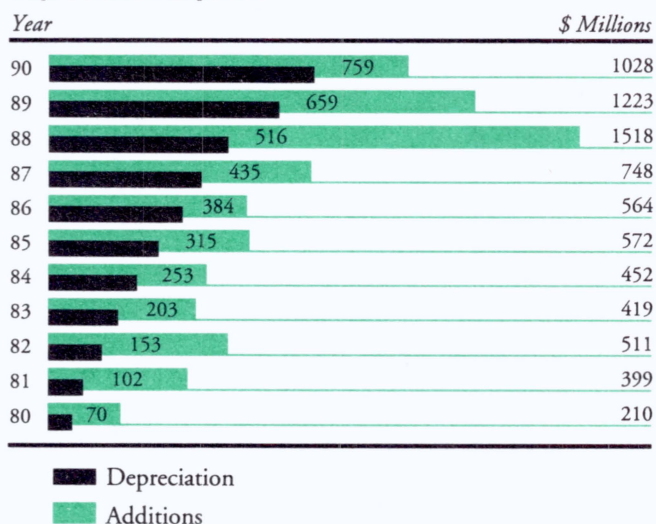
The Company invested \$1,028 million in property, plant and equipment in 1990 compared with \$1,223 million in 1989. In the last three years, capital expenditures have exceeded \$3.7 billion. This sizable investment in the future aims at supporting the Company's growth, improving manufacturing and engineering processes and techniques, and advancing employee productivity. Nearly 72% of the current year's total was spent for machinery and equipment. The balance of the capital spending was for buildings, leasehold improvements and land.

Despite lower than anticipated revenue growth and a number of product transitions, inventories declined in 1990 by \$100 million or 6%. All three categories of inventory – raw materials, work in process and finished goods – declined from 1989 levels. Average year inventory turned 4.3 times, an improvement from 3.9 times in fiscal 1989 and 3.6 times in fiscal 1988. Accounts receivable grew 8% in 1990 due principally to the larger proportion of non-U.S. revenues, extended payment terms, and the impact of currency on overseas operations. Consequently, days sales in accounts receivable grew to 86 days compared with 76 days and 75 days in the two prior fiscal years.

The Company added approximately 1.3 million square feet of building space in 1990, bringing the total amount of space to 44.2 million square feet in approximately 1,200 owned and leased facilities. Major projects completed during the year included new customer sales facilities in Atlanta, Georgia, and Sydney, Australia, and a new engineering storage systems facility in Shrewsbury, Massachusetts.

The Company will continue to invest for the future, and anticipates that its capital spending level in 1991 will be in the same general range as that of 1990. The actual level of spending will be dependent on a variety of factors, including worldwide economic conditions, growth in demand for the Company's products and services and changes in semiconductor and manufacturing process technology.

Additions to Property, Plant and Equipment Depreciation Expense



Report of Management

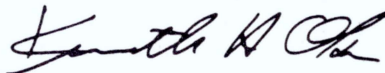
The Company's management is responsible for the preparation of the financial statements in accordance with generally accepted accounting principles and for the integrity of all the financial data included in this Annual Report. In preparing the financial statements, management makes informed judgments 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.

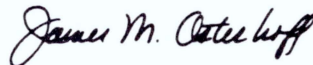
The Board of Directors, through its Audit Committee, is responsible for determining that management fulfills its responsibility with respect to the Company's financial statements and the system of internal accounting controls.

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 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



James M. Osterhoff
Vice President, Finance

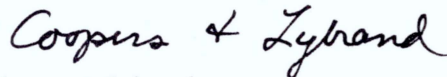
Report of Independent Accountants

To The Stockholders and Directors,
Digital Equipment Corporation

We have audited the accompanying consolidated balance sheets of Digital Equipment Corporation as of June 30, 1990 and July 1, 1989 and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three fiscal years in the period ended June 30, 1990. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Digital Equipment Corporation as of June 30, 1990 and July 1, 1989, and the consolidated results of its operations and cash flows for each of the three fiscal years in the period ended June 30, 1990 in conformity with generally accepted accounting principles.



Coopers & Lybrand

Boston, Massachusetts
July 25, 1990

Consolidated Statements of Income

(in thousands except per share data)

