

**Real change comes
from within.**

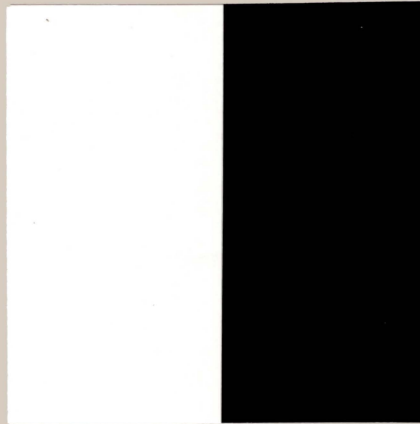
It requires both personal and
corporate commitment.

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Corporate Profile

Digital Equipment Corporation is a world leader in the development of innovative solutions for open computing environments. As a fully integrated, worldwide provider of information technology and multivendor services, Digital is committed to open systems, sharing its technology with others and adopting new technologies as they become industry standards. To this end, the Corporation has built strategic alliances with customers, other computer companies, systems integrators, and vendors to address the needs of a rapidly changing marketplace. The Corporation is organized into product and industry business units that address specific markets. Each business unit has a business model that is responsive to the market it serves. The Corporation does business in 100 countries, developing and manufacturing products in the Americas, Europe, and the Pacific Rim.



Financial Summary

<i>Fiscal Year</i>	1993	<i>1992</i>
Total operating revenues	\$14,371,369,000	\$13,930,872,000
Restructuring charges	–	\$ 1,500,000,000
Net loss	\$ (251,330,000)	\$ (2,795,507,000)
Net loss per share	\$(1.93)	\$(22.39)
Total stockholders' equity	\$ 4,885,399,000	\$ 4,930,934,000
Number of stockholders	86,611	99,644
Stockholders' equity per share	\$36.19	\$38.58
Number of employees	94,200	113,800

Annual Meeting

The Annual Meeting of Stockholders will be held at 11:00 a.m. Thursday, November 4, 1993, at the World Trade Center, Commonwealth Pier, 164 Northern Avenue, Boston, Massachusetts 02210. Stockholders of record on September 7, 1993, will be entitled to vote at this meeting.

Digital Equipment Corporation

Annual report for the year
ended July 3, 1993

**Real change comes
from within.**

It requires both personal and
corporate commitment.

As a corporation, and
as individuals, we are
committed to helping our
customers succeed. Over
the past three quarters, we
organized the corporation
into nine industry and
product business units.
We simplified operations
so these business units are
accountable and responsible
for specific markets and
products. Working with their
customers, they develop
and implement imaginative
solutions to improve
productivity, simplify
operations, and
reduce costs.

To Our Stockholders, Employees, and Customers



On October first of last year, I accepted the responsibility and privilege of leading our company as President and Chief Executive Officer. Digital had absorbed more than \$3 billion in losses over the previous three years and was losing approximately \$3 million per day at that time. There was widespread concern over the viability of Digital. My first priority was to reduce the losses and restore profitability, while beginning to build for the future. I promised that Digital would become competitive in several dimensions, not just in our costs, but in the price/performance of products and services we deliver and in our business practices. In addition, I committed to reorganize the company to increase customer focus, to build a superior management team, and to define and articulate a clear strategy to drive growth.

We have moved swiftly and I am encouraged by the progress that we have made. While we still have much work ahead of us, I believe we are poised for a return to industry leadership and profitable growth. Since October, we:

- Sharply reduced our losses and achieved profitability in the fourth quarter of fiscal year 1993, with a cumulative net profit of \$9 million for the last three quarters of the year.
- Introduced the world's fastest workstation at any price, the most powerful personal computer in the industry, and the only 64-bit UNIX operating system in existence, all on the most advanced computing architecture available — Alpha AXP.
- Structured ourselves by customer business, to respond effectively to customer needs. Today Digital is the only open, fully integrated, information technology supplier organized by industry on a global basis.
- Attracted professional, experienced talent to head up worldwide sales and marketing, consulting services, and the new business units.
- Developed and began to implement our strategy for leadership in open client/server computing that delivers customer solutions.

Over the past year, we have made significant progress in reducing costs. As an example, while still investing to sustain technology leadership in selected areas, we have eliminated redundancies in our engineering efforts and streamlined our product offerings. This has brought our research and engineering spending more in line with competitive norms and has provided our customers with a simpler and more effective product set. Through restructuring actions taken during the year, as well as during the prior two years, we have eliminated approximately \$2 billion of annual operating costs, reduced our manufacturing space by 3.3 million square feet, and reduced worldwide employee population to 94,200, the lowest level since 1986. This has been accomplished even as unit shipments have continued to increase. I encourage you to review the financial statements in this Annual Report together with Management's Discussion and Analysis of Results of Operations and Financial Condition for a full discussion of the fiscal year 1993 results.

Our strategy focuses on products and services for open, client/server computing solutions that deliver leadership performance and price/performance in systems, networks, and applications. One cornerstone of this strategy is our advanced 64-bit microprocessor architecture, Alpha AXP. With this architecture, Digital provides a universal computing platform. In addition to supporting UNIX, Alpha AXP systems support our widely used OpenVMS and the newly emerging Windows NT operating systems, thus providing our customers with the applications they need on the industry's price/performance leadership platform. Alpha AXP also delivers long-term value, with an architecture designed to last for the next 25 years.

Fiscal year 1993 saw the introduction of a new organization at Digital, one that our customers were asking for, one that brought new faces, new ideas, and new energy into the company. Each of the nine business units is accountable for satisfying customers in a particular market segment. Working closely with the functional organizations — sales and marketing, consulting, engineering, manufacturing — this team is responsible for profitably growing the business, capturing market share, and successfully launching the Alpha AXP program. We have attracted professional, experienced talent from the outside to head up some of these efforts, while tapping some of our own internal talent for other positions. I am proud to head this team and invite you to acquaint yourself with it in the following pages.

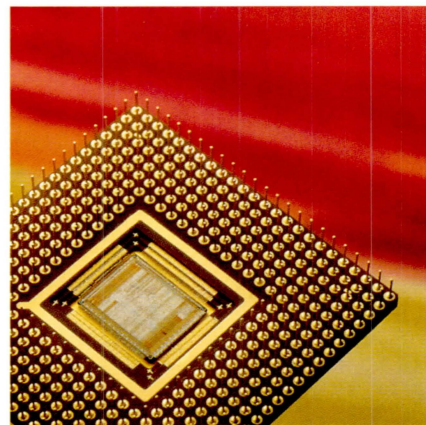
During Digital's 36-year history, the information technology industry has changed dramatically. While the industry used to rely on proprietary, hardware-driven innovation for its success, today's competitive environment is characterized by standards-based products with short life cycles delivering price/performance improvements of 50 percent per year. In this environment, success depends on time-to-market, quality, openness, integration, and responsive service. To compete aggressively in this environment, we are engaged in a process we call customer value chain re-engineering. This company-wide effort is designed to make our core processes ever more competitive and to focus management talent only on those activities that add value for our customers and are critical to our success. Those that do not add value for our customers are eliminated. Activities for which we cannot achieve world-class performance or choose not to pursue will be outsourced.

As we transform Digital to re-establish industry leadership, we are re-emphasizing the core values that made us a great company. These include integrity, valuing individuals and their diversity, fiscal conservatism, innovation, and technical excellence. We are stressing new behaviors as well. We are placing a major emphasis on accountability with rewards commensurate with performance. For example, we are implementing a competitive incentive compensation program for our worldwide sales force. We are making Digital easier to do business with. We are listening more carefully to our customers and meeting our commitments to them. We are making disciplined decisions using objective data. And we are emphasizing teamwork at every level of the organization.

Since October first of last year, Digital has changed. Digital must continue to change in order to attain our goal of competitive and profitable growth. With our talented employees, our technological leadership, our financial strength, and our loyal customers, we have everything we need to compete successfully. The responsibility lies with this management team to ensure a return to profitable growth, and we are committed to doing so.



Robert B. Palmer
President and Chief Executive Officer
September 1, 1993



Change Brings a New Focus on Working with the Customer

“Digital is changing the way we work with our customers so that the products and services we design and deliver help them succeed in today’s competitive market.”

— Adriana Stadecker, Vice President, Executive Operations, manages Digital’s redesign and restructuring efforts and the development of strategic and operational plans.



“Our strategy is to be the leader in open client/server systems, building on our core competencies in silicon, software, services, and networking to meet the needs of today’s marketplace.”

— William D. Strecker, Vice President of Engineering and Chief Technical Officer, joined Digital in 1972 and is responsible for the corporation’s technology strategy.



Real change comes from within. It requires personal commitment. Digital and its people made the commitment to put the customer first. This changed the way we do business.

This annual report shows how we are transforming Digital into a leaner, more responsive, more competitive corporation with a new organization, new technology and — most important — a new focus on the customer.

This focus wasn’t just imposed by management; it bubbled up through the entire company. Digital sales representatives and marketing specialists, systems analysts and service technicians, software developers and hardware engineers recognized the need for change. They wanted to be empowered to do what’s right for the customer. Digital’s new organizational structure provides that empowerment. It lets the corporation focus on the things it does well, while eliminating unnecessary organizational overhead.

It recognizes that the business of selling a personal computer to a financial analyst is very different from winning the contract to automate an entire plant for Boeing, that selling components and peripherals through distributors is very different from selling a trading room system to Bankers Trust.

Customers buy from the computer company that works with them to provide the most practical and cost-effective solution to their particular problem.

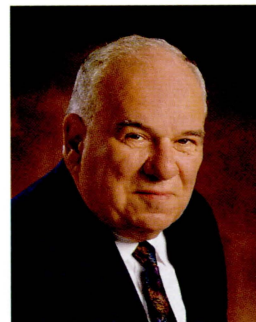
There is no one right computer architecture or software system. Different applications require different solutions. As a result, most customers have multi-vendor computing environments.

This is creating a tremendous opportunity for Digital in the systems integration business. The very fact that we support multiple computing environments — including OpenVMS, UNIX, and Windows NT — and have developed the technologies to link disparate systems together gives us the technical capabilities needed to undertake major systems integration programs. Our systems integration business is growing more than 20 percent a year and now represents more than \$2 billion a year in revenue.

Customers want their present systems to work together, and they have an insatiable demand for ever faster systems that deliver better price/performance. They demand open systems, systems that are not tied to a particular software environment. Digital is responding to these demands.

“By working with Engineering and concentrating on our core competencies, we’ve been able to reduce time-to-market while slashing manufacturing costs. This gives us a real competitive advantage in an industry where product life cycles are often just a matter of months.”

— Edward B. McDonough, Vice President, Manufacturing and Logistics, was responsible for Digital’s manufacturing operations in Asia before he assumed his present position in 1992.



“Technology is no longer enough. To succeed in this business you need people dedicated to work with the customer and committed to do whatever it takes to increase their satisfaction with Digital. Digital has those people.”

— Edward E. Lucente, Vice President, Worldwide Sales and Marketing, was formerly Executive Vice President, Northern Telecom Limited, and Vice President, International Business Machines Corporation.



We developed the Alpha AXP architecture and the world's fastest 64-bit microprocessor. Unlike conventional microprocessors that are tied to a particular software system, Digital's new microprocessor is based on an open architecture. It is a universal platform that supports multiple operating systems. We introduced the first Alpha AXP systems last November, and volume shipments started the same month. By June, we were shipping 22 different Alpha AXP models — including a personal computer — which currently run more than 3,000 applications from independent software vendors, universities, and research institutions. These applications, and many more already under development, will run under OpenVMS, OSF/1, Windows NT, or NetWare on computers built by Digital and over thirty-five Digital licensees, including Olivetti, Raytheon, Encore, Cray, and Kubota.

To meet the growing demand for Alpha AXP microprocessors, Digital is investing more than \$400 million to build its third semiconductor production facility. We've also licensed Mitsubishi to build Alpha AXP microprocessors, providing our Alpha AXP partners with an alternate source of supply.

With their raw speed, true 64-bit architecture, and support for multiple operating systems, Alpha AXP microprocessors and systems play an important role in Digital's product strategy.

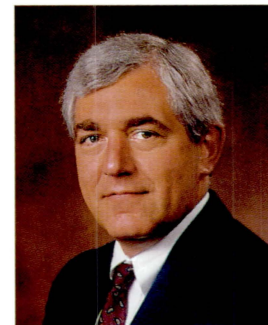
However, they are only a part of that strategy. We're committed to the continued development of our VAX family of systems to support existing customer applications. We are among the fastest-growing manufacturers of Intel-based PCs in the industry. And, we have agreements with Apple to sell Macintosh PCs and with Cray Research to sell massively parallel systems.

Digital is committed to developing those technologies that will enable our customers to improve productivity and respond to the demands of *their* customers. Under Digital's new organization, product strategy is tied to business strategy. Each business unit is charged with working with its customers to determine the appropriate technologies for its market.

The stories featured in this annual report show how the nine business units work with their customers to find imaginative ways to use technology to improve productivity, simplify operations, and reduce costs.

“If you're really dedicated to helping customers succeed, then you must be ready to help them plan, design, implement, manage, and maintain complex, multivendor networks. And, by definition, this is a job where you have to work with the customer and with other vendors. We're committed to doing just that.”

— Gresham T. Brebach, Jr., Vice President, Digital Consulting, joined Digital in April from McKinsey & Company, where he was a Director; previously he was CEO of Information Consulting Group, and a Managing Partner at Andersen Consulting.



Goodyear for Digital — How Digital Became One of the Fastest Growing Personal Computer Companies in the Industry

Over the past year, Digital has doubled its PC business, and is now among the fastest-growing PC manufacturers in the world.

Whether you buy a DECpc from a reseller or our catalog — Digital has the largest direct marketing operation in the industry — or, like The Goodyear Tire & Rubber Company, contract with Digital to install and maintain thousands of personal computers, Digital people provide the kind of comprehensive service and support that is rarely found in the industry.

Under the \$27 million contract, Digital is installing and maintaining 2,600 DECpc systems at Goodyear stores throughout North America. Sixteen hundred PCs will be installed in Goodyear-owned stores and up to 1,000 additional systems will be installed at Goodyear dealers. In addition, Digital is integrating these PCs with the third-party hardware and software components needed to implement the Goodyear Business Management System, GBMS II, at the store level.

One of Digital's greatest strengths is its ability to match PCs to each customer's needs. We re-engineered the supply chain, establishing PC assembly plants in North America, Europe, and the Pacific Rim, so we will be able to configure and ship PCs built to customer specification within 48 hours of receipt of order.