	<i>Year Ended</i>		
	June 30, 1990	July 1, 1989	July 2, 1988
Revenues (Notes A and C)			
Product sales	\$ 8,145,491	\$ 8,190,308	\$ 7,541,241
Service and other revenues	4,797,032	4,551,648	3,934,205
Total operating revenues	<u>12,942,523</u>	<u>12,741,956</u>	<u>11,475,446</u>
Costs and Expenses (Notes A, D and I)			
Cost of product sales	3,825,897	3,468,307	3,042,172
Service expense and cost of other revenues	2,968,529	2,773,563	2,426,176
Research and engineering expenses	1,614,423	1,525,129	1,306,543
Selling, general and administrative expenses	3,971,059	3,638,868	3,065,555
Restructuring charges (Note M)	550,000	-	-
Operating income	<u>12,615</u>	<u>1,336,089</u>	<u>1,635,000</u>
Interest income	142,015	124,021	143,665
Interest expense	30,641	39,435	37,820
Income before income taxes	<u>123,989</u>	<u>1,420,675</u>	<u>1,740,845</u>
Provision for income taxes (Notes A and E)	49,596	348,065	435,212
Net Income	<u>\$ 74,393</u>	<u>\$ 1,072,610</u>	<u>\$ 1,305,633</u>
Net Income per Share (Note B)	\$.59	\$ 8.45	\$ 9.90
Weighted average shares outstanding (Note B)	125,222	127,008	131,923

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

Consolidated Balance Sheets

(in thousands)

	June 30, 1990	July 1, 1989
Assets		
Current Assets		
Cash and cash equivalents (Note F)	\$ 2,008,983	\$ 1,655,264
Accounts receivable, net of allowance of \$87,632 and \$74,345	3,206,765	2,965,408
Inventories (Note A)		
Raw materials	352,976	360,135
Work-in-process	479,472	570,064
Finished goods	705,810	707,802
Total inventories	1,538,258	1,638,001
Prepaid expenses	345,797	255,195
Net deferred Federal and foreign income tax charges	521,809	381,140
Total Current Assets	7,621,612	6,895,008
Property, Plant and Equipment, at Cost (Note A)		
Land	352,296	300,540
Buildings	1,712,204	1,599,673
Leasehold improvements	569,885	530,773
Machinery and equipment	4,392,609	3,817,587
Total property, plant and equipment, at cost	7,026,994	6,248,573
Less accumulated depreciation	3,158,902	2,602,677
Net property, plant and equipment	3,868,092	3,645,896
Other assets, net (Note G)	165,117	126,875
Total Assets	\$11,654,821	\$10,667,779
Liabilities and Stockholders' Equity		
Current Liabilities		
Bank loans and current portion of long-term debt (Note H)	\$ 12,538	\$ 29,755
Accounts payable	660,819	553,818
Federal, foreign and state income taxes	453,997	445,977
Salaries, wages and related items	472,153	300,393
Deferred revenues and customer advances (Note A)	903,038	833,831
Other current liabilities (Note M)	787,224	230,265
Total Current Liabilities	3,289,769	2,394,039
Net deferred Federal and foreign income tax credits	33,137	102,048
Long-term debt (Note H)	150,001	136,019
Total Liabilities	3,472,907	2,632,106
Stockholders' Equity (Notes I and J)		
Common stock, \$1.00 par value; authorized 450,000,000 shares; issued 130,008,231 shares	130,008	130,008
Additional paid-in capital	2,565,487	2,469,711
Retained earnings	6,257,199	6,366,418
Treasury stock at cost; 7,453,501 shares and 8,471,655 shares	(770,780)	(930,464)
Total Stockholders' Equity	8,181,914	8,035,673
Total Liabilities and Stockholders' Equity	\$11,654,821	\$10,667,779

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

Consolidated Statements of Cash Flows

(in thousands)

	Year Ended		
	June 30, 1990	July 1, 1989	July 2, 1988
Cash Flows from Operating Activities			
Net income	\$ 74,393	\$1,072,610	\$1,305,633
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	796,201	686,738	527,141
Other adjustments to income	92,329	49,702	66,349
(Increase) in accounts receivable	(241,357)	(373,248)	(279,972)
(Increase)/decrease in inventories	99,743	(62,942)	(122,140)
(Increase)/decrease in prepaid expenses	(90,602)	18,965	(154,967)
Increase in accounts payable	107,001	30,645	92,598
Increase/(decrease) in taxes	(201,560)	(75,502)	92,600
Increase in deferred revenues and customer advances	69,207	105,847	252,059
Increase/(decrease) in other liabilities	728,719	26,576	(80,916)
Total adjustments	1,359,681	406,781	392,752
Net cash flows from operating activities	1,434,074	1,479,391	1,698,385
Cash Flows from Investing Activities			
Purchase of plant, property, and equipment	(1,027,625)	(1,223,038)	(1,517,579)
(Increase) in other assets, net	(75,489)	(67,624)	(19,212)
Net cash flows from investing activities	(1,103,114)	(1,290,662)	(1,536,791)
Net cash flows from operating and investing activities	330,960	188,729	161,594
Cash Flows from Financing Activities			
Proceeds from issuance of debt	17,661	40,425	7,283
Payments to retire debt	(20,896)	(153,245)	(2,854)
Purchase of treasury shares	(270,231)	(814,958)	(363,499)
Issuance of treasury shares, including tax benefits	296,225	230,733	242,761
Net cash flows from financing activities	22,759	(697,045)	(116,309)
Net increase/(decrease) in cash and cash equivalents	353,719	(508,316)	45,285
Cash and cash equivalents at the beginning of year	1,655,264	2,163,580	2,118,295
Cash and cash equivalents at end of year	\$2,008,983	\$1,655,264	\$2,163,580

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

Consolidated Statements of Stockholders' Equity

<i>(in thousands)</i>	<i>Common Stock</i>	<i>Additional Paid-in Capital</i>	<i>Retained Earnings</i>	<i>Treasury Stock</i>	<i>Total Stock- holders' Equity</i>
June 27, 1987	\$130,008	\$2,352,939	\$4,410,242	\$(599,718)	\$6,293,471
Purchase of 3,000,000 shares of treasury stock <i>(Note J)</i>				(363,499)	(363,499)
Shares issued under stock option and purchase plans <i>(Note I)</i>			(252,825)	456,142	203,317
Restricted stock plans, charge to operations		32,008			32,008
Tax benefits related to stock option and purchase plans <i>(Note I)</i>		39,444			39,444
Net income—1988			1,305,633		1,305,633
July 2, 1988	\$130,008	\$2,424,391	\$5,463,050	\$(507,075)	\$7,510,374
Purchase of 8,247,000 shares of treasury stock <i>(Note J)</i>				(814,958)	(814,958)
Shares issued under stock option and purchase plans <i>(Note I)</i>			(169,242)	391,569	222,327
Restricted stock plans, charge to operations		36,914			36,914
Tax benefits related to stock option and purchase plans <i>(Note I)</i>		8,406			8,406
Net income—1989			1,072,610		1,072,610
July 1, 1989	\$130,008	\$2,469,711	\$6,366,418	\$(930,464)	\$8,035,673
Purchase of 3,053,000 shares of treasury stock <i>(Note J)</i>				(270,231)	(270,231)
Shares issued under stock option and purchase plans <i>(Note I)</i>			(183,612)	429,915	246,303
Restricted stock plans, charge to operations		45,854			45,854
Tax benefits related to stock option and purchase plans <i>(Note I)</i>		49,922			49,922
Net income—1990			74,393		74,393
June 30, 1990	\$130,008	\$2,565,487	\$6,257,199	\$(770,780)	\$8,181,914

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 significant intercompany accounts and profits have been eliminated.

Translation of Foreign Currencies □ For foreign operations, the U.S. dollar continues to be the functional currency. Monetary assets and liabilities of foreign subsidiaries are translated into U.S. dollars at current exchange rates. Non-monetary assets such as inventories and property, plant and equipment are translated at historical rates. Income and expense items are translated at average exchange rates prevailing during the year, except that inventories charged to cost of sales and depreciation are translated at historical rates. Exchange gains and losses arising from translation are included in current income.

The Company enters into forward exchange contracts to delay the short term impact of foreign currency fluctuations on operations and the asset and liability positions of foreign subsidiaries. The gains or losses on these contracts are included in income when the operating revenues and expenses are recognized and, for assets and liabilities, in the period in which the exchange rates change. The cash flows related to these gains and losses are classified in the statement of cash flows, as part of cash flows from operating activities.

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

Note B—Net Income Per Share and Dividends

Net income per share is based on the weighted average number of common shares and common share equivalents outstanding during the year. In the years ended June 30, 1990, July 1, 1989, and July 2, 1988, common share equivalents were attributable to stock options.

Cash dividends have never been paid by the Company.

Warranty Costs □ Warranty costs are expensed as incurred. The warranty costs result in the same charge to expense as would be incurred if such warranty costs were accrued at the time of revenue recognition.

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.

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:

<i>Classification</i>	<i>Depreciation Lives and Methods</i>
Buildings	33 years (straight-line)
Leasehold Improvements	Life of assets or term of lease, whichever is shorter (straight-line)
Machinery and Equipment	3 to 10 years (accelerated methods)