Many of these PCs and servers incorporate innovative bus, storage, microprocessor, operating system, and networking technology. For example, Digital is now delivering Microsoft Windows NT on both our Intel-based PCs and our super-fast DECpc AXP 150 microprocessor.

“We were looking for a complete solution — not just PCs but software, management services, and systems integration. Digital offered industry-standard, open technology and showed that they could integrate multivendor hardware and software and manage the complexity of staging and delivering thousands of PCs.”

— Clifford Brown, Assistant Comptroller, The Goodyear Tire & Rubber Company

“Customers like Goodyear want innovative solutions built around industry-standard PC technology. Digital has people who can deliver those solutions. We've provided company- and campus-wide solutions for customers buying thousands of personal computers. That experience is invaluable to customers like Goodyear.”

— Enrico Pesatori, Vice President and General Manager, Personal Computer Business Unit

Personal Computers — Vice President and General Manager, Enrico Pesatori

Pesatori, formerly President and CEO of Zenith Data Systems, joined Digital in February 1993.



Clifford Brown, Goodyear Assistant Comptroller (left), and Digital Vice President Enrico Pesatori discuss PC networking at the Goodyear Auto Service Center at Summit Mall in Akron, Ohio.



Cambex President Joseph Kruey (left) briefs Digital Vice President Charles Christ on RAID storage for the IBM RS/6000 market in the Waltham, Massachusetts, company's laboratory.

Twice Named “The Best Small Company” in the U.S., Cambex Is Making a Successful “RAID” on IBM’s Installed Base

Storage — Vice President, Charles Christ

Christ came to Digital in 1990. He was formerly a partner in Coopers & Lybrand’s Management Consulting Services group, President and CEO of Digital Sound Corporation, and President of the Reprographics Manufacturing Group of Xerox Corporation.

The storage business can be very profitable when you get it all together as Cambex Corporation did. For two years in a row, *Forbes* magazine rated Cambex as the best small company in the United States. Packaging Digital storage subsystems with its own software, Cambex markets a series of highly reliable RAID (Redundant Array of Inexpensive Disks) systems for the IBM RS/6000 market.

Working in partnership with companies like Cambex, one of Digital’s first OEM storage subsystem customers, Digital’s OEM storage business has increased over 100 percent a year for the past three years. In addition to selling to OEMs like Cambex, Digital sells disk, tape, and solid state storage products to other computer companies and to industrial distributors like Arrow and Avnet. In addition, we license our storage and bus technologies to other manufacturers, recognizing that the market is looking for open solutions and that customers want to be able to choose the best technologies without being locked in to a particular vendor.

One key initiative in the quest for open storage technology was the establishment of Rocky Mountain Magnetics, Inc. This joint venture between Digital and Storage Technology Corporation (StorageTek) will produce thin-film heads for disk drives. Digital’s OEM thin-film head business has grown over 600 percent in volume during the past two years.

“To succeed in the storage business, you have to find imaginative ways to deliver exceptional price/performance while providing a higher level of system reliability and data availability than the competition. Our success has come from working as a partner with both customers and suppliers. When everyone works together, everything comes together.”
— Joseph F. Kruey, Chairman,
President and Chief Executive Officer,
Cambex Corporation

“Computer companies no longer have a captive market for their storage systems. They have to sell price/performance. This has created an opportunity for Digital. Working with companies like Cambex, we can sell storage subsystems into virtually any computing environment.”
— Charles Christ, Vice President,
Storage Business Unit

How Digital "Invented" the OEM Market and Forged a Billion-Dollar Partnership with Avnet

According to industry analysts, Digital just about invented the OEM market. We broadened the computer market by selling systems, services, components, and peripherals through distributors and value-added resellers.

The idea was an enormous success. We built many business relationships that go back more than 25 years. And, together with our third-party resellers, we created an enormous customer base and developed the business practices and the effective training, marketing, technical support, and service programs needed to meet the needs of both our resellers and our customers.

The Components and Peripherals Business Unit plays a key role in developing Digital sales to third parties. They sell Alpha AXP systems, microprocessors, and single-board computers to 40 different companies including Cray, Kubota, and Raytheon on an OEM basis. They supply custom controls and design-in systems via our technical OEM business to Hughes-Avicom for the world's first interactive airborne audio and visual system.

In addition, the Components and Peripherals Business Unit sells printers, terminals, network devices, Alpha AXP products, and peripherals through mass merchandisers and retailers like Merisel and Lechmere. Components and Peripherals builds terminals and printers that major computer manufacturers like Olivetti sell under their own names. And they have the largest direct marketing operation in the industry, selling a broad range of components and peripherals

from Digital and from other manufacturers through our *DECdirect* catalog.

Digital's goal is to channel more than 60 percent of its business through third parties — OEMs, distributors, value-added resellers, and mass retailers. Much of the responsibility for achieving this goal rests with the Components and Peripherals Business Unit.

"The Digital brand means something to our customers. They recognize leadership technology, quality, value, service, and the importance of a manufacturer who stands behind all its products and services. Digital clearly understands their market and the partnership we have. We've been business partners for more than 15 years, and together we've sold more than a billion-and-a-half dollars' worth of Digital systems and services."

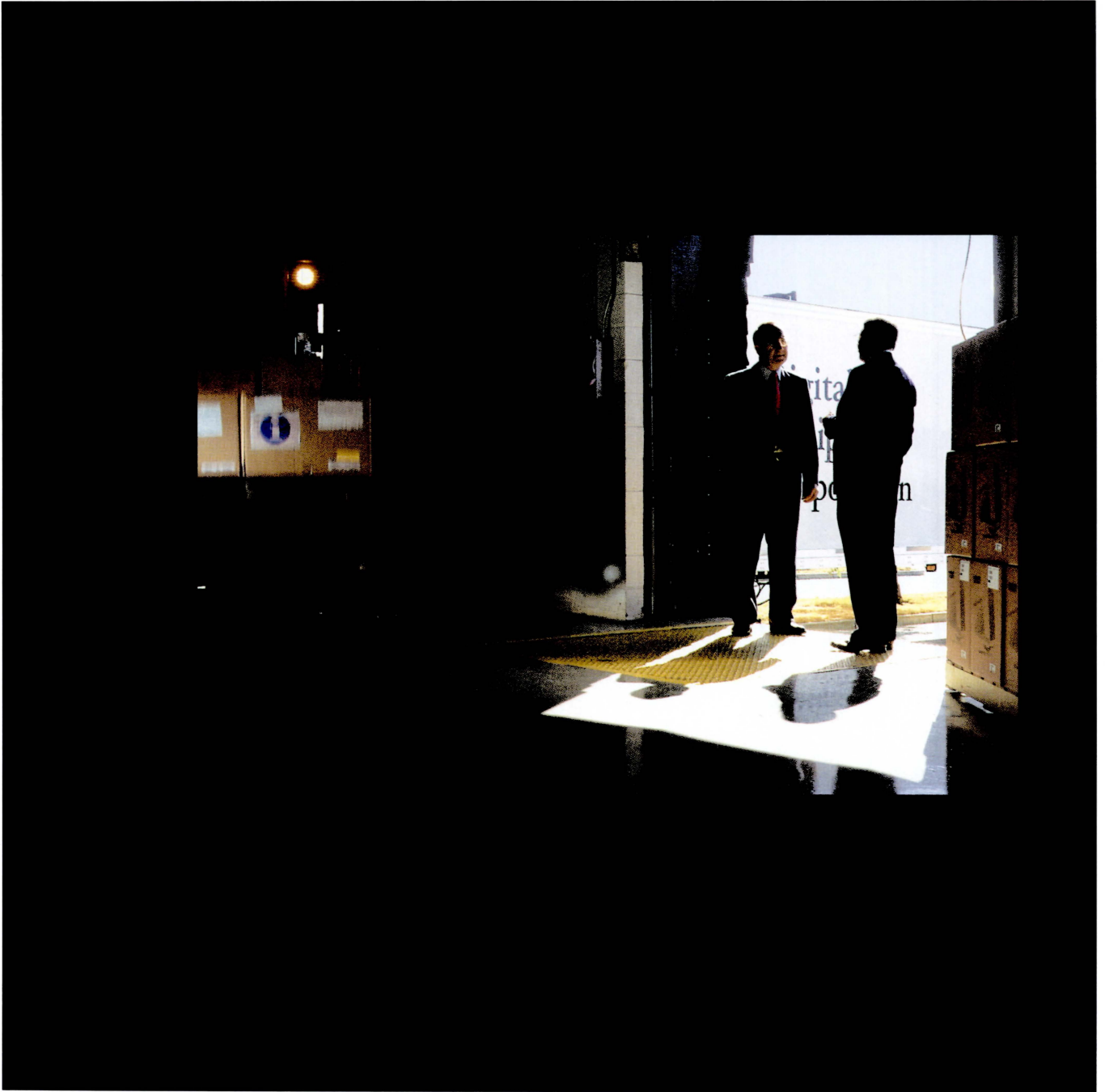
— Rich Ward, Executive Vice President, Avnet Computer Group

"The components and peripherals business is significantly different from traditional end-user sales. We sell components and peripherals by the truck- and container-load to other computer companies, distributors, two-tier value-added resellers, and mass retailers. And we do more than provide better technology at lower prices — we work closely with our business partners to help them provide the best solutions to the problems of their customers."

— Larry Cabrinety, Vice President, Components and Peripherals Business Unit

Components and Peripherals — Vice President, Larry Cabrinety

Cabrinety joined Digital in 1984 from Control Data Corporation, where he was Vice President and President of their Computer Peripherals subsidiary.



Avnet Executive Vice President Rich Ward (right) tells Digital Vice President Larry Cabrinety how Avnet was able to cut monthly computer operating expenses in half at Westinghouse's Energy Center (Monroeville) data center using their exclusive TMMSSM program.



Digital Vice President Bruce Ryan (right) and Michael A. Barnes (center), Executive Director, L.A. County Regional Criminal Information Clearinghouse, meet with Detective Douglas L. Owsley of the L.A. IMPACT Drug Task Force to discuss the SINS program.

Ryan's business unit is also responsible for sales to financial institutions and professional markets.

On City Streets — A Statewide Computer Network Helps Identify, Investigate, and Apprehend Drug Traffickers

Financial, Professional, and Public Services — Vice President, Bruce Ryan

Ryan was formerly Vice President and Controller, responsible for Digital's financial planning and controls. Prior to joining the Corporation, Ryan held senior financial management positions with GTE/Sylvania.

SINS — California's Statewide Integrated Narcotics System — combines relational databases, a geographic information system, computer imaging, remote and mobile access, state-of-the-art security, and other advanced technologies in a single, integrated network system.

As local jurisdictions are linked to the network, law enforcement agencies expect to enhance officer safety and maximize the effectiveness of scarce narcotics enforcement personnel by increasing the efficiency of their investigations and prosecutions. Currently, approximately 43 percent of a narcotics investigator's time is spent locating and acquiring information on a subject.

SINS will store, compile, correlate, analyze, and integrate information gathered from jurisdictions throughout the state. This will make it easier for local law enforcement officers to identify distribution patterns and channels, obtain police and motor vehicle records, and trace money-laundering operations.

Dozens of federal, state, and local agencies — both in California and in neighboring states — cooperated in the development effort. Many are planning to join the California network, and the state has agreed to distribute SINS software nationwide.

SINS represents \$500 million in potential sales for Digital. Multivendor integration efforts of this scope cut across political, geographic, and corporate boundaries. When you work with governmental agencies, banks, stock exchanges, and insurance companies, you find that they are not looking for someone to sell them something; they're looking for ways to put information into the hands of the people who need it, when they need it. That's why Digital's Financial, Professional, and Public Services Business Unit built its business model around multivendor integration services. These services account for more than 70 percent of the unit's business.

"Narcotics traffickers pay no attention to jurisdictional boundaries and have been using sophisticated technology to attempt to defeat local law enforcement agencies. That's why we needed a multi-jurisdictional network to fight the war on drugs. Digital helped us build it."
— Michael Barnes, Executive Director,
L.A. County Regional Criminal
Information Clearinghouse

"It took lots of hard work on the part of both Digital people and California officials to create a multi-jurisdictional network. They had to show federal, state, and local law enforcement agencies how this innovative system would help keep drugs off the streets."
— Bruce Ryan, Vice President,
Financial, Professional, and Public
Services Business Unit

How a Partnership with Rockwell Collins Helped Develop Avionics for the Ilyushin IL-96M

Moscow is a long way from Cedar Rapids, Iowa. Yet, Rockwell Collins had to replicate their Cedar Rapids software development lab in the Russian capital so they could develop avionics systems for the wide-bodied Ilyushin IL-96M.

Rockwell Collins turned to Digital.

Together we built the lab, installed a state-of-the-art software development environment, established local- and wide-area network links to other Rockwell facilities, and trained 200 Russian engineers. Digital's Moscow office even provided a Russian-speaking systems manager.

Partnerships of this sort are not unusual in the manufacturing and defense industries. Digital and Boeing are partners in a long-term Advanced Research Projects Agency (ARPA)-funded project. The two companies are developing a systems engineering environment where commercial off-the-shelf systems and reusable software components can be used in defense and aerospace, as well as business, applications.

Digital and Raytheon worked together to produce militarized versions of Alpha AXP and VAX systems for Grumman, Siemens, Thorn-EMI, Thomson CSF, and other U.S. and European defense contractors. Close working relationships like these are critical in the discrete manufacturing and defense industries where aerospace, automotive, heavy equipment, machine tool, and electronics companies are looking for ways to use advanced technologies in both their products and manufacturing processes.

Many of the concepts on which we are working with our customers have been tested in Digital's own manufacturing and product development operations.

Today it is no longer enough to deliver a solution. We have to work with our customers to improve and enhance that solution. In the manufacturing and defense industries, change is the only constant, and continuous improvement is the name of the game.

“If you want to do business in Central and Eastern Europe, you have to establish a presence in the market. Digital helped us do just that. We were able to replicate our product development lab right here in Moscow.”

— Robert Tibor, Vice President and General Manager, Collins Air Transport Division, Rockwell International Corporation

“We hear a lot about the need to speed product development, about lean or agile manufacturing, and total quality control. We've developed a business model that addresses these issues.”

— Frank McCabe, Vice President, Discrete Manufacturing and Defense Business Unit

Discrete Manufacturing and Defense — Vice President, Frank McCabe

Prior to joining Digital in 1979, McCabe served as General Electric's Managing Director, European Operations.



Digital Vice President Frank McCabe (center) discusses business opportunities in Central and Eastern Europe with Igor Katyrev (left), Chief Designer, Ilyushin Aircraft Association, and Robert Tibor (right), Vice President and General Manager, Collins Air Transport Division, Rockwell International Corporation.