Note C—International Operations

<i>(in thousands)</i>	<i>Year Ended</i>		
	June 30, 1990	July 1, 1989	July 2, 1988
Revenues			
United States customers	\$ 5,823,435	\$ 5,848,975	\$ 5,810,598
Intercompany	1,920,254	2,103,290	2,017,928
	<u>7,743,689</u>	<u>7,952,265</u>	<u>7,828,526</u>
Europe customers	5,242,740	5,130,052	4,221,631
Intercompany	144,511	113,820	137,669
	<u>5,387,251</u>	<u>5,243,872</u>	<u>4,359,300</u>
Canada, Far East, Americas, Pacific Rim customers	1,876,348	1,762,929	1,443,217
Intercompany	1,087,099	1,065,746	912,786
	<u>2,963,447</u>	<u>2,828,675</u>	<u>2,356,003</u>
Eliminations	(3,151,864)	(3,282,856)	(3,068,383)
Net revenue	<u>\$12,942,523</u>	<u>\$12,741,956</u>	<u>\$11,475,446</u>
Income			
United States	\$ (381,450)	\$ 510,364	\$ 512,754
Europe	478,225	815,655	770,135
Canada, Far East, Americas, Pacific Rim	255,051	411,267	390,787
Eliminations	(339,211)	(401,197)	(38,676)
Operating income	<u>12,615</u>	<u>1,336,089</u>	<u>1,635,000</u>
Interest income	142,015	124,021	143,665
Interest expense	30,641	39,435	37,820
Income before income taxes	<u>\$ 123,989</u>	<u>\$ 1,420,675</u>	<u>\$ 1,740,845</u>
Assets			
United States	\$ 5,786,798	\$ 5,499,763	\$ 5,245,439
Europe	3,654,206	3,420,247	3,093,818
Canada, Far East, Americas, Pacific Rim	1,430,592	1,298,519	1,293,906
Corporate assets (<i>cash equivalents</i>)	1,959,201	1,469,842	2,057,528
Eliminations	(1,175,976)	(1,020,592)	(1,579,135)
Total assets	<u>\$11,654,821</u>	<u>\$10,667,779</u>	<u>\$10,111,556</u>

Note C—International Operations (continued)

Industry □ The Company's business consists of the design, manufacture and sale of networked computer systems, software and services, and the integration of multivendor systems.

International Operations □ Sales and marketing operations outside the United States are conducted principally through sales subsidiaries in Canada, Europe, Central and South America, the Far East and the Pacific Rim; 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, Europe and the Pacific Rim. The products of these manufacturing plants are sold to the Company's sales subsidiaries, the parent corporation or other 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.

Sales to unaffiliated customers outside the United States, including U.S. export sales, were \$7,280,880,000, \$7,016,952,000 and \$5,729,879,000 for the years ended June 30, 1990, July 1, 1989, and July 2, 1988, respectively, which represented 56%, 55% and 50%, 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 \$3,753,644,000, \$3,426,975,000 and \$2,793,239,000 at June 30, 1990, July 1, 1989, and July 2, 1988, respectively.

Note D—Pension Plans and Other Retirement Benefits

The Company and its subsidiaries have defined benefit pension plans covering substantially all employees. Pension cost is based on estimated benefit payment formulas. The benefits are based on years of service and compensation during the employee's career.

It is the Company's policy to make contributions to the plans in accordance with local laws and to the extent that such contributions are tax deductible. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. For the U.S. pension plan, there were no contributions in either of the fiscal years 1989 or 1990 due to the full funding limit of the Omnibus Budget Reconciliation Act of 1987. The assets of the plans include corporate equity and debt securities, government securities and real estate.

As a result of restructuring activities, a curtailment gain of \$65,000,000 is reflected in the net amortization and deferral component of net periodic pension cost for fiscal year 1990.

The following table provides information on the status of the U.S. pension plan and certain non-U.S. plans which, in aggregate, represent approximately 91% of the total pension expense of the Company and its subsidiaries for the years ended June 30, 1990, July 1, 1989, and July 2, 1988, respectively. The measurement dates for all plans were within 90 days of year-end.

Net periodic pension cost for fiscal years 1990, 1989 and 1988 included the following components:

<i>(in thousands)</i>	1990	1989	1988
Service cost-benefits earned during the period	\$219,499	\$ 188,068	\$ 160,225
Interest cost on projected benefit obligation	137,850	111,095	90,283
Actual return on plan assets	(185,555)	(230,671)	590
Net amortization and deferral	(48,130)	84,129	(124,714)
Net periodic pension cost	<u>\$123,664</u>	<u>\$ 152,621</u>	<u>\$ 126,384</u>
Total net periodic pension cost for all pension plans	<u>\$137,597</u>	<u>\$ 166,848</u>	<u>\$ 138,308</u>

Note D—Pension Plans and Other Retirement Benefits (continued)

The significant actuarial assumptions as of the year-end measurement date were as follows:

	1990	1989	1988
U.S. pension plan:			
Discount rate	9.0%	9.0%	9.0%
Expected long-term rate of return on plan assets	9.5%	9.5%	9.5%
Rate of increase in future compensation levels	6.8%	6.8%	7.0%
Non-U.S. pension plans:			
Discount rate	5.0-12.5%	5.0-12.5%	5.0-11.5%
Expected long-term rate of return on plan assets	5.5-10.0%	5.0-10.0%	5.0-10.0%
Rate of increase in future compensation levels	5.0- 9.5%	4.0- 9.5%	5.3-10.5%

The funded status as of the year-end measurement date was as follows:

<i>(in thousands)</i>	1990	1989
Actuarial present value of benefit obligations:		
Vested benefit obligation	\$ (692,386)	\$ (472,004)
Accumulated benefit obligation	\$ (785,533)	\$ (552,685)
Projected benefit obligation	\$(1,949,220)	\$(1,570,855)
Plan assets at fair value	2,219,322	1,884,146
Plan assets in excess of projected benefit obligation	270,102	313,291
Contributions made after measurement date but before end of fiscal year	5,983	3,112
Unrecognized net (gain)	(161,394)	(140,296)
Unrecognized prior service cost	28,388	25,149
Unrecognized transition asset, net.	(128,400)	(147,320)
Pension cost recognized on the balance sheet	\$ 14,679	\$ 53,936

In addition to providing pension benefits, the Company provides certain medical, dental and life insurance benefits for retired employees. Substantially all of the Company's domestic employees may become eligible for those benefits if they reach normal retirement age while working for the Company. The cost of retiree health care and life insurance benefits is

recognized as an expense as claims are paid. These costs totaled \$3,005,000, \$1,565,000 and \$1,025,000 for the years ended June 30, 1990, July 1, 1989, and July 2, 1988, respectively. The majority of the Company's foreign subsidiaries do not offer such benefits to retirees. Of those that do, the amounts are immaterial.

Note E—Income Taxes

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

<i>(in thousands)</i>	<i>Year Ended</i>		
	June 30, 1990	July 1, 1989	July 2, 1988
Domestic	(378,476)	\$530,298	\$ 773,679
Foreign	502,465	890,377	967,166
Total	\$123,989	\$1,420,675	\$1,740,845

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

	1990	1989	1988
U.S. Federal statutory tax rate	34.0%	34.0%	34.0%
Tax benefit of manufacturing operations in: (a)			
Puerto Rico	(49.0)	(3.9)	(2.6)
Ireland	(56.5)	(3.3)	(2.4)
Singapore	(6.7)	(0.4)	(0.7)
Taiwan	(4.7)	(0.4)	(0.4)
Research and engineering credit	(6.0)	(1.5)	(1.6)
State income taxes	0.0	0.8	1.9
Foreign tax rates, net of foreign tax credits	90.9	1.6	1.1
Other	38.0	(2.4)	(4.3)
Effective tax rate	40.0%	24.5%	25.0%

The Company has underutilized U.S. tax credits equal to \$94,000,000, of which \$16,000,000 will expire in 1994 and \$78,000,000 will expire in 1995.

(a) The Company's manufacturing subsidiary operating in Puerto Rico is subject to tax at a rate of approximately 8% on its manufacturing earnings through fiscal year 2003. The income from products manufactured for export by the Company's Irish manufacturing subsidiary was exempt from Irish taxes through April 1990. After that time, the Irish manufacturing operations are subject to a 10% tax rate through

December 1999. The income from certain products manufactured by the Company's Singaporean manufacturing subsidiary is wholly exempt from Singaporean taxes through December 1990 and partially exempt through December 1993. The income from certain products manufactured by the Company's subsidiary operating in Taiwan is subject to a reduced tax rate of 20% through May 1991, while the income from certain other products continues to be taxed at 20% through January 1994.

Note E—Income Taxes (continued)

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

<i>(in thousands)</i>	<i>Year Ended</i>		
	June 30, 1990	July 1, 1989	July 2, 1988
U.S. Federal:			
Current	\$ 33,940	\$136,331	\$175,079
Deferred	(113,048)	(6,775)	(80,118)
Total	<u>\$ (79,108)</u>	<u>\$129,556</u>	<u>\$ 94,961</u>
Foreign:			
Current	\$ 187,516	\$211,652	\$259,246
Deferred	(58,781)	(10,861)	31,483
Total	<u>\$ 128,735</u>	<u>\$200,791</u>	<u>\$290,729</u>
State income taxes	\$ (31)	\$ 17,718	\$ 49,522
Total income taxes	<u>\$ 49,596</u>	<u>\$348,065</u>	<u>\$435,212</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, 1990, July 1, 1989, and July 2, 1988, and the tax effect of each were as follows:

<i>(in thousands)</i>	<i>Year Ended</i>		
	June 30, 1990	July 1, 1989	July 2, 1988
Inventory related transactions	\$ 6,068	\$(26,909)	\$ 13,533
Deferred warranty revenue	64,621	14,687	(99,510)
Depreciation	(35,813)	(6,089)	7,706
Pension	(50,135)	(21,656)	20,289
Restructuring	(119,917)	—	—
Other	(36,653)	22,331	9,347
Total	<u>\$ (171,829)</u>	<u>\$ (17,636)</u>	<u>\$(48,635)</u>

In connection with its normal examinations of the Company's 1984, 1985 and 1986 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.

During December 1987, the Financial Accounting Standards Board issued a new accounting standard for income taxes, SFAS No. 96, which will require the Company to adjust its deferred tax assets and liabilities. The Statement has been amended by SFAS No. 103 which defers the effective date of adoption.