Mats Weibull (left), Vice President Control and Finance, Tetra Pak, and Digital Vice President John Klein talk as a shopper in Lund, Sweden, brings home Tetra Pak containers of juice. Klein's business unit also supports Digital customers in the utility, chemical, oil and gas, and transportation industries.

Imagination Helped Tetra Laval Invent a Whole New Way to Package Milk and Juice

Consumer, Process, and Transportation — Vice President, John Klein

Klein joined Digital this year from IBM where he was Vice President, Worldwide Market Selection/Market Development, Industrial Sector Division.

Imagine nonrigid containers that keep milk and other perishable liquids fresh for months without refrigeration. Tetra Laval did. They developed the processing and packaging technology that made it possible. This idea helped them win a 47 percent share of the European market for liquid food packaging, and it accounts for two-thirds of Tetra Laval's \$7.8 billion turnover. It's ideas and imagination that fuel growth. And when it comes to computing, Tetra Laval looks to Digital for ideas.

The objective is to find ways to solve business problems. For the last 30 years, we have been developing ever faster — ever more sophisticated — technology. Now the focus is on finding imaginative ways to apply this technology. For Digital, this means a focus on collaborative business planning. We provide customers like Tetra Laval with the professional and consulting services they need to assess the ways technology can be used to solve business problems.

Consultative selling is particularly important in the consumer, process, and transportation industries. We work with electric, gas, and water utilities; distributors and retailers; transportation companies; chemical, oil and gas, mining, forest products, metals, and glass companies; and manufacturers of consumer packaged goods. These customers are all concerned with speeding product through the supply chain at the lowest possible cost to gain a competitive edge in the marketplace.

They are no longer interested in simply automating existing processes; they are looking for imaginative ways to re-engineer their businesses to remove bottlenecks in the pipeline.

As the only worldwide, fully integrated information technology and services provider in today's marketplace committed to open systems and organized along customer/industry lines, Digital is more than a supplier of technology. We work in partnership with our customers so we understand their needs. We provide professional services that address those needs and deliver solutions that solve their business problems.

"We deal with many different computer companies. Some are strictly hardware and software suppliers. Digital is something more. They've shown a real understanding of our business and a willingness to work with us to find imaginative ways to use technology to our competitive advantage."

— Mats Weibull, Vice President, Control and Finance, Tetra Pak, Tetra Laval

"By focusing on consulting, we get closer to the customer and gain a real understanding of their business objectives. This allows us to be more effective in working with them in a true partnership, matching our skills and 'core competencies' with their objectives."

— John Klein, Vice President, Consumer, Process, and Transportation Business Unit

In Australia, the World's Most Advanced Telecommunications Network Will Provide New Customer Services

Digital has joined with Australia's Optus Communications to build the Operational Support Systems — the network operating, billing, and administrative systems — that will control and manage a fully digital telecommunications network. (A digital network provides higher bandwidth, faster switching, and better transmission quality than traditional analog technologies, opening the way for the introduction of new customer services.)

Acting as the IT prime contractor and systems integrator for Australia's Optus Communications — a joint venture among Australian companies, Britain's Cable and Wireless, and BellSouth — Digital will be responsible for a multimillion-dollar investment program.

Projects of this scope are not unusual in the telecommunications industry. But it is unusual for a computer company to join with a telecommunications provider to help build a transcontinental network from the ground up.

Digital has the experience and resources to do the job. Our systems are used by leading telecommunications companies including Pacific Bell, Deutsche Telekom, British Telecom, MCI, and NTT. By *The Wall Street Journal* and *Le Figaro*. By CNN, NBC, ABC, PBS, and the BBC. By Reuters and AP. By McGraw-Hill and Bertlesmann.

Communications are also essential in education. Digital helped MIT, Carnegie-Mellon, Stevens Institute, the Hong Kong University of Science and Technology, and the University of Edinburgh build campus-wide computer networks.

All these accounts are involved with communications in one form or another. They're exploring computer imaging, data transmission over cable networks, campus-wide networking, virtual reality, and multimedia applications. We learn from them even as we work with them.

"Value-added customer services are going to be key to our success. And a fully digital network gives us a competitive advantage. We're giving Australia a telecommunications network that other countries will emulate."
— Robert Mansfield, Chief Executive Officer, Optus Communications

"Our strategy is to form alliances with key telecommunications companies and invest on a risk-sharing basis with strategic partners. Our relationship with Optus is based on this model. We expect to export the Operational Support Systems technology we will develop with Optus. It could become a major revenue earner for both companies."
— Paul Kozlowski, Vice President, Communications, Education, and Media Business Unit

Communications, Education, and Media — Vice President, Paul Kozlowski

Founder of Contel Cellular, Inc. and former President of GTE Mobil Communication, America's second largest cellular telephone company, Kozlowski joined Digital in 1993.



Optus CEO Robert Mansfield (right) and Digital Vice President Paul Kozlowski get a firsthand view of the growing Australian telecommunications marketplace from the top of the Optus Centre in North Sydney. Kozlowski is also responsible for Digital sales to educational institutions and to the media.



Digital Vice President Willow Shire (center) discusses the Digital internship program with Dr. Jennifer Jackman (left), President, Chedoke-McMaster Hospitals, and Dr. Frank Baillie, Associate Professor, Department of Surgery and Program Director, Critical Care Transport Unit.

When You Intern at a Hospital, You Begin to Understand How Information Technology Can Help Solve the Healthcare Crisis

Health Industries — Vice President, Willow Shire

A sixteen-year Digital veteran, Shire has volunteered as director of a community ambulance service and as an emergency medical technician.

It's not enough to have the best technology, or even a portfolio of over 600 applications from 120 business partners. Healthcare providers want to work with a computer company that understands health care and the way it is delivered.

Digital has that understanding.

This past year, Digital employees interned at four hospitals: Hamilton, Ontario's Chedoke-McMaster Hospitals, Children's Hospital in Boston, the Dartmouth-Hitchcock Medical Center in New Hampshire, and the University of Massachusetts Medical Center. During intensive, week-long programs, Digital account managers and healthcare marketing specialists met with senior administrative and medical staff and visited departments to gain a firsthand knowledge of how the system worked from the perspective of the patient, the caregiver, and the hospital.

These institutions opened their doors to Digital because they recognized the importance of working with people who understand their business. That understanding is one reason Digital has been able to help over 8,000 healthcare institutions develop programs to improve the quality of care while implementing effective cost-containment programs.

These programs cover the entire healthcare field. Digital is working with St. Jude Children's Research Hospital in Memphis, Tennessee, on pediatric AIDS and cancer research; with Eemland Hospital in Amersfoort, the Netherlands, to integrate clinical and administrative applications; with TAKECARE of Colorado, applying electronic interchange technology to standardize claims processing; and with Emory University System of Healthcare in Georgia on telemedicine and computer-based patient record keeping.

"In October, last year, Digital asked if we'd be interested in setting up an 'internship' program for their marketing people. The idea was to spend a week here learning how a hospital and its staff work — how we interact, the issues we face, our goals, and our concerns. With this understanding, Digital becomes a fully informed partner who can help provide solutions to the problems facing our industry."

— Dr. Jennifer Jackman, President,
Chedoke-McMaster Hospitals

"If you're going to be a partner with your customer, you have to understand their problems and how information technology can solve those problems. You have to understand the mission of a healthcare organization, and how it accomplishes it."

— Willow Shire, Vice President,
Health Industries Business Unit

“On Time” Means a Lot to an Airline — Digital Multivendor Services Help Keep Sabena’s Computer Systems Up and Running

Airlines — and airline travelers — don’t like it when equipment problems cause delays and mix-ups. Like many airlines, Sabena had an eclectic collection of old and new PCs, printers, terminals, and data communications equipment. These systems were built by Olivetti, Compaq, Apple, IBM, Hewlett-Packard, and other manufacturers — some of whom are no longer in business. And they were scattered from Brussels to Berlin, from London to Kinshasa, over the 85 destinations in 49 countries served by Sabena.

Maintenance used to be a problem. The airline’s help desk had to provide end-user support and parcel out service requests among different vendors. There was little accountability; no one vendor was responsible for keeping PCs and printers up and running to support Sabena’s information systems.

At the time, Sabena was not a Digital customer. But when they saw that they needed a single, worldwide service organization that could maintain 4,100 systems and support thousands of users, they started with Digital, outsourcing the maintenance of desktop equipment — PCs, printers, communications modules — in Belgium.

Digital was one computer company that could provide multivendor services on a worldwide basis. Digital does business in 100 different countries and supports products from thousands of other computer companies, including virtually every brand of PC and peripheral and more than 80 percent of the most commonly used software applications. From Microsoft Windows NT to Novell NetWare. From PC

software to transaction processing networks for trading currencies and securities across international boundaries. From point-of-sale terminals to workstations that rival a supercomputer in power.

We support customers who have little or no equipment built by Digital as well as customers who have built their networks around VAX systems. We have customers who are looking to protect their existing computer investments and customers who are downsizing their computer operations. We support customers on Wall Street and Main Street, on rue du Marechal Leclerc and Leinfelderstrasse. Building a multibillion-dollar-a-year service organization took a real commitment to providing customers with the comprehensive multivendor support they need to protect their investments in information technology.

“Sabena wanted a single company that would be responsible and accountable for multivendor support, not just fixing equipment when it failed. We wanted one source for scheduled maintenance — one company that could do everything needed to keep our PCs and printers up and running.”

— Claude Palmero, Executive Vice President, Information Systems, Sabena Belgian World Airlines

“At Digital, multivendor support is the entire spectrum of services. Planning and design services. Installation. Predictive maintenance. Training. Hardware and software support. Integration services. And it means the global infrastructure to provide these services consistently. Our commitment is to give customers the service and support they need for business success.”

— John Rando, Vice President, Multivendor Customer Services Business Unit

Multivendor Customer Services — Vice President, John Rando

Rando joined Digital in 1976 and is responsible for Hardware Product Services, Software Product Services, and Systems Support Services. Before assuming his present position, he was Vice President, Product Services.



Claude Palmero (left), Sabena's Executive Vice President, Information Systems, and Digital Vice President John Rando meet at Brussels Airport to see some of the ways Digital is helping reduce computer downtime.

The Values That Characterize Digital's Customer Relationships Are Carried into the Community

The Digital story is about people as well as technology. As individuals, we show the same concern for the community as we do for our customers. Gigi Ramage, an account manager in Digital's Seattle, Washington, office, shows that concern.

When someone in her personal life died from AIDS, she got involved with the Bailey-Boushay House, the first hospice in the nation designed and built from the ground up specifically for people with AIDS.

When Gigi found that the hospice didn't have the money to buy the computer systems they needed, she helped them put together a proposal to Digital's Corporate Contributions Committee. Thanks to that proposal, Bailey-Boushay was one of the 38 nonprofit organizations worldwide to share in a \$10 million equipment program created as part of Digital's corporate contributions strategy to support HIV/AIDS and Alzheimer's education and awareness programs and research.

When the grant was approved, Gigi worked as a volunteer, pulling Ethernet cable through ceilings and installing drop lines. But her involvement didn't stop with equipment installation; she's now helping Bailey-Boushay build a research database.

Making that extra effort on behalf of the customer and the community is part of the Digital culture. When an explosion shut down New York's World Trade Center, Digital people worked around the clock and through the weekend to help customers continue operations with minimum disruption. They didn't wait for someone to tell them what to do. They pitched in and did what needed to be done. Digital

employees took the initiative. Overnight, one group converted two classrooms in our downtown New York training site into a temporary office for Zim-American Israeli Shipping Co. so they could continue operations.

This sort of extra effort and involvement is not unusual. Digital people recognize that they can make a difference. Because we're concerned about the environment, we've eliminated the use of ozone-depleting substances, including CFCs, from our manufacturing processes. Because we care about our communities, we provide technical and financial support to educational, health-care, civic, social, and cultural programs. Some of these programs are based in the community, while others are regional, national, or even international in scope.



"Thanks to Gigi Ramage we now have the computer equipment we need to support clinical, financial, evaluative, and research applications. People do make a difference. And knowing that people care is so very important to anyone living with AIDS."

— Christine Hurley, Director, Bailey-Boushay House, Seattle, Washington

"What I did is not unusual. Most people are ready to lend a helping hand when it is needed. What may be unusual is working for a company that goes out of its way to support its employees when they try to go that extra yard for their customer or their community."

— Gigi Ramage, Digital Account Manager, Seattle, Washington



Digital's leadership in the fight against AIDS received national recognition in *Business Week*.