The Company must adopt SFAS No. 96 no later than fiscal year 1993. Management does not anticipate that the adoption of SFAS No. 96 will have a material impact on the Company's consolidated financial position and results of operations. There will be no cash flow impact from these adjustments.

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

Note F—Cash Flow Statement

The Company considers all highly liquid temporary cash investments with low interest rate risk to be cash equivalents. Cash equivalents are valued at cost plus accrued interest, which approximates market. None of the cash reflected on the balance sheet at June 30, 1990, and July 1, 1989, was required as compensating balances.

Income taxes paid were \$228,852,000, \$451,460,000 and \$307,785,000 for the years ended June 30, 1990, July 1, 1989, and July 2, 1988, respectively.

Interest paid was \$33,431,000, \$40,902,000 and \$38,182,000 for the years ended June 30, 1990, July 1, 1989, and July 2, 1988, respectively.

Note G—Capitalized Computer Software Development Costs

Unamortized computer software development costs which are included in Other assets, net on the balance sheet, were \$109,907,000 and \$90,395,000 at June 30, 1990, and July 1, 1989, respectively. These costs are amortized over three years from

the date the products are available for general release. Amortization expense was \$37,247,000, \$27,359,000 and \$11,634,000 for the years ended June 30, 1990, July 1, 1989, and July 2, 1988, respectively.

Note H—Debt

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

<i>(in thousands)</i>	June 30, 1990	July 1, 1989
Lease obligations payable 1991-2002 (5.4%-12.25%)(a)	\$ 32,335	\$ 17,083
Notes due 1994 (12 ⁵ / ₈ %)(b)	100,000	100,000
Other debt obligations	17,666	18,936
	\$150,001	\$136,019

(a) Weighted average interest rate at June 30, 1990, and July 1, 1989, of 10.6% and 9.2%, respectively.

(b) Notes were issued by the Company in April 1984. The notes are redeemable on or after April 15, 1991, as a whole or in part, at a redemption price equal to the principal amount plus accrued interest. The indenture for the notes also contains certain restrictions on future borrowings, and sales and leasebacks.

The Company has lines of credit available for short-term financing totaling \$791,943,000. Unused lines of credit totaled \$783,965,000 at June 30, 1990, and \$575,535,000 at July 1, 1989.

Principal payments required during the next five fiscal years are as follows: 1991—\$4,560,000; 1992—\$4,967,000; 1993—\$5,338,000; 1994—\$104,788,000; 1995—\$6,712,000.

Note I—Stock Plans

Restricted Stock Options □ Under its Restricted Stock Option 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 were issued from treasury shares and 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 years ended June 30, 1990, was as follows:

	Shares Reserved For Future Grants	Options Outstanding	
		Shares	Average Price Per Share
June 27, 1987	15,165,630	13,003,201	\$36.12
Options Granted	(3,244,400)	3,244,400	152.95
Options Exercised	—	(1,302,482)	28.67
Options Cancelled	182,896	(182,896)	52.68
Options Terminated	(118,075)	—	—
July 2, 1988	11,986,051	14,762,223	\$62.25
Options Granted	(3,491,580)	3,491,580	73.00
Options Exercised	—	(1,081,871)	29.75
Options Cancelled	307,370	(307,370)	66.99
Options Terminated	(142,472)	—	—
July 1, 1989	8,659,369	16,864,562	\$66.47
Options Granted	(3,365,390)	3,365,390	75.18
Options Exercised	—	(1,297,584)	33.90
Options Cancelled	321,362	(321,362)	70.91
Options Terminated	(131,656)	—	—
June 30, 1990	5,483,685	18,611,006	\$70.24

Note J—Treasury Stock

The Company purchased on the open market 3,053,000 shares of its common stock at an aggregate purchase price of \$270,231,000, or \$88.51 per share, during the year ended June 30, 1990; 8,247,000 shares at an aggregate purchase price of \$814,958,000, or \$98.82 per share, during the year ended July 1, 1989; 3,000,000 shares at an aggregate purchase price of \$363,499,000, or \$121.17 per share, during the year ended

July 2, 1988. All of the acquired shares are held as common stock in treasury, less shares issued to employees under the Employee Stock Purchase Plans and Restricted Stock Option Plans. The difference between the average acquisition cost of the shares and the proceeds from issuance is charged to retained earnings.

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.

Employee Stock Purchase Plans □ Under the Company's Employee Stock Purchase Plans, all United States and certain international employees may be granted the opportunity 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 6,884,972 shares at June 30, 1990. There were 2,797,296 shares issued from treasury shares at an average price of \$73.13 per share during the year ended June 30, 1990, and 2,417,459 shares at \$78.87 per share during the year ended July 1, 1989. There have been no charges to income in connection with these Plans other than incidental expenses related to the issuance of the shares. Federal income tax benefits relating to such Plans have been credited to additional paid-in capital.