Financial Statements

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Eleven-Year Financial Summary

(dollars in millions except per share data and stock prices)

	1993	1992	1991	1990
Revenues				
Product sales	\$ 7,588	\$ 7,696	\$ 8,299	\$ 8,146
Service and other revenues	6,783	6,235	5,612	4,797
Total operating revenues	14,371	13,931	13,911	12,943
Costs and Expenses				
Cost of product sales, service and other revenues	8,631	8,132	7,278	6,795
Research and engineering expenses	1,530	1,754	1,649	1,614
Selling, general and administrative expenses ¹	4,447	6,181	5,572	4,521
Operating income/(loss)	(237)	(2,136)	(588)	13
Interest income	64	96	113	142
Interest expense	51	39	45	31
Income/(loss) before income taxes and cumulative effect of change in accounting principle	(224)	(2,078)	(520)	124
Provision for income taxes	27	232	97	50
Net income/(loss) ⁵	\$ (251)	\$ (2,796)	\$ (617)	\$ 74
Net income/(loss) per share ^{2,3,5}	\$ (1.93)	\$ (22.39)	\$ (5.08)	\$.59
Weighted average shares outstanding (in millions)	130	125	122	125
Financial Position				
Inventories	\$ 1,755	\$ 1,614	\$ 1,595	\$ 1,538
Accounts receivable, net of allowance	\$ 3,020	\$ 3,594	\$ 3,317	\$ 3,207
Net property, plant and equipment	\$ 3,178	\$ 3,570	\$ 3,778	\$ 3,868
Total assets	\$10,950	\$11,284	\$11,875	\$11,655
Long-term debt	\$ 1,018	\$ 42	\$ 150	\$ 150
Stockholders' equity	\$ 4,885	\$ 4,931	\$ 7,624	\$ 8,182
Stockholders' equity per share ²	\$ 36.19	\$ 38.58	\$ 61.18	\$ 66.76
General Information and Ratios				
Current ratio	1.8:1	1.4:1	2.0:1	2.3:1
Quick ratio	1.2:1	1.0:1	1.4:1	1.6:1
Working capital	\$ 2,964	\$ 2,015	\$ 3,777	\$ 4,332
Investments in property, plant and equipment	\$ 529	\$ 710	\$ 738	\$ 1,028
Depreciation	\$ 699	\$ 733	\$ 772	\$ 759
Total debt as a percentage of total debt plus equity	17.5%	1.8%	2.2%	2.0%
Operating income/(loss) as a percentage of revenues	(1.7)%	(15.3)%	(4.2)%	.1%
Income/(loss) before income taxes as a percentage of revenues	(1.6)%	(14.9)%	(3.7)%	1.0%
Effective tax rate	12.0%	11.2%	18.8%	40.0%
Net income/(loss) as a percentage of revenues	(1.7)%	(20.1)%	(4.4)%	.6%
Net income/(loss) as a percentage of average stockholders' equity	(5.1)%	(44.5)%	(7.8)%	.9%
Net income/(loss) as a percentage of average total assets	(2.3)%	(24.1)%	(5.2)%	.7%
Number of days sales of accounts receivable outstanding	69	83	76	86
Inventory turns	5.1	5.1	4.6	4.3
Number of employees at year-end—regular	89,900	107,900	115,100	116,900
Number of employees at year-end—other	4,300	5,900	5,900	7,100
Stockholders at year-end	86,611	99,644	98,023	92,934
Common stock yearly high and low sales prices	\$49–30	\$72–33	\$87–45	\$103–70

1989	1988	1987	1986	1985	1984	1983
\$ 8,190	\$ 7,541	\$ 6,254	\$ 5,103	\$ 4,530	\$ 3,804	\$ 2,828
4,552	3,934	3,135	2,487	2,156	1,780	1,444
12,742	11,475	9,389	7,590	6,686	5,584	4,272
6,242	5,468	4,514	4,282	4,087	3,379	2,606
1,525	1,306	1,010	814	717	631	472
3,639	3,066	2,253	1,665	1,432	1,179	831
1,336	1,635	1,612	829	450	395	363
124	144	122	116	63	41	61
39	38	45	88	82	35	13
1,421	1,741	1,689	857	431	401	411
348	435	552	240	(16) ⁴	72	127
\$ 1,073	\$ 1,306	\$ 1,137	\$ 617	\$ 447	\$ 329	\$ 284
\$ 8.45	\$ 9.90	\$ 8.53	\$ 4.81	\$ 3.71	\$ 2.87	\$ 2.50
127	132	133	131	124	115	113
\$ 1,638	\$ 1,575	\$ 1,453	\$ 1,200	\$ 1,756	\$ 1,852	\$ 1,354
\$ 2,965	\$ 2,592	\$ 2,312	\$ 1,903	\$ 1,539	\$ 1,527	\$ 1,125
\$ 3,646	\$ 3,095	\$ 2,127	\$ 1,867	\$ 1,731	\$ 1,511	\$ 1,340
\$ 10,668	\$ 10,112	\$ 8,407	\$ 7,173	\$ 6,369	\$ 5,593	\$ 4,541
\$ 136	\$ 124	\$ 269	\$ 333	\$ 837	\$ 441	\$ 93
\$ 8,036	\$ 7,510	\$ 6,294	\$ 5,728	\$ 4,555	\$ 3,979	\$ 3,541
\$ 66.12	\$ 59.47	\$ 49.87	\$ 44.54	\$ 38.43	\$ 34.42	\$ 31.42
2.9:1	2.9:1	3.4:1	4.9:1	4.9:1	3.8:1	3.9:1
1.9:1	2.0:1	2.4:1	3.5:1	2.8:1	1.9:1	2.0:1
\$ 4,501	\$ 4,516	\$ 4,377	\$ 4,223	\$ 3,694	\$ 3,001	\$ 2,377
\$ 1,223	\$ 1,518	\$ 748	\$ 564	\$ 572	\$ 452	\$ 419
\$ 659	\$ 516	\$ 435	\$ 384	\$ 315	\$ 253	\$ 203
2.0%	3.6%	4.2%	5.9%	15.7%	10.3%	3.0%
10.5%	14.2%	17.2%	10.9%	6.7%	7.1%	8.5%
11.2%	15.2%	18.0%	11.3%	6.4%	7.2%	9.6%
24.5%	25.0%	32.7%	28.0%	(3.7)% ⁴	18.0%	31.0%
8.4%	11.4%	12.1%	8.1%	6.7%	5.9%	6.6%
13.8%	18.9%	18.9%	12.0%	10.5%	8.7%	8.5%
10.3%	14.1%	14.6%	9.1%	7.5%	6.5%	6.6%
76	75	78	79	75	83	82
3.9	3.6	3.4	2.9	2.3	2.1	2.1
118,400	113,900	103,000	88,300	83,000	79,800	68,100
7,400	7,600	7,500	6,400	6,000	5,800	4,900
99,084	103,162	99,379	76,860	68,810	44,389	40,903
\$ 122-86	\$ 199-99	\$ 174-82	\$ 94-46	\$ 63-39	\$ 61-33	\$ 65-32

¹ Includes restructuring charges of \$1,500M in 1992, \$1,100M in 1991 and \$550M in 1990.

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

³ See Note A of Notes to Consolidated Financial Statements.

⁴ Includes elimination of DISC taxes of \$63M accrued prior to 1984.

⁵ In fiscal year 1992, net loss and net loss per share include the cumulative effect of change in accounting principle of \$485M and \$3.89, respectively.

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

Income and Expense Items as a Percentage of Total Operating Revenues (a)

			Percentage Changes			
1991	1992	1993	Income and Expense Items	1992-93	1991-92	1990-91
59.7%	55.2%	52.8%	Product sales	(1)%	(7)%	2%
40.3%	44.8%	47.2%	Service and other revenues	9%	11%	17%
100.0%	100.0%	100.0%	Total operating revenues	3%	—	7%
47.1%	55.2%	58.8%	Cost of product sales (b)	5%	9%	2%
60.1%	62.3%	61.4%	Service expense and cost of other revenues (b)	7%	15%	14%
52.3%	58.4%	60.1%	Total cost of operating revenues	6%	12%	7%
11.9%	12.6%	10.6%	Research and engineering expenses	(13)%	6%	2%
32.1%	33.6%	30.9%	Selling, general and administrative expenses	(5)%	5%	13%
7.9%	10.8%	—	Restructuring charges	(100)%	36%	100%
(4.2)%	(15.3)%	(1.7)%	Operating loss	89%	(100+)%	(100+)%
0.8%	0.7%	.4%	Interest income	(34)%	(15)%	(20)%
0.3%	0.3%	.4%	Interest expense	32%	(14)%	45%
(3.7)%	(14.9)%	(1.6)%	Loss before income taxes and cumulative effect of change in accounting principle	89%	(100+)%	(100+)%
0.7%	1.7%	.2%	Provision for income taxes	(88)%	100+%	97%
(4.4)%	(16.6)%	(1.7)%	Loss before cumulative effect of change in accounting principle	89%	(100+)%	(100+)%
—	3.5%	—	Cumulative effect of change in accounting principle, net of tax benefits	(100)%	—	—
(4.4)%	(20.1)%	(1.7)%	Net loss	91%	(100+)%	(100+)%

Note (a) Percentages of operating revenues may not be additive due to rounding.

Note (b) Cost of product sales and service expense and cost of other revenues are shown as percentages of their related revenues.

Overview

Fiscal 1993 marked a year of significant change for the Corporation, as it responded to the changing environment in the information technology industry. The Corporation's operating results for fiscal 1993 reflect the effects of restructuring actions taken during the past several years. Although the Corporation reported a net loss of \$251 million for the year, it demonstrated consistent year over year improvement in operating results for the last three quarters of the year, posting a net profit of \$113 million for the fourth quarter.

Service revenues have continued to grow, and represent a larger percentage of total operating revenues than ever before. In addition, the mix of products and services which make up the Corporation's total operating revenues has changed dramatically over the last several years.

At the beginning of fiscal 1993, the Corporation introduced new models of its traditional VAX systems which are designed to upgrade easily to Alpha AXP systems. The Alpha AXP architecture, announced during fiscal 1992, is designed to run multiple operating systems and to be the foundation for a leading high-performance computer family. During the year, the Corporation introduced personal computers, workstations and client-server computer systems based on the Alpha AXP

architecture, as well as DEC OSF/1 V1.2, the Corporation's unified UNIX operating system for the Alpha AXP family of systems. Sales of Alpha AXP computer systems and components represent a significant future revenue opportunity. For fiscal 1993, the sale of Alpha AXP computer systems did not have a significant impact on operating results.

As the price/performance of computer systems has improved, the profitable sale and service of these products have become increasingly dependent on low-cost product design and manufacture, and on efficient delivery in high volumes. At the same time, customer needs for solutions, which integrate hardware and software products from multiple vendors, present an opportunity to the Corporation to provide, in addition to its broad product and maintenance service offerings, consulting, planning and integration expertise through direct sales channels focused on specific industries.

The Corporation has implemented organizational changes which it believes will enable it to respond to these changing business models. The effectiveness of these newly implemented changes cannot yet be measured, but the Corporation believes they are necessary for it to compete successfully in the various businesses in which it participates.

Revenues

In fiscal 1993, total operating revenues, which were \$14.4 billion, grew by \$440 million or 3%, following an increase of \$20 million, or less than 1% in fiscal 1992 and \$1 billion or 7% in fiscal 1991.

Non-U.S. revenues accounted for 64% of total operating revenues in fiscal 1993, up from 63% in fiscal 1992 and 60% in fiscal 1991. European revenues increased to \$7 billion in fiscal 1993, up from \$6.8 billion and \$6.3 billion in fiscal 1992 and 1991, respectively. The increase in fiscal 1993 European revenues, as reported in U.S. dollars, was principally attributable to favorable foreign currency fluctuations. Over the last several years, the Corporation has increased its presence in European markets primarily through two acquisitions completed in fiscal 1992 and 1991 (see Note J).

Product sales for fiscal 1993 were \$7.6 billion, or 53% of total operating revenues, compared with \$7.7 billion or 55% of revenues in fiscal 1992 and \$8.3 billion or 60% of revenues in fiscal 1991. While the Corporation shipped substantially more computer systems in fiscal 1993 than in fiscal 1992, product sales for fiscal 1993 were essentially unchanged compared with the prior year, due primarily to a continued shift in the mix of product sales toward low-end, lower-priced computer systems and away from the Corporation's traditional proprietary mid-range products.

In fiscal 1993, service and other revenues totaled \$6.8 billion or 47% of total operating revenues. Service revenues grew by \$549 million or 9%, following increases of 11% and 17% in fiscal 1992 and 1991, respectively. The Corporation's service revenues are derived principally from hardware and software product services and systems integration services. The growth in service revenues for fiscal 1993 was due to increased demand for systems integration and other professional and consulting services and the service of non-Digital products. In response to customer demand for a worldwide integrated services provider, the Corporation is focusing on multivendor customer service opportunities.

Total Operating Revenues

Year		\$ Millions
93	6783	14371
92	6235	13931
91	5612	13911
90	4797	12943
89	4552	12742
88	3934	11475
87	3135	9389
86	2487	7590
85	2156	6686
84	1780	5584
83	1444	4272

■ Service and Other Revenues
 ■ Total Operating Revenues

Non-United States Revenues

Year		\$ Millions
93		9164
92		8799
91		8380
90		7281
89		7017
88		5730
87		4413
86		3179
85		2642
84		1978
83		1543

Expenses and Profit Margins

The Corporation's total gross margin for fiscal 1993 was \$5.7 billion (40% of total operating revenues), compared with \$5.8 billion in fiscal 1992 (42% of total operating revenues) and \$6.6 billion in fiscal 1991 (48% of total operating revenues).

The Corporation's gross margin on fiscal 1993 product sales was \$3.1 billion (41% of product sales), compared with \$3.4 billion (45% of product sales) for fiscal 1992 and \$4.4 billion (53% of product sales) for fiscal 1991. The continued decline in product gross margin was due to several factors, including a continued shift in the Corporation's mix of product sales from larger systems toward low-end systems which typically carry lower margins. In addition, competitive pricing actions taken by the Corporation in the period also contributed to the decline in product gross margins. The Corporation is addressing the industry trend toward lower product gross margins by continuing to reduce manufacturing costs, eliminating excess capacity, streamlining its product offerings and using externally supplied components and subsystems, where appropriate.

Gross margin on service revenues for fiscal 1993 was \$2.6 billion (39% of service revenues), compared with \$2.4 billion in fiscal 1992 (38% of service revenues) and \$2.2 billion (40% of service revenues) in fiscal 1991. The improvement in service gross margin for fiscal 1993 was due to a higher volume of service revenues and to greater efficiencies in service delivery. The decline in service gross margin as a percentage of service revenues in fiscal 1992 compared with fiscal 1991 was due in part to slow growth in the higher-margin hardware maintenance business and substantially higher growth in newer service offerings such as systems integration, which have relatively lower margins.

Demonstrating the Corporation's efforts to bring research and engineering (R&E) spending in line with industry norms, R&E expenses declined 13% to \$1.5 billion, or 10.6% of total operating revenues in fiscal 1993. This compares with \$1.8 billion or 12.6% of total operating revenues in fiscal 1992, and \$1.6 billion or 11.9% of total operating revenues in fiscal 1991. The decrease in R&E expenses was due to several factors, including the elimination of redundant engineering efforts and streamlined product offerings, which resulted in a reduction in employee population. The Corporation's R&E investment program is focused on maintaining a strong, consistently market-driven product set and on attaining and sustaining technology leadership in selected areas.

Research and Engineering

<i>Year</i>	<i>\$ Millions</i>
93	1530
92	1754
91	1649
90	1614
89	1525
88	1306
87	1010
86	814
85	717
84	631
83	472

Total Employee Population

<i>Year</i>	<i>Thousands</i>
93	94
92	114
91	121
90	124
89	126
88	122
87	111
86	95
85	89
84	86
83	73

Fiscal 1993 selling, general and administrative (SG&A) expenses were \$4.4 billion (30.9% of total operating revenues), compared with \$4.7 billion (33.6% of total operating revenues) in fiscal 1992 and \$4.5 billion (32.1% of total operating revenues) in fiscal 1991. The 5% decrease in SG&A expenses in fiscal 1993 was primarily the result of reductions in employee population, complemented by reductions in other overhead costs, and a reduction in expense derived from the repurchase and cancellation of certain outstanding stock options (see Note K). The Corporation has and will continue its efforts to streamline selling and administrative practices, reduce costs and increase productivity. As part of this effort, the Corporation is emphasizing and continues to derive an increasing portion of product sales from indirect and telemarketing channels. In addition, during fiscal 1993, the Corporation implemented competitive incentive compensation programs for its sales force in selected countries and is expanding these programs to include essentially all countries by the end of fiscal 1994. Fiscal 1992 SG&A expenses increased \$209 million compared with fiscal 1991, due principally to the acquisitions of Digital-Kienzle and the Philips Information Systems Division (see Note J).

In order to implement plans and actions designed to achieve a competitive cost structure, the Corporation absorbed restructuring charges of \$1.5 billion, \$1.1 billion and \$550 million in fiscal 1992, 1991 and 1990, respectively, to cover costs of employee separations, facilities consolidations, asset retirements, relocation and related costs (see Note E). The Corporation has reduced employee population significantly, as noted below, closed or sold a number of businesses, plants and other facilities, and plans to take further restructuring actions. As a result of these activities, the Corporation has eliminated an estimated \$2 billion of annual operating costs. The Corporation believes that the remaining restructuring reserve of \$739 million is adequate for presently planned restructuring actions, which will eliminate additional operating costs in fiscal 1994 and beyond.

Total employee population decreased by 19,600 during fiscal 1993. The Corporation had approximately 89,900, 107,900 and 115,100 regular employees at the end of fiscal 1993, 1992 and 1991, respectively, and an additional 4,300, 5,900 and 5,900 temporary and contract workers at the end of fiscal 1993, 1992 and 1991, respectively.

Interest income in fiscal 1993 decreased to \$64 million from \$96 million in fiscal 1992 and \$113 million in fiscal 1991, reflecting lower interest rates and lower average cash balances. Interest expense increased to \$51 million in fiscal 1993 from \$39 million and \$45 million in fiscal 1992 and 1991, respectively. The increase in fiscal 1993 interest expense resulted principally from the issuance of \$1 billion of long-term debt during the year.

In fiscal 1993, the Corporation's income tax expense was \$27 million on a pre-tax loss of \$224 million (see Note C). In fiscal 1992, the Corporation's income tax expense was \$232 million on a pre-tax loss of \$2.1 billion. The tax expense reflects several factors, including taxes provided for profitable non-U.S. operations and an inability to recognize currently U.S. tax benefits from operating losses.

For fiscal 1993, the Corporation reported a net loss of \$251 million, compared with a loss of \$2.8 billion and \$617 million for fiscal 1992 and 1991, respectively. The fiscal 1992 loss included a \$1.5 billion restructuring charge and a one-time charge of \$485 million for the cumulative effect of an accounting change.

In November 1992, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 112 – Employers' Accounting for Postemployment Benefits. SFAS No. 112 requires employers to recognize an obligation for benefits provided to employees after employment but before retirement. The Corporation must adopt SFAS No. 112 no later than the end of fiscal 1995. The Corporation has not adopted SFAS No. 112, and has not yet determined the impact of such adoption on the Corporation's consolidated financial position or results of operations. Adoption of SFAS No. 112 will have no cash flow impact on the Corporation.

In February 1992, the FASB issued SFAS No. 109 – Accounting for Income Taxes. The Corporation will adopt SFAS No. 109 in the first quarter of fiscal 1994. SFAS No. 109 requires, among other things, the recognition of a deferred tax asset or liability for estimated future tax effects attributable to temporary differences and carryforwards. Upon adoption, the Corporation expects to recognize additional gross deferred tax assets of approximately \$1.9 billion, which will consist primarily of tax benefits associated with net operating loss carryforwards, postretirement benefits and restructuring charges of approximately \$1 billion, \$360 million and \$230 million, respectively. The additional gross assets will be almost entirely offset by valuation allowances, resulting in a one-time benefit of approximately \$20 million to the consolidated statement of operations. The adoption of SFAS No. 109 will have no cash flow impact on the Corporation (see Note C).

On August 10, 1993, the Omnibus Budget Reconciliation Act of 1993 was signed into law. This act, among other things, raises the U.S. corporate statutory tax rate from 34% to 35%. Due to the net operating loss carryforwards, the Corporation does not expect the change in the statutory tax rate to have a material impact on the Corporation's consolidated financial position or results of operations for the foreseeable future.

Availability of Funds to Support Current and Future Operations and Spending for Operations

Cash and cash equivalents totaled \$1.6 billion, \$1.3 billion and \$1.9 billion at the end of fiscal 1993, 1992 and 1991, respectively.

Net cash flows from operating activities were \$47 million in fiscal 1993 compared with \$431 million and \$1 billion in fiscal 1992 and 1991, respectively. Fiscal 1993 cash flows from operating activities were primarily the result of improved accounts receivable, offset by restructuring activities, the net loss for the year and decreased accounts payable.

Net cash used for investing activities was \$884 million, \$981 million and \$1 billion in fiscal 1993, 1992 and 1991 respectively. In fiscal 1993, the Corporation completed its purchase of a minority interest in Ing. Olivetti & C. S.p.A. for \$288 million (see Note J). Capital expenditures totaled \$529 million in fiscal 1993 (including approximately \$117 million for the construction of a semiconductor fabrication plant and purchase of equipment in Hudson, Massachusetts), compared with \$710 million and \$738 million in fiscal 1992 and 1991, respectively. The Corporation intends to continue making investments in support of its objective of sustaining technology leadership in selected areas. As a result, the Corporation expects that its capital expenditures for fiscal 1994 will be somewhat greater than for fiscal 1993, including an estimated \$175 million for the Hudson project. This project has an anticipated total cost of \$425 million, with a remaining \$123 million to be expended in fiscal 1995 and 1996.

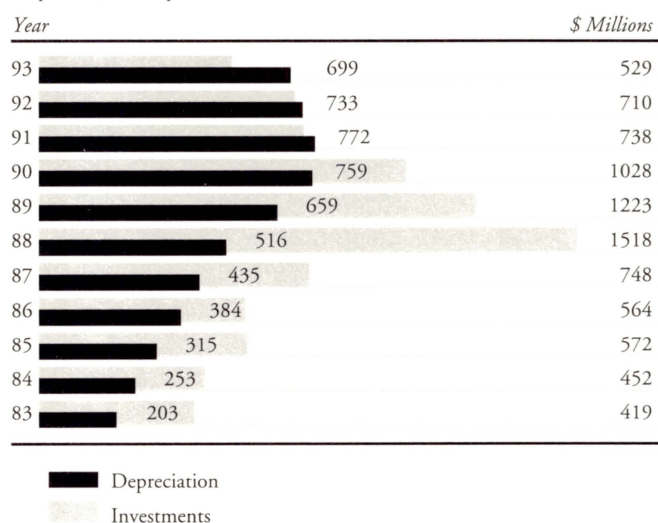
The Corporation disposed of property, plant and equipment and other assets in fiscal 1993, generating approximately \$68 million in cash proceeds compared with \$15 million in fiscal 1992.

Cash flows from financing activities were \$1.1 billion, (\$36) million and (\$99) million in fiscal 1993, 1992 and 1991, respectively. The principal financing activity in fiscal 1993 was the issuance of \$1 billion in aggregate principal amount of notes and debentures under the Corporation's \$1 billion shelf registration statement filed during the first quarter of fiscal 1993 (see note F). The Corporation also received \$196 million during fiscal 1993 from the issuance of common stock under the Corporation's stock purchase plans compared with \$232 million and \$240 million in fiscal 1992 and 1991, respectively.

Total debt was \$1.04 billion, \$91 million and \$173 million at the end of fiscal 1993, 1992 and 1991, respectively. At the end of fiscal 1993, substantially all of the available lines of credit were unused, including a three-year \$750 million committed credit facility, entered into by the Corporation with a syndicate of banks in May 1993.

The Corporation historically has maintained a conservative capital structure, and believes that its current cash position and debt capacity are adequate to support current and future operations.

Investments in Property, Plant and Equipment Depreciation Expense



Report of Management

The Corporation'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 Corporation 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 Corporation's independent public accountants annually review the accounting and control systems of the Corporation. Their audit includes a review of the internal control structure to the extent they consider necessary and selective tests of transactions to support their report.

The Board of Directors, through its Audit Committee, which is composed of three Board members who are independent of management, is responsible for determining that management fulfills its responsibility with respect to the Corporation's financial statements and the system of internal accounting controls.

The Audit Committee meets regularly with representatives of management, the independent accountants and the Corporation's internal auditors to review audits, financial reporting, and internal control matters, and when appropriate, meets with the Corporation's outside counsel on relevant matters. The independent accountants and the internal auditors have full and free access to the Audit Committee and regularly meet privately with the Audit Committee.

Coopers & Lybrand, independent accountants, have been engaged by the Audit Committee of the Board of Directors, with the approval of the stockholders, to audit the Corporation's financial statements. Their report follows.



Robert B. Palmer
President and Chief Executive Officer



William M. Steul
Vice President, Finance and Chief Financial Officer

Report of Independent Accountants

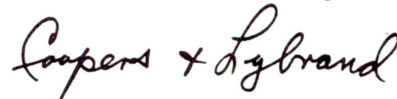
To The Stockholders and Directors,
Digital Equipment Corporation

We have audited the accompanying consolidated balance sheets of Digital Equipment Corporation as of July 3, 1993 and June 27, 1992, and the related consolidated statements of operations, cash flows, and stockholders' equity for each of the three fiscal years in the period ended July 3, 1993. These financial statements are the responsibility of the Corporation'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 July 3, 1993 and June 27, 1992, and the consolidated results of its operations and cash flows for each of the three fiscal years in the period ended July 3, 1993, in conformity with generally accepted accounting principles.

As discussed in Note G to the consolidated financial statements, the Corporation changed its method of accounting for post-retirement benefits other than pensions in fiscal 1992.



Coopers & Lybrand

Boston, Massachusetts
July 28, 1993

Consolidated Statements of Operations

(in thousands except per share data)

	<i>Year Ended</i>		
	July 3, 1993	June 27, 1992	June 29, 1991
Revenues (Notes A and B)			
Product sales	\$ 7,587,994	\$ 7,696,029	\$ 8,298,515
Service and other revenues	6,783,375	6,234,843	5,612,489
Total operating revenues	14,371,369	13,930,872	13,911,004
Costs and Expenses (Notes A, G and K)			
Cost of product sales	4,464,445	4,248,118	3,905,355
Service expense and cost of other revenues	4,166,946	3,883,705	3,373,025
Research and engineering expenses	1,530,119	1,753,898	1,649,380
Selling, general and administrative expenses	4,447,160	4,680,822	4,471,629
Restructuring charges (Note E).	-	1,500,000	1,100,000
Operating loss	(237,301)	(2,135,671)	(588,385)
Interest income	63,831	96,176	113,221
Interest expense	50,837	38,517	44,556
Loss before income taxes and cumulative effect of change in accounting principle.	(224,307)	(2,078,012)	(519,720)
Provision for income taxes (Notes A and C).	27,023	232,000	97,707
Loss before cumulative effect of change in accounting principle	(251,330)	(2,310,012)	(617,427)
Cumulative effect of change in accounting principle, net of tax (Note G).	-	485,495	-
Net Loss	\$ (251,330)	\$ (2,795,507)	\$ (617,427)
Per Share (Note A)			
Loss before cumulative effect of change in accounting principle	\$ (1.93)	\$ (18.50)	\$ (5.08)
Cumulative effect of change in accounting principle	-	(3.89)	-
Net Loss per Share (Note A)	\$ (1.93)	\$ (22.39)	\$ (5.08)
Weighted average shares outstanding (Note A)	130,409	124,864	121,558

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

Consolidated Balance Sheets

(in thousands)

	July 3, 1993	June 27, 1992
Assets		
Current Assets		
Cash and cash equivalents (Note A)	\$ 1,643,195	\$ 1,337,172
Accounts receivable, net of allowance of \$110,764 and \$129,686.	3,020,252	3,594,268
Inventories (Note A)		
Raw materials	331,506	264,871
Work-in-process	502,200	495,632
Finished goods	921,434	853,531
Total inventories.	1,755,140	1,614,034
Prepaid expenses and deferred income taxes (Note C).	463,928	575,364
Total current assets	6,882,515	7,120,838
Property, Plant and Equipment (Note A)		
Land	363,264	372,989
Buildings	1,887,211	1,871,710
Leasehold improvements	532,369	592,971
Machinery and equipment	4,410,586	4,835,454
Total property, plant and equipment.	7,193,430	7,673,124
Less accumulated depreciation	4,015,139	4,103,422
Net property, plant and equipment.	3,178,291	3,569,702
Other assets (Notes A, C, D and J).	889,537	593,769
Total assets	\$10,950,343	\$11,284,309
Liabilities and Stockholders' Equity		
Current Liabilities		
Bank loans and current portion of long-term debt (Note F).	\$ 21,335	\$ 49,061
Accounts payable	822,434	1,041,300
Income taxes payable (Note C).	57,614	63,725
Salaries, wages and related items	556,151	551,727
Deferred revenues and customer advances (Note A).	1,138,323	1,208,635
Restructuring reserve (Note E)	738,989	1,546,904
Other current liabilities	583,868	644,696
Total current liabilities.	3,918,714	5,106,048
Deferred income taxes (Note C)	—	23,033
Long-term debt (Note F).	1,017,577	41,636
Postretirement benefits (Note G).	1,128,653	1,182,658
Total liabilities	6,064,944	6,353,375
Commitments (Note H)		
Stockholders' Equity (Notes K, L and M)		
Common stock, \$1.00 par value; authorized 450,000,000 shares; issued 135,489,805 shares and 130,008,231 shares	135,490	130,008
Additional paid-in capital	2,851,960	2,692,444
Retained earnings	1,937,627	2,282,688
Treasury stock at cost; 497,551 shares and 2,193,014 shares	(39,678)	(174,206)
Total stockholders' equity.	4,885,399	4,930,934
Total liabilities and stockholders' equity.	\$10,950,343	\$11,284,309

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

Consolidated Statements of Cash Flows

(in thousands)