Note K—Leases

Minimum annual rentals under noncancelable leases (which are principally for leased real estate, vehicles and equipment) for the fiscal years listed are as follows:

<i>Fiscal Years</i>	<i>(in thousands)</i>
1991	\$ 355,577
1992	293,788
1993	209,980
1994	146,764
1995	118,466
Later years	693,337
Total minimum lease payments	\$1,817,912

Total rental expense for the years ended June 30, 1990, July 1, 1989, and July 2, 1988, amounted to \$512,052,000, \$452,078,000, and \$406,376,000, respectively.

Note L—Off-Balance-Sheet Risk and Concentrations of Credit Risk

In 1990, the Company adopted Statement of Financial Accounting Standard No. 105, which requires disclosure of information about financial instruments with off-balance-sheet risk and about concentrations of credit risk for all financial instruments.

Off-Balance-Sheet Risk □ The Company enters into forward exchange contracts to hedge foreign currency transactions on a continuing basis for periods consistent with its committed exposures. It does not engage in speculation. The effect of this practice is to delay on a rolling basis the impact of foreign exchange rate movements on the Company's operating results. The Company's foreign exchange contracts do not subject the Company to risk due to exchange rate movements because gains and losses on these contracts offset losses and gains on the assets, liabilities, and transactions being hedged. As of June 30, 1990, the Company had \$2.5 billion of foreign exchange contracts outstanding, 85% of which were in European currencies. The forward exchange contracts generally have maturities which do not exceed six months and require the Company to exchange foreign currencies for U.S. dollars at maturity, at rates agreed to at inception of the contracts. See Note A for information on the Company's accounting policy on forward exchange contract gains and losses.

Concentrations of Credit Risk □ Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of temporary cash investments and trade receivables.

The Company places its temporary cash investments with high credit quality financial institutions and, by policy, limits the amount of credit exposure to any one financial institution. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising the Company's customer base, and their dispersion across many different industries and geographies.

As of June 30, 1990, the Company had no significant concentrations of credit risk.

Note M—Restructuring Charges

In fiscal year 1990, the Company recorded restructuring charges of \$550,000,000 on a pretax basis. Included in the charge were \$455,000,000 for employee separations, redeployment and related expenses and \$95,000,000 for facility consolidations and equipment retirements.

Note N—Stockholder Rights Plan

The Company's Board of Directors adopted a Stockholder Rights Plan on December 11, 1989. Under the Plan, the Company distributed to stockholders a dividend of one Common Stock Purchase Right for each outstanding share of Common Stock. Each Right initially will entitle holders of Common Stock to buy one share of Common Stock of the Company at an exercise price of \$400, subject to adjustment. The Rights will become exercisable only if a person acquires 20% or more of the Common Stock, or announces a tender or exchange offer which would result in its ownership of 30% or more of the Common Stock, or a person owning 10% or more of the Common Stock is determined by the Board of Directors to be an Adverse Person, as defined in the Plan. Until they become exercisable, the Rights will be evidenced by the Common Stock certificates and will be transferred only with such certificates.

If any person becomes the beneficial owner of 25% or more of the Common Stock except pursuant to a tender offer for all shares which the directors determine to be at a fair price and in the best interests of the Company; a 20% or more stockholder engages in a merger with the Company in which the Company survives and its Common Stock remains outstanding and unchanged; certain other events involving the Company

and a 20% or more stockholder occur; or, under certain circumstances, the Board of Directors determines a 10% or more stockholder to be an Adverse Person, each Right not then held by such person will entitle its holder to purchase, at the Right's then current exercise price, Common Stock of the Company (or, in certain circumstances as determined by the Board of Directors, a combination of cash, property, Common Stock or other securities) having a value of twice the Right's exercise price. In addition, at any time after a stockholder acquires a 20% or more equity interest in the Company, if the Company is involved in a merger or other business combination transaction with another person in which its Common Stock is changed or converted, or sells or transfers more than 50% of its assets or earning power to another person, each Right that has not previously been exercised or voided will entitle its holder to purchase, at the Right's then current exercise price, shares of Common Stock of such other person having a value of twice the Right's exercise price. The Company will generally be entitled to redeem the Rights at \$.01 per Right at any time until the Board determines a 10% or more stockholder to be an Adverse Person or the tenth day following public announcement that a 20% equity interest in the Company has been acquired. The Plan will expire on December 21, 1999, unless the Rights are earlier redeemed by the Company.