Year Ended

	July 3, 1993	June 27, 1992	June 29, 1991
Cash Flows from Operating Activities			
Net loss	\$ (251,330)	\$(2,795,507)	\$ (617,427)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation	698,631	732,536	772,310
Amortization	139,552	100,292	56,250
Other adjustments to income.	185,617	269,095	189,077
(Increase)/decrease in accounts receivable	574,016	(86,163)	105,977
(Increase)/decrease in inventories	(141,106)	155,881	18,616
(Increase)/decrease in prepaid expenses.	(26,552)	42,908	(47,239)
Increase/(decrease) in accounts payable	(218,866)	277,918	(17,694)
Increase/(decrease) in taxes	75,590	55,142	(105,614)
Increase/(decrease) in salaries, wages, benefits and related items	(49,581)	1,115,240	74,982
Increase/(decrease) in deferred revenues and customer advances	(70,312)	101,421	92,222
Increase/(decrease) in restructuring reserve	(807,915)	510,200	593,160
Decrease in other current liabilities	(60,828)	(48,259)	(73,719)
Total adjustments	298,246	3,226,211	1,658,328
Net cash flows from operating activities	46,916	430,704	1,040,901
Cash Flows from Investing Activities			
Investment in property, plant, and equipment	(528,691)	(710,436)	(737,548)
Proceeds from the disposition of property, plant, and equipment.	46,049	15,141	—
Investment in other assets (<i>Note J</i>)	(423,573)	(139,459)	(55,782)
Proceeds from the disposition of other assets	22,100	—	—
Business acquisitions, net of cash acquired (<i>Note J</i>)	—	(146,387)	(233,261)
Net cash flows from investing activities	(884,115)	(981,141)	(1,026,591)
Net cash flows from operating and investing activities	(837,199)	(550,437)	14,310
Cash Flows from Financing Activities			
Proceeds from issuance of debt.	984,482	25,821	14,249
Payments to retire debt	(36,860)	(108,472)	(112,426)
Purchase of treasury shares	—	(185,292)	(240,719)
Issuance of common shares and treasury shares, including tax benefits.	195,600	231,502	239,653
Net cash flows from financing activities	1,143,222	(36,441)	(99,243)
Net increase/(decrease) in cash and cash equivalents	306,023	(586,878)	(84,933)
Cash and cash equivalents at beginning of year.	1,337,172	1,924,050	2,008,983
Cash and cash equivalents at end of year.	\$1,643,195	\$ 1,337,172	\$1,924,050

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 Stockholders' Equity</i>
June 30, 1990	\$130,008	\$2,565,487	\$6,257,199	\$(770,780)	\$ 8,181,914
Purchase of 3,700,000 shares of treasury stock				(240,719)	(240,719)
Shares issued under stock plans			(294,917)	524,334	229,417
Restricted stock plans, charge to operations		60,419			60,419
Tax benefits related to stock plans		10,235			10,235
Net loss—1991			(617,427)		(617,427)
June 29, 1991	\$130,008	\$ 2,636,141	\$5,344,855	\$(487,165)	\$ 7,623,839
Purchase of 3,014,083 shares of treasury stock				(185,292)	(185,292)
Shares issued under stock plans			(266,660)	498,251	231,591
Restricted stock plans, charge to operations		56,303			56,303
Net loss—1992			(2,795,507)		(2,795,507)
June 27, 1992	\$130,008	\$ 2,692,444	\$2,282,688	\$(174,206)	\$ 4,930,934
Shares issued under stock plans	5,482	149,321	(93,731)	134,528	195,600
Restricted stock plans, charge to operations		42,038			42,038
Repurchase unexercised option shares		(31,843)			(31,843)
Net loss—1993			(251,330)		(251,330)
July 3, 1993	\$135,490	\$2,851,960	\$1,937,627	\$ (39,678)	\$4,885,399

See Notes K, L and M in the Notes to Consolidated Financial Statements.

Cash dividends have never been paid by the Corporation.

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 Corporation include the financial statements of the parent and its U.S. and non-U.S. subsidiaries. All intercompany accounts and profits have been eliminated. Certain prior years' amounts have been reclassified to conform with current year presentation.

Fiscal Year □ The fiscal year of the Corporation is the fifty-two/fifty-three week period ending the Saturday nearest the last day of June. The fiscal year ended July 3, 1993 includes 53 weeks. The fiscal years ended June 27, 1992 and June 29, 1991 include 52 weeks.

Translation of Foreign Currencies □ For non-U.S. operations, the U.S. dollar is the functional currency. Monetary assets and liabilities of foreign subsidiaries are translated into U.S. dollars at current exchange rates. Nonmonetary 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 and depreciation charged to operations are translated at historical rates. Exchange gains and losses arising from translation are included in current income.

The Corporation enters into forward foreign exchange contracts to delay the short-term impact of foreign currency fluctuations on operations and the asset and liability positions of non-U.S. subsidiaries. The gains and 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. See Note I for information on the Corporation's other financial instruments.

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.

Warranty □ Warranty revenues are recognized ratably over the warranty period; warranty related costs are recognized as service expense as incurred. The Corporation also provides warranty coverage as a product attribute on certain products. Estimated costs to repair such products are accrued as product cost when the product is shipped.

Net Income/(Loss) per Share □ Per share amounts are calculated based on the weighted average number of common shares and common share equivalents outstanding during periods of net income. Common share equivalents are attributable to stock options. Per share amounts are calculated based only on the weighted average number of common shares during periods of net loss.

Cash Equivalents □ The Corporation considers all highly liquid temporary cash investments with maturities of three months or less at date of acquisition to be cash equivalents. Cash equivalents are valued at cost plus accrued interest, which approximates market.

Taxes □ In general, the Corporation'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 □ Property, plant and equipment are stated at cost. Depreciation expense is computed principally on the following bases:

<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)

Other Assets □ Other assets includes equity investments, capitalized software development costs, goodwill, deferred taxes and other intangible assets.

Goodwill and other intangible assets are amortized on the straight-line method over their estimated lives, but not in excess of 15 years.

Software development costs are capitalized beginning at the time that technical feasibility is established. These costs are amortized over three years from the date the products are available for general use.

Note B – Geographic Operations

(in thousands)

Year Ended	July 3, 1993	June 27, 1992	June 29, 1991
Net Revenues			
United States:			
Unaffiliated customer sales	\$ 5,219,276	\$ 5,154,159	\$ 5,586,492
Inter-area transfers	1,793,832	1,900,455	2,200,684
	<u>7,013,108</u>	<u>7,054,614</u>	<u>7,787,176</u>
Europe:			
Unaffiliated customer sales	6,973,709	6,751,222	6,216,746
Inter-area transfers	633,935	520,953	278,544
	<u>7,607,644</u>	<u>7,272,175</u>	<u>6,495,290</u>
Canada, Asia, Americas, Pacific Rim:			
Unaffiliated customer sales	2,178,384	2,025,491	2,107,766
Inter-area transfers	1,378,870	1,168,956	1,269,327
	<u>3,557,254</u>	<u>3,194,447</u>	<u>3,377,093</u>
Eliminations	(3,806,637)	(3,590,364)	(3,748,555)
Net revenues	<u>\$14,371,369</u>	<u>\$13,930,872</u>	<u>\$ 13,911,004</u>
Income/(Loss)			
United States	\$ (363,454)	\$ (1,971,032)	\$ (976,651)
Europe	12,446	(184,951)	474,180
Canada, Asia, Americas, Pacific Rim	115,091	68,313	142,622
Eliminations	(1,384)	(48,001)	(228,536)
Operating loss	<u>(237,301)</u>	<u>(2,135,671)</u>	<u>(588,385)</u>
Interest income	63,831	96,176	113,221
Interest expense	50,837	38,517	44,556
Loss before income taxes and cumulative effect of change in accounting principle	<u>\$ (224,307)</u>	<u>\$ (2,078,012)</u>	<u>\$ (519,720)</u>
Assets			
United States	\$ 4,202,395	\$ 4,766,206	\$ 5,124,445
Europe	4,910,165	5,195,715	4,706,122
Canada, Asia, Americas, Pacific Rim	1,730,754	1,854,167	1,576,413
Corporate assets	1,444,259	1,183,387	1,728,959
Eliminations	(1,337,230)	(1,715,166)	(1,261,236)
Total assets	<u>\$10,950,343</u>	<u>\$11,284,309</u>	<u>\$11,874,703</u>

Note B – Geographic Operations (continued)

Industry □ The Corporation operates in one business segment: the design, manufacture, and service of networked computer systems.

Non-U.S. Operations □ Sales and marketing operations outside the United States are conducted principally through sales subsidiaries in Canada, Europe, Central and South America, Asia and the Pacific Rim; by direct sales from the parent corporation and through various representative distributorship arrangements and value-added resellers. The Corporation's non-U.S. manufacturing operations include plants in the Americas, Europe and the Pacific Rim. The products of these manufacturing plants are sold to the Corporation'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 intended to be representative of unaffiliated party transactions.

Sales to unaffiliated customers outside the United States, including U.S. export sales, were \$9.2 billion, \$8.8 billion and \$8.4 billion for the years ended July 3, 1993, June 27, 1992 and June 29, 1991, respectively, which represented 64%, 63% and 60%, respectively, of total operating revenues. The retained earnings of substantially all of the Corporation's international subsidiaries have been reinvested to support operations. These accumulated retained earnings, before elimination of intercompany transactions, aggregated \$4.0 billion, \$3.6 billion and \$4.3 billion at July 3, 1993, June 27, 1992 and June 29, 1991, respectively.

Note C – Income Taxes

Income/(loss) before income taxes for U.S. and non-U.S. operations (in thousands)

Year Ended	July 3, 1993	June 27, 1992	June 29, 1991
U.S.	\$ (383,808)	\$(1,934,186)	\$(803,205)
Non-U.S.	159,501	(143,826)	283,485
Total	\$ (224,307)	\$(2,078,012)	\$(519,720)

Reconciliation of U.S. federal statutory rate to actual tax rate

Year Ended	July 3, 1993	June 27, 1992	June 29, 1991
U.S. federal statutory tax (benefit) rate	(34.0)%	(34.0)%	(34.0)%
Tax benefit of manufacturing operations in: (a)			
Puerto Rico	(8.1)	1.7	(2.6)
Ireland	(16.0)	(3.4)	(15.6)
Singapore	(7.8)	0.0	(2.9)
Taiwan	(0.1)	(0.1)	(0.8)
Benefit not recorded due to net loss carryforward position	60.5	31.5	60.4
Non-U.S. tax rates, net of foreign tax credits	20.8	16.7	19.3
Other.	(3.3)	(1.2)	(5.0)
Effective tax rate	12.0%	11.2%	18.8%

Note (a) The income from products manufactured for export by the Corporation's manufacturing subsidiary in Ireland is subject to a 10% tax rate through December 2010. The income from certain products manufactured by the Corporation's manufacturing subsidiary in Singapore is taxed at approximately 3% through December 1993 and then at

13.5% through December 1995. The income from certain products manufactured by the Corporation's subsidiary operating in Taiwan is subject to a reduced tax rate of 20% through June 1997. During fiscal year 1993, the Corporation discontinued its manufacturing operation in Puerto Rico.

Note C – Income Taxes (continued)

At July 3, 1993, the Corporation had net operating loss carryforwards of approximately \$4.8 billion for financial reporting purposes which generally will begin to expire in 2007. In addition, the Corporation has not recognized income tax credits of approximately \$100,000,000 which will begin to expire in 2001.

Included in prepaid expenses and deferred income taxes on the consolidated balance sheets are current net deferred tax assets of \$84,806,000 and \$222,794,000 for fiscal years 1993 and 1992, respectively. Included in other assets on the consolidated balance sheet for fiscal 1993 are long-term net deferred tax assets of \$33,254,000.

Components of provisions for (benefits from) U.S. federal and non-U.S. income taxes (in thousands)

Year Ended	July 3, 1993	June 27, 1992	June 29, 1991
U.S. federal:			
Current	\$ (5,023)	\$ (155,883)	\$ (234,968)
Deferred	(19,871)	107,249	205,905
Total	(24,894)	(48,634)	(29,063)
Non-U.S.:			
Current	(57,525)	92,794	262,803
Deferred	103,497	183,998	(124,642)
Total	45,972	276,792	138,161
State income taxes	5,945	3,842	(11,391)
Total income taxes	\$ 27,023	\$ 232,000	\$ 97,707

Deferred tax expense – sources of timing differences and their tax effect (in thousands)

Year Ended	July 3, 1993	June 27, 1992	June 29, 1991
Inventory related transactions	\$ 211,972	\$ 81,840	\$ (39,004)
Deferred warranty revenue	3,438	12,882	1,966
Depreciation	(151,722)	90,269	7,014
Postretirement benefits	(122,633)	(26,151)	19,977
Restructuring	320,337	(193,834)	(233,539)
Benefit not recorded due to net loss carryforward position	(130,550)	246,872	347,080
Other	(47,216)	79,369	(22,231)
Total deferred tax expense	\$ 83,626	\$ 291,247	\$ 81,263

In connection with its normal examination of the Corporation's 1989, 1990 and 1991 tax returns, the Internal Revenue Service has proposed adjustments. The Corporation believes its judgments in these matters have been appropriate and any adjustments which might result would not have a material effect on the financial statements.

In fiscal years 1993, 1992 and 1991, income taxes paid were \$53,889,000, \$144,620,000 and \$186,090,000, respectively.

In February 1992, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 109 – Accounting for Income Taxes. The Corporation will adopt SFAS No. 109 in the first quarter of fiscal 1994. SFAS No. 109 requires, among other things, the recognition

of a deferred tax asset or liability for estimated future tax effects attributable to temporary differences and carryforwards. Upon adoption, the Corporation expects to recognize additional gross deferred tax assets of approximately \$1.9 billion, which will consist primarily of tax benefits associated with net operating loss carryforwards, postretirement benefits and restructuring charges of approximately \$1 billion, \$360,000,000 and \$230,000,000, respectively. The additional gross assets will be almost entirely offset by valuation allowances, resulting in a one-time benefit of approximately \$20,000,000 to the consolidated statement of operations. The adoption of SFAS No. 109 will have no cash flow impact on the Corporation.

See Note A for further explanation of the Corporation's income tax accounting policies.

Note D – Capitalized Computer Software Development Costs

Unamortized computer software development costs were \$138,024,000 and \$133,800,000 at July 3, 1993 and June 27, 1992, respectively. Amortization expense was \$68,978,000, \$63,956,000 and \$44,424,000 for the years

ended July 3, 1993, June 27, 1992 and June 29, 1991, respectively. Accumulated amortization was \$168,845,000 and \$186,051,000 at July 3, 1993 and June 27, 1992, respectively.

Note E – Restructuring Actions

Since fiscal year 1990, the Corporation has recorded restructuring charges of \$3.15 billion.

During fiscal year 1993, the Corporation took a number of actions consistent with the previously recorded reserves, including employee separations, and the sale or closing of facilities. Other operations continue to be moved from leased to owned facilities, and consolidated where appropriate.