Supplementary Financial Information

Quarterly Financial Data (unaudited)

Selected quarterly financial data for the years ended June 30, 1990, and July 1, 1989, is set forth below:

(in millions except per share data)	Total Operating Revenues	Gross Profit	Income Before Income Taxes	Net Income	Net Income Per Share ¹
1990					
First Quarter	\$ 3,131.2	\$1,519.3	\$ 198.4	\$ 150.8	\$1.20
Second Quarter	3,184.8	1,525.3	194.1	155.4	1.25
Third Quarter ²	3,261.3	1,557.1	24.9	24.9	.20
Fourth Quarter ²	3,365.2	1,546.4	(293.4)	(256.7)	(2.11)
Total Year ²	\$12,942.5	\$6,148.1	\$ 124.0	\$ 74.4	\$.59
1989					
First Quarter	\$ 2,941.8	\$1,492.5	\$ 306.0	\$ 223.4	\$1.71
Second Quarter	3,179.5	1,623.3	373.7	279.6	2.20
Third Quarter	3,125.8	1,605.3	339.6	256.4	2.05
Fourth Quarter	3,494.9	1,779.0	401.4	313.2	2.51
Total Year	\$12,742.0	\$6,500.1	\$1,420.7	\$1,072.6	\$8.45

¹Earnings per share is computed independently for each of the quarters presented and therefore does not equal the total for the year.

²Includes restructuring charges of \$150M, \$400M and \$550M for the third quarter, fourth quarter and total year, respectively.

Officers

Kenneth H. Olsen
President and Director

Winston R. Hindle, Jr.
Senior Vice President

John F. Smith
Senior Vice President, Operations

John L. Alexanderson
Vice President, U.S. Direct Marketing

Don K. Busiek
Vice President, New Business Development

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Vice President, Marketing Finance

Henry J. Crouse
Vice President, Strategic Relations

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Vice President, Product Operations

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Vice President, VAX/VMS Systems and Servers

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Executive Officer – Europe

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Vice President, Software Systems

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Vice President, National Accounts

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Vice President and Treasurer

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James M. Osterhoff
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Richard Poulsen
Vice President, General International Area

Bruce J. Ryan
Vice President and Corporate Controller

F. Grant Saviers
Vice President, PC Systems and Peripherals

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Vice President, Strategic Resources

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Vice President, Product and Industry Marketing

David L. Stone
Vice President, Software Product Group

William D. Strecker
Vice President, Engineering

Harvey L. Weiss
Vice President, Government Systems Group

Richard H. Yen
Vice President, General International Area Manufacturing
and Engineering

Donald P. Zereski
Vice President, Customer Services

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Former Chairman, The Boston Company, Inc.

Philip Caldwell

Senior Managing Director of Shearson Lehman
Brothers Inc. and Director of several corporations

Colby H. Chandler

Director of several corporations
Retired Chairman of the Board and Chief Executive Officer,
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Arnaud de Vitry

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Retired President of The MITRE Corporation

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Corporate Consulting Engineers

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Corporate Consultant, Semiconductor and
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Richard Lary

Corporate Consultant, Storage and Information
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Corporate Consultant, Telecommunications and Networks

Jesse Lipcon

Corporate Consultant, Low End Systems

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Investor Information

The Company's common stock is listed and traded on the:

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

In Europe: Swiss Stock Exchanges of Zurich, Geneva and Basel; and the German Stock Exchanges of Frankfurt, Munich and Berlin.

Unlisted trading privileges have been granted by the:

Boston Stock Exchange
Cincinnati Stock Exchange
Philadelphia Stock Exchange
In Europe: Luxembourg Stock Exchange

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

Correspondence may be directed to:

Albert E. Mullin, Jr.
Vice President, Corporate Relations
Digital Equipment Corporation
111 Powdermill Road (N9)
Maynard, MA 01754-1418

Requests for specific information are handled as follows:

Digital Equipment Corporation's Annual Report on Form 10-K for the fiscal year ended June 30, 1990, 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
444 Whitney Street NRO2/H3
Northboro, MA 01532-2599
(508) 351-4401

Information about Digital's environmental, health, and safety programs and policies can be obtained by addressing:

Digital Equipment Corporation
Corporate Environmental Health & Safety
150 Coulter Drive
Concord, MA 01742-2190

Financial community information and requests to be placed on the Company's mailing list should be directed to:

Mark A. Steinkrauss
Director, Investor Relations
Digital Equipment Corporation
111 Powdermill Road (K10)
Maynard, MA 01754-1418
(508) 493-7182; Fax: 508-493-7633

Investor Information *(continued)*

Inquiries of an administrative nature relating to stockholder accounting records, stock transfer, change of address, and employee purchases should be directed to:

Digital Equipment Corporation
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111 Powdermill Road (L12)
Maynard, MA 01754-1418
(508) 493-5213

Transfer Agent and Registrar
for Common Stock

First Chicago Trust Company of New York is the principal stock transfer agent and registrar, and maintains the stockholder accounting records. The agent will respond to questions on change of ownership, lost stock certificates, consolidation of accounts and change of address.

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

First Chicago Trust Company of New York
30 West Broadway
New York, NY 10007

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Customer Inquiries

Digital Equipment Corporation customers who have questions and/or problems relating to their account should contact the Customer Assistance Department at 800-332-4636.

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