Note F – Debt

Long-term debt, exclusive of current maturities (in thousands):

	Maturity Date (Calendar Year)	Interest Rate	July 3, 1993	June 27, 1992
Lease obligations	1994–2002	6.81%–19% (a)	\$ 24,578	\$27,405
Notes (b)	1997	7%	250,000	–
Notes (b)	2002	7½%	250,000	–
Debentures (b)	2012	8½%	250,000	–
Debentures (b)	2023	7¾%	250,000	–
Unamortized discount and commissions (b)			(16,183)	–
Other debt obligations			9,182	14,231
Total long-term debt, exclusive of current maturities			<u>\$1,017,577</u>	<u>\$41,636</u>

Note (a) Weighted average interest rate at July 3, 1993 and June 27, 1992 of 8.7% and 10.7%, respectively.

Note (b) The Notes and Debentures are not redeemable prior to maturity and are not entitled to any sinking fund. The unamortized discount and commissions relate to these Notes and Debentures.

Principal payments during the next five fiscal years are as follows: 1994 – \$4,764,000; 1995 – \$6,046,000; 1996 – \$6,376,000; 1997 – \$6,446,000; 1998 – \$257,004,000.

In fiscal years 1993, 1992 and 1991, interest paid was \$37,123,000, \$43,494,000 and \$42,605,000, respectively.

Based primarily on dealer quotes, the fair value of long-term borrowings was approximately \$1.1 billion at July 3, 1993.

The Corporation had lines of credit available for short-term and medium-term financing totaling \$1.2 billion and \$.9 billion at fiscal years ended July 3, 1993 and June 27, 1992, respectively. Substantially all of these lines of credits were unused at the end of fiscal 1993 and 1992.

Included in the above lines of credit is a three-year \$750,000,000 committed credit facility, entered into by the Corporation with a syndicate of banks in May 1993. The facility may be used for general corporate purposes and is subject to satisfaction of certain financial covenants and annual facility fees of 0.175%. The commitment fees on the remaining unused lines are neither material nor significant.

In connection with the long-term debt issued in fiscal year 1993, the Corporation, on occasion, may enter into interest rate swap agreements. As a result of these agreements, the effective interest rate on the Notes and Debentures would differ from the stated interest rates. There were no interest rate swaps in effect at July 3, 1993.

Note G – Postretirement Benefits

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

It has been the Corporation's policy to make tax-deductible contributions to the plans in accordance with local laws. 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 the fiscal years 1993, 1992 or 1991 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.

The Corporation's fiscal year 1993 pension cost, before curtailment gains, declined reflecting the positive effects of restructuring activities. The Corporation recognized a one-time charge of \$161,658,000 in fiscal 1992 for special early retirement pension benefits as a component of restructuring costs. The net periodic pension cost for defined contribution pension plans was \$7,944,000, \$11,202,000, and \$11,398,000 for the fiscal years ended July 3, 1993, June 27, 1992 and June 29, 1991, respectively. The measurement dates for all plans were within 90 days of year-end.

Components of net periodic pension cost (in thousands)

Year Ended	July 3, 1993	June 27, 1992	June 29, 1991
Service cost for benefits earned during the period	\$ 192,546	\$ 234,842	\$ 239,238
Interest cost on projected benefit obligations	201,203	180,898	163,007
Actual return on plan assets	(291,127)	(166,055)	(38,524)
Net amortization and deferral	79,421	(47,927)	(160,731)
Curtailment gains	—	(138,100)	(157,000)
Net periodic pension cost for defined benefit pension plans.	<u>\$ 182,043</u>	<u>\$ 63,658</u>	<u>\$ 45,990</u>
Total net periodic pension cost for all pension plans	<u>\$ 189,293</u>	<u>\$ 87,833</u>	<u>\$ 67,102</u>

Significant actuarial assumptions for pension plans

Year Ended	July 3, 1993	June 27, 1992	June 29, 1991
U.S. pension plan:			
Discount rate	8.0%	8.5%	9.0%
Expected long-term rate of return on plan assets	9.0%	9.0%	9.5%
Rate of increase in future compensation levels.	6.0%	6.5%	6.8%
Non-U.S. pension plans:			
Discount rate	5.0– 9.0%	5.0– 9.0%	5.0– 9.5%
Expected long-term rate of return on plan assets	6.0–10.0%	6.0–10.0%	6.0–10.0%
Rate of increase in future compensation levels.	3.5– 7.5%	4.8– 8.0%	5.0– 8.0%

Note G – Postretirement Benefits (continued)

Funded status of pension plans as of the year-end measurement date (in thousands)

Year Ended	July 3, 1993	June 27, 1992
Actuarial present value of benefit obligations:		
Vested benefit obligation	\$ (1,321,322)	\$ (1,397,318)
Accumulated benefit obligation	\$ (1,497,035)	\$ (1,582,385)
Projected benefit obligation	\$ (2,606,673)	\$ (2,761,783)
Plan assets at fair value	2,536,614	2,671,657
Plan assets less than projected benefit obligation	(70,059)	(90,126)
Contributions made after measurement date but before end of fiscal year	2,916	3,811
Unrecognized net gain	(275,390)	(130,372)
Unrecognized prior service cost	67,427	47,842
Unrecognized net transition asset	(78,597)	(107,443)
Pension liability recognized on the balance sheet	\$ (353,703)	\$ (276,288)

Postretirement Benefits Other Than Pensions □ The Corporation has defined benefit postretirement plans that provide medical, dental, and life insurance benefits for U.S. retirees and their eligible dependents. Substantially all of the Corporation's U.S. employees may become eligible for postretirement benefits if they reach retirement age while working for the Corporation. The majority of the Corporation's non-U.S. subsidiaries do not offer postretirement benefits other than pensions to retirees.

The Corporation's postretirement benefits plans other than pensions are funded as costs are incurred. Fiscal 1993 expense reflects a reduction from the prior year resulting from cost sharing changes. Retiree contributions for the U.S. medical plan will be based on length of service for employees retiring after fiscal 1993.

The Corporation adopted Statement of Financial Accounting Standards No. 106 – Employers' Accounting for Postretirement Benefits Other Than Pensions in fiscal year 1992 and elected to recognize the cumulative effect immediately for its U.S. and material non-U.S. plans, which resulted in a charge of \$485,495,000, net of tax benefits of \$4,188,000, to fiscal 1992 results. Postretirement benefits costs totaled \$6,400,000 for the year ended June 29, 1991 and were recognized as expense as claims were paid.

The Corporation also recognized a one-time charge of \$142,985,000 in fiscal year 1992 for special early postretirement benefits other than pensions as a component of restructuring costs.

Components of net periodic postretirement benefits costs (in thousands)

Year Ended	July 3, 1993	June 27, 1992
Service cost for benefit earned during the period	\$25,560	\$37,543
Interest cost on accumulated postretirement benefits obligations	50,915	42,525
Actual return on plan assets	–	–
Net amortization and deferral	(8,538)	–
Curtailement gains	(30,000)	–
Net periodic postretirement benefits cost	\$37,937	\$80,068

Note G – Postretirement Benefits (continued)

Significant actuarial assumptions for other postretirement benefits plans (dollars in thousands)

Year Ended	July 3, 1993	June 27, 1992
U.S. plans:		
Discount rate	8.0%	8.5%
Health care cost trend rate, current year	10.6%	13.8%
Health care cost trend rate, ultimate year	6.0%	6.0%
Trend rate decreases to the ultimate rate in the year	2005	2005
Effect of a 1% increase in the trend rate:		
Increase in accumulated postretirement benefits obligation	\$137,913	\$148,386
Increase in net periodic postretirement benefits cost	\$ 17,598	\$ 19,674
Non-U.S. plans:		
Discount rate	5.0– 8.5%	5.0– 8.5%
Health care cost trend rate, current year	5.0–13.0%	5.0–14.0%
Health care cost trend rate, ultimate year	5.0– 7.0%	5.0– 7.0%
Trend rates decrease to the ultimate rates in the years	1993–2050	1992–2050
Effect of a 1% increase in the trend rate:		
Increase in accumulated postretirement benefit obligation	\$ 5,861	\$ 4,280
Increase in net periodic postretirement benefit cost	\$ 564	\$ 578

Funded status of other postretirement benefits plans as of the year-end measurement date (in thousands)

Year Ended	July 3, 1993	June 27, 1992
Accumulated postretirement benefit obligations:		
Retirees	\$(413,887)	\$(351,489)
Fully eligible plan participants	(20,572)	(25,383)
Other active plan participants	(298,154)	(371,956)
Unfunded accumulated postretirement benefit obligation	(732,613)	(748,828)
Unrecognized actuarial net loss	149,482	46,311
Unrecognized prior service credit	(139,610)	–
Other postretirement benefits liability recognized on the balance sheet	\$(722,741)	\$(702,517)

Note H – Commitments

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

Total rental expense for the years ended July 3, 1993, June 27, 1992 and June 29, 1991 amounted to \$503,094,000, \$544,811,000 and \$535,159,000, respectively.

<i>Fiscal Years</i>	<i>(in thousands)</i>
1994	\$ 334,642
1995	272,909
1996	230,166
1997	170,578
1998	164,397
Later years	618,274
Total minimum lease payments	\$1,790,966

Note I – Other Financial Instruments

Off-Balance-Sheet Risk □ The Corporation enters into forward foreign 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 foreign exchange contracts generally have maturities which do not exceed six months. Gains and losses on foreign exchange contracts offset losses and gains on assets, liabilities, and transactions being hedged; therefore, the Corporation does not anticipate any material adverse effect due to exchange rate movements over the short-term period covered by these contracts. See Note A for information on the Corporation's accounting policy on foreign exchange contracts.

As of July 3, 1993 and June 27, 1992, the net face amount of foreign exchange contracts outstanding, substantially all of which were in European currencies, was \$1.1 billion and \$1.3 billion, respectively. The fair value of such contracts which represents the replacement value, is a net gain of \$14,400,000 as of July 3, 1993, based on dealer quotes.

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

Note J – Investing Activities

In June 1992, the Corporation entered into agreements to purchase common stock of Ing. Olivetti & C. S.p.A. ("Olivetti") and to form a strategic alliance with Olivetti. Pursuant to these agreements, as amended, the Corporation purchased a total of 98,533,000 shares of Olivetti common stock in fiscal year 1993 for a total investment of approximately \$287,800,000. As part of the alliance agreement, as amended, Olivetti has agreed to purchase a minimum level of Alpha AXP products from the Corporation over a specified period of time.

The Olivetti stock is recorded at \$83,800,000. The remainder of the purchase price is recorded as an intangible asset which is being amortized over a period not to exceed ten years.

On November 11, 1991, the Corporation signed an agreement with Philips Electronics N.V. of The Netherlands to acquire most of the Philips Information Systems Division ("Division"). The purchase price for the acquired business was equal to the net asset value of the business as at October 27, 1991, and was \$146,387,000, net of cash acquired in the purchase. The fiscal year 1992 operating results and statement of financial position reflect the full consolidation of the acquired business as from October 28, 1991, including purchase price adjustments made in the fourth quarter of fiscal 1992.

The Corporation places its temporary cash investments with high credit qualified 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 Corporation's customer base, and their dispersion across many different industries and geographies.

As of July 3, 1993, the Corporation had no significant concentrations of credit risk.

Fair Value □ In fiscal year 1993, the Corporation adopted Statement of Financial Accounting Standards No. 107 – Disclosures about Fair Value of Financial Instruments. The fair value of cash equivalents, debt, and foreign exchange contracts is disclosed in relevant notes to the financial statements. For all other financial instruments, the carrying amount approximates fair value.

The acquisition included the Division's activities for financial institutions, small and medium enterprises, image and document management systems, and all related customer service activities. The acquisition has been accounted for as a purchase, and accordingly, the assets and liabilities have been recorded at their estimated fair value at the date of acquisition.

As of January 1, 1991, the Corporation's results reflect the full consolidation of Digital-Kienzle Computersysteme GmbH & Co. KG ("Digital-Kienzle"), a German entity in which Digital acquired a 65% interest from Mannesmann AG for \$233,261,000. On December 20, 1991, the Corporation acquired the remaining 35% interest in Digital-Kienzle through the exercise of rights related to an obligation payable to Mannesmann AG. The acquisition has been accounted for as a purchase.

The acquisitions had no material effect on the total operating results for the fiscal years in which they were acquired, fiscal 1992 and 1991.

Note K – Stock Plans

Stock Options and Awards □ Under its Equity Plan, the Corporation has awarded restricted stock to certain officers and key employees. Under such Equity Plan and its Restricted Stock Option Plans, the Corporation has granted options to certain officers and key employees which are exercisable upon grant, to purchase common stock at a price determined by the Board of Directors. Shares purchased under the plans are generally subject to repurchase options and restrictions on sales which lapse over an extended time period not exceeding 10 years. In fiscal year 1992, certain options were granted under such Equity Plan which become exercisable ratably over five years, but only if the common stock achieves certain price performance criteria.

Information concerning activity during the three years ended July 3, 1993 was as follows:

	<i>Options Outstanding</i>		
	<i>Shares Reserved for Future Grants</i>	<i>Shares</i>	<i>Average Price per Share</i>
June 30, 1990	5,483,685	18,611,006	\$ 70.24
Options Granted	(2,130,860)	2,130,860	\$ 77.62
Shares Awarded	(316,830)	–	–
Options Exercised	–	(838,391)	\$ 29.71
Options Cancelled	597,652	(597,652)	\$ 83.11
Options Terminated	(351,837)	–	–
June 29, 1991	3,281,810	19,305,823	\$ 72.42
Additional Shares Available for Grant	1,950,123	–	–
Options Granted	(2,901,830)	2,901,830	\$ 58.00
Shares Awarded	(623,490)	–	–
Options Exercised	–	(795,879)	\$ 29.73
Options Cancelled	493,879	(493,879)	\$ 82.47
Options Terminated	(428,994)	–	–
June 27, 1992	1,771,498	20,917,895	\$ 71.81
Additional Shares Available for Grant	1,950,123	–	–
Options Granted	(3,737,045)	3,737,045	\$ 41.41
Shares Awarded	(277,650)	–	\$ –
Options Exercised	–	(553,486)	\$ 38.49
Options Cancelled	1,623,333	(1,623,333)	\$ 66.42
Options Cancelled under Repurchase Program	2,653,570	(2,653,570)	\$153.00
Options Terminated	(3,362,938)	–	\$ –
July 3, 1993	620,891	19,824,551	\$ 56.58

The excess, if any, of the fair market value of shares on the measurement date over the exercise price is charged to operations each year as the restrictions lapse.

In April 1993, the Board of Directors approved the repurchase of outstanding options to purchase up to 2.8 million shares of common stock granted to certain employees in fiscal year 1988 at an exercise price of \$153.00 per share. The option holders were offered \$3.00 per unexercised option share in return for the cancellation of the option. The repurchase price was determined after taking into account option pricing models, the opinion of an independent advisor and the financial and compensation objectives of the program. The Corporation repurchased approximately 2.7 million shares at a cost of approximately \$8,000,000. The resulting reduction of fiscal 1993 compensation expense was \$31,843,000, with a corresponding reduction of additional paid-in capital.

Employee Stock Purchase Plans □ Under the Corporation's Employee Stock Purchase Plans, all U.S. and certain non-U.S. 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 employee purchases aggregated 2,571,786 shares at July 3, 1993. There were 6,404,574 shares issued at an average price of \$28.38 per share during the year ended July 3, 1993; 4,788,819 shares issued at an average price of \$43.21 per share during the year ended June 27, 1992; and 4,619,793 shares at \$44.34 per share during the year ended June 29, 1991. 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, if any, have been credited to additional paid-in capital.

Stock Option Plan for Non-Employee Directors □ The Stock Option Plan for Non-Employee Directors provides for a one-time grant of an option to purchase 5,000 shares of the Corporation's Common Stock to non-employee directors. The exercise price of an option is 100% of the fair market value per share of Common Stock of the Corporation on the date the option is granted. An aggregate of 100,000 shares of common stock are authorized for issuance under the Plan, of which 45,000 have been granted at an average purchase price of \$50.18 per share. The options become exercisable at the rate of 20% per year, with credit given for past service. None of these options had been exercised as of July 3, 1993.

Note L – Treasury Stock

The Corporation did not purchase any shares of its own common stock during fiscal year 1993. The Corporation purchased on the open market 3,014,083 shares of its common stock at an aggregate purchase price of \$185,292,000, or \$61.48 per share, during the year ended June 27, 1992, and 3,700,000 shares at an aggregate purchase price of

\$240,719,000, or \$65.06 per share, during the year ended June 29, 1991. All of the acquired shares are held as common stock in treasury, less shares issued to employees under the Stock Plans. The difference between the average acquisition cost of the shares and the proceeds from issuance is charged to retained earnings.

Note M – Stockholder Rights Plan

The Corporation adopted a Stockholder Rights Plan in December 1989 pursuant to which the Corporation authorized the distribution of one Common Stock Purchase Right for each share of outstanding Common Stock. Under certain conditions, each Right may be exercised for one share of Common Stock at an exercise price of \$400, subject to adjustment. Under circumstances defined in the Plan, the Rights

entitle holders to purchase stock having a value of twice the exercise price of the Rights. Until they become exercisable, the Rights are not transferable apart from the Common Stock. The Rights may be redeemed by the Corporation at any time prior to the occurrence of certain events at \$.01 per Right. The Plan will expire on December 21, 1999, unless the Rights are earlier redeemed by the Corporation.

Supplementary Information

Quarterly Financial Data (unaudited)

<i>(in millions except per share data)</i>	<i>Total Operating Revenues</i>	<i>Gross Profit</i>	<i>Income/ (Loss) Before Income Taxes</i>	<i>Income/ (Loss) After Income Taxes¹</i>	<i>Net Income/ (Loss)</i>	<i>Income/ (Loss) per Share²</i>
For the year ended July 3, 1993						
Fourth Quarter	\$ 3,914	\$1,576	\$ 120	\$ 113	\$ 113	\$.85
Third Quarter	3,454	1,373	(28)	(30)	(30)	(.23)
Second Quarter	3,689	1,514	(66)	(74)	(74)	(.57)
First Quarter	3,314	1,277	(250)	(260)	(260)	(2.04)
Total Year	\$14,371	\$5,740	\$ (224)	\$ (251)	\$ (251)	\$ (1.93)
For the year ended June 27, 1992						
Fourth Quarter ³	\$ 3,906	\$1,600	\$(1,674)	\$(1,855)	\$(1,855)	\$(14.76)
Third Quarter ⁴	3,253	1,268	(291)	(312)	(312)	(2.50)
Second Quarter ⁴	3,479	1,441	(153)	(155)	(155)	(1.25)
First Quarter ⁴	3,293	1,490	40	12	(474)	(3.80)
Total Year	\$13,931	\$5,799	\$(2,078)	\$(2,310)	\$(2,796)	\$(22.39)

¹ Before cumulative effect of change in accounting principle.

² Income/(loss) per share is computed independently for each of the quarters presented and therefore does not sum to the total for the year.

³ Includes restructuring charges of \$1,500 million in fiscal year 1992.

⁴ Restated to reflect the adoption of SFAS No. 106 – Employers' Accounting for Postretirement Benefits Other Than Pensions.

Common Stock Information

The Corporation's common stock is listed and traded on the Midwest Stock Exchange, New York Stock Exchange, Pacific Stock Exchange, Montreal Exchange and several European stock exchanges. There were 86,611 shareholders of record as of July 3, 1993. The high and low quarterly sales prices for the past three fiscal years are presented below:

1993		
<i>Fiscal Quarter</i>	<i>High</i>	<i>Low</i>
Fourth	\$48¼	\$38¼
Third	49¼	32¾
Second	40¾	30¾
First	44	33¼
1992		
<i>Fiscal Quarter</i>	<i>High</i>	<i>Low</i>
Fourth	\$54¾	\$33¼
Third	65½	49¼
Second	65	48½
First	71¼	53¾
1991		
<i>Fiscal Quarter</i>	<i>High</i>	<i>Low</i>
Fourth	\$74¼	\$58¼
Third	83	50¾
Second	59½	45½
First	86¾	49¾

Officers

- *Robert B. Palmer
President and Chief Executive Officer
- *Gresham T. Brebach, Jr.
Vice President, Digital Consulting
- *Lawrence P. Cabrinety
Vice President, Components and Peripherals Business Unit
- R. E. Caldwell
Vice President, Semiconductor Operations
- Bobby A. F. Choonavala
Vice President, General International Area
- *Charles F. Christ
Vice President, Storage Business Unit
- William R. Demmer
Vice President, Computer Systems Group
- *Richard M. Farrahar
Vice President, Human Resources
- Samuel H. Fuller
Vice President, Research
- Russell A. Gullotti
Vice President, United States Area
- *Winston R. Hindle, Jr.
Vice President, Quality, Ethics and Business Practices
- *Ilene B. Jacobs
Vice President and Treasurer
- *John E. Klein
Vice President, Consumer, Process, and Transportation Business Unit
- *Paul G. Kozlowski
Vice President, Communications, Education, and Media Business Unit
- *Edward E. Lucente
Vice President, Worldwide Sales and Marketing
- Gail S. Mann
Secretary and Clerk
- *Frank McCabe
Vice President, Discrete Manufacturing and Defense Business Unit
- *Edward B. McDonough
Vice President, Manufacturing and Logistics
- *Vincent J. Mullarkey
Vice President and Corporate Controller
- *Enrico Pesatori
Vice President and General Manager, PC Business Unit
- Richard Poulsen
Vice President, Europe
- *John J. Rando
Vice President, Multivendor Customer Services Business Unit
- *Bruce J. Ryan
Vice President, Financial, Professional, and Public Services Business Unit
- *Willow B. Shire
Vice President, Health Industries Business Unit
- *Thomas C. Siekman
Vice President and General Counsel
- Peter J. Smith
Vice President, Sales, Marketing and Business Operations – Europe
- *Adriana Stadecker
Vice President, Executive Operations
- *William M. Steul
Vice President, Finance and Chief Financial Officer
- *William D. Strecker
Vice President of Engineering and Chief Technical Officer

*“Executive Officer” under the Securities Exchange Act of 1934.

Directors

Robert B. Palmer
President and Chief Executive Officer
Digital Equipment Corporation

Vernon R. Alden
Director and Trustee of several organizations
Former Chairman, The Boston Company, Inc.

Philip Caldwell
Senior Managing Director of Lehman Brothers Inc.
Retired Chairman of the Board and Chief Executive Officer,
Ford Motor Company
Director of several corporations

Colby H. Chandler
Director of several corporations, Retired Chairman
of the Board and Chief Executive Officer, Eastman
Kodak Company

Arnaud de Vitry
Engineering consultant and Director and
Trustee of several organizations

Robert R. Everett
Retired President of the MITRE Corporation

Kathleen F. Feldstein
President of Economics Studies, Inc., and
Director of several organizations

Thomas P. Gerrity
Dean, Wharton School of the University of Pennsylvania
and Director of several corporations

William H. McLean*
Engineering consultant and Director of several organizations

Thomas L. Phillips
Director of several corporations, Retired Chairman of the
Board and Chief Executive Officer, Raytheon Company

Delbert C. Staley**
Director of several corporations, Retired Chairman of the
Board and Chief Executive Officer, NYNEX Corporation

*Dr. McLean will retire in November 1993 at the expiration of his current term as a Director.

**Effective September 16, 1993.



Board of Directors, Digital Equipment Corporation: Seated, left to right: Thomas L. Phillips, Philip Caldwell, William H. McLean, Robert R. Everett. Standing, left to right: Kathleen F. Feldstein, Vernon R. Alden, Robert B. Palmer, Thomas P. Gerrity, Colby H. Chandler, Arnaud de Vitry. Not shown: Delbert C. Staley.

Committees of the Board

Audit Committee

Philip Caldwell, Chairman
Colby H. Chandler
William H. McLean*

Compensation and Stock Option Committee

Thomas L. Phillips, Chairman
Vernon R. Alden
Philip Caldwell
Thomas P. Gerrity

Nominating Committee

Arnaud de Vitry, Chairman
Vernon R. Alden
Colby H. Chandler
Thomas P. Gerrity
William H. McLean*
Thomas L. Phillips

*Dr. McLean will retire in November 1993 at the expiration of his current term as a Director.

Corporate Consulting Engineers

Peter F. Conklin
Corporate Consulting Engineer
Director, Engineering Process and Systems

Daniel W. Dobberpuhl
Corporate Consulting Engineer
Semiconductor Engineering

James N. Gray
Corporate Consulting Engineer
Information Systems Software

Richard B. Grove
Corporate Consulting Engineer
Software Development Technologies

Robert J. Hannemann
Corporate Consulting Engineer
Group Manager, Alpha Personal Systems Emerging Technologies

Richard J. Hollingsworth
Corporate Consulting Engineer
Advanced Semiconductor Development

Alan Kotok
Corporate Consulting Engineer
Corporate Strategy and Alliance

Nancy P. Kronenberg
Corporate Consulting Engineer
Alpha Personal Systems Emerging Technologies

Butler W. Lampson
Senior Corporate Consulting Engineer
Corporate Research and Architecture

Richard Lary
Corporate Consulting Engineer
Mass Storage

Anthony G. Lauck
Corporate Consulting Engineer
Technical Director, Networks Engineering

Jesse Lipcon
Corporate Consulting Engineer
Vice President, Windows NT Program

Alan G. Nemeth
Corporate Consulting Engineer
Engineering Technical Office, Technical Computing

Mahendra R. Patel
Corporate Consulting Engineer
Vice President, Systems Engineering

John P. Shebell
Corporate Consulting Engineer
Technical Director, Field Programs Engineering

Robert E. Stewart
Corporate Consulting Engineer
Alpha Personal Systems Emerging Technologies

William D. Strecker
Senior Corporate Consulting Engineer
Vice President of Engineering
Chief Technical Officer

Robert M. Supnik
Senior Corporate Consulting Engineer
Vice President and Technical Director, Engineering

Charles P. Thacker
Corporate Consulting Engineer
Corporate Research and Architecture

Gayn Winters
Corporate Consulting Engineer
Technical Director, Groupware and
Shared Engineering Services

Richard Witek
Corporate Consulting Engineer
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Investor Information

The Corporation's common stock (Ticker Symbol "DEC") is listed and traded on the:

Midwest Stock Exchange
Montreal Exchange
New York Stock Exchange
Pacific Stock Exchange

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
Luxembourg Stock Exchange

The Corporation maintains an Investor Relations office to assist stockholders. Investors' inquiries are welcome, by telephone or letter. Financial community information and requests to be placed on the Corporation's mailing list should be directed to:

Bradley D. Allen
Director, Investor Relations
Digital Equipment Corporation
146 Main Street (MLO3-2/F41)
Maynard, Massachusetts 01754-2571
Telephone: (508) 493-7182
Fax: (508) 493-7633

Requests for specific information are handled as follows:

Digital Equipment Corporation's annual report on Form 10-K for the fiscal year ended July 3, 1993, including schedules thereto, which is filed with the Securities and Exchange Commission, will be sent without charge upon written request. The Corporation's annual report, filings with the Securities and Exchange Commission, interim reports and additional information about the Corporation and its products can be obtained by addressing:

Digital Equipment Corporation, Inquiry Section
444 Whitney Street (NRO2-1/L3)
Northboro, Massachusetts 01532-2599
Telephone: (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
111 Powdermill Road (MSO2-3/B16)
Maynard, Massachusetts 01754-1418

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
Investor Services
111 Powdermill Road (MSO1-1/L12)
Maynard, Massachusetts 01754-1418
Telephone: (508) 493-1655
Telephone: (508) 493-5213

Transfer Agent and Registrar
for Common Stock

First Chicago Trust Corporation 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.

Digital Equipment Corporation is also a stock transfer agent and registrar, and maintains employees stockholder accounting records.

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

First Chicago Trust Corporation of New York
P.O. Box 2500
Jersey City, New Jersey 07303-2500

Customer Inquiries

Digital Equipment Corporation customers who have questions and/or problems relating to their accounts should contact U.S. Customer Relations at (800) 332-4636.

Eliminating Duplicate Mailings

To maintain more than one account, but eliminate duplicate mailings of annual and quarterly reports to the same address, send the labels (or a copy of the labels) from a company mailing to the Investor Services Department, P.O. Box 490, Maynard, Massachusetts 01754, indicating the names you wish to keep on the mailing list for annual and quarterly reports and the names you wish to delete. This will affect only these mailings; proxy materials will continue to be sent to each account.

Consolidating Accounts

To consolidate separate accounts into one account, contact the Investor Services Department, P.O. Box 490, Maynard, Massachusetts 01754, to obtain necessary forms and instructions.

Auditors

Coopers & Lybrand
One Post Office Square
Boston, Massachusetts 02109
Telephone: (617) 574-5000

Legal Counsel

Testa, Hurwitz & Thibault
53 State Street
Exchange Place
Boston, Massachusetts 02109-2809
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Digital Equipment Corporation
Maynard, Massachusetts 01754

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